Octopus AIM VCT 2 plc

Annual report and accounts for the year ended 30 November 2016

Company number: 05528235

For UK investors only

octopus investments

Octopus AIM VCT 2 plc ("the Company") is a venture capital trust ("VCT") which aims to provide shareholders with attractive tax-free dividends and long-term capital growth by investing in a diverse portfolio of predominantly AIM-traded companies. The Company is managed by Octopus Investments Limited ("Octopus" or "the Manager").

Contents

Financial Summary

	30 November 2016	30 November 2015
Net assets (£'000s)	**63,005**	52,317
Profit on ordinary activities for the year after tax (£'000s)	**3,184**	4,047
Net asset value ("NAV") per share	**80.6p**	80.6p
Ordinary Dividends per share – paid in year	**4.0p**	4.0p
Special Dividend per share – paid in year	**–**	2.0p
Final Dividend per share proposed*	**2.0p**	2.0p
Total Return**	**5.0%**	7.8%

*The proposed final dividend will, if approved by shareholders, be paid on 28 April 2017 to shareholders on the register on 24 March 2017.
**Total return is calculated as (movement in NAV + dividends paid in the period) divided by the NAV at the beginning of the period.

Key Dates

Annual General Meeting	20 April 2017 at 11 a.m. 33 Holborn, London, EC1N 2HT
Final dividend payment date	28 April 2017
Half yearly results to 31 May 2017 published	July 2017
Annual results to 30 November 2017 announced	February 2018
Annual Report and Accounts published	March 2018

Strategic Report

The Directors are required by the Companies Act 2006 to include a Strategic Report to Shareholders.

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

The Company's Objective

The objective of the Company is to invest in a broad range of predominantly AIM-traded companies in order to provide shareholders with attractive tax-free dividends and long term capital growth. Investments are made selectively across a range of sectors in companies that have the potential to grow and enhance their value.

Investment Policy

The Company's investment policy has been designed and updated to ensure continuing compliance with the VCT qualifying conditions. The Board intends that the long term disposition of the Company's assets will be not less than 80% in a portfolio of qualifying AIM, NEX Exchange traded or unquoted companies where the management view an initial public offering (IPO) on AIM or NEX Exchange is a short to medium term objective. The non-qualifying balance (approximately 20% of its funds) will be invested in permitted investments held for short term liquidity, generally comprising short term cash or money market deposits with a minimum Moody's long term debt rating of 'A'. Moody's is an independent rating agency and is not registered in the EU. A proportion of the balance could be invested in funds managed by Octopus or other direct equity investments. This provides a reserve of liquidity which should maximise the Company's flexibility as to the timing of investment acquisitions and disposals, dividend payments and share buybacks.

Risk is spread by investing in a number of different businesses across a range of industry sectors. In order to qualify as an investment in a qualifying VCT holding, the Company's holdings in any one company (other than another VCT) must not exceed 15% by value of its investments at the time of investment. The value of an individual investment is expected to increase over time as a result of trading progress and a continuous assessment is made of its suitability for sale. However, shareholders should be aware that the Company's qualifying investments are held with a view to long-term capital growth as well as income and will often have limited marketability; as a result it is possible that individual holdings may grow in value to the point where they represent a significantly higher proportion of total assets prior to a realisation opportunity being available. Investments will normally be made using the Company's equity shareholders' funds and it is not intended that the Company will take on any long-term borrowings.

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

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

Future Prospects

The Company's recent performance record reflects the success of the strategy set out above and has allowed the Company to maintain the dividend payments to shareholders in line with the Dividend Policy set out on page 3. The Board believes the Company's business model will enable it to continue to deliver the targeted regular tax-free annual dividends referred to in the Chairman's Statement. The Outlook statements in both the Chairman's Statement and the Investment Manager's Review on pages 3 and 4 and 5 to 14 respectively provide further details on the future prospects of the Company.

Chairman's Statement

Introduction

I would particularly like to welcome new shareholders who have joined the share register and I do hope that I will see some of you at the AGM on 20 April 2017.

The year to 30 November 2016 has not been quite the one we expected, with both domestic and international developments taking investors by surprise and causing some volatility. In the light of those events, the resilience of the market generally has also been surprising and, while my last annual statement was correct to comment on the potential for the derating of smaller companies while volatile market conditions persisted, it is encouraging to report that your Company has produced a positive return, helped particularly by the progress made by many of the maturing holdings in the portfolio.

Performance

The Net Asset Value on 30 November 2016 was 80.6p per share, which is in line with the 80.6p reported last year. Adding back the 4.0p of dividends paid in the year to adjust the year end NAV to 84.6p, gives a total return of 5.0%. In the same 12 months, the FTSE All Share Index rose by 9.8%, the FTSE SmallCap (excluding investment companies) Index by 7.9% and the FTSE AIM All Share Index by 12.8%, all on a total return basis.

Last year I commented that positive performance contributions had come from the more established companies in the portfolio, with many of the smaller and yet to be profitable companies seeing their share prices struggle. This year was similar in many ways, with positive contributions to performance from many of the more mature companies in the portfolio, supplemented by good contributions from some of the newer and smaller companies which have begun to establish themselves in their respective marketplaces. Craneware, Abcam, RWS and Quixant are examples of more mature holdings, whilst Gear4music, DP Poland and Scientific Digital Imaging are examples of the newer holdings.

What is quite clear is that the timetable for success, or even partial success, is long. For example, since our first investment, DP Poland has needed additional capital and made several alterations to its retail format before achieving its initial success, and the consequent share price increase of the last year. As ever this just goes to prove that it is the determination of the management team that is crucial to making any company a successful investment.

In the year under review AIM has raised £5.0 billion of new capital, fulfilling its purpose of providing additional growth capital for its members.

New VCT Regulations

It is a little over a year now since the latest VCT regulations began to take effect. With the publication of guidance notes by HMRC more recently the new structure of the market is starting to take effect and our Managers are acclimatising to the new environment. At this stage there has been little impact on the portfolio itself and no need to change investment policies. That is a situation that may change in the future, but any change is much more likely to be evolutionary rather than immediately dramatic. At present there are signs of a developing trend towards investing in smaller and earlier stage companies which fit the HMRC regulations. These may take a few years to contribute meaningfully to performance, not least because the companies will invariably require additional capital.

Making follow-on investments has proved difficult on occasions and is one concern for the sector as a whole, which needs to be addressed by the authorities, since the inability to support existing investments seems to invalidate much of the purpose of VCTs and to undermine the potential for growth in the UK economy.

Dividends

The Board has a policy of providing shareholders with a yield of 5%, subject to a minimum payment of 3.6p per share per year. In September an interim dividend of 2.0p was paid to all shareholders. The Board is recommending a final dividend in respect of the year to 30 November 2016 of 2.0p per share, making 4.0p per share in total. This is in line with the yield objective. Subject to the approval of shareholders at the AGM the dividend will be paid on 28 April 2017 to shareholders on the register on 24 March 2017.

Dividend Reinvestment Scheme

In common with a number of other VCTs in the industry, your Company has established a Dividend Reinvestment Scheme (DRIS) following approval at the AGM in 2014. Some shareholders have already taken advantage of this opportunity. For investors who do not need the income, but value the additional tax relief on their reinvested dividends, this is an attractive scheme and I hope that more shareholders will find it useful. In the course of the year 395,968 new shares have been issued under this scheme, returning £0.3 million to the Company. The dividend referred to above will be eligible for the DRIS.

Share Buybacks

During the year to 30 November 2016 your Company continued to buy back shares in the market from selling shareholders and purchased 1,888,104 ordinary shares for a total consideration of £1.4 million. We have maintained a discount of approximately 4.5% (equating to a 5.0% discount to the selling shareholder after costs), which your Board monitors and intends to retain as a policy which fairly balances the interests of both remaining and selling shareholders. Buybacks remain an essential practice for VCTs as providing a means of selling is an important part of the initial investment decision and has enabled your Company to grow. As such therefore I hope you will all support the appropriate resolution at the AGM.

Share Issues

A prospectus was issued on 21 December 2015 and the final issue of shares under that prospectus was made in October 2016, raising a total of £11.5 million after costs in the year. This brings the total proceeds from share issues, including the DRIS, to

£11.8 million. The Board has announced a Top-Up offer to raise up to a further £4.3 million. This small issue allows existing investors a new chance to invest and does not need a prospectus.

Risks and Uncertainties

In accordance with the Listing Rules and the Companies Act 2006 under which your Company operates, your Board has to comment on potential risks and uncertainties, which could have a material impact on the Company's performance. A risk arises from the requirement to maintain compliance with HMRC regulations requiring 70% of your Company's assets to be invested in qualifying holdings. Other risks include economic conditions, which impact particularly on smaller companies in which your Company invests, and this could have an adverse impact on share prices. Further details of the risks faced by the Company and the processes in place to mitigate them are set out on pages 18 and 19.

VCT Status

PricewaterhouseCoopers LLP provides your Board and Investment Manager with advice concerning continuing compliance with HMRC regulations for VCTs. Your Board has been advised that the Company is in compliance with the conditions laid down by HMRC for maintaining approval as a VCT. A key requirement is to maintain at least a 70% qualifying investment level. As at 30 November 2016 over 85% of the portfolio, as measured by HMRC regulations, was invested in qualifying investments.

Annual General Meeting

The Annual General Meeting will be held on 20 April 2017. I very much hope that you will be able to come. After the formal business, our Investment Managers will make a presentation and there will, of course, be a chance for you to ask questions. At the Annual General Meeting, a resolution will be proposed to extend the life of the Company until 2022 in order to preserve the VCT status of the Company for the benefit of both existing shareholders and new investors participating in the current share offer.

Outlook

The market extended its year end rally to reach new highs in the middle of January, helped by some upward revisions of growth statistics which have allayed some of the fears about the early effects of the Referendum result on the economy. However, uncertainty continues to be the dominant theme, with the lack of clarity regarding the terms of our exit from the EU and a new President entering the White House both likely to impact market sentiment as the year unfolds.

The portfolio now contains 69 holdings across a range of sectors and many of them have already demonstrated their management's ability to grow their businesses successfully in difficult economic conditions. The balance of the portfolio towards profitable companies remains, and the cash available for new investments will allow us to take advantage of any future weakness in valuations should it occur. With the VCT over 85% invested in qualifying companies for HMRC purposes your Manager can afford to be selective about new investments.

Keith Mullins
Chairman
10 February 2017

Investment Manager's Review

Introduction

In a year in which some significant economic and political events have taken markets by surprise, the expectation that volatility would follow as a consequence has been confounded by a stronger market, particularly towards the end of the year to 30 November 2016. Although larger companies, as measured by the FTSE 100 Share Index have, on balance, performed in absolute terms a little better than smaller companies, all indices have risen. Large companies with overseas earnings had a particularly strong period of performance post the Referendum in June as Sterling fell and the oil price began to recover. There have been some notable contributors to the portfolio, both positive and negative, but we are pleased to report a resilient NAV performance and the maintenance of the 5% yield objective.

The year to 30 November 2016 has continued to see AIM raise new capital for companies, both already quoted and new flotations, and your Company has invested steadily throughout the year as well as raising new capital for future investments. The prospectus offer closed in October 2016 and we have recently announced a Top-Up offer of up to £4.3 million to give existing and new shareholders a chance to invest in the current tax year. Early in the new year we expect to see a number of VCT qualfifying investment opportunities, which have chosen to postpone their fundraising from December.

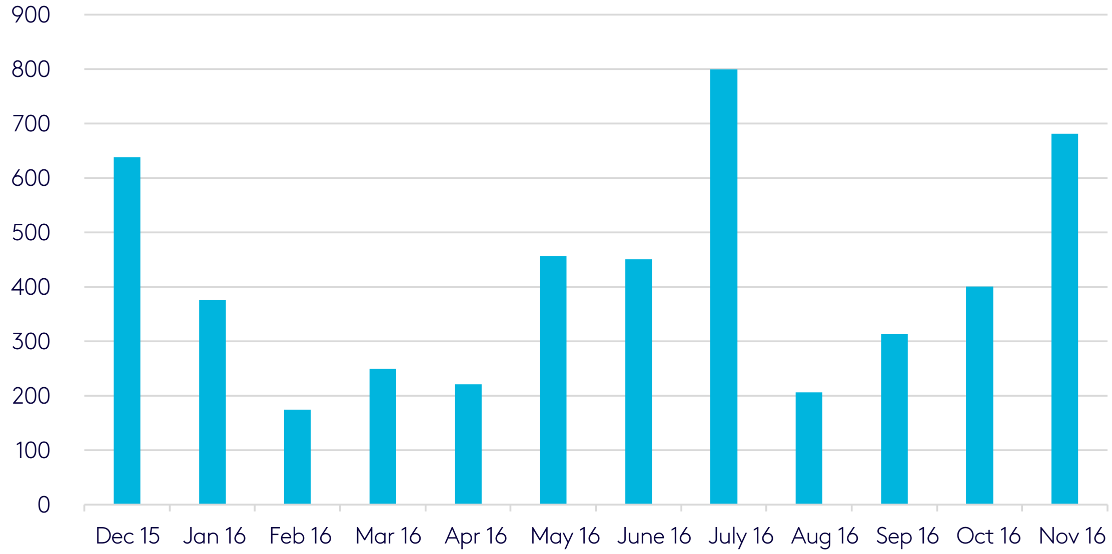
The Alternative Investment Market

Despite some volatility in the first half of the year, the FTSE AIM All-Share Index was little changed in that period. However, in the second six months the index rose markedly, helped by a resurgence in resource and oil stocks. Share trading volumes also picked up helped by a sense of stability if not outright confidence, despite the result of the Referendum to leave the EU, and by smaller companies continuing to be seen as an attractive asset class. In addition, September saw a reasonable results season confirming that for many smaller companies the economy remained supportive. Against that background the number of AIM companies has shrunk further, to 993 at 30 November 2016, compared to 1,049 a year earlier. However, we believe that the quality has continued to rise and see nothing fundamentally wrong with AIM just because it has fewer companies on the market. New issues in the last 12 months include such names as Joules, the clothing manufacturer and retailer, and Hotel Chocolat, the chocolatier. AIM is certainly not a second class market, but is still best described as a collection of smaller growth companies.

Those companies have continued to raise new capital throughout the year. In the 12 months to 30 November 2016 AIM raised a further £3.6 billion of new capital for existing companies and a total of £1.4 billion for new companies floating on the market. Although the level of fundraising for existing companies was lower than last year, these figures show conclusively that AIM remains open for the funding of good growth companies and continues to attract new entrants. VCTs play a significant part in that funding process and we identify below the companies we have invested in during the second half of the year.

The graph below shows total fundraising by AIM companies each month throughout the year to 30 November 2016.

Funds raised on AIM (£m): December 2015 – November 2016



Source: London Stock Exchange

Performance

Adding back dividends paid in the year to show the total return, the Net Asset Value increased in the year by exactly the same amount as the dividends paid out, giving a total return of 5.0%, a progression on the 0.6% achieved in the first half. This compares with a total return for the FTSE Smallcap Index of 7.9% and for AIM of 12.8%, and the FTSE All Share Index of 9.8%. Individual months in the year under review saw share prices suffering significant bouts of volatility and the market has generally remained wary of smaller companies that have yet to make a profit although more established companies outperforming expectations have been well rewarded by rising prices.

Within the portfolio there was once again a good contribution from the more established and already profitable companies which includes many of the individual non-qualifying holdings such as RWS, Abcam, Next Fifteen and Gooch & Housego. However, the polarisation we talked about in the interim statement persisted with companies deemed to be exposed to the 'Brexit effect', such as Staffline and Vertu Motors continuing to underperform despite producing decent figures and encouraging trading statements. In addition Tasty's exposure to rising costs caused it to re-evaluate some of its new opening pipeline and raise extra funds to reduce its debt financing, all of which caused its shares to underperform. We do not share the market's current pessimism about these companies which have been held in the portfolio for a number of years and where the management teams have successfully grown in challenging economic conditions in the past. We believe that their share prices will recover as they deliver on their growth plans.

Elsewhere, underperformance came from the earlier stage companies in the portfolio, particularly those that had setbacks or showed themselves in need of further cash to reach profitability. Nektan, Oxford Pharmascience and Microsaic all performed very badly in the year. Nektan has raised money post the period end and Microsaic had a fundraising where we made a further investment to support the new management team who believe they now have a product that they can sell. Oxford Pharmascience is trading at around the £22 million value of cash in the balance sheet reflecting disappointment that it has so far failed to negotiate a licensing deal for its taste masking technology for NSAIDS. The other poor performers were TLA where the bid and move to Nasdaq that had boosted the shares in the first half of the year went away and Escher which underwent significant changes to its board.

There were several corporate developments. Breedon completed the acquisition of Hope, doubling the size of the business and giving it a much prized cement railhead into London, supporting another year of good share price performance. GB Group also made an important acquisition in scanning technology although its shares suffered a setback on the news that revenue growth would be affected by the slow roll-out of a UK Government contract. The shares have since recovered most of their losses reflecting appreciation of the strength of the Group's growth opportunities as remote identity checking becomes more important. Ergomed raised money and acquired another pharmacovigilance business in a very earnings enhancing deal which was much better received by the market than its earlier acquisition of Haemostatix, and the shares have started to recover. Midatech also reacted well to news of a £10 million fundraising which should finanace the business to profitability. Idox, EKF and Animalcare were all positive contributors to performance after their core businesses started to show growth after a period of consolidation. In EKF's case this was after the business was pared back to its core and re-focussed under the direction of the new Chairman.

Several shares performed particularly well as the underlying businesses demonstrated that they were delivering on, or ahead of, their plans at the time that we invested. Gear4music is now a profitable business with a third of its revenues coming from Europe and growing at more than 50% in the current year. DP Poland has also finally demonstrated that the Domino's model works in Poland and is now signing up sub-franchisees for new sites. Quixant has also increased its customer base and has had several upgrades to its forecasts this year, making it the biggest positive contributor to the fund's performance this year. Craneware has also re-established its growth credentials although it has had more of a roller-coaster performance as it outperformed on the back of weak Sterling before underperforming on fears over changes to the US healthcare market under Trump.

The non-qualifying element of the equity portfolio also did well in the year as our existing strategy of investing in larger more liquid, profitable companies to counterbalance new earlier stage qualifying holdings continued to pay off. We have now supplemented these with holdings in Octopus Portfolio Manager and the FP Octopus UK Micro Cap Growth funds to manage liquidity while cash is awaiting investment.

Portfolio Activity

Having made two new qualifying investments in the first half of the year, we added three further new qualifying holdings at a cost of £0.65 million as well as one further qualifying investment of £0.34 million into Futura Medical, an existing holding, in the second half. This made a total investment of £1.96 million in qualifying investments in the year which was considerably lower than last years £4.78 million reflecting slightly lower levels of fundraising activity on AIM and the short term effects of digesting the new rules. Of the three new qualifying investments, two were new issues. LoopUp is a telephone and web conferencing operator with an easy to use system with more functionality than many market competitors. It is growing rapidly, and although not profitable at the time of float, it made an interim profit and is expected to be so for the year to December. FreeAgent is a supplier of cloud based accounting software sold as a service to enable small businesses to file their tax returns on line or via mobile. It is expected to be profitable for the year to March 2019.

There were no major sales in the year although we took the opportunity to dispose of some of the smaller holdings that were not contributing to performance, mostly at a loss. The largest sale was Vianet where the market for its beer monitoring device continues to be difficult. The holdings in Lombard Medical and Altitude Group were also sold. In all disposals raised £1.2 million in cash.

New VCT Regulations

Almost coinciding with the last year end the Summer Budget of 2015 received the Royal Assent and with guidelines published by HMRC at about the same time as the interim results in May 2016, it has been a period of assimilating the consequences of the new regulations. We do not believe that there needs to be any material change to our investment approach. We are determined to maintain a threshold of quality and to invest where we see returns from growth. However, the emphasis of the new regulations is definitely to encourage investment into earlier stage companies and to that extent, it seems likely over a number of years, that the portfolio will see a rise in the number of smaller companies receiving our initial investment. We would expect to invest further in those companies as they grow and would certainly seek to reduce the risk in those initial investments by not investing as much as perhaps we might have done a year or two ago, when quite possibly our investment would have been on the last occasion that a VCT could invest.

At present there has been little change to the portfolio, as we continue to hold the larger market capitalisation companies, in which we invested several years ago as qualifying companies, or which we bought in the market prior to the rule changes.

To summarise the changes, in order to qualify companies must:

- have fewer than 250 full time equivalent employees; and
- have less than £15 million of gross assets at the time of investment and no more than £16 million immediately post investment; and
- be less than seven years old from the date of its first commercial sale (or 10 years if a knowledge intensive company) if raising State Aided (ie VCT) funds for the first time; and
- have raised no more than £5 million of State Aided funds in the previous 12 months and less than the lifetime limit of £12 million (or £20 million if a knowledge intensive company); and
- produce a business plan to show that its funds are being raised for growth and development.

Although there is a longer period and higher funding limit allowed for knowledge intensive companies, it seems quite likely that a new funding gap will open up for smaller companies that hit their funding limit, but which are still in a development phase. This would particularly affect a company that has failed for whatever reason to qualify as a knowledge intensive one. It is also possible that capital intensive companies, which potentially form a key part of the new government's industrial strategy, will face a funding chasm as VCTs will not be able to follow on with further investment and the companies may be too small to attract investment from more conventional and larger institutional investors. Accessing funds from the general public may also prove difficult since crowd funding seems reliant on tax breaks, which would not apply. This financing issue is probably a long way down any government department's list of priorities, but it is to be hoped that the funding gap fails to materialise for any of our holdings. One of our major and consistent reasons for refusing to invest is the belief that a company is not raising enough capital at a particular time. We will persist with that criterion.

Outlook

Markets have enjoyed a surprisingly strong finish to 2016, buoyed by better than expected economic growth figures and a sense of relief that the immediate disaster predicted by those opposing the decision to exit the European Union has not materialised. However, political and macro-economic issues remain and newspaper headlines are still dominated by speculation about Brexit's likely depressing effect on our economy in the medium term as well as the shape of our eventual relationship with Europe and the rest of the world. These questions are unlikely to be settled quickly and it seems therefore that investors have to be prepared for continued bouts of uncertainty and volatility. However, the majority of news from the portfolio has continued to be encouraging in the run up to the end of 2016.

The portfolio now contains 69 holdings with investments across a range of sectors including several such as Craneware, Gooch & Housego, Gear4music, Clinigen, Cello, DP Poland and GB Group that have significant international exposure. Domestic companies such as Breedon, Vertu and Staffline have already demonstrated their management's ability to grow their businesses successfully in difficult economic conditions and the latter two should see scope for share price recovery if they continue to meet market expectations. The balance of the portfolio towards profitable companies remains, with several expected to start paying dividends in 2017. A top-up fundraising for £4.3 million will add to the funds available for new investments and allow us to take advantage of any dip in valuations should sentiment weaken in the future. We remain selective when viewing new investment opportunities.

The AIM Team
Octopus Investments Limited
10 February 2017

Investment Portfolio

Investee Company	Sector	Book cost as at 30 November 2016 £	Cumulative change in Fair Value £	Fair Value as at 30 November 2016 £	Movement in Year £	% equity held by Octopus AIM VCT 2 plc	% equity held by all funds managed by Octopus
Quoted Investments							
Breedon Aggregates Limited	Construction & Building	573	2,924	3,497	418	0.34	1.79
Quixant plc	Technology Hardware	465	2,764	3,229	1,595	1.54	6.23
Animalcare Group plc	Pharmaceuticals & Biotech	824	1,845	2,669	613	4.12	6.72
Idox plc	Software	356	1,911	2,267	581	1.04	3.48
GB Group plc	Support Services	477	1,423	1,900	(251)	0.58	9.56
Craneware plc	Software	479	1,084	1,563	328	0.58	1.81
Tasty plc	Leisure & Hotels	336	1,204	1,540	(502)	1.87	4.49
Netcall plc	Telecommunication Services	421	1,013	1,434	141	1.84	4.46
DP Poland plc	Leisure & Hotels	364	995	1,359	752	1.77	5.27
Brooks Macdonald Group plc	Finance	610	618	1,228	(166)	0.54	9.94
Learning Technologies Group plc	Support Services	880	346	1,226	448	0.92	2.31
RWS Holdings plc	Support Services	249	975	1,224	386	0.20	7.09
Gear4Music plc	Media	372	729	1,101	719	1.33	5.69
Staffline Recruitment plc	Support Services	225	847	1,072	(754)	0.44	12.55
TLA Worldwide plc	Media	538	404	942	(256)	1.88	4.69
Restore plc	Support Services	311	587	898	179	0.21	9.13
Adept Telecom plc	Telecommunication Services	502	393	895	(72)	1.59	4.14
Ergomed plc	Pharmaceuticals & Biotech	960	(128)	832	(149)	1.47	7.54
Plastics Capital plc	Engineering & Machinery	485	347	832	72	2.03	8.40
Abcam plc	Pharmaceuticals & Biotech	597	230	827	254	0.05	2.38
Yu Group plc	Utilities	470	343	813	343	1.81	9.59
Clinigen Group plc	Pharmaceuticals & Biotech	625	158	783	89	0.09	3.84
Vectura Group plc	Pharmaceuticals & Biotech	448	325	773	151	0.08	0.20
Gooch & Housego plc	Electronic & Electrical	326	436	762	53	0.33	13.68
Vertu Motors plc	General Retailers	777	(18)	759	(693)	0.47	4.81
EKF Diagnostics plc	Health	864	(111)	753	244	0.95	2.15
Brady plc	Software	647	66	713	(61)	1.23	3.02
Escher Group Holdings plc	Software	753	(46)	707	(221)	2.36	5.51
Advanced Medical Solutions Group plc	Pharmaceuticals & Biotech	505	194	699	168	0.15	8.51
Next Fifteen plc	Media	458	228	686	169	0.30	7.66
CityFibre Infrastructure Holdings plc	Telecommunication Services	739	(72)	667	(159)	0.44	1.60
Futura Medical plc	Pharmaceuticals & Biotech	645	(6)	639	174	0.94	7.98
SQS Software plc	Software	207	378	585	16	0.30	15.45
Nasstar plc	Software	320	224	544	16	1.11	4.68
Osirium Technologies plc	Electronic & Electrical	500	19	519	19	3.08	15.39
Omega Diagnostics Group plc	Health	318	196	514	100	2.63	6.15
Bond International Software plc	Software	303	196	499	91	0.97	2.95
Ideagen plc	Software	280	164	444	44	0.44	5.13
Judges Scientific plc	Electronic & Electrical	209	234	443	(27)	0.55	1.38
Haydale plc	Chemicals	399	42	441	12	1.46	8.04
Cello Group plc	Media	205	227	432	44	0.51	4.83

Investee Company	Sector	Book cost as at 30 November 2016 £	Cumulative change in Fair Value £	Fair Value as at 30 November 2016 £	Movement in Year £	% equity held by Octopus AIM VCT 2 plc	% equity held by all funds managed by Octopus
Gamma Communications plc	Telecommunication Services	326	76	402	12	0.09	8.35
Cambridge Cognition Holdings plc	Health	400	–	400	(86)	2.80	14.40
LoopUp Group plc	Software	320	67	387	67	0.78	3.92
Sinclair Pharma plc	Pharmaceuticals & Biotech	274	90	364	(61)	0.22	0.54
Mattioli Woods plc	Finance	101	249	350	46	0.19	2.22
Access Intelligence plc	Software	366	(37)	329	(37)	2.56	5.18
Iomart Group plc	Software	178	106	284	(16)	0.09	9.34
Microsaic Systems plc	Engineering & Machinery	722	(450)	272	(303)	3.99	11.86
Sphere Medical Holding plc	Health	400	(150)	250	–	1.76	4.41
Scientific Digital Imaging plc	Electronic & Electrical	119	119	238	82	2.32	12.00
Tyratech plc	Chemicals	400	(200)	200	(100)	3.64	19.91
Fusionex International plc	Software	188	11	199	(242)	0.23	1.04
Proxama plc	Software	509	(316)	193	92	1.18	7.12
TP Group plc	Engineering & Machinery	452	(268)	184	74	0.87	6.23
Midatech plc	Pharmaceuticals & Biotech	400	(223)	177	(213)	0.31	2.40
FreeAgent Holdings plc	Media	185	(13)	172	(13)	0.54	3.39
WANdisco plc	Software	160	(9)	151	65	0.25	0.63
Oxford Pharmascience Group plc	Pharmaceuticals & Biotech	900	(751)	149	(346)	0.75	3.49
ReNeuron Group plc	Pharmaceuticals & Biotech	216	(76)	140	22	0.14	1.17
Nektan Limited	Software	563	(428)	135	(459)	1.75	16.10
Enteq Upstream plc	Oil Services	687	(567)	120	38	1.13	2.83
MyCelx Technologies plc	Oil Equipment	980	(877)	103	(114)	2.89	9.19
Genedrive plc	Pharmaceuticals & Biotech	140	(44)	96	(44)	0.94	2.34
Mears Group plc	Support Services	51	33	84	4	0.02	0.14
Work Group plc	Support Services	460	(440)	20	(6)	1.88	5.63
1Spatial plc	Software	200	(184)	16	(17)	0.09	0.22
Total Quoted Investments		**29,719**	**19,406**	**49,125**	**3,353**		

Investee Company	Sector	Book cost as at 30 November 2016 £	Cumulative change in Fair Value £	Fair Value as at 30 November 2016 £	Movement in Year £	% equity held by Octopus AIM VCT 2 plc	% equity held by all funds managed by Octopus
Unquoted Investments							
Hasgrove plc	Media	153	(9)	144	–	0.71	4.38
Rated People Limited	Software	236	(178)	58	37	0.34	1.49
Total Unquoted Investments		**389**	**(187)**	**202**	**37**		
Loan Notes							
Access Intelligence plc	Software	80	–	80	–		
Nektan Limited	Software	330	–	330	–		
Total Loan Notes		**410**	**–**	**410**	**–**		
Current Asset Investments							
Octopus Portfolio Manager – Conservative Capital Growth		2,600	102	2,702	102		
Octopus Portfolio Manager – Defensive Capital Growth		2,600	56	2,656	56		
Octopus UK Micro Cap Growth Fund		800	16	816	16		
Total Current Asset Investments		**6,000**	**174**	**6,174**	**174**		
Total Fixed and Current Asset Investments				55,911			
Money Market Funds				4,420			
Cash at Bank				2,984			
Debtors less Creditors				(310)			
Total Net Assets				**63,005**			

Top ten holdings

Listed below are the ten largest investments, valued at bid price, as at 30 November 2016:

Breedon Aggregates Limited

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

Initial investment date:	August 2010
Cost:	£573,000
Valuation:	£3,497,000
Equity held:	0.3%
Last audited accounts:	31 December 2015
Revenue:	£318.5 million
Profit before tax:	£31.3 million
Net assets:	£233.2 million

Quixant plc

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

Initial investment date:	May 2013
Cost:	£465,000
Valuation:	£3,229,000
Equity held:	1.5%
Last audited accounts:	31 December 2015
Revenue:	$41.8 million
Profit before tax:	$7.8 million
Net assets:	$25.7 million

Animalcare Group plc

Animalcare is a developer and supplier of veterinary drugs.

Initial investment date:	December 2007
Cost:	£824,000
Valuation:	£2,669,000
Equity held:	4.1%
Last audited accounts:	30 June 2016
Revenue:	£14.7 million
Profit before tax:	£3.2 million
Net assets:	£22.5 million

Idox plc

Idox is a leading developer and supplier of software and managed services to local government and also to the private sector for the management of engineering drawings.

Initial investment date:	May 2007
Cost:	£356,000
Valuation:	£2,267,000
Equity held:	1.0%
Last audited accounts:	31 October 2016
Revenue:	£76.7 million
Profit before tax:	£13.0 million
Net assets:	£65.2 million

GB Group plc

GB Group provides age and identity software to prevent identity fraud. Many of its customers are in the e-commerce sector.

Initial investment date:	November 2011
Cost:	£477,000
Valuation:	£1,900,000
Equity held:	0.6%
Last audited accounts:	31 March 2016
Revenue:	£73.4 million
Profit before tax:	£9.3 million
Net assets:	£56.4 million

Craneware plc

Craneware is the market leader in software and supporting services to US hospitals so they can invest in quality patient outcomes.

Initial investment date:	February 2010
Cost:	£479,000
Valuation:	£1,563,000
Equity held:	0.6%
Last audited accounts:	30 June 2016
Revenue:	$49.8 million
Profit before tax:	$13.9 million
Net assets:	$52.8 million

Tasty plc

Tasty operates restaurants under the dim t and Wildwood brands.

Initial investment date:	September 2008
Cost:	£336,000
Valuation:	£1,540,000
Equity held:	1.9%
Last audited accounts:	27 December 2015
Revenue:	£35.8 million
Profit before tax:	£3.1 million
Net assets:	£22.3 million

Netcall plc

Supplier of innovative software to manage corporate communications through call centres and the web.

Initial investment date:	July 2010
Cost:	£421,000
Valuation:	£1,434,000
Equity held:	1.8%
Last audited accounts:	30 June 2016
Revenue:	£16.6 million
Profit before tax:	£1.7 million
Net assets:	£22.6 million

DP Poland plc

DP Poland holds the master franchise for Domino's Pizza in Poland and operates stores both directly and through sub-franchises.

Initial investment date:	November 2012
Cost:	£364,000
Valuation:	£1,359,000
Equity held:	1.8%
Last audited accounts:	31 December 2015
Revenue:	£3.6 million
Loss before tax:	£2.2 million
Net assets:	£9.7 million

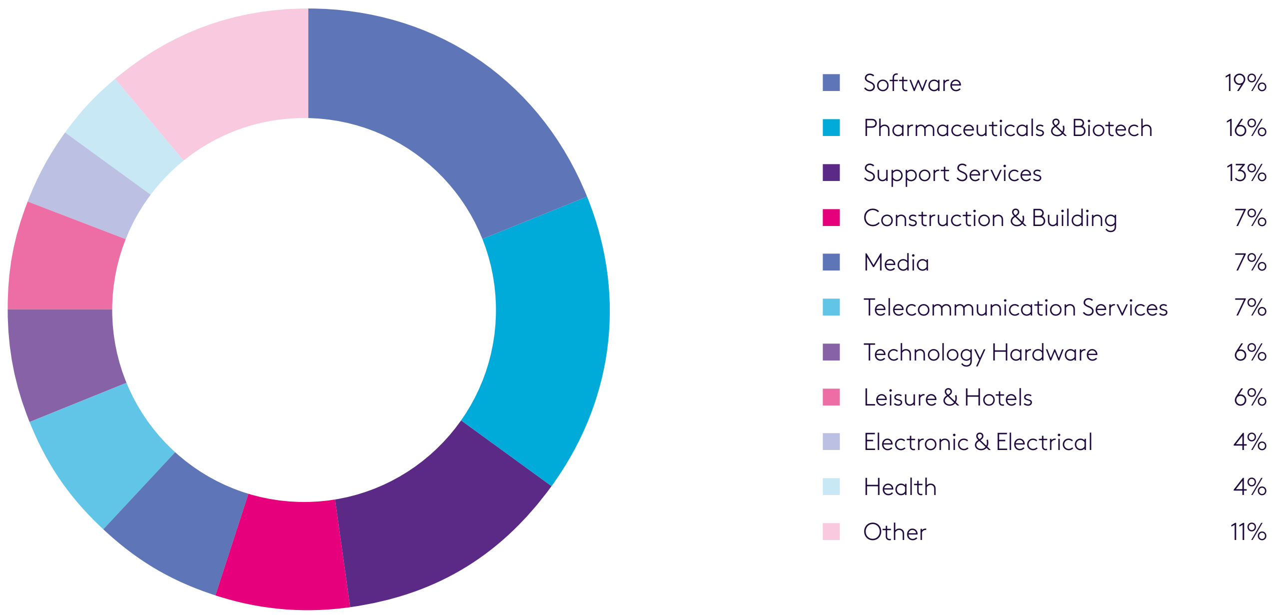
Brooks Macdonald Group plc

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

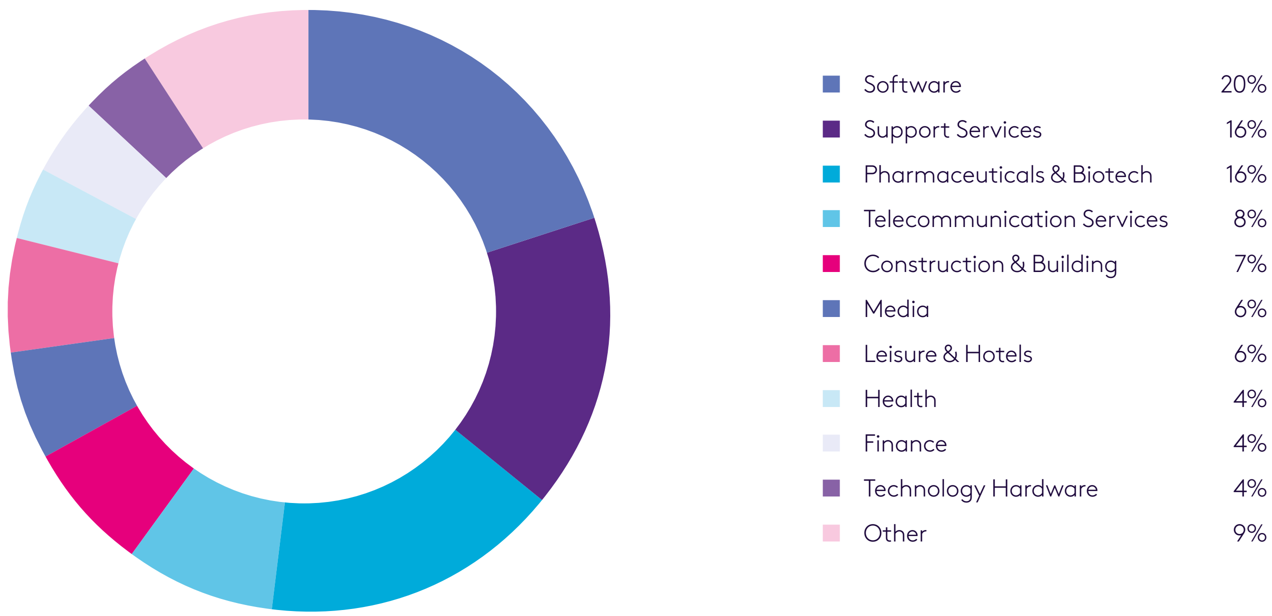
Initial investment date:	March 2005
Cost:	£610,000
Valuation:	£1,228,000
Equity held:	0.5%
Last audited accounts:	30 June 2016
Revenue:	£81.4 million
Profit before tax:	£15.9 million
Net assets:	£83.0 million

Sector analysis

The graph below shows the sectors the general portfolio was invested in by value as at 30 November 2016:



The graph below shows the sectors the general portfolio was invested in by value as at 30 November 2015:



The Investment Manager

Personal Service

Octopus was established in 2000 and has a strong commitment to both smaller companies and to VCTs. Octopus Investments Limited also acts as Investment Manager to 5 other listed investment companies and has a total of over £6 billion of funds under management. If you have any questions about this report, or if it would help to speak to one of the fund managers, please do not hesitate to contact us on **0800 316 2295**.

The AIM investment team of Octopus comprises:

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

Kate Tidbury
Kate has had an extensive career which has included periods as an investment analyst with Sheppards and Chase and Panmure Gordon and then as an Investment Manager specialising in ethical and smaller companies with the Co-operative Bank and Colonial First State Investments. She joined the AIM team at Close Brothers in 2000 where she was involved in the management of this Company's investments since its launch in 2006 as well as other AIM VCTs and IHT portfolios. She joined Octopus Investments Limited in 2008.

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

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

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

Mark Symington
Mark graduated from the University of Cape Town in 2010 with a Bcom in Economics and Finance. He joined Octopus in 2012 after two years at Warwick Wealth in South Africa. Mark is studying towards the Chartered Financial Analyst designation and is providing portfolio management and analytical support to the team.

Dominic Weller
Dominic joined the AIM team as an analyst in 2015. Before joining, he gained experience in management consulting with CLEVIS Research and Roland Berger Strategy Consultants. He has worked in venture capital with Rocket Internet as well as several start-up companies. He provides the team with analytical support and analyses prospective investee companies.

Chris McVey
Chris joined the team in December 2016. He has been a specialist within the quoted UK Smaller Company market for over 16 years. He joined Octopus from Citigroup where he was most recently a UK Small and Mid-Cap Equity research analyst focussing across a variety of sectors. Prior to this he spent almost seven years on the Smaller Companies team at Gartmore as an investment manager and analyst. He joins the team as a fund manager to work across all the AIM portfolios.

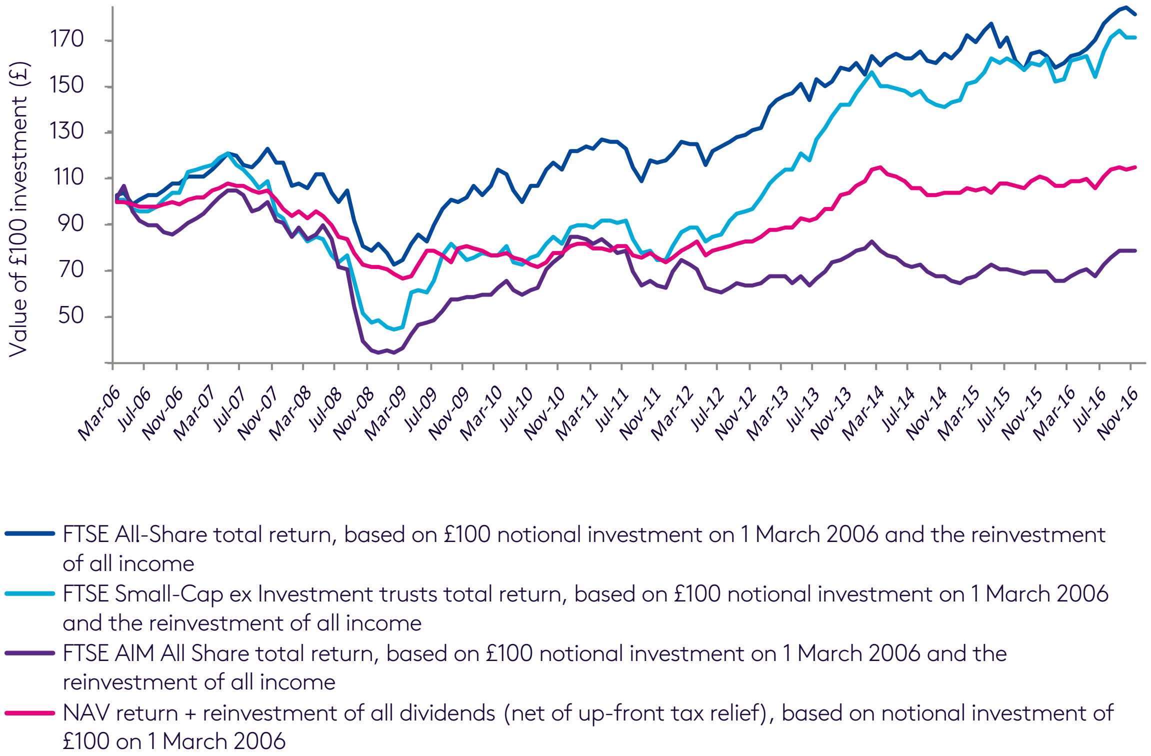
Business Review

Performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to Octopus through the investment management agreement, as referred to in the Directors' Report.

The graph below compares the total return of the Company over the period from 1 March 2006 to 30 November 2016 with the total return from notional investments in the FTSE All-Share index and FTSE Small-Cap ex-investment companies index over the same period. The Directors consider these to be the most appropriate benchmarks but would remind investors that approximately 30% of the FTSE AIM All-share index is attributable to resources or property sector stocks which venture capital trusts cannot invest in. Investors should be reminded that shares in venture capital trusts generally continue to trade at a discount to the net asset value of the Company.

Investors investing into Octopus AIM VCT 2 plc



Results and Dividend

	Year ended 30 November 2016 £'000	Year ended 30 November 2015 £'000
Net Profit attributable to shareholders	**3,184**	4,047
Appropriations:		
Interim dividend paid 2.0p per Ordinary share (2015 – 2.0p per Ordinary share)	**1,494**	1,304
Special dividend paid 0.0p per Ordinary share (2015 – 2.0p per Ordinary share)	**–**	1,237
Final dividend proposed 2.0p per Ordinary share (2015 – 2.0p per Ordinary share)	**1,563**	1,299

The proposed final dividend will, if approved by shareholders, be paid on 28 April 2017 to shareholders on the register on 24 March 2017.

Key Performance Indicators (KPIs)

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

The Board has a number of performance measures to assess the Company's success in meeting these objectives. These KPI's are:

- net asset value;
- dividends paid in the year; and
- the total expense as a proportion of shareholders' funds;

As previously discussed, the net asset value per share has remained at last years' value of 80.6p. This gives a total return of 5.0% or 4.0p per share, which is in line with Board expectations when considering the long term objectives of the Company.

The 4.0p of dividends paid in the year gives an annual yield of 5.2% based on the share price of 76.75p at the beginning of the year, which is above the Board's policy to maintain a 5% yield.

The ongoing charges of the Company for the year to 30 November 2016 were 2.1% of average net assets during the year (2015: 2.4%), which is in line with Board expectations.

Performance, measured by the change in NAV per share and total return per share, is also measured against the FTSE SmallCap Index, FTSE AIM All Share Index and the FTSE All-Share Index. This is shown in the graph on the previous page. These indices have been adopted as an informal benchmark.

The Chairman's Statement, on pages 3 and 4 includes a review of the Company's activities and future prospects; further details are also provided within the Investment Manager's Review on pages 5 to 14.

Viability Statement

In accordance with provision C.2.2 of The UK Corporate Governance Code 2014 the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the "Going Concern" provision. The Board conducted this review for a period of five years, which was considered to be a reasonable time horizon given that the Company had raised funds under an offer for subscription which closed on 21 October 2016, the Board has announced a further offer for subscription to raise up to £4.3 million and, under VCT rules, subscribing investors are required to hold their investment for a five year period in order to benefit from the associated tax reliefs. The Board regularly considers the Company's strategy, including investor demand for the Company's shares, and a five year period is considered to be a reasonable time horizon for this.

The Board carried out a robust assessment of the principal risks facing the Company and its current position, including those which may adversely impact its business model, future performance, solvency or liquidity. Particular consideration was given to the Company's reliance on, and close working relationship with, the Investment Manager. The principal risks faced by the Company and the procedures in place to monitor and mitigate them are set out below.

The Board has also considered the Company's cash flow projections and found these to be realistic and reasonable.

Based on the above assessment the Board confirms that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period to 30 November 2021.

Principal risks, risk management and regulatory environment

In accordance with the Listing Rules and the Companies Act 2006 under which your Company operates, your Board has to comment on the potential risks and uncertainties, which could have a material impact on the Company's performance. 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:

Risk	How mitigated
VCT qualifying status risk: the Company is required at all times to observe the conditions laid down in the Income Tax Act 2007 and the Finance Act 2016 for the maintenance of approved VCT status. The loss of such approval could lead to the Company losing its exemption from corporation tax on capital gains, to investors being liable to pay income tax on dividends received from the Company and, in certain circumstances, to investors being required to repay the initial income tax relief on their investment.	Octopus keeps the Company's VCT qualifying status under continual review and reports to the Board regularly throughout the year. See page 22 of the Directors Report for details on recent changes to VCT legislation. PricewaterhouseCoopers LLP has been retained by the Company to undertake an independent VCT status monitoring role, reporting to the Board bi-annually.
Valuation risk: Investments may be valued inappropriately which may result in an inaccurate representation of the Company's net assets and net asset value per share.	Investments traded on AIM and NEX Exchange are valued by Octopus using bid prices as reported by Bloomberg. Unquoted investments are valued in accordance with current International Private Equity and Venture Capital Valuation (IPEV) guidelines. The Octopus Portfolio Manager (OPM) service invests into a number of underlying sub-funds within the FP Octopus OEIC, which are independently valued by State Street on a daily basis.
Investment risk: the majority of the Company's investments are in companies admitted to trading on AIM and NEX Exchange 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. OPM invests, via collective investment schemes, in global markets which do fluctuate and investments and the income derived from them may go down as well as up. As such, Octopus cannot guarantee the level of capital growth or income generated and there is a chance that investors in OPM may not get their money back.	The Directors and Octopus aim to limit the risk attached to the portfolio as a whole by careful selection and timely realisation of investments, by carrying out rigorous due diligence procedures and by maintaining a wide spread of holdings in terms of financing stage and industry sector. The Board reviews the investment portfolio with Octopus on a regular basis. The OPM Service is a discretionary management service offering a range of risk-targeted portfolios which invest in underlying collective investment schemes. The portfolios selected target defined levels of volatility at the lower end of the risk spectrum, and have been specifically chosen for their lower risk investment approach to accessing global markets and the ability to offer daily liquidity.
Financial risk: as a VCT, the Company is exposed to market price risk, credit risk, liquidity risk, fair value risk, cash flow risk and interest rate risk.	The Company's income and expenditure is predominantly denominated in Sterling and hence the Company has limited foreign currency risk. The Company is financed through equity and does not have any borrowings as the Directors consider that it is inappropriate to finance the Company's activities through borrowing. The Company does not use derivative financial instruments. Accordingly, the Manager seeks to maintain a proportion of the Company's assets in cash or cash equivalents in order to balance irregular cash flows from realisations. At the balance sheet date the cash and cash equivalents amounted to 22% of net assets (2015: 14%). The financial risks are considered in more detail below.

Regulatory and Reputational risk: the Company is required to comply with the Companies Act, the rules of the UK Listing Authority and United Kingdom Accounting Standards. The Company is also a small registered Alternative Investment Fund Manager ("AIFM") and has to comply with the requirements of the AIFM Directive. Breach of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties, qualified audit report or loss of shareholder trust.	The regulatory requirements are continually considered and adhered to by Octopus and the Board and legal advice taken when appropriate.
Operational risk: the Board is reliant on Octopus to manage investments effectively.	The Board reviews annually, with professional assistance where appropriate, the system of internal controls, both financial and non-financial, operated by the Company and the Investment Manager (to the extent the latter are relevant to the Company's internal controls). These include controls designed to ensure that the Company's assets are safeguarded and that proper accounting records are maintained. Octopus has a significant commitment to small cap investment which means it has a broad team focused on quoted and unquoted investments. This mitigates the short term risk of any one individual with the required skill set and knowledge of the industry leaving.
Credit risk: Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Investment Manager and the Board carry out a regular review of counterparty risk.	The Company has cash deposits which are held on the balance sheet of HSBC Bank plc and also in cash funds managed by BlackRock. The risk of loss to this cash is deemed to be low due to the historical credit ratings and a current Standard & Poor's rating of AA- for HSBC and AAAm for BlackRock cash funds.
Economic risk: Events such as an economic recession and movement in interest rates could affect smaller companies' valuations.	Octopus constantly monitors the markets and the portfolio companies and reports to the Board at each meeting. The risk that the value of a security or portfolio of securities could decline in the future is mitigated by holding a diversified portfolio, across a broad range of sectors.
Price risk: the risk that the value of a security or portfolio of securities will decline in the future.	This risk is mitigated by holding a diversified portfolio, across a broad range of sectors and constant monitoring of each company's value.
Liquidity risk: the risk that the Company's available cash will not be sufficient to meet its financial obligations.	This is managed by frequent budgeting and close monitoring of available cash resources and is discussed at each Board meeting.
Market risk: A substantial portion of the Company's investments are in AIM traded companies as well as some unquoted companies. All of these investments involve a higher degree of risk than investment in larger fully listed companies. In particular, smaller companies often have limited product lines, markets or financial resources, may be dependent for their management on a small number of key individuals and may be more susceptible to political, exchange rate, taxation and other regulatory changes.	Each company in the portfolio is regularly monitored by the Investment Managers and the portfolio is diversified.

The Board seeks to mitigate the internal risks by regular review of performance, monitoring progress and compliance with internal procedures. In the mitigation and management of these risks the Board applies the principles in the Financial Reporting Council's "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting". Details of the Company's internal controls are contained in the Corporate Governance Report on pages 26 to 29.

Further details of the Company's financial risk management objectives and policies are provided in Note 17 to the financial statements.

Gender and Diversity

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

Employee, Human Rights, Social and Community Issues

The Board seeks to conduct the Company's affairs responsibly. The Company is required by company law to provide details of employee, human rights, social and community issues, including information about any policies it has in relation to these matters and the effectiveness of such policies. As an externally managed investment company with no employees the Company does not maintain specific policies in relation to these matters.

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 environmentally responsible wherever possible.

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

The strategic report was approved on behalf of the board by:

Keith Mullins
Chairman
10 February 2017

Details of Directors

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

Keith Mullins (Chairman)

Keith Mullins joined SG Warburg's investment management division in 1978. The division later developed into Mercury Asset Management and subsequently became Merrill Lynch Investment Managers upon its acquisition by Merrill Lynch in 1998. He therefore has many years experience as a specialist UK equity fund manager. During this time he was responsible for establishing and managing the team specialising in small and medium sized pension fund portfolios, and from 2000 he was head of pension fund asset allocation. He left as a managing director of Merrill Lynch Investment Managers in 2001. Keith became a Director of the Company on 14 September 2005.

Andrew Raynor FCA

Andy is the Chief Executive of Shakespeare Martineau LLP, an expanding Midlands and London law firm. Previously he has held a number of non-executive positions, predominantly in the professional services sector. He joined RSM Tenon Group PLC ("RSM Tenon") in 2001 after its acquisition of the independent partnership formerly known as BDO Stoy Hayward – East Midlands. Following the acquisition of this business by RSM Tenon, he became Finance Director and, in a subsequent board reorganisation, chief executive in 2003, leading the company to win National Firm of the Year 2011 in the British Accountancy Awards. Andy then resigned in January 2012. Prior to joining RSM Tenon, he spent almost 20 years with BDO Stoy Hayward – East Midlands, where he established the corporate finance department and held overall responsibility for business development, before becoming managing partner. Andy became a Director of the Company on 14 September 2005.

Elizabeth Kennedy LLB (Hons) FCIS FCSI

Elizabeth Kennedy worked for 30 years in corporate finance, principally with Brewin Dolphin Limited, specialising in IPO, secondary issue, takeover code, UKLA sponsor and AIM nominated adviser work. She has been a member of the London Stock Exchange's AIM Advisory Group since 1995. She is currently a non-executive Director of F&C Private Equity Trust plc, Sofant Technologies Limited and Taragenyx Limited and a consultant with Kergan Stewart, Solicitors. Elizabeth became a Director of Octopus Second AIM VCT plc in February 2001 which became Octopus Third AIM VCT plc on the merger and was subsequently dissolved in October 2011. Elizabeth became a Director of the Company on 12 August 2010 when the companies merged.

Alastair Ritchie BA (Econ)

Alastair Ritchie has considerable experience in smaller businesses, both private and public, and has served as chairman of several companies, including John Swan & Sons plc, which was quoted on AIM. Alastair became a Director of Octopus Second AIM VCT plc in February 2001, which became Octopus Third AIM VCT plc on the merger, and was subsequently dissolved in October 2011. Alastair became a Director of the Company on 12 August 2010 when the companies merged.

Directors' Report

The Directors present their report and the audited financial statements for the year ended 30 November 2016. The Corporate Governance Report on pages 26 to 29 and the Audit Committee Report on pages 30 and 31 form part of this Directors' Report.

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

Directors

Brief biographical notes on the Directors are given on page 21.

In accordance with the Articles of Association and the Association of Investment Companies Code of Corporate Governance, Elizabeth Kennedy and Alastair Ritchie will retire as Directors at the AGM, and being eligible, offer themselves for re-election. The Board has considered provision B.7.2 of The UK Corporate Governance Code and following a formal performance evaluation as part of the Board Evaluation, further details of which can be found on page 27, believes that Elizabeth and Alastair continue to be effective and demonstrate commitment to their roles as Directors. The Board therefore recommends their re-elections at the forthcoming AGM.

Both Keith Mullins and Andy Raynor have now served over nine years as Directors of the Company. The Association of Investment Companies Code of Corporate Governance recommends the Board should state its reasons for believing that a Director who has served for more than nine years remains independent. The Board has considered provisions B.1.1 and B.7.2 of the The UK Corporate Governance Code and believes that both Keith and Andy continue to be effective Non-Executive Directors, providing considerable experience and continuity to the Company whilst continuing to demonstrate commitment to their roles as Chairman of the Company and Chairman of the Audit Committee.

Directors' and Officers' Liability Insurance

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

VCT Regulation

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

The Company is required at all times to hold at least 70% of its investments (as defined in the legislation) in VCT qualifying holdings, of which at least 70% must comprise eligible ordinary shares (30% for subscriptions before 6 April 2011).

For this purpose, a "VCT qualifying holding" consists of up to £5 million invested in any one year in new shares or securities of a UK AIM traded company or an unquoted company which is carrying on a qualifying trade, and whose gross assets and number of employees at the time of investment do not exceed a prescribed limit. The definition of "qualifying trade" excludes certain activities such as property investment and development, some financial services and asset leasing.

The Finance Act 2014 amended the VCT Rules in respect of VCT shares issued on or after 6 April 2014, such that VCT status will be withdrawn if, in respect of shares issued on or after 6 April 2014, a dividend is paid (or other forms of distribution or payments are made to investors) from the capital received by the VCT from that issue within three years of the end of the accounting period in which shares were issued to investors. This may reduce the amount of distributable reserves available to the Company to fund dividends and share buybacks. However, the Company has sufficient liquidity to allow dividends to continue to be paid at a level in line with the Company's current dividend policy.

The Finance Act 2016 introduced a number of changes to VCT rules to bring the legislation into line with EU State Aid Risk Finance Guidelines. The legislation introduced new criteria which stipulate a lifetime cap on the total amount of State Aid investment a company can receive, the age of companies which are eligible for investment and specific requirements relating to the use of the funds raised. See page 7 of the Investment Managers Review for a summary of the new changes.

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

Going Concern

The Company's business activities and the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Investment Manager's Review on pages 3 and 4 and pages 5 to 14. Further details on the management of financial risk may be found in the Business Review on pages 18 and 19 and in Notes 16 and 17 to the Financial Statements.

The Board receives regular reports from the Investment Manager and the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, as no material uncertainties leading to significant doubt about going concern have been identified, it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

A Resolution will be put to the Company's AGM on 20 April 2017 to approve the Company continuing as a VCT to 2022. The continuation to 2022 will allow shareholders who have participated in the recent and forthcoming Offers to subscribe for Ordinary Shares in the Company to hold their shares for the five years required to receive tax relief and, in addition, will also allow the Company to remain a going concern.

The assets of the Company include securities which are readily realisable (87.8% of net assets) and, accordingly, the Company has adequate financial resources to continue to satisfy the expenses of commitments under share buybacks and to remain in operational existence for the foreseeable future.

Dividend

The proposed final dividend is set out in the Financial Summary on page 1, the Chairman's Statement on page 3 and in the Business Review on page 17.

Management

The Company has in place an agreement with Octopus to act as Investment Manager which is central to the ability of the Company to continue in business. The principal terms of the Company's management agreement with Octopus are set out in note 3 to the financial statements. The Investment Manager also provides secretarial, administrative and custodian services to the Company. The Investment Manager is not entitled to any performance fee.

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

As required by the Listing Rules, the Directors confirm that, in their opinion, the continuing appointment of Octopus as Investment Manager is in the best interest of the shareholders as a whole. In reaching this conclusion the Directors have taken into account the performance of the investment portfolio and the ability of the Investment Manager to produce satisfactory investment performance in the future. No Director has an interest in any contract to which the Company is a party.

The Board has delegated the routine management decisions such as the payment of standard running costs to Octopus. Investment decisions are discussed with the Board.

Whistleblowing

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

Bribery Act

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

Share Capital

The Company's ordinary share capital as at 30 November 2016 comprised 78,128,450 Ordinary shares of 0.01p each.

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

Share Issues and Open Offers

During the year 14,685,713 Ordinary shares were issued through an Offer to subscribe for shares which launched on 21 December 2015, combined with Octopus AIM VCT plc, to raise up to £8 million with an over allotment facility of £4 million. This offer closed, fully subscribed, on 21 October 2016 having raised £11.5 million net of expenses.

During the year 395,968 shares were issued to those shareholders who elected to receive shares under the DRIS as an alternative to dividends. This returned £0.3 million to the Company.

Share Buybacks and Redemptions

During the year, the Company purchased 1,888,104 Ordinary shares with a nominal value of 0.01p for cancellation at a weighted average price of 74.2p per share (2015: 1,219,689 shares at a weighted average price of 75.9p per share) for a total consideration of £1.4 million (2015: £925,000). This represents 2.4% of the closing share capital. These were repurchased in accordance with the Company's share buyback facility in an attempt to assist the marketability of the shares and prevent the shares trading at a wide discount to the NAV.

Rights Attaching to the Shares and Restrictions on Voting and Transfer

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

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

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

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

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

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

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

The authority proposed under Resolution 8 is required so that the Directors may issue shares in connection with offers, if the Directors believe this to be in the best interests of the Company and the Shareholders as a whole. Any issue proceeds will be available for investment in line with the Company's investment policy and may be used, in whole or part, to purchase Ordinary shares in the market. Resolution 8 renews the Directors' authority to allot up to 15,560,000 Ordinary shares (representing approximately 20% of the Company's issued share capital at the date of the Notice of Annual General Meeting). The authority conferred by this resolution will expire on the earlier of the next AGM and the date falling 15 months after the date of the passing of the resolution and is in addition to existing authorities.

Resolution 9 renews and extends the Directors' authority to allot equity securities for cash without pre-emption rights applying for the allotment of shares authorised pursuant to Resolution 8 and for the same reasons. The authority conferred by this resolution will expire on the earlier of the next AGM and the date falling 15 months after the date of the passing of the resolution and, as with Resolution 8, is in addition to existing authorities.

Directors' Authority to Make Market Purchases of its Own Shares

The authority proposed under Resolution 10 is required so that the Directors may make purchases of up to 7,779,758 Ordinary shares (representing approximately 10% of the Company's issued share capital at the date of the Notice of Annual General Meeting) and the Resolution seeks renewal of such authority until the next AGM (or the expiry of 15 months, if earlier). Any shares bought back under this authority will be at a price determined by the Board, (subject to a minimum of 0.01p (being the nominal value of such shares) and a maximum of 5% above the average mid-market quotation for such shares on the London Stock Exchange and the applicable regulations thereunder). This power will be exercised only if, in the opinion of the Directors, a repurchase would be in the best interests of shareholders as a whole. Any shares repurchased under this authority will either be cancelled or held in Treasury for future re-sale in appropriate market conditions.

Substantial Shareholdings

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

Independent Auditor and Disclosure of Information to Auditor

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

As far as the Directors are aware, there is no relevant audit information of which the auditor is unaware and the Directors have taken all the steps they ought to have taken as a Director in order to make them aware of any relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the Board

Keith Mullins
Chairman
10 February 2017

Corporate Governance Report

The Board of the Company has considered the principles and recommendations of the Association of Investment Companies Code of Corporate Governance (AIC Code) by reference to the Association of Investment Companies Corporate Governance Guide for Investment Companies (AIC Guide).

The AIC Code, as explained by the AIC Guide, includes 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 UK Corporate Governance Code in addition the AIC Code, by reference to the AIC Guide will provide better information to shareholders.

The Company is committed to maintaining high standards in corporate governance. The Directors consider that the Company has, throughout the year under review, complied with the provisions set out in The UK Corporate Governance Code with the exceptions set out in the Compliance Statement on pages 28 and 29.

Board of Directors

The Company has a Board of four Non-Executive Directors, all of whom are considered by the Board to be independent. The Board meets five times a year, and on other occasions as required, to review the investment performance and monitor compliance with the investment policy laid down by the Board.

The Board has a formal schedule of matters specifically reserved for its decision which include:

- the consideration and approval of future developments or changes to the investment policy, including risk and asset allocation;
- consideration of corporate strategy;
- approval of the appropriate dividend to be paid to the shareholders;
- the appointment, evaluation, removal and remuneration of the Manager;
- the performance of the Company, including monitoring of the discount of the net asset value to the share price; and
- monitoring shareholder profiles and considering shareholder communications.

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda and has no involvement in the day to day business of the Company. He facilitates the effective contribution of the Directors and ensures that they receive accurate, timely and clear information and that they communicate effectively with shareholders.

The Company Secretary is responsible for advising the Board through the Chairman on all governance matters. All of the Directors have access to the advice and services of the Company Secretary, who has administrative responsibility for the meetings of the Board and its committees. Directors may also take independent professional advice at the Company's expense where necessary in the performance of their duties. As all of the Directors are Non-Executive, it is not considered appropriate to identify a member of the Board as the senior Non-Executive Director of the Company.

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

During the year the following meetings were held:

	Full Board meetings held	No. of meetings attended	Audit Committee meetings held	Audit Committee meetings Attended
Keith Mullins	5	5	2	2
Elizabeth Kennedy	5	5	2	2
Andy Raynor	5	5	2	2
Alastair Ritchie	5	3	2	1

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

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

	Date of Original Appointment	Due date for Re-election
Keith Mullins	14/09/2005	AGM 2019
Elizabeth Kennedy	12/08/2010	AGM 2017
Andy Raynor	14/09/2005	AGM 2018
Alastair Ritchie	12/08/2010	AGM 2017

Performance Evaluation

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

Appointment and Replacement of Directors

A person may be appointed as a Director of the Company by the shareholders at a general meeting by Ordinary Resolution (requiring a simple majority of the persons voting on the relevant Resolution) or by the Directors: no person, other than a Director retiring by rotation or otherwise, shall be appointed or reappointed a Director at any general meeting unless he is recommended by the Directors or, not less than seven nor more than twenty one clear days before the date appointed for the meeting, notice is given to the Company of the intention to propose that person for appointment or re-appointment in the form and manner set out in the Company's Articles of Association. Each Director who is appointed by the Directors (and who has not been elected as a Director of the Company by the members at a general meeting held in the interval since his appointment as a Director of the Company) is to be subject to election as a Director of the Company by the members at the first AGM of the Company following his appointment. At each AGM 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 a general meeting by Ordinary Resolution (requiring a simple majority of the persons voting on the relevant Resolution) to remove any Director before the expiration of his or her period of office, but without prejudice to any claim for damages which the Director may have for breach of any contract of service between him or her and the Company. A person also ceases to be a Director if he or she resigns in writing, ceases to be a Director by virtue of any provision of the Companies Act, becomes prohibited by law from being a Director, becomes bankrupt or is the subject of a relevant insolvency procedure, or becomes of unsound mind, or if the Board so decides following at least six months' absence without leave or if he or she becomes subject to relevant procedures under the mental health laws, as set out in the Company's Articles of Association.

Powers of the Directors

Subject to the provisions of the Companies Act, the Memorandum and Articles of Association of the Company and any directions given by shareholders by Special Resolution, the Articles of Association specify that the business of the Company is to be managed by the Directors, who may exercise all the powers of the Company, whether relating to the management of the business or not. In particular the Directors may exercise on behalf of the Company its powers to purchase its own shares to the extent permitted by shareholders. Authority was given at the Company's 2016 AGM to make market purchases of up to 10% of the issued Ordinary share capital at any time up to the 2017 AGM and otherwise on the terms set out in the relevant Resolution, and renewed authority is being sought at the 2017 AGM as set out in the notice of meeting.

Board Committees

It should be noted that there is no formal Management Engagement Committee as matters of this nature are dealt with by the independent Non-Executive Directors. The Board does not have a separate Remuneration Committee as the Company has no employees or executive Directors. Detailed information relating to the remuneration of Directors is given in the Directors' Remuneration Report on pages 32 to 34.

The Board does not have a separate Nomination Committee as there has not been a requirement for a Committee. Whilst diversity considerations would normally be a function of a Nomination Committee, these are dealt with by the Board as a whole on an annual basis. The Board considers its composition to be appropriate with due regard for the benefits of diversity and gender.

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

Audit Committee:
Andy Raynor
Elizabeth Kennedy
Keith Mullins
Alastair Ritchie

The Audit Committee, chaired by Andy Raynor, consists of the four independent Directors. The Audit Committee believes Andy Raynor, as Chairman, 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 30 and 31.

Internal Control

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

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

Octopus is engaged to carry out the accounting function and all quoted investments are held in CREST.

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

Internal control systems include the production and review of monthly bank reconciliations and management accounts. All outflows made from the VCT's accounts require the authority of two signatories from Octopus. The 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.

Statement of Voting at the Annual General Meeting

At last year's AGM the resolution to disapply pre-emption rights for the allotment of ordinary shares received the most significant percentage of votes cast against it, at 5.5%. No communication was received from shareholders giving reasons for the votes against the resolution.

Shareholders' views are always welcomed and considered by the Board. The methods of contacting the Board are set out below.

Relations with Shareholders

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

The Board is also happy to respond to any written queries made by shareholders during the course of the year and can be contacted at 33 Holborn, London, EC1N 2HT. Alternatively, please contact the team at Octopus to answer any queries. They can be contacted on **0800 316 2295**.

Compliance Statement

The Listing Rules require the Board to report on compliance throughout the accounting period with all relevant provisions set out in The UK Corporate Governance Code. The preamble to The UK Corporate Governance Code does, however, acknowledge that some provisions may have less relevance for investment companies adding that the AIC Code and AIC Guide can assist in meeting the obligations under The UK Corporate Governance Code. With the exception of the limited items outlined below, the Company has complied throughout the accounting year to 30 November 2016 with the provisions set out in The UK Corporate Governance Code. The section references to The UK Corporate Governance Code are shown in brackets.

1. The Company does not have a Chief Executive Officer or a senior independent Director. The Board does not consider this necessary for the size of the Company. [A.1.2 and 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 Company does not have a Nomination Committee as there has not been a requirement to hold a meeting to date. The Company would appoint a Nomination Committee when the need arose.
4. The Company does not have a Remuneration Committee as it does not have any executive Directors. [D.1.1 – 2.4]
5. The Company has no major shareholders therefore shareholders are not given the opportunity to meet any Non-Executive Directors at a specific meeting other than the AGM but are welcome to contact the Board or Octopus at any time. [E.1.1 & E.1.2]

By Order of the Board

Nicola Board

Nicola Board, ACIS
Company Secretary
10 February 2017

Audit Committee Report

This report is submitted in accordance with The UK Corporate Governance Code in respect of the year ended 30 November 2016 and describes the work of the Audit Committee in discharging its responsibilities.

The Committee's key objective is the provision of effective governance of the appropriateness of the Company's financial reporting, the performance of the auditor and the management of the internal control and business risks systems. The Directors forming the Audit Committee can be found on page 28.

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

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

The Committee reviews its terms of reference and its effectiveness annually and recommends to the Board any changes required as a result of the review. The terms of reference are available on request from the Company Secretary. The Committee meets twice per year and has direct access to BDO LLP, the Company's external auditor. Non-audit services are not provided by the external auditor during the period and therefore the Audit Committee does not believe there are any influences on their independence or objectivity. When considering whether to recommend the re-appointment of the external auditor, the Committee take into account the tenure of the current auditor in addition to comparing the fees charged to similar sized VCTs. The current auditor was appointed in 2008 under the name of PKF (UK) LLP, which subsequently merged with BDO LLP, and has held the position for eight years.

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

The Company does not have an independent internal audit function as it is not deemed appropriate given the size of the Company and the nature of the Company's business. However, the Committee considers annually whether there is a need for such a function and if so would recommend this to the Board. Octopus has an internal audit process, the performance of which has been outsourced to Ernst & Young. The Octopus Compliance Department reports to the Board on the outcome of the internal audits that have taken place insofar as these relate to the Company and confirms the absence of any issues relating to internal audit of which the Board should be aware. Octopus undertakes to immediately raise to the Committee, any significant issues arising from the Octopus internal audit that affect the Company.

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

Once the Committee has made a recommendation to the Board, in relation to the appointment of the external auditor, this is then ratified at the AGM through an Ordinary Resolution.

Significant Risks

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

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

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

The Audit Committee is also responsible for considering and reporting on any significant issues that arise in relation to the audit of the financial statements. The Audit Committee can confirm that there were no significant issues to report to the shareholders in respect of the audit of the financial statements to 30 November 2016.

Andrew Raynor
Audit Committee Chairman
10 February 2017

Directors' Remuneration Report

Introduction
This report is submitted in accordance with Regulation 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ("Regulations") in respect of the year ended 30 November 2016.

The Company's auditor, BDO LLP, is required to give their opinion on certain information included in this report; comprising the Directors' emoluments section and shareholdings below and their report on these and other matters is set out on pages 36 to 38.

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. During the year the Board undertook a review of the level of Director's remuneration, including a comparison with the fees paid to directors of other generalist VCTs. This was the first review of Directors's Remuneration since 2011, and as a result of this review the Directors' remuneration was increased with effect from 1 April 2016 as follows:

	Remuneration per annum (£)
Chairman	25,000
Audit Committee Chairman	22,500
Non-Executive Directors	20,000

The Board has not sought advice or services from any external person in respect of its consideration of Directors' remuneration during the year although the Directors expect from time to time to review the fees against those paid to the Boards of directors of other VCTs. The Company does not have a Chief Executive Officer, Senior Management or any employees.

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

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

The Company's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors. They should be sufficient to attract candidates of high calibre to be recruited. The policy is for the Chairman of the Board and the Chairman of the Audit Committee to be paid higher fees than the other Directors in recognition of their more onerous roles. The Remuneration policy is to review the Director's fees from time to time, benchmarking the fees against other VCT boards, although such review will not necessarily result in any changes. Due to the nature of the Company, there are no employees other than the Directors and therefore no such issues to consider when determining the Directors' remuneration.

The Company's policy is for the Directors to be remunerated in the form of fees, payable monthly in arrears. The fees are not specifically related to the Directors' performance, either individually or collectively. There are no long-term incentive schemes, share option schemes or pension schemes in place. The Board is also entitled to be repaid all reasonable travelling, subsistence and other expenses incurred by them respectively whilst conducting their duties as Directors; however no other remuneration or compensation was paid or payable by the Company during the year to any of the current Directors. There will be no payment for loss of office unless approved by a separate shareholder resolution.

In light of the changes to the Directors' remuneration during the year an Ordinary resolution to approve the remuneration policy of the Company will be put to shareholders at the forthcoming AGM and will remain in force 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.

Annual Remuneration Report
This section of the report is subject to approval by a simple majority of shareholders at the AGM in April 2017, as in previous years.

Statement of Voting at the Annual General Meeting (AGM)
The 2015 Remuneration Report was presented to the AGM in May 2016 and received shareholder approval following a vote on a show of hands. 99.3% of the votes cast on the proxy forms were for the Report and 0.7% of the votes were against. 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 on page 28.

Company Performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to Octopus through the investment management agreement, as referred to in the Directors' Report. The performance graph on page 16 also shows the performance of the Company.

Directors' Emoluments (audited)

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

	Year ended 30 November 2016 £	Year ended 30 November 2015 £
Keith Mullins	**23,333**	20,000
Andrew Raynor	**20,667**	17,000
Elizabeth Kennedy	**18,333**	15,000
Alastair Ritchie	**18,333**	15,000
Total	**80,666**	67,000

As noted above, the Directors' remuneration was increased with effect from 1 April 2016.

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

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

Relative Importance of Spend on Pay

The actual expenditure in the current year is as follows:

	Year to 30 November 2016 £	Year to 30 November 2015 £
Total Dividends paid	**2,927,000**	3,779,000
Total Buybacks	**1,401,000**	925,000
Total Management Fee	**901,000**	919,000
Total Directors Fees	**81,000**	67,000

The Directors do not consider there to be any other significant payments during the year relevant to understanding the relative importance of spend on pay.

Statement of Directors' Audited Shareholdings (audited)

There are no guidelines or requirements for Directors' to own shares in the Company. The interests of the Directors, and their connected persons, in shares of the Company during the year (in respect of which transactions are notifiable under Disclosure and Transparency Rule 3.1.2R) in the issued Ordinary shares of 0.01p are shown in the table below:

	Ordinary shares of 0.01p each 30 November 2016	Ordinary shares of 0.01p each 30 November 2015
Keith Mullins	**204,195**	201,065
Andrew Raynor	**21,080**	20,700
Alastair Ritchie	**31,809**	31,809
Elizabeth Kennedy	**37,380**	37,380

All of the Directors' shares were held beneficially. Mr Ritchie, Mrs Kennedy and Mr Mullins' connected persons all hold shares through a nominee company. There have been no changes in the Directors' share interests between 30 November 2016 and the date of this report.

Shareholders Proxy Voting Information

As required by Schedule 8:23 of the Regulations, the votes received for the AGM in 2016 were as follows:

	For		Discretion		Against	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Approval of Directors' Remuneration Report	2,126,257	78.9	547,965	20.4	19,801	0.7

By Order of the Board

Keith Mullins
Chairman
10 February 2017

Directors' Responsibility Statement

The Directors are responsible for preparing the Annual 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 the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ("FRS 102"). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;
- prepare a strategic report, a Directors' report and Directors' remuneration report which comply with the requirements of the Companies Act 2006.

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

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

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

Directors' responsibilities pursuant to DTR4

The Directors confirm to the best of their knowledge:

- the financial statements, prepared in accordance with the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ("FRS 102"), give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company; and
- the Annual Report includes a fair review of the development and performance of the business and the financial position of the Company, together with a description or the principal risks and uncertainties that it faces.

On Behalf of the Board

Keith Mullins
Chairman
10 February 2017

Independent Auditor's Report to the members of Octopus AIM VCT 2 plc

Our opinion on the Financial Statements

In our opinion the Octopus AIM VCT 2 plc Financial Statements for the year ended 30 November 2016, which have been prepared by the Directors in accordance with applicable law and United Kingdom Accounting Standards:

- give a true and fair view of the state of the Company's affairs as at 30 November 2016 and its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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.

What our opinion covers

Our audit opinion on the Financial Statements covers the:

- Income Statement;
- Balance Sheet;
- Statement of Changes in Equity;
- Cash Flow Statement; and
- Related Notes

Respective responsibilities of Directors and auditor

As explained more fully in the report of the Directors, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

A description of the scope of an audit of Financial Statements is provided on the FRC's website at **www.frc.org.uk/auditscopeukprivate**.

An overview of the scope of the audit including our assessment of the risk of material misstatement

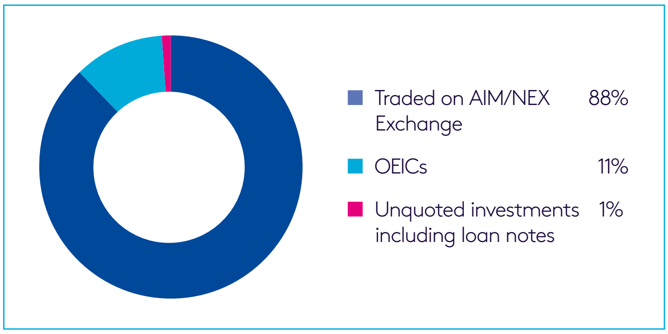
Our audit approach was developed by obtaining an understanding of the Company's activities, the key functions undertaken on behalf of the Board by the Investment Manager and Administrator and the overall control environment. Based on this understanding we assessed those aspects of the Company's transactions and balances which were most likely to give rise to a material misstatement.

Investments

The outcome of our risk assessment was that the valuation of investments was considered to be the area with the greatest effect on the overall audit strategy including the allocation of resources in the audit.

The valuation of investments is a key accounting estimate where there is an inherent risk of management override arising from the investment valuations being prepared by the Investment Manager, who is remunerated based on the net asset value of the Company.

We performed initial analytical procedures to determine the extent of our work considering, inter alia, the value of individual investments, the nature of the investment and the extent of the fair value movement. A breakdown of the investment portfolio by nature of instrument type is shown below.



In respect of listed investments (88%) and OEICs (11%), which together make up the majority of the portfolio, we confirmed that the correct bid price or price respectively had been used and that there were no contra indicators, such as liquidity considerations, to suggest the price was not the most appropriate indication of fair value. We also reviewed the year-end custodian holdings report and ensured that, for all listed investments, the number of shares owned agrees to the year-end investments summary.

1% of the portfolio is in unlisted private company investments; held in shares and loan stock. Despite being immaterial, in respect of a sample of these investments, we:

- Re-performed the calculation of the investment valuations
- Verified and benchmarked key inputs and estimates to independent information and our own research
- Challenged the Investment Manager regarding significant judgements made
- Considered the economic environment in which the investment operates to identify factors that could impact the investment valuation

Revenue

We also consider revenue recognition to be a significant risk. Revenue arises from both listed and unlisted private investments and can be volatile, but is often a key factor in demonstrating the performance of the portfolio.

We considered the design and the implementation of the controls in place over the completeness and validity of receipts based on the portfolio of investments held.

We completed substantive testing of investment income and also reviewed the classification of income between revenue and capital.

We traced a sample of dividend income through from the nominal ledger to bank. To test for completeness of dividend income, for a sample of investments we compared the income recognised to that announced by the companies in their latest financial statements or other external sources.

The audit committee's consideration of their key issues is set out on pages 30 and 31.

Materiality in context

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the Financial Statements. Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements. The application of these key considerations gives rise to two levels of materiality, the quantum and purpose of which are tabulated below.

Materiality measure	Purpose	Key considerations and benchmarks	Quantum (£)
Financial statement materiality – Based on 1% of invested assets	Assessing whether the Financial Statements as a whole present a true and fair view	• The value of investments • The level of judgement inherent in the valuation • The range of reasonable alternative valuation	500,000
Specific materiality – classes of transactions and balances which impact on revenue profits – Based on 10% of gross expenditure	Assessing those classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the Financial Statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements	• The level of gross expenditure	60,000

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £6,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Statement regarding the Directors' assessment of principal risks, going concern and longer term viability of the Company

We have nothing material to add or to draw attention to in relation to:

- the Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements; and
- the Directors' explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Matters on which we are required to report by exception

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

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

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

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

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

Under the Listing Rules we are required to review:

- the Directors' statements, set out on page 22, in relation to going concern and on page 17 in relation to longer-term viability; and
- the part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of these matters.

Neil Fung-On (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
10 February 2017

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

Income Statement

		Year to 30 November 2016			Year to 30 November 2015		
	Notes	**Revenue £'000**	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Gain on disposal of fixed asset investments	10	**–**	**300**	**300**	–	172	172
Gain on valuation of fixed asset investments	10	**–**	**3,389**	**3,389**	–	4,555	4,555
Gain on valuation of current asset investments		**–**	**174**	**174**	–	–	–
Investment Income	2	**597**	**–**	**597**	547	–	547
Investment management fees	3	**(225)**	**(676)**	**(901)**	(230)	(689)	(919)
Other expenses	4	**(375)**	**–**	**(375)**	(308)	–	(308)
(Loss)/profit on ordinary activities before tax		**(3)**	**3,187**	**3,184**	9	4,038	4,047
Taxation on (loss)/profit on ordinary activities	6	**–**	**–**	**–**	–	–	–
(Loss)/profit on ordinary activities after tax		**(3)**	**3,187**	**3,184**	9	4,038	4,047
Earnings per share – basic and diluted	8	**0.0p**	**4.5p**	**4.5p**	0.0p	6.6p	6.6p

There is no other comprehensive income for the period.

- the 'Total' column of this statement represents the statutory income statement of the Company; the supplementary revenue return and capital return columns have been prepared in accordance with the AIC Statement of Recommended Practice
- all revenue and capital items in the above statement derive from continuing operations
- the Company has only one class of business and derives its income from investments made in shares and securities and from bank and money market funds, as well as OEIC funds.

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

Balance Sheet

		As at 30 November 2016		As at 30 November 2015	
	Notes	**£'000**	**£'000**	£'000	£'000
Fixed asset investments*	10		**49,737**		44,968
Current assets:					
Investments*	11	**10,594**		5,397	
Debtors	12	**49**		54	
Cash at bank		**2,984**		2,010	
		13,627		7,461	
Creditors: amounts falling due within one year	13	**(359)**		(112)	
Net current assets			**13,268**		7,349
Net assets			**63,005**		52,317
Called up equity share capital	14		**8**		6
Share premium			**23,405**		11,575
Special distributable reserve			**30,513**		34,841
Capital reserve realised			**(10,168)**		(8,373)
Capital reserve unrealised			**19,388**		14,406
Revenue reserve			**(141)**		(138)
Total equity shareholders' funds			**63,005**		52,317
Net asset value per share – basic and diluted	9		**80.6p**		80.6p

*Held at fair value through profit and loss

The statements were approved by the Directors and authorised for issue on 10 February 2017 and are signed on their behalf by:

Keith Mullins
Chairman
Company No: 05528235

The accompanying notes form an integral part of the financial statements

Statement of Changes in Equity

	Share Capital £'000	Share Premium £'000	Special distributable reserves £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total £'000
As at 1 December 2015	**6**	**11,575**	**34,841**	**(8,373)**	**14,406**	**(138)**	**52,317**
Comprehensive income for the year:							
Management fee allocated as capital expenditure	–	–	–	(676)	–	–	(676)
Current year gains on disposal	–	–	–	300	–	–	300
Current period gains on fair value of investments	–	–	–	–	3,563	–	3,563
Loss on ordinary activities after tax	–	–	–	–	–	(3)	(3)
Total comprehensive income for the year	–	–	–	(376)	3,563	(3)	3,184
Contributions by and distributions to owners:							
Repurchase and cancellation of own shares	–	–	(1,401)	–	–	–	(1,401)
Issue of shares	2	12,367	–	–	–	–	12,369
Share issue costs	–	(537)	–	–	–	–	(537)
Dividends paid	–	–	(2,927)	–	–	–	(2,927)
Total contributions by and distributions to owners	2	11,830	(4,328)	–	–	–	7,504
Other Movements:							
Prior years' holding losses now realised	–	–	–	(1,419)	1,419	–	–
Total other movements	–	–	–	(1,419)	1,419	–	–
Balance as at 30 November 2016	**8**	**23,405**	**30,513**	**(10,168)**	**19,388**	**(141)**	**63,005**

	Share Capital £'000	Share Premium £'000	Special distributable reserves £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total £'000
As at 1 December 2014	**6**	**8,979**	**34,183**	**(10,457)**	**12,452**	**(147)**	**45,016**
Comprehensive income for the year:							
Management fee allocated as capital expenditure	–	–	–	(689)	–	–	(689)
Current year gains on disposal	–	–	–	172	–	–	172
Current period gains on fair value of investments	–	–	–	–	4,555	–	4,555
Profit on ordinary activities after tax	–	–	–	–	–	9	9
Total comprehensive income for the year	–	–	–	(517)	4,555	9	4,047
Contributions by and distributions to owners:							
Repurchase and cancellation of own shares	–	–	(925)	–	–	–	(925)
Issue of shares	–	8,320	–	–	–	–	8,320
Share issue costs	–	(362)	–	–	–	–	(362)
Dividends paid	–	–	(3,779)	–	–	–	(3,779)
Total contributions by and distributions to owners		7,958	(4,704)	–	–	–	3,254
Other Movements:							
Cancellation of share premium	–	(5,362)	5,362	–	–	–	–
Prior years' holding gains now realised	–	–	–	2,601	(2,601)	–	–
Total other movements	–	(5,362)	5,362	2,601	(2,601)	–	–
Balance as at 30 November 2015	**6**	**11,575**	**34,841**	**(8,373)**	**14,406**	**(138)**	**52,317**

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

Cash Flow Statement

	Notes	Year to 30 November 2016 £'000	Year to 30 November 2015 £'000
Cash flows from operating activities			
Return on ordinary activities before tax		**3,184**	4,047
Adjustments for:			
Decrease in debtors	12	**5**	343
Increase in creditors	13	**247**	5
Gains on disposal of fixed assets	10	**(300)**	(172)
Gains on valuation of fixed asset investments	10	**(3,389)**	(4,555)
Gains on valuation of current asset investments		**(174)**	–
Cash from operations		**(427)**	(332)
Income taxes paid		**–**	–
Net cash generated from operating activities		**(427)**	(332)
Cash flows from investing activities			
Purchase of fixed asset investments	10	**(2,261)**	(8,883)
Sale of fixed asset investments	10	**1,181**	5,387
Purchase of current asset investments		**(6,000)**	–
Total cash flows from investing activities		**(7,080)**	(3,496)
Cash flows from financing activities			
Purchase of own shares	15	**(1,401)**	(925)
Issue of own shares	15	**11,832**	7,958
Dividends paid	7	**(2,927)**	(3,779)
Total cash flows from financing activities		**7,504**	3,254
Decrease in cash and cash equivalents		**(3)**	(574)
Opening cash and cash equivalents		**7,407**	7,981
Closing cash and cash equivalents		**7,404**	7,407
Closing cash and cash equivalents is represented by:			
Cash at bank		**2,984**	2,010
Money Market Funds		**4,420**	5,397
Total cash and cash equivalents		**7,404**	7,407

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

Notes to the Financial Statements

1. Principal Accounting Policies

Basis of preparation

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 ("GAAP"), including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ("FRS 102"), and with the Companies Act 2006 and the Statement of Recommended Practice ("SORP") 'Financial Statements of Investment Trust Companies and Venture Capital Trusts (revised 2014).'

The principal accounting policies have remained unchanged from those set out in the Company's 2015 Annual Report and financial statements. A summary of the principal accounting policies is set out below.

FRS 102 sections 11 and 12 have been adopted with regard to the Company's financial instruments. The Company held all fixed asset investments at fair value through profit or loss ("FVTPL"); therefore all gains and losses arising from such investments held are attributable to financial assets held at FVTPL. Accordingly, all interest income, fee income, expenses and gains and losses on investments are attributable to assets held at FVTPL.

Investment 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 Company presents its Income Statement and Statement of Comprehensive Income 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.

Going Concern

After reviewing the Companies forecasts and expectations, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

Key judgements and estimates

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 and liabilities. Estimates and assumptions mainly relate to the fair valuation of the fixed asset investments particularly unquoted 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 IPEV 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.

Although the Company believes that the assumptions concerning the business environment and estimate of future cash flows are appropriate, changes in estimates and assumptions could require changes in the stated values. This could lead to additional changes in fair value in the future (see note 10).

Revenue and capital

The revenue column of the Income Statement includes all income and revenue expenses of the Company. The capital column includes gains and losses on disposal of investments, and gains and losses on the revaluation of investments.

Upon disposal of investments, gains or losses relating to the assets are transferred from the capital reserve – unrealised to the capital reserve – realised.

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. Cash equivalents 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. This comprises term deposits of less than one year (other than cash), government securities, investment grade bonds and investments in money market funds, as well as OEICs.

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.

The Company's trade receivables are initially recognised at fair value which is normally transaction cost and subsequently measured at amortised cost.

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

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

Reserves
Called up equity share capital – represents the nominal value of shares that have been issued.

Share premium account – includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Special distributable reserve – includes realised profits and cancelled share premium available for distribution.

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

Capital reserve realised – when an investment is sold, any balance held in Capital reserve unrealised is transferred to Capital reserve realised on disposal, as a movement in reserves.

Revenue reserve – includes all net revenue profits and losses of the Company.

Functional and presentational currency
The financial statements are presented in Sterling (£). The functional currency is also Sterling (£).

2. Income

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

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

Disclosure

	30 November 2016 £'000	30 November 2015 £'000
Income receivable on money market securities and bank balances	**23**	47
Dividends receivable from fixed asset investments	**533**	480
Loan note interest receivable	**41**	20
	597	547

3. Investment Management Fees

	30 November 2016			30 November 2015		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Investment management fee	**225**	**676**	**901**	230	689	919

Octopus provides investment management and accounting and administration services to the Company under a management agreement which initially ran for a period of five years with effect from 6 October 2005 and may be terminated at any time thereafter by not less than 12 months' notice given by either party. No compensation is payable in the event of terminating the agreement by either party, if the required notice period is given. The fee payable, should insufficient notice be given, will be equal to the fee that would have been paid should continuous service be provided, or the required notice period was given. The management fee is an annual charge and is set at 2% of the Company's net assets.

The Company now pays ongoing adviser charging to Independent Financial Advisers (IFA's). Ongoing adviser charges are an ongoing fee of up to 0.5% per annum for a maximum of nine years paid to Advisers who are on an advised and ongoing fee structure. The Company is rebated for this cost by way of a reduction in the annual management fee. For the year to 30 November 2016 the rebate received was £85,000 (2015: £49,000).

Where an investor agreed to an upfront fee only, the Company can facilitate a payment of an initial adviser charge of up to 4.5% of the investment amount. If the investor chooses to pay their intermediary/adviser less than the maximum initial adviser charge, the remaining amount will be used for the issue and allotment of additional new shares for the investor. In these circumstances the Company does not facilitate ongoing annual payments. To ensure that the Company is not financially disadvantaged by such payment, a notional ongoing advisor charge equivalent to 0.5% per annum will be deemed to have been paid by the Company for a period of nine years. The Company is rebated for this cost, also by way of a reduction in the annual management fee. For the year to 30 November 2016 the rebate received was £106,000 (2015: £nil).

The Company also receives a reduction in the management fee for the investments into other Octopus managed funds, being the Octopus Portfolio Manager and Micro Cap products, to ensure the Company is not double charged on these products. This amounted to £10,000 for the year to 30 November 2016 (2015: £nil).

During the year Octopus charged gross management fees of £1,102,000 (2015: £968,000). At the year end there was £251,000 payable to Octopus (2015: £nil). Octopus received £266,000 as a result of upfront fees charged on allotments of Ordinary shares (2015: £243,000).

The management fee has been allocated 25% to revenue and 75% to capital, in line with the Board's expected long-term return in the form of income and capital gains respectively from the Company's investment portfolio.

4. Other Expenses

Accounting Policy

All expenses are accounted for on an accruals basis.

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

Disclosure

	30 November 2016 £'000	30 November 2015 £'000
Directors' remuneration	**81**	67
Fees payable to the Company's auditor for the audit of the financial statements	**23**	23
IFA charges	**85**	49
Registrar fees	**73**	56
Printing and postage	**14**	14
Legal and professional fees	**–**	10
VCT monitoring fees	**9**	9
Brokers Fees	**6**	6
Directors and officers liability insurance	**4**	4
Other administration expenses	**80**	70
	375	308

The fees payable to the Company's auditor above are stated net of VAT and the VAT is included within other administration expenses.

The ongoing charges of the Company were 2.1% of average net assets during the year to 30 November 2016 (2015: 2.4%).

5. Directors' Remuneration

	30 November 2016 £'000	30 November 2015 £'000
Directors' emoluments		
Keith Mullins	**24**	20
Andrew Raynor	**21**	17
Elizabeth Kennedy	**18**	15
Alastair Ritchie	**18**	15
	81	67

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 (2015: four). The above table represents the gross remunerations received by the Directors and excludes Employer's National Insurance contributions, which amounted to £7,000 (2015: £5,000). The Directors received no pension contributions from the Company during the year (2015: £nil).

Andrew Buchanan and Kate Tidbury were key management personnel in the year, working for Octopus.

6. Taxation on Profit/(Loss) on Ordinary Activities

Accounting Policy

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the current tax 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, except as otherwise indicated.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Disclosure
The corporation tax charge for the year was £nil (2015: £nil).

	30 November 2016 £'000	30 November 2015 £'000
Profit on ordinary activities before taxation	**3,184**	4,047
Current tax at 20% (2015: 20%)	**637**	809
Effects of		
Non taxable income	**(107)**	(96)
Non taxable capital gains	**(773)**	(945)
Non deductible expenses	**–**	1
Excess management expenses on which deferred tax not recognised	**243**	231
Total taxation charge	**–**	–

Approved VCTs are exempt from tax on capital gains within the Company. Since the Board 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.

As at 30 November 2016, there is an unrecognised deferred tax asset of £1,092,000 (2015: £938,000) in respect of surplus management expenses, based on a prospective tax rate of 17% (2015: 18%). This deferred tax asset could in future be used against taxable profits. The reduction in the standard rate of corporation tax was substantively enacted on 26 October 2015 and will be effective from 1 April 2020.

Provided the company continues to maintain its current investment profile, it is unlikely that the expenses will be utilised and that the company will obtain any benefit from this asset.

7. Dividends

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

Disclosure

	30 November 2016 £'000	30 November 2015 £'000
Dividends paid on Ordinary Shares during the year		
Final dividend – 2.0p paid 20 May 2016 (2015: 2.0p)	**1,433**	1,238
Special dividend – 0.0p (2015: 2.0p)	**–**	1,237
Interim dividend – 2.0p paid 30 September 2016 (2015: 2.0p)	**1,494**	1,304
	2,927	3,779

Under section 32 of FRS 102 'Events After the end of the Reporting Period', dividends payable at year end are not recognised as a liability. Details of these dividends are set out below.

	30 November 2016 £'000	30 November 2015 £'000
Final proposed dividend – 2.0p payable 28 April 2017 (2015: 2.0p)	**1,556**	1,299

The above proposed final dividend is based on the number of shares in issue at the date of this report. The actual dividend paid may differ from this number as the dividend payable will be based on the numbers of shares in issue on the record date and will reflect any changes in the share capital between the year end and the record date.

8. Earnings per Share

	30 November 2016			30 November 2015		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
(Loss)/profit attributable to ordinary shareholders	**(3)**	**3,187**	**3,184**	9	4,038	4,047
Earnings per ordinary share	**0.0p**	**4.5p**	**4.5p**	0.0p	6.6p	6.6p

The profit/(loss) per share is based on 71,247,737 (2015: 61,318,461) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year, and the profit on ordinary activities after tax for the year of £3,184,000 (2015: £4,047,000).

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

9. Net Asset Value Per Share

	30 November 2016	30 November 2015
Net assets (£'000)	**63,005**	52,317
Shares in issue	**78,128,450**	64,934,873
Net Asset Value per share (p)	**80.6**	80.6

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

10. Fixed asset investments

Accounting Policy

The Company's principal financial assets are its investments and the policies in relation to those assets are set out below.

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

These investments will be managed and their performance evaluated on a fair value basis in accordance with a documented investment strategy and information about them has to be provided internally on that basis to the Board. Accordingly, as permitted by FRS 102, the investments are measured as being FVTPL on the basis that they qualify as a group of assets managed, and whose performance is evaluated, on a fair value basis in accordance with a documented investment strategy. The Company's investments are measured at subsequent reporting dates at fair value.

In the case of investments quoted on a recognised stock exchange, fair value is established by reference to the closing bid price on the relevant date or the last traded price, depending upon convention of the exchange on which the investment is quoted. This is consistent with IPEV guidelines.

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

In the 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.

Fair value hierarchy
Paragraph 34.22 of FRS 102 regarding financial instruments that are measured at fair value requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level (a): quoted prices in active markets for an identical asset. 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.

Level (b): where quoted prices are not available, the price of a recent transaction for an identical asset, providing there has been no significant change in economic circumstances or a significant lapse in time since the transaction took place.

Level (c) (i): the fair value of financial instruments that are not traded in an active market and do not meet the definition in Level (b) (for example investments in unquoted companies) 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 c (i). The Company holds no such investments in the current or prior year.

Level (c) (ii): the fair value of financial instruments that are not traded in an active market 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 c (ii).

There have been no transfers between these classifications in the year (2015: nil). The change in fair value for the current and previous year is recognised through the profit and loss account.

Disclosure

	Level a: AIM-traded equity investments £'000	Level c (ii): Unquoted investments £'000	Total £'000
Cost as at 1 December 2015	30,173	389	30,562
Opening unrealised gain/(loss) at 1 December 2015	14,630	(224)	14,406
Valuation at 1 December 2015	**44,803**	**165**	**44,968**
Purchases at cost	2,261	–	2,261
Disposal proceeds	(1,164)	(17)	(1,181)
Reclassifications between hierarchy levels	(410)	410	–
Profit on realisation of investments	283	17	300
Change in fair value in year	3,352	37	3,389
Closing valuation at 30 November 2016	**49,125**	**612**	**49,737**
Cost at 30 November 2016	29,724	799	30,523
Closing unrealised gain/(loss) at 30 November 2016	19,401	(187)	19,214
Valuation at 30 November 2016	**49,125**	**612**	**49,737**

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

Level c (ii) investments are valued in accordance with IPEV guidelines. Hasgrove is valued at the latest buyback price, prior to delisting, whilst Rated People is valued at the latest fundraise price. The two loan notes held are at cost.

All capital gains or losses on investments are measured at FVTPL. Given the nature of the Company's venture capital investments, the changes in fair value of such investments recognised in these financial statements are not considered to be readily convertible to cash in full at the balance sheet date and accordingly these gains are treated as holding gains or losses.

At 30 November 2016 there were no commitments in respect of investments approved by the Investment Manager but not yet completed.

11. Current Asset Investments

Accounting Policy

Current asset investments comprise of OEICs, money market funds and deposits and are designated as FVTPL. Gains and losses arising from changes in fair value of current investments are recognised as part of the capital return within the Income Statement and allocated to the capital reserve – unrealised.

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

Disclosure

Current asset investments at 30 November 2016 and at 30 November 2015 comprised of money market funds and deposits and OEICs. These fall into level (a) of the fair value hierarchy as defined in the Fixed asset investment accounting policy in Note 10 above.

	30 November 2016 £'000	30 November 2015 £'000
Money Market Funds	**4,420**	5,397
OEICs:		
Octopus Portfolio Manager – Conservative Capital Growth	**2,702**	–
Octopus Portfolio Manager – Defensive Capital Growth	**2,656**	–
Octopus UK Micro Cap Growth Fund	**816**	–
	10,594	5,397

12. Debtors

	30 November 2016 £'000	30 November 2015 £'000
Prepayments and accrued income	**49**	54

13. Creditors: Amounts Falling Due Within One Year

	30 November 2016 £'000	30 November 2015 £'000
Accruals	**351**	94
Trade creditors	**8**	18
	359	112

14. Share Capital

	30 November 2016 £'000	30 November 2015 £'000
Allotted and fully paid up:		
78,128,450 Ordinary shares of 0.01p (2015: 64,934,873)	**8**	6

The capital of the Company is managed in accordance with its investment policy with a view to the achievement of its investment objective as set on page 2. As the Company is registered as an AIFM, it is subject to externally imposed capital requirements, namely if the value of assets under management (AUM) exceeds €250 million then an additional amount of Company funds equal to 0.02% of the excess over €250 million (subject to a cap of €10 million capital requirement) will be required.

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

Date	**Number of shares**	**Price per share (p)**	**Total cost of shares repurchased (£)**
23 December 2015	190,237	75.5	144,000
12 February 2016	138,398	72.5	100,000
24 March 2016	106,852	73.5	79,000
22 April 2016	555,667	76.0	422,000
20 May 2016	140,962	74.0	104,000
1 July 2016	140,000	68.5	96,000
15 Juy 2016	213,952	71.0	152,000
16 September 2016	202,833	76.0	154,000
11 November 2016	199,203	75.2	150,000
Totals	**1,888,104**		**1,401,000**

The total nominal value of the shares repurchased for cancellation was £188 representing 2.4% of the issued share capital.

The Company issued the following shares during the year:

Date	**Number of shares**	**Price per share (p)**	**Net proceeds of shares issued (£)**
4 February 2016	2,356,318	81.1	1,800,000
4 February 2016 (DRIS)	71	78.1	–
11 March 2016	1,172,938	81.6	901,000
31 March 2016	2,109,439	82.4	1,633,000
5 April 2016	1,523,936	82.4	1,179,000
14 April 2016	539,023	83.9	426,000
12 May 2016	480,749	82.4	371,000
20 May 2016 (DRIS)	190,060	77.9	148,000
22 June 2016	785,094	81.6	601,000
5 August 2016	1,031,308	83.9	810,000
9 September 2016	1,068,449	86.8	870,000
9 September 2016 (DRIS)	171	77.9	–
30 September 2016 (DRIS)	205,666	81.2	167,000
3 October 2016	1,039,659	86.0	841,000
21 October 2016	2,578,800	85.9	2,085,000
Totals	**15,081,681**		**11,832,000**

15. Reconciliation of movements in equity

	Notes	Year ended 30 November 2016 £'000	Year ended 30 November 2015 £'000
Shareholders' funds at start of year		**52,317**	45,016
Profit on ordinary activities after tax		**3,184**	4,047
Share capital bought back		**(1,401)**	(925)
Issue of shares (net of issue costs)	14	**11,832**	7,958
Dividends paid	7	**(2,927)**	(3,779)
Shareholders' funds at end of year		**63,005**	52,317

Included within these reserves is an amount of £20,204,000 (2015: £26,330,000) which is considered distributable to shareholders.

16. Financial Instruments and Risk Management

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

	30 November 2016 £'000	30 November 2015 £'000
Financial assets at fair value through profit or loss		
Fixed asset investments	**49,737**	44,968
Money market securities	**4,420**	5,397
OEICs	**6,174**	–
Total financial assets at fair value through profit or loss	**60,331**	50,365
Financial assets measured at amortised cost		
Cash at bank	**2,984**	2,010
Debtors	**49**	54
Total financial assets measured at amortised cost	**3,033**	2,064
Financial liabilities measured at amortised cost		
Creditors	**(359)**	(112)
Total financial liabilities measured at amortised cost	**(359)**	(112)

The Company holds two qualifying, unquoted investments; Rated People Limited and Hasgrove plc, which delisted from AIM in 2013. The Company also holds two unquoted loan note investments, with a combined value of £410,000, held at cost. These were issued by two quoted holdings, Access Intelligence plc and Nektan Ltd.

Fixed and current asset investments (see notes 10 and 11) are initially recognised at FVTPL. For quoted investments this is bid price. The Directors believe that the fair value of the assets held at the year end is equal to their book value. Unquoted investments are valued in accordance with IPEV guidelines.

The Company's creditors and debtors are initially recognised at fair value which is usually the transaction cost and subsequently measured at amortised cost using the effective interest method.

The fair value of all other financial assets and liabilities is represented by their carrying value in the balance sheet. The Directors believe that the fair value of the assets held at the year end is equal to their book value.

17. Financial Risk Management

In carrying on its investment activities, the Company is exposed to various types of risk associated with the financial instruments and markets in which it invests. The most significant types of financial risk facing the Company are price risk, interest rate risk, credit risk and liquidity risk. The Company's approach to managing these risks is set out below together with a description of the nature and amount of the financial instruments held at the balance sheet date.

Market risk

The Company's strategy for managing investment risk is determined with regard to the Company's investment objective, as outlined on page 2. The management of market risk is part of the investment management process and is a central feature of venture capital investment. The Company's portfolio is managed in accordance with the policies and procedures described in the Corporate Governance Report on pages 26 to 29, having regard to the possible effects of adverse price movements, with the objective of maximising overall returns to shareholders. Investments in smaller companies, by their nature, usually involve a higher degree of risk than investments in larger companies quoted on a recognised stock exchange, though the risk can be mitigated to a certain extent by diversifying the portfolio across business sectors and asset classes. The overall disposition of the Company's assets is regularly monitored by the Board.

Details of the Company's investment portfolio at the balance sheet date are set out on pages 8 to 10.

By value, 78% (30 November 2015: 86%) of the Company's net assets comprised equity securities listed on the London Stock Exchange or quoted on AIM. A 10% increase in the bid price of these securities as at 30 November 2016 would have increased net assets and the total return for the year by £4,913,000 (30 November 2015: £4,497,000); a corresponding fall would have reduced net assets and the total return for the year by the same amount.

OEIC investments comprised 10% of the Company's net assets by value (30 November 2015: 0%). A 10% increase in the price of these securities at 30 November 2016 would have increased net assets by £617,000 (30 November 2015: £nil); a corresponding fall would have reduced net assets and the total return 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.

Floating rate

The Company's floating rate investments comprise cash held on interest-bearing deposit accounts and, where appropriate, within interest bearing money market securities. The benchmark rate which determines the rate of interest receivable on such investments is the bank base rate, which was 0.25% at 30 November 2016 (30 November 2015: 0.5%). The amounts held in floating rate investments at the balance sheet date were as follows:

	30 November 2016 £'000	30 November 2015 £'000
Money Market Funds	**4,420**	5,397
Cash at bank	**2,984**	2,010
	7,404	7,407

A 1% increase in the base rate would increase income receivable from these investments and the total return for the year by £74,040 (30 November 2015: £74,070).

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. Where financial assets expose the Company to credit risk, the maximum exposure is represented by their carrying value.

Other than cash or liquid money market funds, there were no significant concentrations of credit risk to counterparties at 30 November 2016, or 30 November 2015. By value, no individual bank holding or fixed rate note investment exceeded 7% of the Company's net assets at 30 November 2016 (10% of the Company's net assets at 30 November 2015).

The Company's interest-bearing deposit and current accounts are maintained with HSBC and BlackRock.

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 deteriorate significantly, the Investment Manager will move the cash holdings to another bank.

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

Credit risk relating to loans to and shares in unquoted companies is considered to be part of market risk.

The investments in money market funds and OEICS are uncertified.

Those assets of the Company which are traded on recognised stock exchanges are held on the Company's behalf by third party sub-custodians (for example, BlackRock in the case of listed money market securities and Octopus Investments Limited in the case of quoted equity securities). Bankruptcy or insolvency of a custodian could cause the Company's rights with respect to securities held by the custodian to be delayed or limited.

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

Liquidity risk

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

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

The Company's OEIC investments are considered to be readily realisable as under the terms of the product funds can be withdrawn at any point and received within 7 working days. There is a risk that the value of the investment will fall, but this is monitored continually by the Investment Manager.

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 30 November 2016 these investments were valued at £13,578,000 (30 November 2015: £7,407,000).

The Company has no debt, therefore no maturity analysis is required.

18. Post balance sheet events

Since the year end, the Company has disposed of 100,000 shares in Work Group plc for total consideration of £3,500, as well as 6,500 shares in WANdisco plc for total consideration of £25,000.

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

- 16 December 2016: 215,228 shares at a price of 78.0p per share

19. Contingencies, Guarantees and Financial Commitments

There were no contingencies, guarantees or financial commitments as at 30 November 2016 (2015: none).

20. Related Party Transactions

The Company has employed Octopus throughout the year as Investment Manager. Octopus has also been appointed the Custodian of the Company's investments under a Custodian Agreement.

The Company has paid Octopus £901,000 (2015: £919,000) in the year as a management fee. The management fee is payable quarterly in arrears and is based on 2.0% of net assets at quarterly intervals.

The Company has invested £6 million into Octopus managed funds, being the Octopus Portfolio Manager and Micro Cap funds. To ensure the Company is not double charged management fees on these products, the Company receives a reduction in the management fee as a percentage of the value of these investments.

See Note 3 to the financial statements for more information on the management fee charges and rebates.

Information and Contact Details

Octopus AIM VCT 2 plc was launched as Close IHT AIM VCT PLC in March 2006 and raised £25 million through an offer for subscription. On 12 August 2010 the Company acquired the assets and liabilities of Octopus Third AIM VCT plc (formerly Octopus Second AIM VCT plc) ("the merger") and changed its name from Octopus IHT AIM VCT plc to Octopus Second AIM VCT plc. Shareholders of Octopus Third AIM VCT plc received 0.48356191 Ordinary shares in the Company for each Ordinary share they had prior to the merger. On 30 January 2015, the Company name changed to Octopus AIM VCT 2 plc.

An offer, launched on 6 February 2012 and which closed on 5 April 2012, raised £1.3 million for the Company. An offer launched on 25 April 2012, closed on 31 July 2012 and raised a further £0.5 million for the Company. An Enhanced Buyback Facility opened on 23 October 2012 and closed on 28 December 2012. 10,470,985 existing shares were tendered and 9,974,094 new shares were issued. An Offer for subscription of up to £10 million, which opened on 1 February 2013 and closed on 17 January 2014, raised £5.9 million. A further Offer for subscription to raise £4.1 million was opened on 3 February 2014 and closed, fully subscribed, on 28 March 2014. A combined fund raise with Octopus AIM VCT plc by way of an issue of new shares was launched on 29 August 2014 to raise up to £8 million with an over-allotment facility of £4 million was closed, fully subscribed on 11 August 2015. A combined fund raise with Octopus AIM VCT plc by way of an issue of new shares was launched on 21 December 2015 to raise up to £8 million with an over-allotment facility of £4 million. This Offer closed, fully subscribed, on 21 October 2016. On 6 February 2017 the Board announced a further Offer for subscription to raise up to £4.3 million.

Venture Capital Trusts ("VCTs")

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

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

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

- at least 70% of the Company's investments must comprise 'qualifying holdings'* (as defined in the legislation);
- at least 70% of the qualifying holdings must be invested into Ordinary shares with no preferential rights (30% for funds invested before 6 April 2011);
- no single investment made can exceed 15% of the total Company value at the time of investment; 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 a company admitted to trading on AIM (or an unquoted UK company) which is carrying on a qualifying trade and whose gross assets do not exceed a prescribed limit at the time of investment. The definition of a 'qualifying trade' excludes certain activities such as property investment and development, financial services and asset leasing.

VCT Legislation

The 2015 Summer Budget introduced legislation designed to ensure that VCTs comply with changes to the EU State Aid rules. The legislation introduced new criteria which stipulate a lifetime cap on the total amount of State Aid investment a company can receive, the age of companies which are eligible for investment and specific requirements relating to the use of the funds raised. The Board, in conjunction with the Manager, has reviewed the impact of the new legislation on the Company's investment strategy and has concluded that it expects there to be sufficient investment opportunities to enable the Manager to comply with the new rules and to continue to generate attractive returns for shareholders.

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 Computershare Investor Centre at: **www-uk.computershare.com/investor/**.

Queries relating to dividends, shareholdings or requests for mandate forms should be directed to Computershare by calling **0370 703 6326** (calls are charged at the standard geographic rate and will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate. Lines are open Monday–Friday 9.00am–5.30pm), or by writing to them at:

The Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ

The table below shows the net asset value per share and lists the dividends that have been paid since the launch of the Company. Following the merger of Octopus IHT AIM VCT and Octopus Third AIM VCT and various share re-organisations, there is now only one share class, Ordinary shares. For Octopus IHT AIM VCT Ordinary shares, together with Octopus Third AIM VCT Ordinary shares and 'C' & 'D' shares, the figures below represent the NAV, rebased to assume investment at 100p, and adjusted in accordance with the relevant conversion factors. Investment has been assumed at the first allotment of each tax year, hence the dividends shown below may not necessarily equate to the dividends actually received by shareholders.

Dividends paid during year ending	Octopus AIM VCT 2 Ordinary shares 2015/16	Octopus AIM VCT 2 Ordinary shares 2015/16	Octopus AIM VCT 2 Ordinary shares 2014/15	Octopus AIM VCT 2 Ordinary shares 2013/14	Octopus AIM VCT 2 Ordinary shares 2012/13	Octopus AIM VCT 2 Ordinary shares 2011/12	Octopus AIM VCT 2 Ordinary shares 2010/11	Octopus Second AIM VCT (formerly Octopus IHT AIM VCT A&B shares) 2005/06	Octopus Third AIM VCT C&D shares 2005/06 (formerly Octopus Second AIM VCT)	Octopus Third AIM Ordinary shares 2000/01 shares (formerly Octopus Second AIM VCT plc)
2003	–	–	–	–	–	–	–	–	–	1.6
2004	–	–	–	–	–	–	–	–	–	–
2005	–	–	–	–	–	–	–	–	–	–
2006	–	–	–	–	–	–	–	1.4	–	1.0
2007	–	–	–	–	–	–	–	2.0	0.8	7.0
2008	–	–	–	–	–	–	–	2.0	2.2	11.0
2009	–	–	–	–	–	–	–	2.0	2.0	2.0
2010	–	–	–	–	–	–	–	2.5	5.4	2.2
2011	–	–	–	–	–	–	4.7*	3.3	3.8*	1.6*
2012	–	–	–	–	2.3*	4.4*	4.6*	3.2	3.8*	1.6*
2013	–	–	–	4.5	5.1*	4.7*	5.0*	3.5	4.1*	1.7*
2014	–	–	4.3	5.2	5.8*	5.5*	5.8*	4.0	4.6*	1.9*
2015	–	7.0	6.4	7.8	8.7*	8.3*	8.6*	6.0	7.1*	2.9*
2016	4.8	4.6	4.3	5.2	5.8	5.8	5.8	4.0	4.7	1.9
Total dividends paid (assumed investment at 100p)	4.8*	11.6*	14.9*	22.7*	27.7*	28.7*	34.5*	33.8	38.5*	36.4*
Adjusted NAV (assumed investment at 100p)	96.1**	93.5**	85.8**	104.7**	116.8**	108.3**	115.9**	80.6	94.8**	39.0**
NAV plus total dividends (assumes investment at 100p)	100.8***	105.1***	100.7***	127.41***	144.5***	137.0***	150.4***	114.5	133.3***	75.4***

* Notional dividends assuming investment at 100p and adjusting for conversion of various share classes into Octopus AIM 2 VCT plc Ordinary shares.

** NAV assuming investment at 100p and adjusting for conversion of various share classes into Octopus AIM 2 VCT plc Ordinary shares.

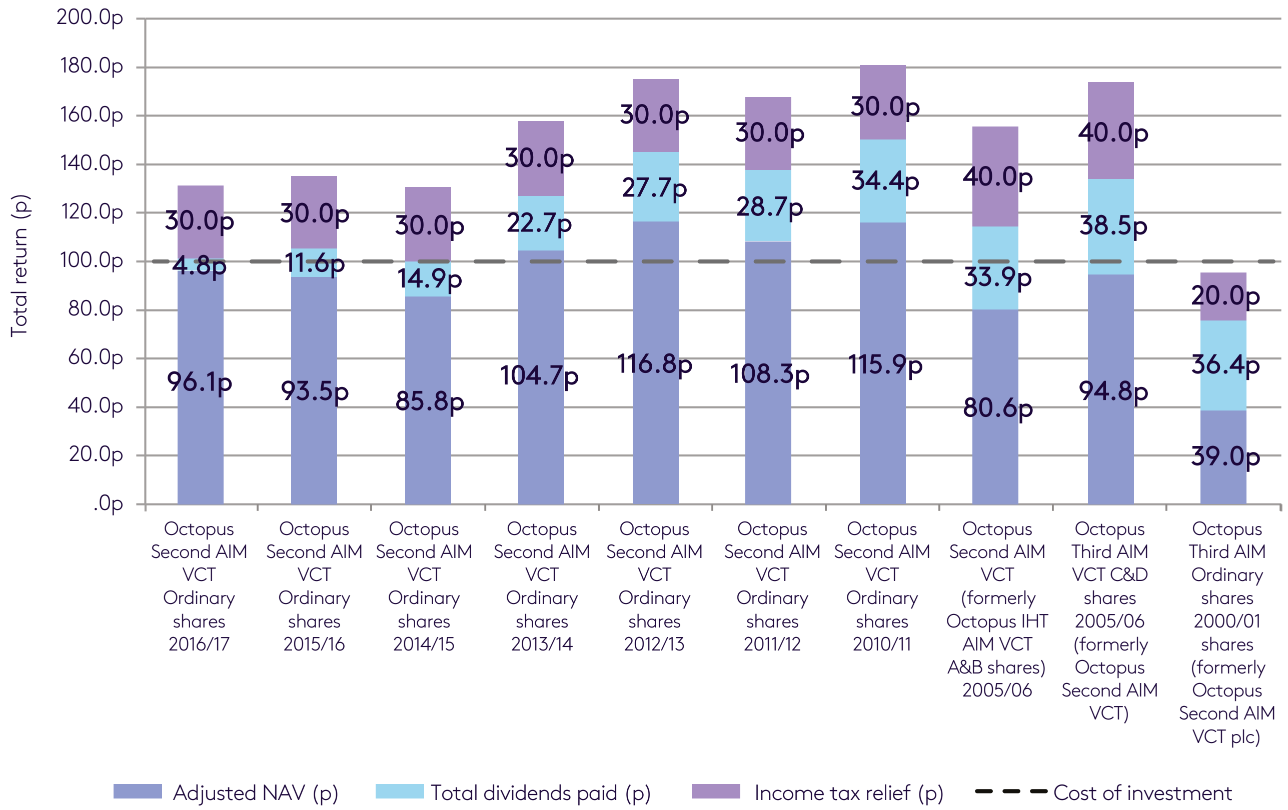
*** NAV plus cumulative dividends adjusting for conversion, assuming investment at 100p showing the notional return to shareholders based on their original investment share class.

Notes

- Octopus Third AIM VCT 'D' shares converted into 'C' shares in May 2009, in accordance with a conversion factor of 1 'C' share for each 'D' share.
- Octopus Third AIM VCT 'C' shares converted into Octopus Third AIM VCT Ordinary shares in May 2009, in accordance with a conversion factor of 2.4313 Ordinary shares for each 'C' share.

- Octopus AIM VCT 2 plc (previously Octopus IHT AIM VCT) 'B' shares converted into 'A' shares in May 2009, in accordance with a conversion factor of 1 'A' share for each 'B' share.
- Octopus Third AIM Ordinary shares converted into Octopus Second AIM (post August 2010) Ordinary shares in August 2010, in accordance with a conversion factor of 0.48356191 Octopus Second AIM Ordinary share (post August 2010), for each Octopus Third AIM Ordinary share.
- In August 2010, Octopus IHT AIM VCT was renamed Octopus Second AIM VCT, and subsequently changed its name to Octopus AIM VCT 2 plc.

The graph below depicts the Net Asset Value (NAV) per share and the dividends that have been paid since the launch of Octopus AIM VCT 2 plc for each class of share issued since the start, assuming an investment at 100p including the up-front tax relief and adjusted in accordance with the relevant conversion factors. Investment has been assumed at the first allotment of each tax year:



The proposed final dividend of 2.0p will, if approved by shareholders, be paid on 28 April 2017 to shareholders on the register on 24 March 2017.

Dividend Reinvestment Scheme ("DRIS")

The Company established a DRIS in 2014, under which Shareholders are given the opportunity to automatically re-invest future dividend payments by subscribing for new Ordinary Shares. This allows participating Shareholders to re-invest the growth in their shareholdings and, subject to personal circumstances, benefit from additional income tax reliefs.

Any shareholder wishing to reinvest their dividends can request a DRIS instruction form by calling Computershare on **0370 703 6326** or complete an instruction electronically by visiting the Computershare Investor Centre at: **www-uk.computershare.com/investor/**. The application form and rules can also be found in the Document Library on the Octopus Investments Limited website: **www.octopusinvestments.com/investors/shareholder-information/aim-vct-2/**.

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	OSEC
Latest share price (10 February 2017)	81.5 pence 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.

Buyback of Shares

The Company operates a policy of buying its own shares for cancellation as they become available, and envisages that purchases will be made at a 5% discount to the prevailing NAV. The Company is, however, unable to buy back shares directly from shareholders. If you are considering selling your shares or trading in the secondary market, please contact Panmure Gordon (UK) Limited, the Company's broker.

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

Chris Lloyd	020 7886 2716	chris.lloyd@panmure.com
Paul Nolan	020 7886 2717	paul.nolan@panmure.com

Secondary Market

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

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

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

Notification of Change of Address

Communications with shareholders are mailed to the registered address held on the share register. In the event of a change of address or other amendment, this should be notified to the Company's registrar, Computershare, under the signature of the registered holder or via the Computershare Investor Centre at:

www-uk.computershare.com/investor/. Computershare's contact details are provided on page 59.

Other Information for Shareholders

Previously published Annual Reports and Half-yearly Reports are available for viewing on the Investment Manager's website at **www.octopusinvestments.com** by navigating to Investor, Shareholder, Octopus AIM VCT 2 plc. Other statutory information about the Company can also be found there.

Electronic Communications

We also publish reports and accounts and all other correspondence electronically. This cuts the cost of print and reduces the impact on the environment. If, in future, you would prefer to receive an email telling you a report is available to view or to receive documents by email, please complete the enclosed form or contact Octopus on **0800 316 2295** or Computershare on **0370 703 6326**. Alternatively you can sign up to receive e-communications via the Computershare Investor Centre at: **www-uk.computershare.com/investor/**.

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 offer for free company reports.

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

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

The Financial Conduct Authority have also issued guidelines on how to avoid share fraud and further information can be found on their website: **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**.

Directors and Advisers

The Board of Directors
Keith Mullins (Chairman)
Andrew Raynor FCA
Elizabeth Kennedy
Alastair Ritchie

Secretary and Registered office
Nicola Board ACIS
33 Holborn
London
EC1N 2HT

Investment and Administration Manager
Octopus Investments Limited
33 Holborn
London
EC1N 2HT
Tel: 0800 316 2295
www.octopusinvestments.com

Custodians
Octopus Investments Limited
33 Holborn
London
EC1N 2HT

Bankers
HSBC Bank plc
31 Holborn
London
EC1N 2HT

Independent Auditor
BDO LLP
55 Baker Street
London
W1U 7EU

Taxation Adviser
PricewaterhouseCoopers UK
1 Embankment Place
London
WC2N 6RH

VCT Status Adviser
PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Registrars
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ
Tel: 0370 703 6326
(calls are charged at the standard geographic rate and will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate.
www.computershare.com/uk
www-uk.computershare.com/investor/

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Octopus AIM VCT 2 plc will be held at 33 Holborn, London, EC1N 2HT on Thursday, 20 April 2017 at 11 a.m. for the purposes of considering and if thought fit, passing the following resolutions of which Resolutions 1 to 8 and 11 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 30 November 2016 and the Directors', Auditor's and Strategy reports therein.

2. To approve a final dividend of 2.0p per Ordinary share.

3. To approve the Directors' Remuneration Policy.

4. To approve the Directors' Remuneration Report.

5. To re-elect Elizabeth Kennedy as a Director.

6. To re-elect Alastair Ritchie as a Director.

7. To re-appoint BDO LLP as auditor of the Company in accordance with section 489 of the Companies Act 2006, until the conclusion of the next general meeting of the Company at which audited accounts are laid before members, and to authorise the Directors to determine their remuneration.

Special Business

To consider and if thought fit, pass Resolutions 8 and 11 as Ordinary Resolutions and Resolutions 9 and 10, as Special Resolutions:

8. Authority to allot relevant securities
THAT the Directors be and are generally and unconditionally authorised in accordance with s551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company up to a maximum nominal amount of £1,556 (representing approximately 20% of the Ordinary share capital in issue at the date of this Notice) such authority to expire at the later of the conclusion of the Company's Annual General Meeting next following the passing of this Resolution and the expiry of 15 months from the passing of the relevant Resolution (unless previously revoked, varied or extended by the Company in a 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). The authority granted under this resolution is in addition to existing authorities.

9. Empowerment to make allotments of equity securities
TO empower the Directors pursuant to s571 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(2) 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. The authority granted under this resolution is in addition to existing authorities.

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 Act) of Ordinary shares of 0.01p each in the Company ('Ordinary shares') provided that:

(a) the maximum number of Ordinary shares so authorised to be purchased shall not exceed 7,779,758 Ordinary shares, representing approximately 10% of the Company's issued share capital at the date of this Notice;

(b) the minimum price which may be paid for an Ordinary share shall be 0.01p;

(c) the maximum price, exclusive of expenses, which may be paid for an Ordinary share is an amount equal to (i) 105% of the average of the middle market quotation 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; and (ii) the amount stipulated by Article 5(6) of the Market Abuse Regulation.

(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.

11. Continuation of the Company as a VCT
THAT the Company continue as a Venture Capital Trust until 2022.

By Order of the Board

Nicola Board

Nicola Board (ACIS)
Company Secretary
10 February 2017

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) 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 close of business on the day which is two days before the day of the 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.

(c) A form of proxy is enclosed which, to be effective, must be completed and delivered to the Company's registrars, **Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY** or alternatively, you may register your proxy electronically at **www.investorcentre.co.uk/eproxy**, in each case, so as to be received by no later than 48 hours before the time the Annual General Meeting is scheduled to begin. To vote electronically, you will be asked to provide your Control Number, Shareholder Reference Number and PIN which are detailed on your proxy form.

Appointment of a proxy, or any CREST proxy instruction (as described in paragraph (d) below) will not preclude a member from subsequently attending and voting at the meeting should he or she choose to do so. This is the only acceptable means by which proxy instructions may be submitted electronically.

(d) To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the issuer's agent (ID number 3RA50) not later than 48 hours (excluding non-working days) before the time appointed for holding the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST personal members or other CREST sponsored members, and those CREST members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST manual. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

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

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

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

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

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

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

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

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

(ii) It is defamatory of any person; or

(iii) It is frivolous or vexatious.

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

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

(j) As at 13 March 2017 (being the last practicable date prior to the publication of this Notice) the Company's issued share capital consists of 82,470,790 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 13 March 2017 are 82,470,790.

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