OCTOPUS
PROTECTED ENTERPRISE INVESTMENT SCHEME
The Octopus **Protected Enterprise Investment Scheme** offers capital gains tax deferral as well as both income tax and inheritance tax reliefs, alongside investments that are designed to be lower risk.

"We believe that risk-averse investors are seeking an EIS investment with as little downside risk as possible, a non-controversial trade and an exit after three years at a price equal to net asset value. In our view the Octopus Protected EIS comes very close to matching this set of investor desires and is a very attractive offering."

Martin Churchill  
Editor, Tax Efficient Review
Since its establishment in 2000, Octopus has built a reputation for creating innovative and successful investment products that meet the needs of individual investors. We now have over 20,000 investors and £750 million invested across our range of funds.

The Octopus Protected Enterprise Investment Scheme (‘EIS’) offers a simple and lower risk solution to individuals looking to reduce their income tax and inheritance tax liabilities and at the same time look to defer a capital gain.

What surprised us most when we first looked into the EIS market was the large number of people who could benefit from these fund structures and the associated tax benefits. In spite of this, the amount invested in EIS structures is still relatively small.

When we sat down with potential investors to find out why, we discovered that this reluctance stemmed from the perceived risk of investing in UK smaller companies. That’s why we’ve designed the Octopus Protected EIS.

It offers a number of advantages over other EIS structures in the market. First, the portfolio is designed to be lower risk and carry a higher degree of capital security than typical EIS investments. Additionally, the structure has been approved by HM Revenue & Customs, which allows investors to reclaim their income tax relief against the current or prior tax years which is not normally the case with EIS portfolio services.

I hope that you find this brochure clear and easy to understand. We always recommend that you seek independent professional advice before you invest in any product, but if you do have any questions - or if it would help to speak to me or one of the fund managers - please call us on 0800 316 2298.

Simon Rogerson
Chief Executive
THE PROBLEM

Millions of people now find themselves exposed to substantial income tax and/or capital gains tax bills


In 2008 £3.8 billion and £5.3 billion were paid in inheritance tax and capital gains tax, respectively.

THE PROBLEM

Millions of people potentially find themselves exposed to substantial income tax, inheritance tax and capital gains tax bills, yet many investment solutions are perceived as high risk.

TAX BILLS

Estate planning, involving growing and safeguarding your property and assets for future generations, is crucial, yet tax obligations can be a major impediment to the process. Furthermore, tax bills are on the rise. The 50% income tax rate will hit thousands of high earners. Meanwhile, regardless of current earnings, inheritance tax continues to be an issue for many more. The Government is entitled to take 40% of an individual’s taxable estate when they die. With property prices having increased over the last decade, thousands more people have become liable. Finally, capital gains tax is also a major concern for those who have built up assets over time and face capital gains liabilities, from property for example.

THE NEED FOR LOWER-RISK INVESTMENT SOLUTIONS

While the Government may impose taxes it also offers tax benefits to investors, to encourage them to invest in qualifying UK businesses, with the aim of stimulating economic growth. Enterprise Investment Schemes can help investors reduce their tax burden. Yet many individuals are concerned about taking on the risk associated with investing in UK smaller companies. What investors need is a lower risk product that delivers much-needed tax benefits without high risks. The Octopus Protected EIS, developed after discussion with many investors, was designed specifically to solve this problem.
Investors in the Octopus Protected EIS are entitled to three key tax benefits if they hold investments for three years. These are:

- **20% UPFRONT INCOME TAX RELIEF**
  Investors receive tax relief of 20% of the amount invested, up to £500,000 per year, against their income tax bill for this year (or the last tax year, if you choose).

  For example if you invested £1 million this year, you could receive 20% income tax relief on £500,000 this year, and an additional 20% income tax relief for the other £500,000 against last year’s income tax bill, resulting in a total of £200,000 tax relief.

- **CAPITAL GAINS TAX (CGT) DEFERRAL**
  CGT is deferred for the life of the investment. Investors can defer gains made up to three years previously. Deferring previous gains enables investors to use any future capital losses to offset previous gains.

  To achieve a deferral the post indexation, pre-taper gain must be invested.

- **INHERITANCE TAX RELIEF**
  Investments qualify for IHT relief after two years, provided investments are held at death. In contrast to pensions and trust based solutions, investors retain control of money during the life of the investment.

The Octopus Protected EIS offers a simple and effective solution to individuals looking to defer (and potentially reduce) a capital gain whilst significantly reducing their income and inheritance tax liabilities.

The Octopus Protected EIS has raised over £150 million and helped thousands of investors with this product in the two years since launch. This has made Octopus the largest provider of lower risk EIS solutions.

Underlying investments are significantly lower risk than typical EIS products and we only charge a management fee at the end of three years, providing investors still receive back at least the amount invested. This protection, combined with the powerful tax advantages, makes the Octopus Protected EIS a compelling investment.

Simon Rogerson
Chief Executive

Octopus will seek an exit opportunity once the investments have been held for three years, allowing investors to release capital, or roll it over into a new EIS - and receive another 20% income tax relief.
THE OCTOPUS INVESTMENT STRATEGY

Octopus Protected EIS will invest in at least four EIS qualifying companies with a view to minimising risk to capital.

The companies in which the Fund invests will operate in sectors where there is a high degree of predictability. Octopus has an excellent track record in establishing qualifying EIS companies. We invest into businesses that are created with a lower risk business model.

Our aim is to make an orderly exit from the investment after 3 years.

HOW WILL WE MONITOR THE INVESTMENTS?
The process does not end with the decision to invest. As the fund manager for Octopus Protected EIS, we will monitor the investments to ensure that they perform to our expectations. This will include regular meetings with management teams and a review of quarterly financials against budget. Should a shareholder vote be required by the company into which your Fund has been invested (and where the Fund has a controlling interest), you will be contacted directly.

WHAT IS MY EXPECTED RETURN AND WHAT’S THE DIVIDEND POLICY?
In the short-term you may receive upfront income tax relief equivalent to 20% of the money that is invested into the EIS qualifying companies. This means that if £50,000 is invested on your behalf by the Fund, your income tax bill for this tax year (or the last tax year, if you choose), will be reduced by £10,000 (provided you pay at least that amount of income tax).

To maximise the use of the EIS tax advantages, dividends are unlikely and any returns will be realised where possible as capital growth. This is because dividends paid by EIS companies are taxable while capital growth is tax free.
Although this scenario is for illustrative purposes, it will hopefully provide you with an idea of how you could benefit from the Octopus Protected EIS.

INITIAL INVESTMENT FOR INCOME TAX RELIEF
Mr James invests £100,000* into five qualifying companies in Octopus Protected EIS and he receives up front income tax relief of £20,000 (20% x £100,000) from HMRC. This makes his net cost of investment £80,000.

ESTIMATED PROCEEDS FOR INCOME TAX RELIEF
Based upon estimated net exit proceeds after three years of £100,000, the tax-free return is £20,000, equivalent to 7.7% per annum, free of tax.

ASSUMED PERFORMANCE OVER THREE YEAR PERIOD

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of investment</td>
<td>£100,000</td>
</tr>
<tr>
<td>Less income tax relief (20%) of the qualifying investment†</td>
<td>£20,000</td>
</tr>
<tr>
<td>Effective cost of investment</td>
<td>£80,000</td>
</tr>
<tr>
<td>Estimated net exit proceeds (net of all fees and commissions)</td>
<td>£100,000</td>
</tr>
<tr>
<td>Net tax-free return</td>
<td>£20,000</td>
</tr>
<tr>
<td>Net tax-free return</td>
<td>7.7% p/a</td>
</tr>
<tr>
<td>Gross equivalent return</td>
<td>12.9% p/a</td>
</tr>
<tr>
<td>(to a 40% taxpayer)</td>
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</tbody>
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* For simplicity this case study ignores the impact of the initial charge.
† 100p investment less the 2.5p financial adviser commission

INITIAL INVESTMENT FOR DEFERRING A CAPITAL GAIN
Mr James also uses the Protected EIS to defer a capital gain that would otherwise be taxed at 40%, so the amount deferred is £40,000 (40% x £100,000), thus reducing the net cost of the investment further to £40,000.

ESTIMATED PROCEEDS AFTER DEFERRING A CAPITAL GAIN
At this point, the deferred capital gain would be paid, although this would be at the rate of 18%. Based upon estimated net exit proceeds after three years of £82,000 (proceeds of sale less CGT now payable), the tax-free return is £42,000 equivalent to 27% per annum, free of tax.

WHAT WE HAVE ASSUMED
- The annualised returns are calculated net of fees with an investment life of 3 years.
- All tax benefits are used to reduce the effective cost of the investment.
- The Protected EIS investment generates only enough returns to cover all fees.
The Octopus Protected EIS has been approved by HM Revenue & Customs. This means that you will be able to claim the income tax relief against the current tax year (or last year, if you choose) which is not normally the case for EIS portfolio services.

**WHAT ARE THE REQUIREMENTS OF AN APPROVED EIS FUND?**

In order to meet the requirements of HM Revenue & Customs for approval of the Octopus Protected EIS as an approved fund, there are certain restrictions which will be followed by Octopus in managing the Fund. These include the following:

- Investments will only be made after the Fund's closing date.
- At least 90% of all subscriptions to the Fund will be invested within twelve months of the closing date. Surplus cash, if any, will be returned to the investor within twelve months of the closing date or, if agreed between the investor and Octopus, applied to a subsequent fund with a later closing date.
- The investor will be the beneficial owner of the shares allocated to him. Allocation of each investment will be pro-rata (subject to rounding to ensure that investors are issued with a whole number of shares).
- The shares will be issued to Octopus as nominee for the investor.
- No more than 50% of the fund will be invested in any one company.
- The Fund will be invested in a minimum of four investments.
- Any subsequent fund will not close until the Fund preceding it has invested at least 90% of its capital.

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**THE HM REVENUE & CUSTOMS APPROVAL STATUS EXPLAINED**

**DID YOU KNOW?**

**WHAT TYPES OF EIS FUNDS ARE THERE?**

There are two types of EIS funds. First there are ‘approved’ funds. These are pre-approved by HMRC, which means income tax relief can be claimed in relation to the tax year in which the fund closed or the tax year before. The second type of EIS fund is ‘unapproved’. This means that income tax relief can only be claimed when the underlying investments are made into qualifying companies.

**IMPORTANT INFORMATION RE: APPROVED STATUS**

The approval of the Fund by the Board of HM Revenue & Customs is relevant only for the purpose of attracting certain tax advantages provided by Section 251 of the Income Tax Act 2007. Such approval covers only certain administrative matters and in no way bears on the commercial viability of the investments to be made; neither does it guarantee the availability, amount or timing of relief from income tax or capital gains tax.
Octopus does not intend to sell any investments within three years but will look for disposal opportunities as soon as possible thereafter.

There are many ways in which holdings may be sold. Disposal options available to Octopus may include: sale to third parties or trade sales, management buy-out, purchase by other shareholders or through a buy back by the portfolio company itself, flotation on AIM or PLUS Markets, and sale of the portfolio company’s assets and liquidation.

The proposed life of the Fund is at least three years. The intention is to secure an orderly winding up of the Fund as soon after the end of the three-year period as possible. On termination of a Fund, the proceeds can be re-invested in a new Octopus Protected EIS Fund (assuming that Octopus will have gained HM Revenue & Customs approval for a new fund, the Fund makes qualifying investments in qualifying EIS companies and that there has been no change to the legislation). Once invested into new investee companies any capital gains continue to be deferred, inheritance tax exemption remains and a further 20% income tax relief becomes available.

ADDITIONAL OPTIONS
Investors who are unable to benefit further from income tax relief may be able to choose to retain their investment in an Octopus discretionary portfolio, rather than selling after three years and re-investing into a new fund. Alternatively, the proceeds can be returned to the investor if so requested.

WITHDRAWALS
Please note that in order to meet HM Revenue & Customs conditions, no partial withdrawals from the Fund are permitted. However, you can terminate your Customer Agreement in respect of your investment and make an early withdrawal of all your investment. If this occurs before the end of the three year period is reached, you will have to repay the initial income tax relief.

You should be aware that the investments will be in unquoted companies which are therefore not readily realisable investments. The risk factors for such investments are explained on page 14 and you should note that one of the risks is that an early exit is unlikely to be possible.
THE TEAM

The management of the Octopus Protected EIS Fund is overseen by an investment committee which includes the Directors of Octopus.

PAUL LATHAM
Chief Operating Officer

Paul is responsible for managing the Structured Tax Team at Octopus. This includes the selection and management of lower risk, HMRC approved, investment opportunities for the Octopus Protected EIS Fund and its investors. Paul also oversees the finance team that provides accounting services for the Fund.

Previously Paul built much of the infrastructure for Capital One Bank (Europe) plc as it grew from start-up to over 2,000 people. He has a wealth of experience, having worked in management and consultancy across several sectors.

Paul is a Chartered Engineer and qualified accountant.
Simon is one of the founders of Octopus, with overall responsibility for strategy at the company. Simon sits on the investment committee of the Octopus Protected EIS Fund and helped develop and launch this fund. Prior to setting up Octopus, Simon was head of one of the sector research groups on the global equity team at Mercury Asset Management, one of Europe’s largest fund management companies.

Simon is a Chartered Financial Analyst.

Chris is one of the founders of Octopus. Chris sits on the investment committee of several Octopus funds, including the Octopus Secure ITS Fund and is also a Director of two VCTs that are managed by Octopus. In addition, Chris has responsibility for the oversight of compliance, regulatory and legal matters.

Prior to joining Octopus, Chris was head of one of the global sector research groups on the global equity team at Mercury Asset Management.
THE RISKS

As with many investments, there are risks associated with investing in this product. We’ve tried to explain these risks as clearly as possible.

This investment product may not be suitable for all investors. Potential investors are recommended to seek independent advice before investing. Please note that Octopus is not able to provide you with advice about whether you should invest in this product. Past performance is no guide to future performance and there is no guarantee that the Fund’s objective will be achieved. We can make no guarantee of investment performance or the level of capital gains or income that will be generated by the Fund. The value of investments and the income derived from them may go down as well as up and you may not get back the full amount invested.

INVESTMENTS
Investments made by the Octopus Protected EIS, because they are in unquoted companies, are likely to be higher risk than securities listed on the London Stock Exchange Official List. Investments in shares in unquoted companies are not readily marketable and the timing of any realisation cannot be predicted. You should not invest in this product unless you have carefully thought about whether you can afford it and whether it is right for you, having had the opportunity to take independent advice. You should be prepared to leave the investment intact for at least three years.

CURRENT LEGISLATION AND EIS FUND APPROVAL
Rates of tax, tax benefits and allowances described in this brochure are based on current legislation and HM Revenue & Customs practice and depend on personal circumstances. These may change from time to time and are not guaranteed. Please note that the increase in the maximum amount to £500,000 on which an investor can obtain income tax relief is subject to confirmation by Treasury Order. The Fund has been designed with UK-resident taxpayers in mind. If you are not resident or ordinarily resident in the UK for tax purposes, it may not be appropriate or advantageous for you to invest in the Octopus Protected EIS.

We cannot guarantee that HM Revenue & Customs will not retract approval it has given to the Fund as an EIS-approved Fund, any retraction of which may result in reliefs being withdrawn and rebated tax having to be repaid. Your obtaining income tax relief is subject to you making the proper filings with HM Revenue & Customs within the requisite time periods and you may lose such relief if not so filed.

THE CHARGES

If you have any questions about the charges, or it would help to speak to one of the fund managers, please call us on 0800 316 2298.

INITIAL CHARGE
There is an initial charge of 5%, of which 2.5% is payable to your financial adviser. Octopus will defer its element of the initial charge until the end of year three (this allows you to receive tax relief on a higher investment amount).

FEE GUARANTEE
The annual management charge is 2% (plus VAT) per annum. However, Octopus will allow all of its management fees to roll up interest free and will only take them at the end of three years, providing investors still receive back the amount invested into qualifying companies.

Octopus will also pay an annual trail commission of 0.5% to your financial adviser (this will be paid by Octopus and will not come out of your investment in the Fund).

DEALING CHARGE
There is a 1% dealing charge on all transactions in the Fund. In addition, Octopus retains the right to charge upfront arrangement and syndication fees to the private companies in which the Fund invests. The costs of all deals that do not proceed to completion will be borne by Octopus and not by the Octopus Protected EIS.
QUESTIONS AND ANSWERS

If you have any questions, or if you would like to speak to one of the fund managers, please call us on 0800 316 2298.

HOW DO I CHECK THE PROGRESS OF THE FUND?
A formal valuation statement will be sent to you on a bi-annual basis, but you can call us at any time on 0800 316 2298.

CAN I WITHDRAW MONEY EARLY FROM THE OCTOPUS PROTECTED EIS FUND?
You are not able to make a partial withdrawal of your investment. You can request a total withdrawal, but if this is within the initial three years you will have to repay to HM Revenue & Customs any income tax relief received. Given that the investments made by the Fund will be into unquoted companies which are not readily realisable, an early exit is unlikely to be possible.

WHAT IS THE MINIMUM AND MAXIMUM I CAN INVEST?
The minimum investment into the Fund is £50,000. There is no maximum, although investments of more than £1,000,000 per person per tax year will have the income tax relief capped at £500,000 for each tax year in which the relief is claimed. Neither inheritance tax relief nor capital gains tax deferral are capped.

WHO OWNS THE INVESTMENT IN THE EIS QUALIFYING COMPANIES?
You are the beneficial owner of shares in each company in which the Fund invests. Your investment in the shares of these companies shall be in proportion to your investment in the Fund subject only to any rounding where there are insufficient funds to buy a whole share. However, to allow efficient administration, the shares will be registered in the name of the Custodian or its nominee company who will hold them on your behalf as your nominee, subject always to HM Revenue & Customs rules for ownership.

CAN I OWN MY INVESTMENT JOINTLY WITH MY SPOUSE?
Investments in the Fund cannot be jointly owned, but each spouse can make a separate investment, and each can receive income tax relief on the first £1,000,000.

HOW DO I APPLY AND WHO DO I MAKE MY CHEQUE PAYABLE TO?
Please complete the Octopus Protected EIS Application Form and your cheque should be made payable to ‘Octopus Protected EIS’.

This cheque, along with your Application Form, should be sent to:
Octopus Investments Ltd
8 Angel Court, London, EC2R 7HP

WHAT SHOULD I EXPECT AFTER I INVEST?
We will acknowledge receipt of your application by return post. Once your cheque has cleared, we will place the money in the Fund ready to make the first investments once the Fund has closed. While the funds are awaiting investment, they will earn interest on behalf of the Fund.

HOW DO I CLAIM MY TAX RELIEF?
As soon as we have invested more than 90% of the Fund in at least four EIS qualifying companies and the companies have been trading for a period of four months, we will apply to HMRC for permission to issue you with an EIS5 certificate. This certificate enables you to claim your income tax relief and capital gains tax deferral from HM Revenue & Customs. A further explanation is provided on page 9.
IMPORTANT INFORMATION

This document constitutes a financial promotion pursuant to Section 21 of the Financial Services and Markets Act 2000 and is issued by Octopus Investments Limited.

Your attention is drawn to the risk factors set out on page 12. Nothing in this document should be regarded as constituting legal, taxation, investment, or other advice and prospective investors are advised to consult their own professional advisers before contemplating any investment.

Any decision to invest in this product should be made on the basis of the information contained in this brochure, and the terms and conditions attached to the application form.

Rates of tax, tax benefits and allowances are based on current legislation and HM Revenue and Customs practice. These may change from time to time and are not guaranteed.

We will make investments which we reasonably believe to be qualifying investments at the time of acquisition. We can make no guarantee that companies in which we invest will continue to qualify. In such cases, the relief available on that investment will be lost.

Past performance is not a guide to future performance and may not be repeated. The value of shares can go down as well as up and you may not get back the full amount invested. You should consider an investment in this product as a long-term investment.

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The information in this document was captured on 27 May 2009 and therefore may not be current.

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