# OCTOPUS
## APOLLO VCT PLC

ANNUAL REPORT & ACCOUNTS
FOR THE YEAR ENDED
31 JANUARY 2014

OCTOPUS INVESTMENTS

Octopus Apollo VCT plc is a venture capital trust which aims to provide shareholders with attractive tax-free dividends and long-term capital growth by investing in a diverse portfolio of predominantly unquoted companies. The Company is managed by Octopus Investments Limited ("Octopus" or the "Manager").

CONTENTS

# FINANCIAL SUMMARY

| | **As at 31 January 2014** | As at 31 January 2013 |
|---|---|---|
| Net assets (£'000s) | **63,905** | 47,774 |
| Return on ordinary activities after tax (£'000s) | **1,751** | 223 |
| Net asset value per share (NAV) | **86.8p** | 89.3p |
| Cumulative dividends paid since launch | **22.5p** | 17.5p |
| Total return (NAV plus cumulative dividends paid) | **109.3p** | 106.8p |
| Proposed final dividend | **2.5p** | 2.5p |

# KEY DATES

| | |
|---|---|
| Final dividend payment date | 22 July 2014 |
| Annual General Meeting | 8 July 2014 (3.00 p.m. at 20 Old Bailey, London EC4M 7AN) |
| Half-yearly results to 31 July 2014 published | September 2014 |
| Annual results to 31 January 2015 announced | May 2015 |
| Annual Report and financial statements published | May 2015 |

# SHAREHOLDER INFORMATION AND CONTACT DETAILS

Octopus Apollo VCT plc ("Apollo" or "Company"), formerly named Octopus Apollo VCT 3 plc, 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. On 27 September 2012, the Company acquired the net assets of Octopus Apollo VCT 1 plc, Octopus Apollo VCT 2 plc and Octopus Apollo VCT 4 plc. On the same day, the Company was renamed Octopus Apollo VCT plc. The objective of the Company 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 Company's progress are discussed in the Chairman's Statement and Investment Manager's Review on pages 7 and 8 and pages 13 to 23.

**Venture Capital Trusts (VCTs)**

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

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

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

- at least 70% of the Company's investments must comprise 'qualifying holdings'* (as defined in the legislation);
- for cash raised post 5 April 2011 at least 70% of the 70% of qualifying holdings must be invested into Ordinary shares with no preferential rights;
- for cash raised pre 6 April 2011 at least 30% of the 70% of qualifying holdings 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.

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

The Company invests in a diversified portfolio of AIM-traded and smaller unquoted UK companies in order to generate capital growth over the long-term as well as an attractive tax-free dividend stream.

The Directors have managed the affairs of the Company with the intention of maintaining its status as a VCT.

**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 or complete an instruction electronically by visiting the Capita shareholder portal at: www.capitashareportal.com. Queries relating to dividends, shareholdings and requests for mandate forms should be directed to the

Company's registrar, Capita Registrars, by calling 0871 664 0324 (calls cost 10p per minute plus network extras. Lines are open Monday–Friday 9.00am–5.30pm), or by writing to them at:

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

The table below shows the net asset value (NAV) per share and lists the dividends that have been paid since the launch of Octopus Apollo VCT plc:

| Period Ended | NAV | Dividends paid in period | NAV + cumulative dividends (total return) |
|---|---|---|---|
| 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 |
| 31 July 2010 | 88.30p | 1.50p | 95.80p |
| 31 January 2011 | 89.60p | 1.50p | 98.60p |
| 31 July 2011 | 90.00p | 1.50p | 100.50p |
| 31 January 2012 | 90.90p | 2.00p | 103.40p |
| 31 July 2012 | 91.00p | 3.00p | 106.50p |
| 31 January 2013 | 89.30p | 2.00p | 106.80p |
| 31 July 2013 | 87.30p | 2.50p | 107.30p |
| 31 January 2014 | 86.80p | 2.50p | 109.30p |

The final dividend of 2.5p per share will be paid on 22 July 2014 to shareholders on the register on 27 June 2014.

## Share Price

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

| | Ordinary shares |
|---|---|
| TIDM/EPIC code | OAP3 |
| Latest share price (15 May 2014) | 80.25p per share |

## Buying and Selling Shares

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

## Buybacks of Shares

Octopus Apollo VCT plc 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, Panmure Gordon (UK) Limited ('Panmure').

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

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

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

## Enhanced Buyback Facility

Your Board offered shareholders the opportunity to participate in an Enhanced Buyback Facility ("Facility") which closed on 31 January 2013. Details of the Facility were included in the Prospectus dated 17 August 2012. The Facility allowed shareholders to sell existing shares in the Company that had been held for at least

# SHAREHOLDER INFORMATION AND CONTACT DETAILS (continued)

five years and reinvest the proceeds in new shares in the Company to obtain up to a further 30% income tax relief. 38% of shareholders chose to make use of this facility.

### Secondary market

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

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

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

### Notification of Change of Address

Communications with shareholders are mailed to the registered address held on the share register. In the event of a change of address or other amendment this should be notified to the Company's registrar, Capita Registrars, under the signature of the registered holder or via the Capita online share portal at: www.capitashareportal.com. Their contact details are provided on page 69.

### Electronic Communications

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

### 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. Other statutory information about the Company can also be found here.

### Warning to Shareholders

Many companies are aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are therefore advised to be wary of any unsolicited advice, offer to buy shares at a discount or offers for free company reports.

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

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

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

# STRATEGIC REPORT

The following sections form part of the Strategic Report:

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

## Our Strategy

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

### The Company's Objective

The objective of the Company is to invest in a diversified portfolio of UK smaller companies which meet the relevant criteria for VCTs in order to generate income and capital growth over the long term. Investments are made selectively across a range of sectors in companies that have the potential to grow and enhance their value. The Company is managed by Octopus Investments Limited.

### Investment Policy

The Company's investment policy is designed to enable the Company to comply with the VCT qualifying conditions. 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 buybacks.

Investments are 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 venture capital legislation. The portfolio is 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 investments are not generally made in early stage companies which have yet to achieve profitability and cash generation. The normal investment period is in the range from three to seven years. Any uninvested funds are typically held in cash and money market funds.

Risk is spread by investing in a number of different businesses within different industry sectors using a variety of securities. The maximum amount invested in any one company is limited to any HMRC annual investment limits and, generally, no more than 15% of the Company's assets, at cost, are invested in the same company. There was one exception to this in the investment portfolio as at 31 January 2014, being the participation in Terido LLP ("Terido") which represented 26% of fixed asset investments. Terido is a trading partnership managed by Octopus Investments which supports a range of secured asset backed lending in sectors including residential property and solar. Terido invests in a significant number of individual companies and is structured as a partnership, meaning Apollo's concentration tests are measured on the basis of these underlying investments by Terido, rather than on the total £14 million investment amount.

The value of individual investments is expected to increase over time as a result of trading progress and a continuous assessment is made of investments' suitability for sale. 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 are normally made using 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

# STRATEGIC REPORT

Resolution. The Directors monitor the investment process and ensure compliance with the investment policy.

A review of the investment portfolio and of market conditions during the year is included in the Chairman's Statement and Investment Manager's Review which form part of the Strategic Report on pages 7 and 8 and pages 13 to 23. A Business Review also forms part of the Strategic Report on pages 9 to 12.

**Co-investment Policy**

Where one or more of the companies managed or advised by Octopus wishes to participate in an investment opportunity, allocations will be made in accordance with Octopus' allocation policy as at the date of allocation. The policy provides that allocations should be initially offered to the Company on a basis which is pro-rata to its net asset value (or as otherwise agreed by the Board and Octopus). In the event of a conflict of interests on the part of Octopus or where co-investment is proposed to be made other than on a pro-rata basis (or as otherwise agreed by the Board and Octopus), such an investment requires the approval of those members of the Board who are independent of Octopus.

**Liquidity Strategy**

The Board's strategy is to maintain an appropriate level of liquidity in the balance sheet to continue to achieve four aims:

- to support a consistent dividend flow;
- to support further investment in existing portfolio companies if required;
- to take advantage of new investment opportunities as they arise; and
- to provide liquidity in the shares through the ability to buy back the Company's shares as they become available.

# STRATEGIC REPORT

## CHAIRMAN'S STATEMENT

### Introduction

I am pleased to present the annual report of Octopus Apollo VCT plc for the year ended 31 January 2014.

### Performance

The net asset value ("NAV") has fallen from 89.3 pence per share as at 31 January 2013 to 86.8 pence per share as at 31 January 2014. After adding back the 5.0p of dividends paid in the year, the total return (NAV plus cumulative dividends paid) has risen by 2.3%, from 106.8 pence per share as at 31 January 2013 to 109.3 pence per share as at 31 January 2014.

The merger of the Octopus Apollo VCTs in 2012 was designed to deliver cost savings and strategic benefits to all shareholders. It was anticipated that the costs of the merger, £320,000, would be recovered within sixteen months. I am pleased to report that merger-related cost savings of £329,000 were made in the year ended 31 January 2014. As these benefits are delivered and the Company continues to receive a consistent level of loan interest income, your Board and Investment Manager expect the total return to continue to make progress.

The Company's 2011/2012 investments into six solar companies performed well during the period, leading to a combined upward revaluation of £963,000. In addition, solid trading for CSL Dualcom, Technical Software Consultants, Tristar Worldwide, 3AM Music and Atlantic Screen International led to further upward revaluations totalling £220,000. Post year end the Company realised in full its holding in Hydrobolt. An uplift of £646,000 was recognised on this investment during the year.

These gains were partially offset by prudent downward revaluations for Bruce Dunlop and Associates, Resilient Corporate Services, Clifford Thames and Callstream, formerly known as Bluebell, totalling £713,000. As a result, an overall positive revaluation, both realised and unrealised, of £1,116,000 has been recognised in these financial statements. This compares with gains of £398,000 in the year ended 31 January 2013.

### Dividend and Dividend Policy

It is your Board's policy to maintain a regular dividend flow where possible in order to take advantage of the tax free distributions a VCT is able to provide.

Given the performance of your Company your Board has proposed a final dividend of 2.5 pence per share in respect of the year ended 31 January 2014. This will bring the total dividends paid during the year to 5 pence, in line with the dividend policy outlined in the 2012 prospectus.

### Investment Portfolio

During the year, the Company invested a total of £16,500,000, of which £14,000,000 was invested in Terido, a trading partnership managed by Octopus Investments which supports a range of secured asset backed lending in sectors including residential property and solar. In February 2013, £1,500,000 was invested in Healthcare Services and Technology ("HST"), an acquisition vehicle focused on finding qualifying investments in the healthcare sector. A follow on investment in HST of £1,000,000 was subsequently made in January 2014.

The Company received £3,308,000 from part and full disposals over the period. This includes £990,000 from the disposal of Salus Services 2. There were also part disposals in Callstream for proceeds of £1,341,000, Hydrobolt for proceeds of £700,000, Sula Power for proceeds of £249,000 and British Country Inns for proceeds of £28,000.

The Company's investment portfolio is set out on page 16. All of the investments are discussed further in the Investment Manager's Review on pages 13 to 23.

The Company, by the year end, had invested sufficiently in order to meet all the requirements for it to fully qualify as a VCT. The Investment Manager now has the opportunity to make a limited number of further investments with the aim of accelerating the NAV of the Company over the foreseeable future.

# STRATEGIC REPORT

## CHAIRMAN'S STATEMENT (continued)

### Investment Strategy

As set out in the prospectus, the aim of the Company is to make investments that focus more on capital preservation than a typical VCT. To date the Investment Manager has been successful in achieving this aim, as evidenced by the positive return on ordinary activities.

Typically the structure of the investments is weighted more heavily towards loan based instruments as opposed to equity. Such investments provide fixed returns and payments are generally ranked above most other creditors, allowing for future visibility and security. This strategy also reduces the downward risk that is an intrinsic element of an equity investment.

Having passed its five year qualifying period, it is the intention of the Board that the Company should remain as a VCT and continue to invest in accordance with the original investment mandate.

### 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 the Company is in compliance with the conditions laid down by HMRC for maintaining approval as a VCT.

A key requirement is now to maintain the 70% qualifying investment level. As at 31 January 2014, 76.2% of the portfolio, as measured by HMRC rules, was invested in VCT qualifying investments.

### Annual General Meeting

The Company's Annual General Meeting will take place on 8 July 2014 at 3.00 p.m. I look forward to welcoming you to the meeting which will be held at the offices of Octopus Investments Limited at 20 Old Bailey, London EC4M 7AN. Directions to their office can be found by visiting their website at: www.octopusinvestments.com.

### Electronic Communications

Based on feedback from shareholders, and in order to reduce the cost of printing and the consequential impact on the environment, we now offer shareholders the opportunity to forgo their printed report and account documents in favour of receiving electronic or mail notification with details of how to view the documents online. If you would like to change the format in which you receive this report, please complete the form enclosed with this annual report or contact Octopus or Capita using the contact details provided on page 69 of this report.

### Outlook

There is now no doubt that the UK economy is in recovery, which is a marked improvement from the economic outlook this time last year. Banks are beginning to lend more to businesses, but this remains on a restricted basis; in addition, many companies continue to prefer the more partnership-style of investment offered by VCTs . The value of the Company grew consistently throughout the recent prolonged recession, which is testament to the prudent investment approach adopted by the fund management team. This investment approach of capital preservation will continue as the Manager seeks further investments to continue to grow the value of the Company.

**Murray Steele**
Chairman
15 May 2014

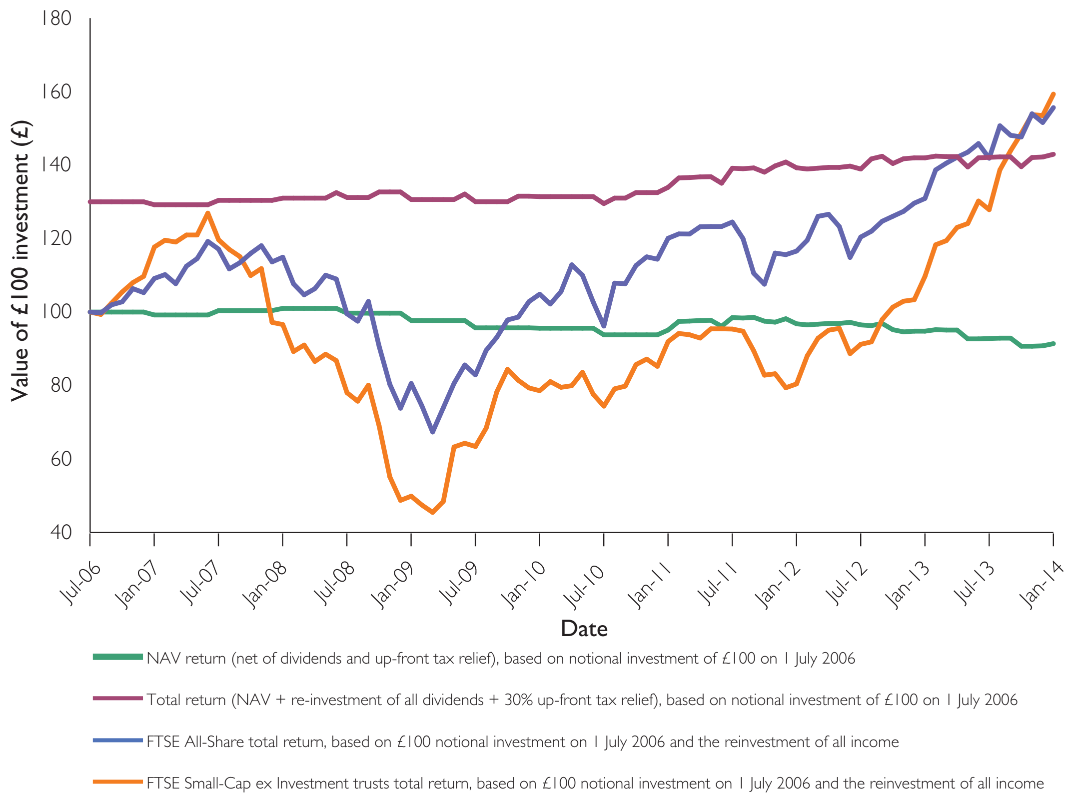
# STRATEGIC REPORT

## BUSINESS REVIEW

**Performance**

Performance, measured by the change in NAV per share and total return per share, is also measured against the FTSE Small-Cap Index. This is shown in the graph below. This index has been adopted as an informal benchmark.

The graph below compares the share price total return and NAV total return (gross dividends reinvested) of Apollo over the period from July 2006 to January 2014 with the total return from a notional investment in the FTSE Small-Cap index over the same period (all rebased to 100p). This index is considered to be the most appropriate broad equity market index for comparative purposes. However, the Board wishes 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.



# STRATEGIC REPORT

## BUSINESS REVIEW (continued)

**Results and dividend**

| | **Year ended 31 January 2014 £'000** | Year ended 31 January 2013 £'000 |
|---|---|---|
| Net return attributable to shareholders | **1,751** | 223 |
| Interim dividend paid – 2.5p per share (2013: 2.0p per share) | **1,854** | 1,075 |
| Final dividend proposed – 2.5p (2013 – 2.5p per share) | **1,841** | 1,337 |

**Key Performance Indicators (KPIs)**

As a VCT, the Company's objective is to provide shareholders with an attractive income and capital return by investing its funds in a broad spread of unquoted UK companies which meet the relevant criteria for VCTs.

The Board expects the Investment Manager to deliver a performance which meets the twin objectives of providing investors with attractive returns from a portfolio of investments and maximising tax-free income for shareholders. The KPIs in meeting these objectives are:

- net asset value and dividends paid which, when combined, give total return;
- the discount of the share price relative to the NAV;
- the total expense as a proportion of shareholders' funds;
- benefits of the merger; and
- recovery of merger costs within the anticipated 16 months.

The merger costs were considerably lower than anticipated, at £320,000 rather than £388,000, as stated in the Prospectus issued on 17 August 2012. Consequently the Company has been able to recoup these costs more quickly through the associated cost savings.

A record of some of the indicators are detailed on the first page of this Report, entitled Financial Summary. Additional comments are provided in the Chairman's Statement and the Investment Manager's Review regarding the performance of the Company over the current year.

The Board expects Octopus to deliver a performance which meets the objective of achieving long-term investment returns, including tax-free dividends. The Board assesses the performance of Octopus in meeting the Company's objectives against the KPIs highlighted above. The total running costs in the year, as defined in the prospectus, were within the annual limit of 3.3% at 3.1%.

Clearly, when making investments in unquoted companies at an early stage of their development, some are likely to disappoint, but investing the funds raised in growth companies with the potential to become market leaders creates an environment of improved returns for shareholders. The growth of these companies is largely dependent on continuing the existing levels of corporate spending. A volatile economic environment could adversely affect corporate spending patterns which would, in turn, have a negative impact on the development of the investee companies.

**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:* from the end of the third accounting period onwards, 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

# STRATEGIC REPORT

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 and which, by their nature, entail a higher level of risk and lower liquidity than investments in large quoted companies.

The Directors and the Investment Manager aim to limit the risk attached to the portfolio as a whole by careful selection and timely realisation of investments, by carrying out due diligence procedures and by maintaining a wide spread of portfolio companies. The Board reviews the investment portfolio with the Investment 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 no 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. The risk of loss to this cash is deemed to be low due to the bank's historical credit rating and its current Standard & Poor's rating of A+. Inadequate controls might lead to misappropriation of assets. This is mitigated by a division of responsibilities for the preparation and approval of payments. Regular asset reconciliations are undertaken by the Managers. Inappropriate accounting policies might lead to mis-posting or breaches of regulations. Guidance is provided by the Company's auditors as to the appropriateness of accounting policies and updates to regulations.

*Regulatory risk:* the Company is required to comply with the Companies Act 2006, 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. The Company's compliance with statutory and regulatory obligations is reviewed by the Board.

*Reputational risk:* the risk of breaches of regulations or loss of shareholder trust are mitigated by ensuring that appropriate controls are implemented by the Managers and that they are overseen by suitably qualified personnel. Reputational risk is also mitigated by an annual external audit.

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

*Loss of key personnel risk:* retention of key personnel within Octopus is vital to the success of the Company. Incentives to the Investment Manager's key staff are continuously monitored by the Investment Manager.

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

*Price risk:* the risk that the value of a security or portfolio of securities will decline in the future is mitigated by holding a diversified portfolio, in accordance with the Company's investment policy.

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

# STRATEGIC REPORT

## BUSINESS REVIEW (continued)

*Market risk:* investment in unquoted companies involves a higher degree of risk than investment in companies listed on the Official List, which could result in the value of such investments, and interest income and dividends therefrom, reducing. In particular, small companies often have limited product lines, markets or financial resources. These companies may be dependent for their management on a small number of key individuals and may be more susceptible to political, exchange rate, taxation and other regulatory changes and, therefore, may not produce the hoped for returns. In addition, the market for securities in smaller companies is less regulated and is usually less liquid than that of securities in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such securities. These risks are mitigated by the Managers' extensive experience in identifying suitable investments in smaller companies.

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

The Board seeks to mitigate the internal risks by setting policy, regularly reviewing performance, enforcing contractual obligations and monitoring progress and compliance. In the mitigation and management of these risks, the Board applies rigorously the principles detailed in the 'Turnbull' guidance. Details of the Company's internal controls are contained in the Corporate Governance section on pages 30 to 34.

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

### Gender and Diversity

The Board of Directors currently comprises four male Non-Executive Directors with considerable experience of the VCT industry, the investee companies and the merged Octopus Apollo VCTs. The gender, diversity and constitution of the Board are reviewed on an annual basis.

### Human Rights Issues

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

This report was approved by the Board on 15 May 2014 and signed on its behalf by:

Murray Steele

**Murray Steele**
Chairman

# STRATEGIC REPORT

# 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.

Octopus Investments Limited was established in 2000 and has a strong commitment to both smaller companies and to VCTs. We currently manage 13 VCTs, including this VCT, and manage over £340 million in the VCT sector. Octopus has over 250 employees. The investment team that manages the portfolio of your Company is comprised of 6 managers, with additional support from specialist investment teams and support staff.

### Investment Policy

The investment approach of Octopus Apollo VCT plc is to invest with a focus on capital preservation. The majority of companies in which Apollo 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 the Company within three to five years.

### Performance

The Company made a net return per share of 2.3% between 31 January 2013 and 31 January 2014. Whilst the NAV decreased slightly from 89.3p per share to 86.8p per share, 5.0p of dividends were paid over the period, bringing cumulative dividends paid to date to 22.5p and the total return (NAV plus cumulative dividends) to 109.3p pence per share.

The disposal of Salus Services 2, in addition to the part disposal of British Country Inns and loan repayments from Callstream, Hydrobolt and Sula Power led to £3,274,000 of cash inflows back to the Company.

The Company's investments into six solar companies in 2011 and 2012, being Shakti Power, Aashman Power, Kala Power, Sula Power, Donoma Power and Tonatiuh Trading 1, performed well during the period, leading to a combined upward revaluation for these six companies of £963,000. Solid trading for CSL Dualcom, Technical Software Consultants, Tristar Worldwide, 3AM Music and Atlantic Screen International led to further upward revaluations totalling £220,000. These gains were partially offset by prudent downward revaluations for Bruce Dunlop and Associates, which is experiencing challenging trading conditions, solar company Resilient Corporate Services, and small fair value adjustments for Clifford Thames (which continues to trade well) and Callstream; together these downwards adjustments totalled £713,000.

Post year end the Company realised in full its holding in Hydrobolt, representing a strong profitable exit over a six-year hold period. An uplift of £646,000 was recognised on this investment during the year. In addition, post year end the Company received full repayment of its £3.5 million loan to Borro.

The majority of investments in the portfolio are loan-based, from which a steady flow of interest is received into the Company. This is now at the level whereby interest receipts more than offset the running costs of the Company. These returns will allow for any gains on realisations and loan note redemption premiums to be paid out to shareholders by way of dividends or recognised as an uplift to the value of your investment.

### Portfolio Review

New VCT qualifying investments totalling £2.5 million have been made in Healthcare Services and Technology during the period, a company which is seeking a qualifying investment in the healthcare sector. In addition £14 million was invested in Terido, a trading partnership managed by Octopus Investments which supports a range of secured asset backed lending in sectors including residential property and solar. The Company's participation in the partnership is expected to provide a more secure return to the Company than the alternatives of bank deposits or money market funds. In addition, the Company's investment in Terido

# STRATEGIC REPORT

## INVESTMENT MANAGER'S REVIEW (continued)

can be accessed at short notice should it require these funds to make other investments or pay running costs of the Company. Terido invests in a significant number of individual companies and is structured as a partnership, meaning Apollo's concentration tests are measured on the basis of these underlying investments by Terido, rather than on the total £14 million investment amount. As this investment is in a limited liability partnership it is treated as a non-qualifying investment for the purposes of HMRC's VCT regulations as it does not constitute interests in shares and securities and therefore falls outside the VCT rule that no holding in a company should exceed 15% of its total investments.

The Company's investments in Erie Heat and Winnipeg Heat, originally intended for deployment into ground source heat pump opportunities, have now been redeployed into two new anaerobic digestion sites, where construction is currently underway. Anaerobic digestion sites offer a similar asset-backed, capital preservation opportunity to ground source heat pump or solar sites.

### Outlook

Over the past year the UK economy has entered a period of recovery – with growth of between 0.7% and 0.9% per quarter for the year to 31 March 2014. Other positive indicators include continuing increasing consumer confidence and low inflation, as measured by the Consumer Price Index, which in February 2014 fell to 1.7%, its lowest point in over four years. This is encouraging for both consumers and businesses.

Against this backdrop, banks are beginning to be more active in again lending to small and medium-sized businesses, although our experience is that demand for funding still far outstrips supply; this presents our investment team with a number of ongoing investment opportunities suitable for the investment mandate of Apollo.

The Company's portfolio, constructed on a basis of capital preservation, has weathered the difficult economic conditions of the past few years and has continued to grow in value; it is well positioned for further growth as conditions continue to improve. We will continue to invest in line with the Company's mandate of capital preservation and are optimistic about the Company's current portfolio and future investment prospects.

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

**Benjamin Davis**

Octopus Investments Limited
15 May 2014

# STRATEGIC REPORT

### Valuation Methodology

*Initial Measurement*

The investments held by Apollo are all unquoted and as such there is no trading platform from which prices can be easily obtained. Financial assets are measured at fair value. The initial best estimate of fair value of a financial asset that is either quoted or not quoted in an active market is the transaction price of the recent round (i.e. cost).

*Subsequent Measurement*

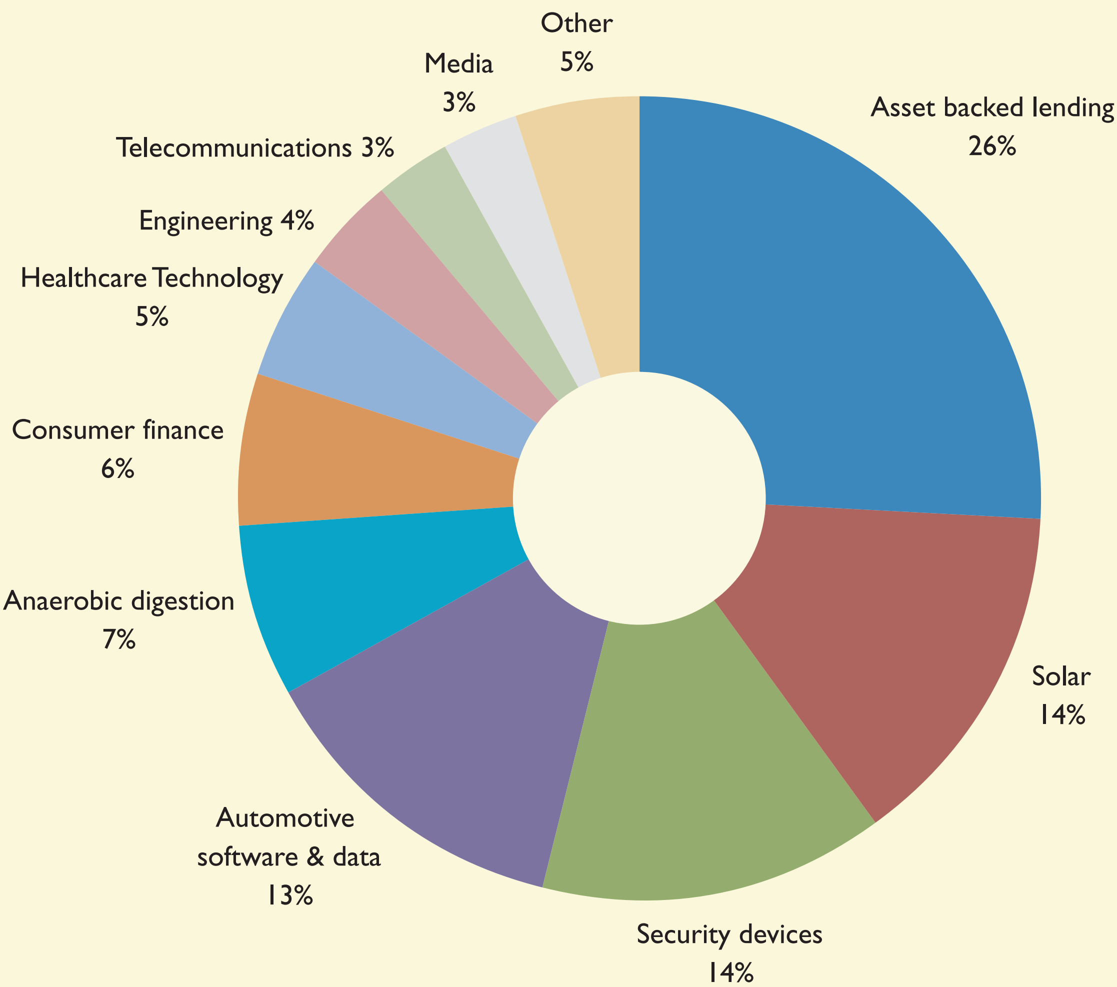
Subsequent adjustment to the fair value of unquoted investments has been made using sector multiples where applicable, based on information as at 31 January 2014. In some cases the multiples have been compared to equivalent companies where it is believed that this is more appropriate than a sector multiple. In instances where an investment has predictable future cash flows, discounted cash flow valuations are used to support the fair value.

In accordance with our interpretation of the IPEVC valuation guidelines, investments made within 12 months are usually kept at cost, unless performance indicates that fair value has changed.

If you would like to find out more regarding the IPEVC valuation guidelines, please visit their website at: www.privateequityvaluation.com.

*Sector Analysis*

The graph below shows the sectors that Apollo is invested in and their respective proportions as a percentage of fixed asset investments.



# STRATEGIC REPORT

# INVESTMENT MANAGER'S REVIEW (continued)

## Investment Portfolio

| Investments | Sector | Investment cost as at 31 January 2014 (£'000) | Movement in fair value to 31 January 2014 (£'000) | Fair value as at 31 January 2014 (£'000) | Movement in fair value in year (£'000) | % equity held by Apollo VCT | % equity held by all funds managed by Octopus |
|---|---|---|---|---|---|---|---|
| Terido LLP * | Asset backed lending | 14,000 | – | 14,000 | – | 0.0% | 0.0% |
| Clifford Thames Group Limited | Automotive software & data | 7,197 | 399 | 7,596 | (103) | 7.6% | 7.6% |
| CSL Dualcom Limited | Security devices | 6,911 | 48 | 6,959 | 48 | 2.0% | 3.4% |
| Borro Loan 2 Limited** | Consumer finance | 3,500 | – | 3,500 | – | 0.0% | 0.0% |
| Healthcare Services and Technology Limited | Healthcare Technology | 2,500 | – | 2,500 | – | 49.9% | 100.0% |
| Shakti Power Limited | Solar | 1,825 | 360 | 2,185 | 360 | 47.7% | 100.0% |
| Mablaw 555 Limited (Technical Software Consultants) | Engineering | 2,000 | 30 | 2,030 | 30 | 6.6% | 10.0% |
| Callstream Limited | Telecommunications | 1,797 | 211 | 2,008 | (8) | 6.5% | 6.5% |
| Erie Heat Limited | Anaerobic digestion | 2,000 | – | 2,000 | – | 49.9% | 100.0% |
| Winnipeg Heat Limited | Anaerobic digestion | 2,000 | – | 2,000 | – | 49.9% | 100.0% |
| Resilient Corporate Services Limited | Solar | 2,000 | (252) | 1,748 | (252) | 41.2% | 100.0% |
| Hydrobolt Limited | Manufacturing | 453 | 1,014 | 1,467 | 646 | 4.6% | 43.3% |
| Aashman Power Limited | Solar | 950 | 215 | 1,165 | 214 | 32.0% | 100.0% |
| Project Tristar Limited | Chauffeur services | 798 | 156 | 954 | 63 | 3.9% | 35.0% |
| Kala Power Limited | Solar | 708 | 159 | 867 | 160 | 26.0% | 100.0% |
| Sula Power Limited | Solar | 626 | 22 | 648 | 22 | 3.2% | 100.0% |
| Atlantic Screen International Limited | Media | 600 | 34 | 634 | 34 | 30% | 100.0% |
| Donoma Power Limited | Solar | 500 | 113 | 613 | 113 | 18.0% | 100.0% |
| 3AM Music Limited | Media | 500 | 45 | 545 | 45 | 33.3% | 100.0% |
| Tonatiuh Trading 1 Limited | Solar | 420 | 95 | 515 | 94 | 17.0% | 100.0% |
| Bruce Dunlop and Associates International Limited | Media | 1,368 | (1,018) | 350 | (350) | 5.1% | 30.0% |
| British Country Inns plc | Restaurants & bars | 44 | (22) | 22 | – | 1.3% | 1.3% |
| **Total qualifying investments** | | **52,697** | **1,609** | **54,306** | **1,116** | | |
| Money market funds | | | | 4,254 | | | |
| Cash at bank | | | | 7,910 | | | |
| Debtors less creditors | | | | (2,565) | | | |
| **Total net assets** | | | | **63,905** | | | |

*Participation in trading partner representing 8% of the LLP at 31 January 2014

**100% debt investment

# STRATEGIC REPORT

## Review of Investments

At 31 January 2014 Apollo's portfolio comprised investments in 22 unquoted companies. The unquoted investments are in Ordinary shares with full voting rights as well as loan note securities and a participation in a limited liability partnership.

Unquoted investments are valued in accordance with the valuation methodology and the accounting policy set out on page 53, which takes account of current industry guidelines for the valuation of venture capital portfolios and is compliant with IPEVC Valuations guidelines and current financial reporting standards.

## Ten Largest Holdings

Listed below are the ten largest investments by value as at 31 January 2014:

### Terido LLP ('Terido')

Terido is a trading partnership managed by Octopus Investments which supports a range of secured asset backed lending in sectors including residential property and solar. Terido invests in a significant number of individual companies in order to ensure diversification for the partnership. Apollo's investment in Terido can be accessed at short notice should Apollo require these funds to make other investments or pay running costs of the Company.

| Asset class | Cost | Valuation |
|---|---|---|
| Participation | £14,000,000 | £14,000,000 |
| Total | £14,000,000 | £14,000,000 |

| | |
|---|---|
| Investment date: | June 2013 |
| Equity held: | 0.0% |
| Last audited accounts: | 31 March 2013 |
| Revenues: | £4.4 million |
| Profit before interest & tax: | £3.6 million |
| Net assets: | £148.2 million |
| Income receivable recognised in year: | £372,000 |
| Valuation basis: | Transaction cost |

# STRATEGIC REPORT

## INVESTMENT MANAGER'S REVIEW (continued)

### Clifford Thames Group Limited ('Clifford Thames')

Clifford Thames is a market-leading provider of consultancy, business outsourcing, software and data services for the automotive industry, and is a key partner of most of the world's leading car manufacturers. With offices in eight countries, Clifford Thames has a well-established and impressive client list including Ford, GM Europe, Jaguar Land Rover, Mazda and Fiat. Further information can be found at the company's website- www.clifford-thames.com.

| Asset class | Cost | Valuation |
|---|---|---|
| A Ordinary shares | £2,133,500 | £2,857,000 |
| B preference shares | £13,500 | £19,000 |
| Loan stock | £5,050,000 | £4,720,000 |
| Total | £7,197,000 | £7,596,000 |

| | |
|---|---|
| Investment date: | January 2010 |
| Equity held: | 7.6% |
| Last audited accounts: | 31 March 2013 |
| Revenues: | £46.9 million |
| Profit before interest & tax: | £2.2 million |
| Net assets: | £14.9 million |
| Income receivable recognised in year: | £560,000 |
| Valuation basis: | Earnings multiple |

CLIFFORD THAMES
SUPPORTING CAR MANUFACTURERS GLOBALLY

Further information can be found at the company's website www.clifford-thames.com

### CSL DualCom Limited ('CSL')

CSL 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 both a telephone line or broadband connection and a wireless link. CSL 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.

| Asset class | Cost | Valuation |
|---|---|---|
| Ordinary shares | £192 | £48,000 |
| Loan stock | £6,910,808 | £6,911,000 |
| Total | £6,911,000 | £6,959,000 |

| | |
|---|---|
| Investment date: | February 2009 |
| Equity held: | 2.0% |
| Last audited accounts: | 31 March 2013 |
| Revenues: | £12.5 million |
| Profit before interest & tax: | £2.3 million |
| Net assets: | £8.1 million |
| Income receivable recognised in year: | £622.000 |
| Valuation basis: | Earnings multiple |

CSL DualCom

Further information can be found at the company's website www.csldual.com

# STRATEGIC REPORT

## Borro Loan 2 Limited ('Borro')

Founded in 2008, Borro is an online consumer finance business, providing short term asset secured loans to customers nationwide. Further information can be found at the company's website www.borro.com.

| Asset class | Cost | Valuation |
|---|---|---|
| Loan stock | £3,500,000 | £3,500,000 |
| Total | £3,500,000 | £3,500,000 |

| | |
|---|---|
| Investment date: | December 2011 |
| Equity held: | 0.0% |
| Last audited accounts: | 31 December 2012 |
| Revenues: | £3,809,000* |
| Profit before interest & tax: | £nil* |
| Net assets: | £1* |
| Income receivable recognised in year: | £485,000 |
| Valuation basis: | Transaction cost |

Further information can be found at the company's website www.borro.com

*Borro Loan 2 Limited is the loan book company and a 100% subsidiary of 'Borro Limited', a company registered in England and whose results are publically available from Companies House. Accordingly, Borro Loan 2 Limited has nil revenues and nominal net assets.

## Healthcare Services and Technology Limited ('Healthcare Services and Technology')

Healthcare Services and Technology is an acquisition vehicle seeking a qualifying investment in the healthcare sector.

| Asset class | Cost | Valuation |
|---|---|---|
| Ordinary shares | £2,500,000 | £2,500,000 |
| Total | £2,500,000 | £2,500,000 |

| | |
|---|---|
| Investment date: | February 2014 |
| Equity held: | 49.9% |
| Last unaudited accounts: | n/a |
| Revenues: | £n/a |
| Loss before interest & tax: | £n/a |
| Net assets: | £n/a |
| Income receivable recognised in year: | £nil |
| Valuation basis: | Transaction cost |

# STRATEGIC REPORT

## INVESTMENT MANAGER'S REVIEW (continued)

### Shakti Power Limited ('Shakti')

Shakti Power Limited has constructed and operates a solar renewable energy site at a carefully selected location in Dunsfold, Surrey.

| Asset class | Cost | Valuation |
|---|---|---|
| A Ordinary shares | £1,825,000 | £2,185,000 |
| Total | £1,825,000 | £2,185,000 |

| | |
|---|---|
| Investment date: | December 2011 |
| Equity held: | 47.7% |
| Last audited accounts: | 31 December 2012 |
| Revenues: | £0.7 million |
| Profit before interest & tax: | £41,000 |
| Net assets: | £3.5 million |
| Income receivable recognised in year: | £nil |
| Valuation basis: | Discounted Cash Flow |

### Mablaw 555 Limited ('Technical Software Consultants')

Technical Software Consultants designs and manufactures equipment to solve a range of oil and gas industry inspection needs, including crack sizing, structural monitoring and stress mapping. Further information can be found at the company's website www.tscinspectionsystems.com.

| Asset class | Cost | Valuation |
|---|---|---|
| A Ordinary shares | £100 | £30,100 |
| B Ordinary shares | £199,900 | £199,900 |
| Loan stock | £1,800,000 | £1,800,000 |
| Total | £2,000,000 | £2,030,000 |

| | |
|---|---|
| Investment date: | April 2012 |
| Equity held: | 6.6% |
| Last audited accounts: | 31 March 2013 |
| Revenues: | £3.6m |
| Profit before interest & tax: | £0.2m |
| Net assets: | £0.6m |
| Income receivable recognised in year: | £196,000 |
| Valuation basis: | Earnings multiple |

Further information can be found at the company's website www.tscinspectionsystems.com

# STRATEGIC REPORT

### Callstream Limited ('Callstream', formerly Bluebell Telecom Services Limited)

Callstream provides landline, mobile and data solutions to businesses, helping to cut costs and improve efficiency through simple rationalisation and more effective deployment of voice and data services. Further information can be found at the company's website www.callstream.com.

| Asset class | Cost | Valuation |
|---|---|---|
| A2 shares | £317,000 | £552,000 |
| Ordinary shares | £50,000 | £131,000 |
| Loan stock | £1,430,000 | £1,325,000 |
| Total | £1,797,000 | £2,008,000 |

| | |
|---|---|
| Investment date: | September 2010 |
| Equity held: | 6.5% |
| Last audited accounts: | 30 April 2013 |
| Revenues: | £13.3 million |
| Profit before interest & tax: | £1.9 million |
| Net assets: | £5.0 million |
| Income receivable recognised in year: | £404,000 |
| Valuation basis: | Earnings multiple |

Further information can be found at the company's website www.callstream.com

### Erie Heat Limited ('Erie')

Erie is in the process of constructing, and will operate, an anaerobic digestion plant in Lincolnshire.

| Asset class | Cost | Valuation |
|---|---|---|
| A Ordinary shares | £600,000 | £600,000 |
| Loan stock | £1,400,000 | £1,400,000 |
| Total | £2,000,000 | £2,000,000 |

| | |
|---|---|
| Investment date: | April 2012 |
| Equity held: | 49.9% |
| Last unaudited accounts: | 28 February 2013 |
| Revenues: | £nil |
| Profit before interest & tax: | £109 |
| Net assets: | £0.6 million |
| Income receivable recognised in year: | £8,000 |
| Valuation basis: | Transaction cost |

# STRATEGIC REPORT

## INVESTMENT MANAGER'S REVIEW (continued)

**Winnipeg Heat Limited ('Winnipeg')**

Winnipeg is in the process of constructing, and will operate, an anaerobic digestion plant in Yorkshire.

| Asset class | Cost | Valuation |
|---|---|---|
| A Ordinary shares | £600,000 | £600,000 |
| Loan stock | £1,400,000 | £1,400,000 |
| Total | £2,000,000 | £2,000,000 |

| | |
|---|---|
| Investment date: | April 2012 |
| Equity held: | 49.9% |
| Last unaudited accounts: | 28 February 2013 |
| Revenues: | £nil |
| Profit before interest & tax: | £86 |
| Net assets: | £0.5 million |
| Income receivable recognised in year: | £17,000 |
| Valuation basis: | Transaction cost |

# STRATEGIC REPORT

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

Octopus Apollo VCT plc focuses on providing development and expansion funding to predominantly unquoted companies with a typical investment per company of £1 million to £5 million. The Company's funds are invested with more focus on capital preservation than a typical VCT. Typically the Company 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 Company's investment aims and to use the equity exposure to boost returns. As portfolio companies are unquoted the Company will receive a return from an equity holding when an investee 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

The Directors of the Company during the year were:

**Murray Steele (Chairman)**

Murray was appointed as Director and Chairman on completion of the merger of Octopus Apollo VCT 1 plc, Octopus Apollo VCT 2 plc and Octopus Apollo VCT 4 plc with the Company. Murray has had a broad range of experience as a Director of a number of companies. At present he is Chairman of Surface Generation Limited, a hi-tech engineering company, and a Non-Executive Director of James Walker Group, an international engineering group with revenues of £200 million, and E-Energija, an energy company in Lithuania. Murray has Bachelor's and Master's degrees in mechanical engineering from the University of Glasgow, an MBA from Cranfield School of Management and holds an accounting qualification. Murray was formerly a director of Octopus Apollo 4 VCT plc which was placed into Members Voluntary Liquidation on 28 September 2012 following the merger of the Apollo VCTs and was dissolved on 15 April 2014.

**Tony Morgan (Non-Executive Director)**

Tony was Chairman of the Company until completion of the merger on 28 September 2012. Tony spent eight 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 and he has been Chairman of the charity Youth at Risk since 1996. Tony has had more than ten year's specific VCT experience.

**Christopher Powles (Non-Executive Director and Chairman of the Audit Committee)**

Chris was appointed as a Director on 28 September 2012 upon the merger of Octopus Apollo VCT 1 plc, Octopus Apollo VCT 2 plc and Octopus Apollo VCT 4 plc with the Company. Chris has extensive experience in the UK smaller companies sector. He was the principal founder of Pi Capital, a private client fund management company that specialises in investing in smaller unquoted companies. Prior to selling his stake in Pi Capital in 2002 he led the investment of more than £25 million into 14 companies. Subsequently he was the finance director of an AIM-traded company, as well as a non-executive director of both listed and private companies. Currently he is involved in renewable energy, being a director of three companies in that sector. Chris is a chartered accountant, having qualified at what is now part of PricewaterhouseCoopers LLP, and has a BA Hons degree from Oxford University. Chris was formerly a director of Octopus Apollo 4 VCT plc which was placed into Members Voluntary Liquidation on 28 September 2012 following the merger of the Apollo VCTs and was dissolved on 15 April 2014.

# DETAILS OF DIRECTORS (continued)

**Matt Cooper (Non-Executive Director)**

Matt is the Chairman of Octopus, the investment manager of the Company. 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 Imaginatik plc, Renovo Group plc and Clearly So Limited and a Non-Executive Director of Accesso Technology Group plc, Which? Financial Services Limited, Vouched For Limited and three other Octopus VCTs. Matt was formerly a director of Octopus Apollo VCT 1 plc and Octopus Apollo VCT 2 plc which were placed into Members' Voluntary Liquidation on 28 September 2012 following the merger of the Apollo VCTs and were dissolved on 15 April 2014.

# DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year to 31 January 2014.

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

### Directors

Brief biographical notes on the Directors are given on pages 24 and 25.

In accordance with the Articles of Association and the Association of Investment Companies Code of Corporate Governance, Mr Morgan retires as a Director at the Annual General Meeting, and being eligible, offers himself for re-election. Mr Cooper is not considered to be independent due to his role as Chairman of Octopus Investments Limited, the Investment Manager of Octopus Apollo VCT plc. As a non-independent Director, Mr Cooper will stand for re-election at the 2014 AGM of the Company as required by Listing Rule 15.2.13A. The Board has considered provision B.7.2 of the The UK Corporate Governance Code and, following a formal performance evaluation as part of the Board Evaluation, further details of which can be found on page 31, believes that Mr Morgan and Mr Cooper continue to be effective and demonstrate commitment to their roles. The Board therefore recommends their re-election at the forthcoming Annual General Meeting.

Further details can be found in the Corporate Governance report on pages 30 to 34.

### 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.

### VCT Regulation

Compliance with required rules and regulations is considered when all investment decisions are made. The Company is further monitored on a continual basis to ensure compliance. The main criteria to which the Company must adhere is detailed on page 2 (Shareholder Information and Contact Details).

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

### Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report, on pages 5 to 23. Further details on the management of financial risk may be found in note 16 to the financial statements.

The Board receives regular reports from Octopus and the Directors 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 include securities which are readily realisable (19% of net assets) and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future.

### Management

The Company has in place an agreement with Octopus to act as Investment Manager which is central to the ability of the Company to continue in business. The principal terms of the Company's management agreement with Octopus are set out in notes 3 and 19 to the financial statements. Octopus also provides secretarial, administrative and custodian services to the Company.

There are no other contracts which are deemed to be essential to the business of the Company.

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

# DIRECTORS' REPORT (continued)

satisfactory investment performance in the future. It also considered the length of the notice period of the management agreement and fees payable to Octopus, together with the standard of other services provided, which include secretarial and accounting services.

With the exception of Mr Cooper, no Director has an interest in any contract to which the Company is party. Mr Cooper is Chairman of Octopus. Details of the fees paid to Octopus in respect of services provided are detailed in note 3 to the financial statements.

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. Further details of this scheme are disclosed within note 19 to the financial statements. As at 31 January 2014, £375,000 was due to Octopus Investments by way of annual performance fee (2013: £394,100).

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

### Whistleblowing

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

### Bribery Act

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

### Environment Policy and Greenhouse Gas Emissions

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

The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emission producing sources under the Companies Act 2006 (Strategic Report and Directors Reports) Regulations 2013.

### Share Issues and Open Offers

During the year, 41,221,614 shares were issued at a weighted average price of 94.2p per share (2013: 28,901,401 shares). The larger than usual number of shares issued was as a result of the Enhanced Buyback Facility provided in February of last year.

On 2 December 2013 the Company launched a Top Up Offer (the "Offer") to raise up to £4.1 million. As at 31 January 2014, the Company had received applications totalling £3,537,842. On 21 February 2014 the Company allotted 4,552,069 shares pursuant to the Offer, at a price of 89.7p per share, for a total consideration of £4,083,200. The Offer closed on 21 February 2014.

### Share Buybacks and Redemptions

During the period the Company purchased 21,103,371 shares, with a nominal value of £2,110,337.10, for cancellation at a weighted average price of 89.0p per share for total consideration of £18,783,252 (2013: 5,327,118 shares at a weighted average price of 78.7p per share). The majority of shares, 18,868,091, were repurchased as part of the Enhanced Buyback Facility at a price of 89.7p per share, in which 38 per cent of shareholders participated. The remainder of the shares were repurchased in accordance with the Company's share

# DIRECTORS' REPORT (continued)

buyback policy to provide liquidity in the shares and to prevent the shares trading at a wide discount to the NAV.

The Board received authority at the 2013 AGM to buy back up to 14.99% of the share capital, such authority to expire at the conclusion of the 2014 AGM. Renewal of this authority will be sought at the forthcoming AGM. The Board's policy is to apply a 5% discount to all buybacks.

### Cancellation of Share Premium Account and Capital Redemption Reserve

On 26 March 2014 the High Court of Justice, Chancery Division approved the cancellation of the Company's share premium account and capital redemption reserve. As a result of these cancellations £39,379,245 was transferred to the special distributable reserve.

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

The Company's Ordinary share capital as at 31 January 2014 was 73,620,903 Ordinary shares of 10p (2013: 53,502,660 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 returns 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

# DIRECTORS' REPORT (continued)

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.

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

The authority proposed under Resolution 8 is required so that the Directors may offer existing shareholders the opportunity to add to their investment or to offer 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 8 renews the Directors' authority to allot Ordinary shares. This would enable the Directors until June 2015, to allot up to 7,362,000 Ordinary shares (representing approximately 10% of the Company's issued share capital as at 31 January 2014).

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

Resolution 9 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 7,362,000 Ordinary shares (representing approximately 10% of the Company's issued share capital as at 31 January 2014). 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 10 is required so that the Directors may make purchases of up to approximately 14.99 per cent 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

# DIRECTORS' REPORT (continued)

repurchased under this authority will ordinarily be cancelled.

### 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 Annual General Meeting of the Company to be held on 8 July 2014, and a form of proxy in relation to the meeting, can each be found at the end of this document.

### Independent Auditor

Grant Thornton UK LLP offer themselves for reappointment as auditor. A resolution to reappoint Grant Thornton UK LLP as auditor and to authorise the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

### Information Given in the Strategic Report

Information on dividends and likely future developments has not been given in the Directors' Report as equivalent disclosure has been made in the Strategic Report.

### Corporate Governance

The Board of Octopus Apollo 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 UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The Board considers that reporting against the principles and recommendations of the AIC Code, by reference to the AIC Guide (which incorporates, and is used in addition to, The UK Corporate Governance Code), will provide better information to shareholders.

The Company is committed to maintaining high standards in Corporate Governance. The Directors consider that the Company has, throughout the period under review, complied with the provisions set out in The UK Corporate Governance Code with the exceptions set out in the Compliance Statement on pages 33 and 34.

### Board of Directors

The Company has a board of four non-executive Directors, three of whom are 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. As a non-independent Director, Mr Cooper will stand for re-election at the 2014 AGM of the Company as required by Listing Rule 15.2.13A.

| | Date of Original Appointment | Due date for Re-election |
|---|---|---|
| Murray Steele (Chairman) | 27/09/2012 | AGM 2016 |
| Matt Cooper | 17/07/2006 | AGM 2014 |
| Tony Morgan | 17/07/2006 | AGM 2014 |
| Christopher Powles | 27/09/2012 | AGM 2015 |

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;

# DIRECTORS' REPORT (continued)

- 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. The Board does not consider it necessary for the size of the Board or the Company to identify a member of the Board as the senior non-executive Director.

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.

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 as set out in the Strategic Report on pages 5 and 6.

During the year the following meetings were held:

| | Full Board meetings held | No. of meetings attended | Audit Committee meetings held | Audit Committee meetings attended |
|---|---|---|---|---|
| Murray Steele (Chairman) | 5 | 5 | 2 | 2 |
| Matt Cooper | 5 | 4 | n/a | n/a |
| Tony Morgan | 5 | 5 | 2 | 2 |
| Chris Powles | 5 | 5 | 2 | 2 |

Additional meetings were held as required to address specific issues including considering recommendations from the Investment Manager and share repurchases, including the Enhanced Share Buyback. A brief biographical summary of each Director is given on pages 24 and 25.

### Performance Evaluation

In accordance with The UK Corporate Governance Code, each year a formal performance evaluation is undertaken of the Board, its Committees and the directors in the form of a questionnaire completed by each director. A summary of the findings are presented to the Board at the next meeting and an action plan agreed. The performance of the Chairman was evaluated by the other Directors.

### 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

# DIRECTORS' REPORT (continued)

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

### Powers of the Directors

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

Authority was given at the Company's 2013 Annual General Meeting to make market purchases of up to 14.99% of the issued Ordinary share capital at any time up to the 2014 Annual General Meeting and otherwise on the terms set out in the relevant resolution, and renewed authority is being sought at the 2014 Annual General Meeting as set out in the notice of meeting.

### Board Committees

There is no formal management engagement committee as matters of this nature are dealt with by the independent Non-Executive Directors. The Board does not have a separate Remuneration Committee as the Company has no employees or executive Directors. Detailed information relating to the remuneration of Directors is given in the Directors' Remuneration Report on pages 38 to 41.

The Board has appointed two committees to make recommendations to the Board in specific areas, the Audit Committee and the Nomination Committee.

### Audit Committee:

Christopher Powles (Chairman)

Murray Steele

Tony Morgan

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

The Audit Committee Report is given on pages 35 to 37.

### Nomination Committee:

Tony Morgan (Chairman)

Christopher Powles

The Nomination Committee considers the selection and appointment of Directors considering the composition and selection of the Board, appointing members on merit, measured against objective criteria with due regard for the benefits of diversity, including

# DIRECTORS' REPORT (continued)

gender. It also makes recommendations to the Board as to the level of Directors' fees.

Terms of reference for the Committee have been agreed, however, it has not yet been necessary for the Committee to meet.

### Internal Controls

The Directors have overall responsibility for keeping under review the effectiveness of the Company's systems of risk management and 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 risk management and internal control 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 the Investment Manager.

Octopus identifies investment opportunities for the consideration of the Board which ultimately makes 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. Octopus regularly reconciles the client asset register with the physical documents.

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

The risk management and internal control systems include the production and review of monthly bank reconciliations and management accounts. All outflows made from the Company's accounts require the authority of two signatories from Octopus. The Company is subject to a full annual audit whereby the auditor is the same auditor as other VCTs managed by the Investment Manager. Further to this, the Audit Partner has open access to the Directors of the Company 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.

### Relations with Shareholders

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

The Board is also happy to respond to any written queries made by shareholders during the course of the year and can be contacted at 20 Old Bailey, London EC4M 7AN. Alternatively, the team at Octopus are available to answer any questions that a shareholder may have and can be contacted on 0800 316 2295.

### Compliance Statement

The Listing Rules require the Board to report on compliance throughout the accounting period with all relevant provisions set out in the UK Corporate Governance Code. The preamble to the UK Corporate Governance Code does, however, acknowledge that some provisions may have less relevance for investment companies adding that the AIC Code and AIC Guide can assist in meeting the obligations under the UK Corporate Governance

# DIRECTORS' REPORT (continued)

Code. With the exception of the limited items outlined below, the Company has complied throughout the accounting period to 31 January 2014 with the provisions set out in the UK Corporate Governance Code. The section references to the Code are shown in brackets.

1. The Company does not have a Chief Executive Officer or a senior independent Director. The Board does not consider this necessary for the size of the Company. [A.4.1]
2. New Directors have not received a full, formal and tailored induction on joining the Board. Such matters are addressed on an individual basis as they arise. [B.4.1]
3. The Audit Committee discusses the need for an internal audit function annually, however, it does not consider that an internal audit would be an appropriate control for a VCT. [C.3.6]
4. The Company does not have a Remuneration Committee as it does not have any executive directors and the Board as a whole reviews the remuneration of the Directors on an annual basis. [D.1.1 – 2.4]
5. The Company has no major shareholders and shareholders are not given the opportunity to meet any Non-Executive Directors at a specific meeting other than the Annual General Meeting but are welcome to contact the Board or Octopus at any time. [E.1.1 and E.1.2]

By Order of the Board

Nicola Board

**Nicola Board (ACIS)**
Company Secretary
15 May 2014

# AUDIT COMMITTEE REPORT

This report is submitted in accordance with The UK Corporate Governance Code in respect of the year ended 31 January 2014 and describes the work of the Audit Committee in discharging its responsibilities.

The Committee's key objective is the provision of effective governance of the appropriateness of the Company's financial reporting, the performance of the auditor and the management of the internal control and business risks systems. The Director's forming the Audit Committee can be found on page 32.

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

- reviewing and making recommendations to the Board in relation to the Company's published financial statements and other formal announcements relating to the Company's financial performance;
- advising the Board on whether the annual Report and Accounts, taken as a whole, is fair, balanced and understandable;
- advising the Board on whether the annual Report and Accounts provides necessary information for shareholders to assess performance, business model and strategy;
- 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 auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK 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.

As part of the process of working with the Board to maximise effectiveness, meetings of the Committee usually take place immediately prior to a Board meeting and a report is provided on relevant matters to enable the Board to carry out its duties.

The Committee reviews its terms of reference and its effectiveness periodically and recommends to the Board any changes required as a result of the review. The terms of reference are available on request from the Company Secretary. The Committee meets twice each year and on an ad hoc basis as necessary. It 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, being corporation tax compliance only, and does not believe it is sufficient to influence their independence or objectivity due to the fee being an immaterial expense. When considering whether to recommend the reappointment of the external auditor the Committee takes into account the tenure of the current auditor in addition to comparing the fees charged by similar sized audit firms. Once the Committee has made a recommendation to the Board in relation to the appointment of the external auditor, this is then ratified at the AGM through an Ordinary Resolution.

The effectiveness of the external audit is assessed as part of the Board evaluation conducted annually and by the quality and content of the Audit Plan and Report provided to the Committee by the Auditor and the resultant discussions on topics raised. The Committee also challenge the Auditor when present at a Committee meeting if appropriate. In accordance with guidance issued by the Auditing practices Board

# AUDIT COMMITTEE REPORT (continued)

the audit partner is rotated every five years to ensure that objectivity and independence is not impaired. The current audit partner has been in place for one year end. Grant Thornton UK LLP was appointed as Auditor to the Company in 2006. No tender for the audit of the Company has been undertaken since this date.

The Company does not have an independent internal audit function as it is not deemed appropriate given the size of the Company and the nature of the Company's business. However, the Committee considers annually whether there is a need for such a function and, if so, would recommend this to the Board. Octopus has appointed an internal auditor, the function for which has been outsourced to Ernst & Young. Ernst & Young provide the internal audit reports to Octopus' Compliance Department which regularly reports to the Board on the outcome of the audits that have taken place. Any significant issues arising from the Octopus internal audit that affect the Company would be raised to the Committee immediately. The Committee is satisfied with the level of reporting.

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

During the period ended 31 January 2014, 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 the Octopus 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 the Octopus compliance procedures;
- reviewing the appropriateness of the Company's accounting policies;
- reviewing the Company's draft annual financial and interim results statements prior to Board approval;
- reviewing the external auditor's Audit Findings Report to the Committee on the annual financial statements; and
- reviewing the Company's going concern status as referred to on page 26.

The Committee has considered the Report and Accounts for the year ended 31 January 2014 and has reported to the Board that it considers them to be fair, balanced and understandable and providing the information necessary for shareholders to assess the Company's performance, business model and strategy.

**Significant Risks**

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

- Valuation of investment portfolio: The Committee gives special audit consideration to the valuation of investments and the supporting data provided by Octopus. The impact of this risk could be a large movement in the Company's net asset value. The valuations are supported by investee audited accounts and third party evidence. These give comfort to the Audit Committee.
- Recognition of revenue from investments: Investment income is the Company's main source of revenue. Revenue is recognised when the Company's right to the return is established in accordance with the Statement of Recommended Practice. Octopus confirms to the Audit Committee that the revenues are recognised appropriately.
- Management override of financial controls: The Committee reviews all significant accounting estimates that form part of the financial statements and consider any material judgements

# AUDIT COMMITTEE REPORT (continued)

applied by management during the preparation of the financial statements.

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

The Audit Committee is also responsible for considering and reporting on any significant issues that arise in relation to the audit of the financial statements. The Audit Committee can confirm that there were no significant issues to report to the shareholders in respect of the audit of the financial statements for the year ended 31 January 2014.

**Chris Powles**
Audit Committee Chairman
15 May 2014

# DIRECTORS' REMUNERATION REPORT

### Introduction

This report is submitted in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 in respect of the year ended 31 January 2014. The new reporting obligations require that two sections be included, a Policy Report and an Annual Remuneration Report, which are presented below.

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 and share information below. Their report on these and other matters is set out on pages 42 to 45.

### 1. Consideration by the Directors of Matters Relating to Directors' Remuneration

The Board as a whole considers Directors' remuneration and has not appointed a separate committee in this respect. The Board has not sought advice or services from any person in respect of its consideration of Directors' remuneration during the period although the Directors expect from time to time to review the fees against those paid to the boards of directors of other VCTs. No changes were made to the levels of Directors' remuneration during the year, which are set out on page 39. The Company does not have a Chief Executive Officer, Senior Management or any employees.

### Directors' Remuneration Policy Report

The Board consists entirely of Non-Executive Directors, who meet at least four times a year and on other occasions as necessary, to deal with 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 the shareholder vote.

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

The maximum level of Directors' remuneration is fixed by the Company's Articles of Association, not to exceed £75,000 per annum; amendment to this is by way of an ordinary resolution subject to the approval of shareholders in general meeting.

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. Due to the nature of the Company, there are no employees other than the Directors and therefore there are no employee remuneration issues to consider when determining the Directors' remuneration.

The Company's policy is for the Directors to be remunerated in the form of fees, payable 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. The Board is also entitled to be repaid all reasonable travelling, subsistence and other expenses incurred by them respectively whilst conducting their duties as Directors; however no other remuneration or compensation was paid or payable by the Company to any of the Directors during the period.

In accordance with the new reporting requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations

# DIRECTORS' REMUNERATION REPORT (continued)

2013, an Ordinary resolution for the approval of the remuneration policy of the Company, to remain in force for a three year period, will be put to the members at the Annual General Meeting and be effective from that date.

### 2. Annual Remuneration Report

The remuneration policy described above will be implemented with effect from 8 July 2014, subject to approval by shareholders at the AGM, and remain unchanged for a three year period. The Board will review the remuneration of the Directors if thought appropriate and monitors competitors in the VCT industry on an annual basis. Otherwise, only a change in role is likely to incur a change in the remuneration of any one director.

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

### Statement of Voting at the Annual General Meeting (AGM)

The 2013 Remuneration Report was presented to the AGM in July 2013 and received shareholder approval following a vote on a show of hands. 9.3% of the votes cast on the proxy forms were against the Report and no votes were withheld. The proxy forms returned to Capita contained no explanation for the votes against the resolution.

Shareholders' views are always considered by the Board, and the methods of contacting the Board are set out in the Directors' Report on page 33.

### 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 performance graph on page 9 shows the performance of the Company.

### Directors' Fees (audited)

The amount of each Director's fees, as audited, were:

| | **Year ended 31 January 2014** | Year ended 31 January 2013 |
|---|---|---|
| Murray Steele* (Chairman) | **£21,000** | £7,100 |
| Tony Morgan** | **£16,000** | £19,300 |
| Christopher Powles* | **£16,000** | £5,400 |
| Matt Cooper | **£16,000** | £16,000 |
| Rob Johnson*** | **N/A** | £10,600 |
| Total | **£69,000** | £58,400 |

* Murray Steele and Christopher Powles were appointed on 28 September 2012
** Tony Morgan stood down as Chairman on 28 September 2012
*** Rob Johnson resigned on 28 September 2012

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

### Relative Importance of Spend on Pay

The actual expenditure in the current year is as follows:

| | **Year to 31 January 2014 £'000** | Year to 31 January 2013 £'000 |
|---|---|---|
| Share buybacks | **18,783** | 4,236 |
| Dividends paid in year | **3,695** | 2,412 |
| Total Directors' Fees | **69** | 58 |

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

Due to the merger of the four Apollo VCTs in 2012 which resulted in a larger shareholder base and additional directors, the figures for the previous year are not directly comparable and therefore may be misleading.

### Statement of Directors' Shareholdings (Audited)

There are no guidelines or requirements for Directors' to own shares in the Company. The interests of the Directors of the Company during the year (in respect of which transactions are notifiable under Disclosure

# DIRECTORS' REMUNERATION REPORT (continued)

and Transparency Rule 3.1.2R) in the issued Ordinary shares of 10p each are shown in the table below:

| | **Number of shares at 31 January 2014** | Number of shares at 31 January 2013 |
|---|---|---|
| Murray Steele (Chairman) | **11,255** | 5,699 |
| Tony Morgan | **4,747** | 4,747 |
| Christopher Powles | **5,699** | 5,699 |
| Matt Cooper | **20,410** | 10,023 |

All of the Directors' shares were held beneficially. There have been no other changes in the Directors' share interests between 31 January 2014 and the date of this report.

Any information required by legislation in relation to executive directors (including a Chief Executive Officer) or employees has been omitted because the Company has neither and therefore it is not relevant.

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By Order of the Board

Murray Steele

**Murray Steele**
Chairman
15 May 2014

# DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Strategic Report, Directors' Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

The Directors confirm that:

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

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

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

To the best of our knowledge:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the annual report, including the strategic 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.

On behalf of the board

Murray Steele

**Murray Steele**
Chairman
15 May 2014

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

We have audited the financial statements of Octopus Apollo VCT plc for the year ended 31 January 2014 which comprise the income statement, the reconciliation of movements in shareholders' funds, the balance sheet, the cash flow statement, the reconciliation of return after taxation to cash flow from operating activities, the reconciliation of net cash flow to movement in net funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 41, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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 Financial Reporting Council's website at www.frc.org.uk/apb/scope/private.cfm.

### Auditor commentary

#### *An overview of the scope of our audit*

Our audit approach was based on a thorough understanding of the Company's business and is risk-based. The day-to-day management of the Company's investment portfolio, the custody of its investments and the maintenance of the Company's accounting records is outsourced to a third-party service provider. Accordingly, our audit work is focussed on obtaining an understanding of, and evaluating, internal controls at the Company and the third-party service provider, and inspecting records and documents held by the third-party service provider. We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the design effectiveness of controls over individual systems and the management of specific risks.

#### *Our application of materiality*

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. For the purpose of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of a misstatement or an omission from the financial statements or related disclosures that would make it probable that the judgement of a reasonable person, relying on the information would have been changed or influenced by the misstatement or omission. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected

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

misstatements exceeds materiality for the financial statements as a whole.

We established materiality for the financial statements as a whole to be £678,000, which is 1% of the Company's total assets. For the revenue column of the income statement we determined that misstatements of lesser amounts than materiality for the financial statements as a whole would make it probable that the judgement of a reasonable person, relying on the information would have been changed or influenced by the misstatement or omission. Accordingly, we established materiality for the revenue column of the income statement to be £81,000.

*Our assessment of risk*

Without modifying our opinion, we highlight the following matters that are, in our judgement, likely to be most important to users' understanding of our audit. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual transactions, balances or disclosures.

**Valuation of unquoted investments**

Investments are the largest asset in the financial statements, and they are designated as being at fair value through profit or loss in accordance with FRS 26, "Financial instruments: recognition and measurement". Measurement of the value of unquoted investments includes significant assumptions and judgements and we therefore identified the valuation of unquoted investments as a risk requiring special audit consideration.

Our audit work included, but was not restricted to: obtaining an understanding of how valuations were performed; consideration of whether the valuations were made in accordance with published guidance; discussions with the investment manager; reviewing and challenging the basis and reasonableness of the assumptions made by the investment manager in conjunction with available supporting information. The Company's accounting policy on the valuation of unquoted investments is included in note 1 and its disclosures about unquoted investments held at the year end are included in note 10.

**Recognition of revenue from investments**

Investment income is the Company's major source of revenue. According to FRS 5, revenue should be recognised when the Company's right to the income is established in line with the Company's stated accounting policy. We therefore identified the recognition of revenue from investments as a significant risk requiring special audit consideration

Our audit work included, but was not restricted to assessing whether the stated accounting policy conforms with UK GAAP, and testing the income recognised is in accordance with that policy, and selecting a sample of investments held in the period, determining the income that should have been recognised and comparing it with the income that was recognised on them. We also assessed the recoverability of accrued investment income at the year end.

The Company's accounting policy and note on the recognition of revenue from investments is included in notes 1 and 2.

**Management override of controls**

Under ISAs (UK & Ireland), for all of our audits we are required to consider the risk of management override of financial controls. Due to the unpredictable nature of this risk we are required to assess it as a significant risk requiring special audit consideration.

Our audit work included, but was not restricted to specific procedures relating to this risk that are

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

required by ISA 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'. This included tests of journal entries, the evaluation of judgements and assumptions in management's estimates and tests of significant transactions outside the normal course of business. In particular, our work on the valuation of unquoted investments addressed key aspects of ISA 240.

### 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 2014 and of its return 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.

### Other reporting responsibilities

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

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

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

*Under the Listing Rules we are required to review:*

- the directors' statement, set out on page 26, in relation to going concern; and

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

- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

**Paul Creasey**
(Senior Statutory Auditor)
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Oxford
15 May 2014

# INCOME STATEMENT

| | Notes | Year ended 31 January 2014 Revenue £'000 | Capital £'000 | Total £'000 |
|---|---|---|---|---|
| Realised loss on disposal of fixed asset investments | 10 | – | (10) | (10) |
| Fixed asset investment holding gains | 10 | – | 1,116 | 1,116 |
| Investment income | 2 | 2,979 | – | 2,979 |
| Investment management fees | 3 | (273) | (1,194) | (1,467) |
| Other expenses | 4 | (707) | – | (707) |
| **Return on ordinary activities before tax** | | 1,999 | (88) | 1,911 |
| Taxation on return on ordinary activities | 6 | (400) | 240 | (160) |
| **Return on ordinary activities after tax** | | 1,599 | 152 | 1,751 |
| **Earnings per share – basic and diluted** | 8 | 2.3p | 0.2p | 2.5p |

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

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

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

# INCOME STATEMENT (continued)

| | Notes | Year ended 31 January 2013<br>Revenue<br>£'000 | <br>Capital<br>£'000 | <br>Total<br>£'000 |
|---|---|---|---|---|
| Realised gain on disposal of fixed asset investments | 10 | – | 23 | 23 |
| Fixed asset investment holding gains | 10 | – | 375 | 375 |
| Investment income | 2 | 1,678 | – | 1,678 |
| Investment management fees | 3 | (167) | (893) | (1,060) |
| Other expenses | 4 | (770) | – | (770) |
| Return on ordinary activities before tax | | 741 | (495) | 246 |
| Taxation on return on ordinary activities | 6 | (201) | 178 | (23) |
| Return on ordinary activities after tax | | 540 | (317) | 223 |
| Earnings per share – basic and diluted | 8 | 1.5p | (0.9)p | 0.6p |

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

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

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

# RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | Year ended 31 January 2014 £'000 | Year ended 31 January 2013 £'000 |
|---|---|---|
| Shareholders' funds at start of year | **47,774** | 24,337 |
| Return on ordinary activities after tax | **1,751** | 223 |
| Shares issued upon acquisition of assets and liabilities of Octopus Apollo VCT 1, 2 and 4 plc | **–** | 26,522 |
| Stamp duty on shares issued | **–** | (31) |
| Issue of shares | **20,585** | 2,835 |
| Enhanced buyback | **(737)** | – |
| Purchase of own shares | **(1,859)** | (4,233) |
| Dividends paid | **(3,609)** | (1,879) |
| Shareholders' funds at end of year | **63,905** | 47,774 |

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

# BALANCE SHEET

| | Notes | As at 31 January 2014 £'000 | As at 31 January 2014 £'000 | As at 31 January 2013 £'000 | As at 31 January 2013 £'000 |
|---|---|---|---|---|---|
| Fixed asset investments* | 10 | | **54,306** | | 39,976 |
| Current assets: | | | | | |
| Debtors | 11 | **1,653** | | 936 | |
| Investments – money market funds* | 12 | **4,254** | | 4,737 | |
| Cash at bank | | **7,910** | | 3,863 | |
| | | **13,817** | | 9,536 | |
| Creditors: amounts falling due within one year | 13 | **(4,218)** | | (1,738) | |
| Net current assets | | | **9,599** | | 7,798 |
| **Total assets less current liabilities** | | | **63,905** | | 47,774 |
| Called up equity share capital | 14 | | **7,362** | | 5,350 |
| Share premium | 15 | | **35,140** | | 2,488 |
| Special distributable reserve | 15 | | **19,116** | | 39,911 |
| Capital redemption reserve | 15 | | **2,704** | | 594 |
| Capital reserve gains & losses on disposal | 15 | | **(2,445)** | | (1,213) |
| Capital reserve holding gains & losses | 15 | | **2,028** | | 644 |
| Revenue reserve | 15 | | **–** | | – |
| **Total shareholders' funds** | | | **63,905** | | 47,774 |
| **Net asset value per share** | 9 | | **86.8p** | | 89.3p |

*Held at fair value through profit or loss

The statements were approved by the Directors and authorised for issue on 15 May 2014 and are signed on their behalf by:

Murray Steele

**Murray Steele**

Chairman

Company number: 05840377

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

# CASH FLOW STATEMENT

| | Notes | Year to 31 January 2014 £'000 | Year to 31 January 2013 £'000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | | **(89)** | 192 |
| **Taxation** | 6 | **–** | – |
| **Financial investment:** | | | |
| Purchase of fixed asset investments | 10 | **(16,500)** | (4,283) |
| Sale of fixed asset investments | 10 | **3,276** | 5,326 |
| **Dividends paid** | 7 | **(3,609)** | (1,879) |
| **Management of liquid resources:** | | | |
| Purchase of current asset investments | 12 | **(17)** | (5,478) |
| Sale of current asset investments | 12 | **500** | 3,800 |
| Current asset investments acquired on acquisition of net assets of Octopus Apollo VCT 1, 2 and 4 plc | | **–** | 1,454 |
| **Financing** | | | |
| Enhanced share buyback | | **(737)** | – |
| Purchase of own shares | 14 | **(1,859)** | (4,233) |
| Cash received on acquisition of net assets of Octopus Apollo VCT 1, 2 and 4 plc | | **–** | 3,672 |
| Stamp duty on shares issued to acquire net assets of Octopus Apollo VCT 1, 2 and 4 plc | | **–** | (31) |
| Cash received from fund raising top-up offer, shares not yet allotted | 13 | **2,497** | 1,041 |
| Issue of own shares | 14 | **20,585** | 2,835 |
| **Increase in cash** | | **4,047** | 2,416 |

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

# CASH FLOW STATEMENT (continued)

## RECONCILIATION OF RETURN AFTER TAXATION TO CASH FLOW FROM OPERATING ACTIVITIES

| | Year to 31 January 2014 £'000 | Year to 31 January 2013 £'000 |
|---|---|---|
| Return on ordinary activities after tax | **1,751** | 223 |
| (Increase)/decrease in debtors | **(717)** | 39 |
| (Decrease)/increase in creditors | **(17)** | 328 |
| Loss/(gain) on disposal of fixed assets | **10** | (23) |
| Holding (gain)/loss on fixed asset investments | **(1,116)** | (375) |
| **Inflow from operating activities** | **(89)** | 192 |

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

| | Year to 31 January 2014 £'000 | Year to 31 January 2013 £'000 |
|---|---|---|
| Increase in cash at bank | **4,047** | 2,416 |
| Movement in cash equivalent securities | **(483)** | 1,678 |
| Opening net funds | **8,600** | 4,506 |
| **Net funds at 31 January** | **12,164** | 8,600 |

### Net funds at 31 January comprised:

| | As at 31 January 2014 £'000 | As at 31 January 2013 £'000 |
|---|---|---|
| Cash at bank | **7,910** | 3,863 |
| Money market funds | **4,254** | 4,737 |
| **Net funds at 31 January** | **12,164** | 8,600 |

# 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 and Venture Capital Trusts' (revised 2009).

The principal accounting policies have remained unchanged from those set out in the Company's 2013 Annual Report and financial statements. A summary of the principal accounting policies is set out below.

The Company presents its income statement in a three column format to give shareholders additional detail of the performance of the Company, split between items of a revenue or capital nature.

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

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

The preparation of the financial statements requires the Board 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.

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 the subsidiary companies of investee companies and liquidity or marketability of the investments held. For the avoidance of doubt, Octopus Apollo VCT plc only invests in unquoted investments.

Although the Company believes that the assumptions concerning the business environment and estimates 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).

# NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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 is 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 multiples 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). Fixed returns on non-equity shares and debt securities which are held at fair value are computed using the effective interest rate, to distinguish between the interest income receivable (which is disclosed as interest income within the revenue column of the Income Statement) and other fair value movements arising on these instruments (which are disclosed as holding gains within the capital column of the Income Statement).

Investments deemed to be associates, due to the shareholding and level of influence exerted over the investee company are measured at fair value using a consistent methodology to the rest of the Company's portfolio as permitted by FRS 9.

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

**Current asset investments**

Current asset investments comprise money market funds and are designated as 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 – holding gains/(losses).

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

**Income**

Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis (including time amortisation of any premium or discount to redemption) so as to reflect the effective interest rate, provided there is no reasonable doubt that payment will be received in due course. Income from fixed interest securities and deposit interest is included on an effective interest rate basis.

Investment income includes interest earned on bank balances and money market funds and includes income tax withheld at source. Dividend income is shown net of any related tax credit.

Dividends receivable are brought into account when the Company's right to receive payment is established and there is no reasonable doubt that payment will not be received. Fixed returns on debt and money market funds are recognised provided there is no reasonable doubt that payment will not be received in due course.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

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

**Expenses**

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

The transaction costs incurred when purchasing or selling assets are written off to the income statement in the period that they occur.

**Revenue and capital**

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

**Taxation**

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

Deferred tax is recognised on an undiscounted basis in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less tax, with the exception that deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be sufficient 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 fair value which is usually transaction cost and subsequently measured at amortised cost using the effective interest method.

**Financing strategy and capital structure**

FRS 29 'Financial Instruments: Disclosures' 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.

The Company does not have any externally imposed capital requirements.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1. Principal accounting policies (continued)

The value of the managed capital is indicated in note 15. The Board considers the distributable reserves and the total return for the year when recommending a dividend. In addition, the Board is authorised to make market purchases up to a maximum of 14.99% of the issued ordinary share capital in accordance with Special Resolution 10 in order to maintain sufficient liquidity in the Company's shares.

### 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 pages 32 and 33 of this report. The capital being managed includes equity and fixed-interest investments, cash balances and liquid resources including debtors and creditors.

### 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 final dividends when they are approved by the shareholders, and for interim dividends when they are approved by the Board.

## 2. Income

| | **31 January 2014 £'000** | 31 January 2013 £'000 |
|---|---|---|
| Interest receivable on bank balances and bonds | **36** | 17 |
| Money market securities – dividend income | **31** | 22 |
| Loan note interest receivable | **2,912** | 1,639 |
| | **2,979** | 1,678 |

## 3. Investment management fees

| | **31 January 2014** | | | 31 January 2013 | | |
|---|---|---|---|---|---|---|
| | **Revenue £'000** | **Capital £'000** | **Total £'000** | Revenue £'000 | Capital £'000 | Total £'000 |
| Investment management fee | **273** | **819** | **1,092** | 167 | 499 | 666 |
| Investment performance fee | **–** | **375** | **375** | – | 394 | 394 |
| | **273** | **1,194** | **1,467** | 167 | 893 | 1,060 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 3. Investment management fees (continued)

For the purposes of the revenue and capital columns in the income statement, the management fee has been allocated 25% to revenue and 75% to capital, in line with the Board's expected long term split of returns in the form of income and capital gains respectively from the Company's investment portfolio. It should be noted that the investment management fee for the year ended 31 January 2014 is based on the enlarged portfolio following the merger of the four Octopus Apollo VCTs in September 2012. Therefore it is not directly comparable to the comparative figures for the prior year. The investment performance fee, explained below, is allocated 100% to capital as it is deemed that capital appreciation on investments has primarily driven the total return of the Company above the required hurdle rate at which the performance fee is payable.

The management fee and administration and accountancy fee is calculated based on the NAV as at 31 January 2013 which is then multiplied by the number of shares in issue, calculated on a daily basis.

Octopus provides investment management and accounting and administration services to the Company under a management agreement which 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 19 to the financial statements.

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. This scheme is in line with industry standards. Further details of this scheme are disclosed within note 19 to the financial statements. As at 31 January 2014, £375,000 was due to the Investment Manager by way of annual performance fee (2013: £394,100).

## 4. Other expenses

| | **31 January 2014 £'000** | 31 January 2013 £'000 |
|---|---|---|
| Directors' remuneration | **69** | 58 |
| Fees payable to the Company's auditor for the audit of the financial statements | **37** | 21 |
| Fees payable to the Company's auditor for other services – tax compliance | **7** | 7 |
| Accounting and administration services | **191** | 107 |
| Legal and professional expenses | **10** | 6 |
| Merger related expenses | **30** | 290 |
| Other expenses | **363** | 281 |
| | **707** | 770 |

The total expense ratio for the Company for the year to 31 January 2014 was 3.1% (2013: 2.9%). Total annual running costs are capped at 3.3%.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 5. Directors' remuneration

| | 31 January 2014 | | 31 January 2013 | |
|---|---|---|---|---|
| | Emoluments £'000 | National Insurance £'000 | Emoluments £'000 | National Insurance £'000 |
| **Directors' emoluments** | | | | |
| Murray Steele (Chairman) | **21** | **–** | 7 | – |
| Tony Morgan | **16** | **1** | 19 | 2 |
| Christopher Powles | **16** | **1** | 5 | – |
| Matt Cooper | **16** | **1** | 16 | 1 |
| Rob Johnson | **–** | **–** | 11 | 1 |
| | **69** | **3** | 58 | 4 |

None of the Directors received any other remuneration or benefit from the Company during the year. The Company has no employees other than non-executive Directors. The average number of non-executive Directors in the year was four (2013: three).

## 6. Tax on ordinary activities

The corporation tax charge for the year was £160,392 (2013: £23,100).

The current tax charge for the year differs from the standard rate of corporation tax in the UK of 20% (2013: 20%). The differences are explained below.

| Current tax reconciliation: | 31 January 2014 £'000 | 31 January 2013 £'000 |
|---|---|---|
| Profit on ordinary activities before tax | **1,911** | 246 |
| Non taxable gains/(losses) | **(1,106)** | (398) |
| Net return on ordinary activities | **805** | (152) |
| Current tax at 20% (2013: 20%) | **160** | (30) |
| Income not liable to tax | **–** | 4 |
| Marginal relief | **–** | – |
| Expenses disallowed | **–** | 49 |
| Utilisation of tax losses | **–** | – |
| Total current tax charge | **160** | 23 |

The Company has excess management charges of £nil (2013: £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 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 2014 £'000 | 31 January 2013 £'000 |
|---|---|---|
| **Recognised as distributions in the financial statements for the year** | | |
| Previous year's final dividend | **1,755** | 804 |
| Current year's interim dividend | **1,854** | 1,075 |
| | **3,609** | 1,879 |

| | 31 January 2014 £'000 | 31 January 2013 £'000 |
|---|---|---|
| **Paid and proposed in respect of the year** | | |
| Interim dividend – 2.5p per share (2013: 2.0p per share) | **1,854** | 1,075 |
| Final dividend – 2.5p per share (2013: 2.5p per share) | **1,841** | 1,337 |
| | **3,695** | 2,412 |

The final dividend of 2.5p per share for the year ended 31 January 2014, which is subject to shareholder approval at the Annual General Meeting, will be paid on 22 July 2014 to shareholders on the register on 27 June 2014.

## 8. Earnings per share

The revenue earnings per share is based on 69,891,331 (2013: 35,500,402) shares, being the weighted average number of shares in issue during the year, and on a revenue return after tax of £1,599,000 (2013: £540,000).

The capital earnings per share is based on 69,891,331 (2013: 35,500,402) shares, being the weighted average number of shares in issue during the year, and on a capital return after tax of £152,000 (2013: £(317,000)).

The total earnings per share is based on 69,891,331 (2013: 35,500,402) shares, being the weighted average number of shares in issue during the year, and on a total return after tax of £1,751,000 (2013: £223,000).

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

# NOTES TO THE FINANCIAL STATEMENTS (continued)

**9. Net asset value per share**

The calculation of net asset value per share as at 31 January 2014 is based on net assets of £63,905,000 (2013: £47,774,000) divided by the 73,620,903 (2013: 53,502,660) shares in issue at that date.

**10. Fixed asset investments at fair value through profit or loss**

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. See note 12.

Level 2: the fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Company holds no such investments 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 year (2013: 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 2014 are summarised below.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

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

**Fixed asset investments:**

| | Level 3: Unquoted investments £'000 | Total unquoted investments £'000 |
|---|---|---|
| Valuation and net book amount: | | |
| Book cost at 1 February 2013 | 39,510 | 39,510 |
| Cumulative revaluation | 466 | 466 |
| Opening fair value at 1 February 2013 | **39,976** | **39,976** |
| Movement in the year: | | |
| New purchases at cost | 16,500 | 16,500 |
| Proceeds from the sale of investments | (3,276) | (3,276) |
| Loss on disposal of investments – current year | (10) | (10) |
| Change in fair value in year | 1,116 | 1,116 |
| **Closing fair value at 31 January 2014** | **54,306** | **54,306** |
| **Closing cost at 31 January 2014:** | 52,697 | 52,697 |
| **Closing holding gain at 31 January 2014:** | 1,609 | 1,609 |
| **Valuation at 31 January 2014** | **54,306** | **54,306** |

Level 3 valuations include assumptions based on non-observable market data, such as discounts applied to earnings multiples to reflect the lack of marketability in unquoted investments. The sensitivity of these valuations to a reasonable possible change in such assumptions is given in note 16.

The loan and equity investments are considered to be one instrument due to them being bound together when assessing portfolios' returns to shareholders. This is consistent with the Company's investment policy.

Further details of the fixed asset investments held by the Company are shown within the Investment Manager's Review on pages 13 to 23.

## 11. Debtors

| | **31 January 2014 £'000** | 31 January 2013 £'000 |
|---|---|---|
| Prepayments and accrued income | **1,653** | 936 |
| | **1,653** | 936 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 12. Current Asset Investments

Current asset investments at 31 January 2014 and 31 January 2013 comprised money market funds.

| | **31 January 2014 £'000** | 31 January 2013 £'000 |
|---|---|---|
| Money market funds | **4,254** | 4,737 |
| | **4,254** | 4,737 |

All current asset investments held at the year end sit within the level 1 hierarchy for the purposes of FRS 29.

At 31 January 2014 and 31 January 2013 there were no commitments in respect of investments approved by the Manager but not yet completed.

## 13. Creditors: amounts falling due within one year

| | **31 January 2014 £'000** | 31 January 2013 £'000 |
|---|---|---|
| Accruals | **638** | 617 |
| Other creditors* | **3,580** | 1,121 |
| | **4,218** | 1,738 |

* At 31 January 2014, other creditors included £3,538,000 (2013: £1,041,000) of new funds raised from the top up offer for which new shares had not been allotted.

## 14. Share capital

| | **31 January 2014 £'000** | 31 January 2013 £'000 |
|---|---|---|
| Allotted and fully paid up: | | |
| 73,620,903 Ordinary shares of 10p (2013: 53,502,660) | **7,362** | 5,350 |

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 issued the following shares during the year:

- 15 February 2013: 18,043,313 shares at a price of 94.5p per share
- 20 March 2013: 4,855,005 Ordinary shares at a price of 94.5p per share
- 3 April 2013: 7,758,249 Ordinary shares at a price of 94.5p per share
- 5 April 2013: 5,012,898 Ordinary shares at a price of 94.5p per share
- 30 April 2013: 961,319 Ordinary shares at a price of 94.0p per share
- 3 June 2013: 1,490,277 Ordinary shares at a price of 91.4p per share
- 28 June 2013: 3,100,553 Ordinary shares at a price of 91.8p per share

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 14. Share capital (continued)

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

- 15 February 2013: 18,868,091 Ordinary shares at a price of 89.7p
- 29 April 2013: 150,000 Ordinary shares at a price of 84.75p
- 3 May 2013: 788,540 Ordinary shares at a price of 84.75p
- 28 May 2013: 184,200 Ordinary shares at a price of 82.25p
- 31 July 2013: 414,397 Ordinary shares at a price of 82.75p
- 30 September 2013: 270,849 Ordinary shares at a price of 82.75p
- 18 November 2013: 169,387 Ordinary shares at a price of 80.5p
- 22 January 2014: 257,907 Ordinary shares at a price of 80.75p

The total nominal value of the shares repurchased was £2,110,337 (2013: £532,711) representing 28.7% (2013: 10.0%) of the issued share capital.

## 15. Reserves

| | Called up equity share capital £'000 | Share Premium £'000 | Special distributable reserve* £'000 | Capital redemption reserve £'000 | Capital reserve gains & losses on disposal* £'000 | Capital reserve holding gains & losses £'000 | Revenue reserve* £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| **As at 1 February 2013** | **5,350** | **2,488** | **39,911** | **594** | **(1,213)** | **644** | **–** | **47,774** |
| Repurchase of own shares | (224) | | (1,859) | 224 | | | | (1,859) |
| Issue of new shares | 2,318 | 18,267 | | | | | | 20,585 |
| Enhanced buy back | (82) | 14,385 | (16,926) | 1,886 | | | | (737) |
| Return on ordinary activities after tax | | | | | | | 1,599 | 1,599 |
| Management fees allocated as capital expenditure | | | | | (1,194) | | | (1,194) |
| Current year losses on disposal | | | | | (10) | | | (10) |
| Prior period holding losses now crystalised | | | | | (28) | 28 | | – |
| Current period holding gains on investments | | | | | | 1,116 | | 1,116 |
| Capital expenses taken against tax charge | | | | | | 240 | | 240 |
| Dividends paid | | | (2,010) | | | | (1,599) | (3,609) |
| **As at 31 January 2014** | **7,362** | **35,140** | **19,116** | **2,704** | **(2,445)** | **2,028** | **–** | **63,905** |

*Distributable reserves

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## 15. Reserves (continued)

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 – unrealised is transferred to the Capital reserve – realised as a movement in reserves.

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

| | £'000 |
|---|---|
| As at 1 February 2013 | 38,698 |
| Movement in year | (22,027) |
| **As at 31 January 2014** | **16,671** |

The purpose of the special distributable reserve was to create a reserve which is capable of being used by the Company to pay dividends and for the purpose of making repurchases of its own shares in the market to provide liquidity in the Company's shares and with a view to narrowing the discount to net asset value at which the Company's ordinary shares trade. In the event that the revenue reserve and capital reserve gains & losses on disposal do not have sufficient funds to pay dividends, these will be paid from the special distributable reserve.

## 16. Financial instruments and risk management

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

# NOTES TO THE FINANCIAL STATEMENTS (continued)

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

### Classification of financial instruments

The Company held the following categories of financial instruments, all of which are included in the balance sheet at fair value, at 31 January 2014 and 31 January 2013:

| | **31 January 2014 £'000** | 31 January 2013 £'000 |
|---|---|---|
| **Assets at fair value through profit or loss** | | |
| Investments | **54,306** | 39,976 |
| Current asset investments | **4,254** | 4,737 |
| **Total** | **58,560** | 44,713 |
| **Loans and receivables** | | |
| Cash at bank | **7,910** | 3,863 |
| Accrued income | **1,639** | 927 |
| **Total** | **9,549** | 4,790 |
| **Liabilities at amortised cost** | | |
| Accruals and other creditors | **4,218** | 1,738 |
| **Total** | **4,218** | 1,738 |

Fixed asset investments (see note 10) are valued at fair value. Unquoted investments are carried at fair value as determined by the Directors in accordance with current venture capital industry guidelines as detailed within the Investment Manager's Review. The fair value of all other financial assets and liabilities are 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 market risk, interest rate risk, credit risk and liquidity risk. The Company's approach to managing these risks is set out below together with a description of the nature and amount of the financial instruments held at the balance sheet date.

### Market risk

The Company's strategy for managing investment risk is determined with regard to the Company's investment objective, as outlined on page 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 Strategic Report on pages 5 and 6, 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.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Details of the Company's investment portfolio at the balance sheet date are set out on page 16.

85.0% (31 January 2013: 83.7%) 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 2014 would have increased net assets and the total profit for the year by £5,430,600 (31 January 2013: £3,997,600) an equivalent change in the opposite direction would have reduced net assets and the total profit for the year by the same amount.

A number of investment valuations are based on earnings multiples which are ascertained with reference to the individual sector multiple or similarly listed entities. It is considered that due to the diversity of the sectors, the 10% sensitivity discussed above provides the most meaningful potential impact of average multiple changes across the portfolio.

6.7% (31 January 2013: 9.9%) 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 2014 would have increased net assets and the total profit for the year by £42,540 (31 January 2013: £47,370) 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.

### Fixed rate

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

| | **As at 31 January 2014** | | | As at 31 January 2013 | | |
|---|---|---|---|---|---|---|
| | **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 | **25,562** | **10.9%** | **3.3** | 26,269 | 11.2% | 3.5 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)

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

### Floating rate

The Company's floating rate investments comprise cash held on interest-bearing deposit accounts and, where appropriate, within interest bearing money market 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 2014 (31 January 2013: 0.5%). The amounts held in floating rate investments at the balance sheet date were as follows:

| | **31 January 2014 £000** | 31 January 2013 £000 |
|---|---|---|
| Unquoted floating loan notes | **–** | – |
| Listed floating rate notes | **–** | – |
| Money market funds | **4,254** | 4,737 |
| Cash on deposit | **7,910** | 3,863 |
| | **12,164** | 8,600 |

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 £121,640 (31 January 2013: £86,000).

### 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 2014 the Company's financial assets exposed to credit risk comprised the following:

| | **31 January 2014 £000** | 31 January 2013 £000 |
|---|---|---|
| Money market funds | **4,254** | 4,737 |
| Cash on deposit | **7,910** | 3,863 |
| Investments in fixed rate instruments | **25,562** | 26,269 |
| Accrued dividends and interest receivable | **1,639** | 953 |
| | **39,365** | 35,822 |

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.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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 HSBC Bank plc 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 2014 or 31 January 2013.

### 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 2014 these investments were valued at £12,164,000 (31 January 2013: £8,600,000).

## 17. Post balance sheet events

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

- 5 February 2014 – the Company received a loan repayment of £429,000 from Callstream
- 21 February 2014 – the Company allotted 4,552,069 Ordinary shares at a price of 89.7p per share
- 6 March 2014 – the Company received £3,754,355 from Borro Loan 2 Limited, being the full repayment of the £3,500,000 loan plus interest.
- 26 March 2014 – the Share Premium and Capital Redemption Reserves of the Company were cancelled in order to create an additional £39,379,245 of distributable reserves.
- 31 March 2014 – the Company received £1,466,932 following the disposal of its equity holding in Hydrobolt Limited.
- 3 April 2014 – the Company drew down £750,000 from Terido LLP.
- 17 April 2014 – the Company invested £2,675,000 in Countrywide Healthcare Supplies Limited.

## 18. Contingencies, guarantees and financial commitments

There were no contingencies, guarantees or financial commitments as at 31 January 2014 (2013: none).

# NOTES TO THE FINANCIAL STATEMENTS (continued)

**19. Transactions with manager**

Octopus Apollo VCT plc has employed Octopus throughout the year as the Investment Manager.

Apollo has paid Octopus Investments £1,467,000 (2013: £1,060,000) in management fees. The management fee is payable quarterly in advance and is based on 2.0% of the NAV calculated daily from 31 January. These management fees include £375,000 (2013: £394,100) in performance fees due to Octopus Investments, explained in further detail below.

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 daily as at 31 January. During the year £191,302 (2013: £106,882) was paid to Octopus Investments and there was £nil (2013: £nil)outstanding at the balance sheet date, for the accounting and administrative services.

No performance related incentive fee was payable over the first five years. Now this time has passed, Octopus Investments is 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 and is in line with industry standards. The NAV at the start of the sixth accounting period must be at least 100p. Any distributions paid out by the Company will be added back when calculating this performance fee.

The Board considers that the liability becomes due at the point that the performance criteria are met; this has now happened, as a result Octopus Investments is entitled to £375,000 in performance fees (2013: £394,100), of which £375,000 was outstanding at the balance sheet date (2013: £394,100).

**20. Related Party Transactions**

Matt Cooper, a non-executive Director of Apollo is also Chairman of Octopus Investments Limited.

During the year to 31 January 2014, the Directors received the following dividends from the Company:

| | Dividend received |
|---|---|
| Murray Steele (Chairman) | £563 |
| Tony Morgan | £237 |
| Christopher Powles | £285 |
| Matt Cooper | £1,020 |

# DIRECTORS AND ADVISERS

**Board of Directors**
Murray Steele (Chairman)
Tony Morgan
Christopher Powles
Matt Cooper

**Company Number**
Registered in England & Wales
No 05840377

**Secretary and Registered Office**
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**Investment and Administration Manager**
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**Independent Auditor and Taxation Adviser**
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Tel: 0871 664 0324
(calls cost 10p per minute plus network extras)
www.capitaregistrars.com
www.capitashareportal.com

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Octopus Apollo VCT plc will be held at 20 Old Bailey, London EC4M 7AN on Tuesday, 8 July 2014 at 3.00 pm for the purposes of considering and if thought fit, passing the following resolutions of which Resolutions 1 to 8 will be proposed as Ordinary Resolutions and Resolutions 9 and 10 will be proposed as Special Resolutions:

## ORDINARY BUSINESS

1. To receive and adopt the financial statements for the year to 31 January 2014 and the Directors' and Auditor's Reports thereon.
2. To approve a final dividend of 2.5 pence per share.
3. To approve the Directors' Remuneration Report.
4. To approve the Directors' Remuneration Policy.
5. To re-elect Tony Morgan as a Director.
6. To re-elect Matt Cooper as a Director.
7. 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 8 as an Ordinary Resolution and Resolutions 9 and 10 as Special Resolutions:

8. **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 7,362,000 shares (representing approximately 10% of the issued Ordinary share capital at 31 January 2014) this authority to expire at the later of the conclusion of the Company's next Annual General Meeting 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).

9. **DISAPPLICATION OF PRE-EMPTION RIGHTS**

   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 8 as if s561(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.

# NOTICE OF ANNUAL GENERAL MEETING (continued)

## 10. 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 14.99% 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;

(c) the maximum price, exclusive of expenses, which may be paid for an Ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for an Ordinary share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary share is contracted to be purchased;

(d) the authority conferred comes to an end at the conclusion of the next Annual General Meeting of the Company or upon the expiry of 15 months from the passing of this Resolution, whichever is the later; and

(e) that the Company may enter into a contract to purchase its Ordinary shares under this authority prior to the expiry of this authority which would or might be completed wholly or partly after the expiry of this authority.

By Order of the Board

Nicola Board

**Nicola Board (ACIS)**
Secretary
15 May 2014

# NOTICE OF ANNUAL GENERAL MEETING (continued)

NOTES:

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

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

(c) As an alternative to returning a hard-copy proxy form by post, you can appoint a proxy by sending it by fax to Octopus Investments Limited on 020 7657 3338. For the proxy appointment to be valid, your appointment must be received by Octopus Investments Limited in such time as it can be transmitted to the registrars of the Company so as to be received no later than 48 hours before the time appointed for the meeting or any adjourned meeting, or in the case of a poll taken subsequent to the date of the meeting or adjourned meeting, so as to be received no later than 24 hours before the time appointed for taking the poll. Capita Registrars will not be liable for any proxy forms rendered illegible by means of fax transmission.

(d) Any person receiving a copy of the Notice as a person nominated by a member to enjoy information rights under section 146 of the Companies Act 2006 (a 'Nominated Person') should note that the provisions in Notes (a) and (b) above concerning the appointment of a proxy or proxies to attend the meeting in place of a member, do not apply to a Nominated Person as only Shareholders have the right to appoint a proxy. However, a Nominated Person may have a right under an agreement between the Nominated Person and the member by whom he or she was nominated to be appointed, or to have someone else appointed, as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights at the meeting.

(e) Section 319A of the Companies Act 2006 requires the Directors to answer any question raised at the AGM which relates to the business of the meeting although no answer need be given (a) if to do so would interfere unduly with the preparation of the meeting or involve disclosure of confidential information; (b) if the answer has already been given on the Company's website; or (c) if it is undesirable in the best interests of the Company or the good order of the meeting.

(f) Members satisfying the thresholds in section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (b) any circumstances connected with an auditor of the Company ceasing to hold office since the last Annual General Meeting, that the members propose to raise at the meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement required to be placed on the website must also be sent to the Company's auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required to publish on its website.

# NOTICE OF ANNUAL GENERAL MEETING (continued)

Under sections 338 and 338A Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company:

(i) To give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting, and/or

(ii) To include in the business to be dealt with at the meeting any matters (other than a proposed resolution) which may be properly included in the business.

A resolution may properly be moved or a matter may properly be included in the business unless:

(i) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the company's constitution or otherwise);

(ii) It is defamatory of any person; or

(iii) It is frivolous or vexatious.

Such a request may be in hard copy form or in electronic form, and must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than six weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

(g) A copy of the Notice of Annual General Meeting and the information required by Section 311A Companies Act 2006 is included on the Company's website, www.octopusinvestments.com under Venture Capital Trusts.

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

Perivan Financial Print 232410

# PROXY FORM

# OCTOPUS APOLLO VCT PLC

## Annual General Meeting on Tuesday, 8 July 2014 at 3.00 p.m.

I/We ..............................................................................................................

(BLOCK CAPITALS PLEASE)

of ..............................................................................................................

being a member of Octopus Apollo VCT plc, hereby appoint the Chairman of the meeting or,

Name of Proxy.............................................................. Number of Shares..............................................................

as my/our proxy and to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 8 July 2014 notice of which was sent to shareholders with the Directors' Report and the accounts for the year to 31 January 2014, and at any adjournment thereof. The proxy will vote as indicated below in respect of the resolutions set out in the notice of meeting.

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

For the appointment of more than one 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 2014 | ☐ | ☐ | ☐ |
| 2. | To approve a final dividend of 2.5 pence per share | ☐ | ☐ | ☐ |
| 3. | To approve the Directors' Remuneration Report | ☐ | ☐ | ☐ |
| 4. | To approve the Directors' Remuneration Policy | ☐ | ☐ | ☐ |
| 5. | To re-elect Tony Morgan as a Director | ☐ | ☐ | ☐ |
| 6. | To re-elect Matt Cooper as a Director | ☐ | ☐ | ☐ |
| 7. | To re-appoint Grant Thornton UK LLP as auditor and to authorise the Directors to agree their remuneration | ☐ | ☐ | ☐ |
| **SPECIAL BUSINESS** | | | | |
| 8. | To authorise the Directors to allot shares under s551 of the Companies Act 2006 (Ordinary Resolution) | ☐ | ☐ | ☐ |
| 9. | To disapply s561 of the Companies Act 2006 and allot shares on a non-rights issue basis (Special Resolution) | ☐ | ☐ | ☐ |
| 10. | To authorise the Directors to make market purchases of its own shares (Special Resolution) | ☐ | ☐ | ☐ |

Signed: .............................................................. Dated: ..............................................................2014

If you are unable to attend the AGM and wish to pass on any comments to the Board, please use the box below:

NOTES

1. To be valid, the proxy form must be received by the Registrars of the Company at, **Capita Registrars, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU**, no later than 48 hours before the commencement of the meeting. If delivering by courier please use the full address of Capita set out in the Notice.
2. Where this form of proxy is executed by a corporation it must be either under its seal or under the hand of an officer or attorney duly authorised.
3. Every holder has the right to appoint some other person(s) of their choice, who need not be a shareholder, as his proxy to exercise all or any of his rights to attend, speak and vote on their behalf at the meeting. If you wish to appoint a person other than the Chairman, please insert the name of your chosen proxy holder in the space provided. If the proxy is being appointed in relation to less than your full voting entitlement, please enter next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement. (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account.)
4. To appoint more than one proxy, you may photocopy this form. Please indicate next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
5. The 'Vote Withheld' option is provided to enable you to abstain on any particular resolution. However, it should be noted that a 'Vote Withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.
6. If the proxy form is signed and returned without any indication as to how the proxy shall vote, the proxy will exercise his/her discretion as to whether and how he/she votes.
7. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Register of Members of the Company at 6.00 p.m. on the day which is two days before the day of the meeting or adjourned meeting. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.
8. The address on the envelope containing this notice is how your address appears on the Register of Members. If this information is incorrect please ring the Registrar's helpline on 0871 664 0324. (calls cost 10p per minute plus network extras, lines are open 9.00 a.m. – 5.30 p.m. Monday – Friday) to request a change of address form.
9. You may submit your proxy electronically using the Shareportal Service at www.capitashareportal.com. If not already registered for the share portal, you will need your investor code which can be found on your share certificate. If you cannot locate your investor code, please contact Capita Registrars Limited, between 9.00 a.m. and 5.30 p.m. (GMT) Monday to Friday (except UK public holidays) on telephone number 0871 664 0324 or, if telephoning from outside the UK, on +44 20 3170 0187. Calls to Capita Registrars' helpline (0871 664 0324) are charged at 10p per minute (including VAT) plus your service provider's network extras. Calls to the helpline from outside the UK will be charged at applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes.
10. The completion and return of this form will not preclude a member from attending the meeting and voting in person.

# PLEASE USE THE REPLY PAID ENVELOPE PROVIDED