

Artemis AiM VCT 2 plc

Annual Report and Accounts

for the year ended 30 September 2006



ARTEMIS
The PROFIT Hunter

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Corporate Policy and Financial Highlights

Investment Objective

The Company's objective is to achieve long-term capital and income growth and to generate tax free distributions through an investment policy focusing on the Alternative Investment Market ("AIM") and, to a lesser extent, companies traded on PLUS (formerly OFEX) and unquoted companies.

Investment Policy

The Company's investment policy is to invest in a diversified portfolio of growth orientated companies across a broad range of industries, with a particular emphasis on companies whose shares will be traded on AIM. It is anticipated that ultimately the portfolio will comprise 50 investments of which approximately 80 per cent will be in qualifying holdings, through a mix of AIM, PLUS and unquoted companies. It is a venture capital trust ("VCT") requirement that a least 70 per cent of the funds raised are invested in qualifying holdings.

Capital Structure

The capital structure of the Company is 39,857,004 ordinary shares of 10p each.

VCT Status

For the year under review the Directors have managed the Company's affairs in such a manner as to comply with those requirements of Section 842AA of the Income and Corporation Taxes Act 1988, which apply to the Company's accounting period and the Directors intend to continue to manage the business of the Company so as to comply with the requirements of this section. Set out below is a summary of these conditions:

VCT Condition	Percentage required
Minimum income from shares and securities	70 per cent of the Company's income
Maximum investment in one company or group	15 per cent by value of the Company's investments
Maximum retention of income from shares and securities	15 per cent of such income
Minimum investment in qualifying holdings of shares or securities ("70 per cent test")*	70 per cent by value of the Company's investments
Minimum investment in holdings of eligible shares ("30 per cent test")*	30 per cent by value of the Company's qualifying holdings

* To be met by 30 September 2007.

	30 September 2006	30 September 2005	% Change
Net assets	£35.6m	£39.1m*	(8.9)
Net asset value per ordinary share	89.4p	97.7p*	(8.5)+
Dividends	0.8p‡	1.0p	–
Share price	81.5p	95.0p	(14.2)
Discount	8.8%	1.8%	–
Qualifying holdings	54.8%	26.2%	–
Total expense ratio	2.6%	2.2%†	–
Returns/(losses)			
Revenue return per ordinary share	0.79p	2.02p	
Capital (loss)/return per ordinary share	(8.17p)	3.61p	
Total (loss)/return per ordinary share	(7.38p)	5.63p	

* Restated to reflect the change in accounting treatment of dividends. See accounting policies on page 34 for further details.

+ Capital return.

‡ Proposed dividend.

† Based on 2005 annualised numbers.

Chairman's Statement

Introduction

I present the second annual report of Artemis AiM VCT 2 plc for the year ended 30 September 2006, which has continued the investment phase of your Company's development.

Investment

The Company's investment policy is to invest in a diversified portfolio of growth companies across a broad range of industries, focusing particularly on companies whose shares will be traded on AIM.

In pursuit of the objective of achieving long term capital and income growth, your Manager has continued to make good progress in building the portfolio, with 47 investments having been made up to 30 September 2006. Of these investments, 39 are VCT qualifying investments with an aggregate cost of £20.5 million and 8 are non-qualifying investments with an aggregate cost of £3.6 million. At the year end, the VCT qualifying investments represented approximately 55 per cent of the funds originally raised and, of these, 30 are traded on AIM with the others being unquoted companies or traded on PLUS. The remainder of the Company's assets of £13.5 million were held in fixed interest and cash at the year end.

To achieve VCT qualifying status, 70 per cent of the Company's investments from funds raised in any one accounting period must be invested in qualifying holdings by the end of the third accounting period following the fund raising. On this basis approximately £26 million has to be invested by 30 September 2007. The investment progress to date gives your Board confidence that this requirement will be met within the required timescale.

Portfolio

It is disappointing to report that the portfolio has decreased in value by £2.8 million over the year to 30 September 2006. The net asset value of the Company fell to 89.4 pence per share, a decline of 7.5* per cent. The share price at the year end was 81.5 pence, representing a discount of 8.8 per cent. Since launch, the net asset value has fallen by 4.7 per cent on a total return basis. Over the year the FTSE AIM All Share Index has fallen by 6.4* per cent and since the Company's launch it has fallen by 8.7* per cent. This marginal relative outperformance since launch, while relevant to report, does not give your Board any satisfaction in that the ultimate goal is absolute returns for shareholders.

The performance of the AIM market over the year serves to illustrate the greater degree of risk associated with investment in this area of the market, against investment in larger more established companies. This is highlighted by the performance of the larger capitalisation indices over the year to 30 September 2006 – the FTSE 100 Index is up 12.5* per cent and the FTSE All Share Index is up 14.7* per cent.

As shareholders would expect, investee companies within the portfolio have experienced mixed fortunes. Those hitting or exceeding their targets have been well rewarded in terms of share price appreciation, whereas those disappointing have been hit quite hard. Examples of the former include Accsys Technologies (still our largest holding) and Abcam. Those in the latter category include Bango and Vimio.

As indicated at the interim stage, the investment in Charterhouse Foods was written down to nil and in the second half of the year Elevation Events suffered a similar fate. A further comment on these investments is contained in the following Investment Manager's Review. These outcomes serve to illustrate the riskier nature of investing in small, growth oriented companies. However, your Board is of the belief that through the maintenance of a diversified portfolio of businesses, with good prospects for growth, the Company will yield positive returns for shareholders over the medium to long term. Further details on the portfolio and the companies within it are contained in the Investment Manager's Review and Investment Portfolio sections of this report.

* Source: Artemis/Lipper – total returns.

Chairman's Statement continued

Results and Dividend

For the year ended 30 September 2006, the Company's net revenue after tax was £316,000, which is equivalent to 0.79 pence per ordinary share. This has been achieved principally as a result of the Company generating a significant amount of income from its fixed interest positions and cash deposits which continued to be held throughout the year pending investment. Your Board is recommending a final dividend of 0.8 pence per ordinary share. Shareholders will be asked to approve this dividend at the Annual General Meeting and, if approved, it will be paid on 24 January 2007 to those shareholders on the register on 22 December 2006.

Although this is the second dividend the Company has paid, shareholders should note that the current level of net revenue is unlikely to be sustained in future years, as income from fixed interest and cash will reduce as the portfolio is more fully established. As the portfolio matures, your Board expects that future distributions will be made from realised capital gains and your Directors plan to adopt a policy of distributing substantially all the available gains generated.

Manager and Advisers

Your Board has thoroughly examined the performance of all the Company's service providers and remains satisfied with the performance of the Manager, advisers and suppliers.

Annual General Meeting

The Annual General Meeting ("AGM") of the Company will be held on Thursday, 11 January 2007 at 12.30 pm at the offices of Artemis Investment Management, Cassini House, 57 St. James's Street, London, SW1A 1LD. This being the Company's second AGM, one third of your Directors present themselves for re-election and this, together with the other business to be conducted, is set out in the Notice of the Meeting on pages 46 and 47 of this report. Your Board would welcome your attendance at the AGM as it provides an opportunity for the Board to meet shareholders and for shareholders to ask questions of the Directors and Manager. I would encourage those shareholders unable to attend the AGM to make use of their proxy votes.

Share Issues and Buybacks

During the year, 122,002 ordinary shares were issued to those shareholders who had elected to have their dividends re-invested. Shareholders may recall that the dividend re-investment scheme was withdrawn earlier this year following the changes to the conditions which must be met by VCTs contained in this year's Budget.

In the absence of any satisfactory secondary market for VCT shares, the Company obtained shareholders' authority to buy back its own shares. During the year your Board agreed guidelines for the use of this authority and 265,000 ordinary shares were purchased for cancellation at an aggregate cost of £214,000, at a discount to net asset value of approximately 10 per cent. This resulted in an accretion to net asset value to remaining shareholders of approximately 0.06 pence per ordinary share.

Outlook

The outlook for stock markets remains unclear. Following a period of sharp risk aversion in the middle of this year, many markets have recovered strongly, to such an extent that in some instances they have tested (or are poised to test) all-time highs. Earlier worries over inflation and its impact on interest rates appears to be of less significance to markets now, notwithstanding the continued strong growth in the housing market, certainly in the south east of the UK. Forecasts for economic growth in the UK appear to indicate that it may be more resilient than expected, although signals in the US are a little more mixed.

With this uncertain outlook, it is important to retain a well balanced and diversified portfolio, both across sectors and geographically. Your Company will strive to achieve this, within the constraints of VCT investing, which do, of course, impose certain fairly major restrictions.

Chairman's Statement continued

Since the year end a further 3 qualifying investments have been made with an aggregate cost of £1.1 million. The net asset value currently stands at 87.6 pence.

I look forward to reporting to you again with the Interim Report to 31 March 2007, which will be issued to shareholders in June 2007. Those shareholders who wish to keep up to date with developments between formal reports may wish to visit the Manager's website at www.artemisonline.co.uk where there is section dedicated to your Company.

I hope to have the opportunity to meet as many shareholders as possible at the Annual General Meeting.

Peter Arthur

Chairman

8 December 2006

Directors

Peter Arthur (Chairman)†*

Peter Arthur, aged 50, was managing director of the institutional and investment trust businesses of ISIS Asset Management plc from December 1999 until October 2004. Prior to this he was chief legal counsel, Europe for Franklin Templeton Global Investors Limited. He had previously served fourteen years with Edinburgh Fund Managers plc, latterly as joint managing director. He is a solicitor and a chartered secretary and is chairman of Aberdeen Asian Income Fund Limited and a director of a number of private companies.

Appointed as a Director on 30 September 2004.

Robin Field†*

Robin Field, aged 55, began his commercial career with Jardine Matheson & Co. in the Far East where he fulfilled a number of managerial roles including that of general manager of the largest independent shipping agency in Taiwan. He then gained a MBA with distinction at INSEAD before serving as a strategy consultant with the LEK Partnership. He was chief executive of Filofax Group plc when the company floated on the London Stock Exchange in 1996. He is chairman of Artemis AiM VCT plc. He was also appointed to the board of mForm Limited†, on 17 November 2006, as a non-executive director.

Appointed as a Director on 30 September 2004.

† Artemis AiM VCT 2 plc has an investment in mForm.

Edward Murray (Chairman of the Audit Committee)†*

Edward Murray, aged 55, is a chartered accountant and has over twenty years' experience as a corporate finance practitioner. He joined British Linen Bank in 1982 and was appointed a director in 1990. In 1999, following a management buy out of the business from Bank of Scotland, he became a founding director and shareholder of British Linen Advisers. He is finance consultant to Turcan Connell, private client solicitors and asset managers, a non-executive director of Securities Trust of Scotland plc and a non-executive director of Renova Energy plc.

Appointed as a Director on 30 September 2004.

Fiona Wollocombe†*

Fiona Wollocombe, aged 43, was responsible for giving market related advice on corporate finance, specifically for UK small cap companies, at NatWest Markets from 1993 to 1998. She was head of the UK mid and small cap team for equity markets at BT Alex Brown from 1998 to 2000. From May 2000 until 2003, she was managing director responsible for the European mid and small cap equity teams at Deutsche Bank, which involved overseeing the marketing of smaller companies, including unquoted investments. She was also an active member of the corporate finance team. Fiona is chairman of Murray VCT 4 plc.

Appointed as a Director on 30 September 2004.

† Independent Director.

* Member of the Audit, Nomination, Remuneration and Management Engagement Committees.

Investment Manager's Review

Performance

In the twelve months to 30 September 2006 the net asset value of Artemis AiM VCT 2 plc decreased by 7.5* per cent compared to a fall of 6.4* per cent in the FTSE AIM All Share Index. Since launch, the net asset value of Artemis AiM VCT 2 plc has decreased by 4.7* per cent compared to a fall of 8.7* per cent in the FTSE AIM All Share Index.

The overriding market climate for micro cap stocks in the last twelve months has been extremely difficult and characterised by underperformance relative to larger capitalised companies. This is starkly illustrated by the FTSE All Share, which over the period since the launch of the Company is up by 30 per cent. This is partly attributable to the composition of the AIM index which, by value, is overweight in underperforming mineral resource and internet gambling stocks, and partly by the current lack of general investor appetite for sub £20 million market cap stocks. Economic uncertainty has led to an investor move toward larger, more established businesses with more predictable cash flows, and a move away from smaller growth stocks. Such periods are not uncommon, but such is the lack of liquidity in these stocks, that only a modest positive shift in sentiment can lead to significant price appreciation.

Review of the Period

In the last twelve months a total of £10.1 million has been invested in 28 qualifying investments and as at 30 September 2006, 54.8 per cent was invested in qualifying investments against a minimum target of 70 per cent by 30 September 2007. Although a measured approach to investing the funds raised has been adopted, the Company is comfortably in line to exceed the target well within the statutory deadline. Deal flow has been strong over the period, although quality has been variable and too many companies regard AIM as a quasi venture capital market, seeking flotation too early in the company's development.

Within the portfolio itself, the best performer in the year was also the largest holding namely, Accsys Technologies. This company has developed an environmentally friendly process for the acetylation of soft woods, thereby improving durability to a standard equivalent to the best of the hardwoods but at a commercially attractive cost. Risk remains in scaling up production from the current pilot plant phase, but a flow of good commercial newsflow over the year has given the market confidence in the prospective level of demand.

Accuma Group was another good performer in the year. This company offers a range of debt solutions to the consumer, but the core business is in Individual Voluntary Arrangements ("IVA"), a legal scheme that avoids bankruptcy for the borrower, but improves the recovery rate for the lender. Growth in the IVA market has been spectacular over the last couple of years, and provided legislation remains unchanged and lenders do not seek to squeeze fees, then prospects continue to look attractive.

Another strong relative performer was Abcam a marketer of research grade protein antibodies via an online catalogue. The catalogue now has over 23,000 products, all supported by extensive technical documentation, and strong profitable growth since flotation has helped move the shares positively.

On the negative side, two stocks particularly disappointed. The investment in Charterhouse Food Group financed the consolidation of three meat wholesalers in the London area. Taken together they would have occupied a dominant position in the supply of meat to restaurants and hotels in the Capital, but the operational integration of the businesses was poorly executed by management, and lack of effective controls led to a critical liquidity crisis.

Elevation Events brought together different businesses operating within the hospitality sector. Losses on events organised in the United States and clients renegeing on bookings caused cash shortages. Efforts were made to reschedule debt on the balance sheet but agreement could ultimately not be reached with the incumbent bank. The Company has now been placed in administration.

* Source: Artemis/Lipper – total returns

Investment Manager's Review continued

Outlook

While the current market for micro cap stocks is difficult, this does mean that new issues have to be priced more attractively to encourage investors. With some £13 million still available to invest as a result of the measured investment approach to date, this pressure on pricing should benefit future returns as the cash is invested.

It has been a challenging year for the AIM market and micro cap stocks in particular. While this situation is capable of persisting for some while longer, the market appetite for small quality growth stories will return at some point, benefiting the longer term investment horizon of the VCT investor.

Lindsay Whitelaw

Investment Manager

8 December 2006

Investment Portfolio

As at 30 September 2006

Accsys Technologies (AIM listed)†				www.accsysplc.com			
Accsys Technologies is a UK incorporated environmental science and technology company which is developing a range of transformational technologies offering substantial improvements in the cost and environmental impacts of production for a range of everyday materials.				Financial Summary			
				Year ended			
				31 March 2006		£'000	
				Loss before tax		(4,998)	
				Retained loss		(4,998)	
				Net assets		50,925	
Holding	Class held	% of Class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
1,650,000	Ordinary Shares	1.2	1.1	514	1,578	Bid price	4.4
Imprint (AIM listed)*				www.imprintplc.com			
Imprint is a multi-functional, multi-tiered, international recruitment business providing a diverse range of services to blue-chip clients. The Imprint Group comprises six brands: Accreate, ECHM, Imprint Search & Selection, Ingram Consultancy, Morgan McKinley and WoodHamill.				Financial Summary			
				Year ended			
				31 December 2005		£'000	
				Profit before tax		4,533	
				Retained profit		2,743	
				Net assets		42,640	
Holding	Class held	% of Class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
364,000	Ordinary Shares	1.0	1.0	801	1,023	Bid price	2.9
Eclipse Energy (Unquoted)				www.seapower-generation.co.uk			
Eclipse Energy is a British energy company which is planning to design, build and operate the World's first co-developed offshore gas and wind power generation facility. This unique offshore scheme will generate power from both 'fallow' gas reserves and offshore wind. This scheme would represent a global 'first' and could generate enough electricity to power over 155,000 homes, 71,000 of which would be powered by renewable energy.				Financial Summary			
				Year ended			
				30 September 2004		£'000	
				Profit before tax		6	
				Retained profit		6	
				Net assets		408	
Holding	Class held	% of Class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
130,000	Ordinary Shares	7.4	7.4	975	975	Directors' Valuation	2.7

† Non qualifying Investments for VCT purposes.

* Other funds managed by Artemis Investment Management Limited hold this investment.

Investment Portfolio continued

As at 30 September 2006

SPI Lasers (AIM listed)				www.spilasers.com					
<p>SPI Lasers develops and manufactures high power fibre lasers for a wide variety of marking and micromachining applications. Users of SPI's lasers cover the full spectrum of industrial processes and include industrial manufacturing companies, laser based machine builders, local customising integrators, laser job shops and academic institutes.</p>				Financial Summary					
				Year ended					
				31 December 2005				£'000	
				Loss before tax				(8,971)	
				Retained loss				(8,436)	
Net assets				11,042					
Holding	Class held	% of Class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets		
500,000	Ordinary Shares	2.8	2.8	720	875	Bid price	2.5		
Bango (AIM listed)				www.bango.com					
<p>Bango operates in the mobile internet market where internet connectivity converges with mobile phones. With Bango's technology, content providers can market, sell and deliver their content and services directly to mobile phone users across all networks using the mobile internet. This 'direct-to-consumer' approach operates alongside the mobile operator's mobile portal.</p>				Financial Summary					
				Year ended					
				30 June 2006				£'000	
				Loss before tax				(1,333)	
				Retained loss				(1,333)	
Net assets				5,287					
Holding	Class held	% of Class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets		
700,000	Ordinary Shares	2.6	2.6	938	830	Bid price	2.3		
Vienco Group (Unquoted)*				www.viencogroup.com					
<p>Vienco is an independent oil company involved in all aspects of oil extraction, production and transportation.</p>				Financial Summary					
				Year ended					
				31 December 2005				£'000	
				Loss before tax				(1,605)	
				Retained profit				(1,605)	
Net assets				4,459					
Holding	Class held	% of Class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets		
1,480,000	Ordinary Shares	5.1	5.1	649	739	Directors'	2.1		
70,000	Warrants	5.0	–	–	–	valuation			
Accuma Group (AIM listed)				www.accumagroup.com					
<p>Accuma Group is a specialist financial solutions provider and one of the largest of its kind in the UK. The company helps individuals regain financial control by offering professional advice on the most appropriate course of action based on their circumstances, at no cost to the individual.</p>				Financial Summary					
				For the year ended					
				31 July 2006				£'000	
				Profit before tax				1,780	
				Retained profit				1,298	
Net assets				14,219					
Holding	Class held	% of Class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets		
250,000	Ordinary Shares	0.8	0.8	500	720	Bid price	2.0		

† Non qualifying Investments for VCT purposes.

* Other funds managed by Artemis Investment Management Limited hold this investment.

Investment Portfolio continued

As at 30 September 2006

Mission Marketing Group (AIM listed)*

The Mission Marketing Group is a leading UK marketing communications group, which has operations in five specialist areas: Advertising, Digital/On-line marketing, PR, Events and Learning from a network of six offices in the UK.

This company has not yet published financial statements.

Holding	Class held	% of Class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
625,000	Ordinary Shares	3.1	3.1	750	719	Bid Price	2.0

mForm (Unquoted)*

www.mform.co.uk

mForm provides an online mortgage service which seeks to identify the best mortgage available across the market based on the input criteria.

This company has not yet published financial statements.

Holding	Class held	% of Class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
94	Ordinary Shares	6.0	6.0	167	167	Directors'	1.9
501,778	2013 Loan Notes	16.7	–	502	502	Valuation	

Robin Field was appointed a non-executive director of the company on 17 November 2006.

Healthcare Locums (AIM listed)

www.healthcarelocums.com

Healthcare Locums is one of the largest and fastest growing specialist healthcare recruitment businesses in the UK.

Healthcare Locums operates through several major recruitment brands in the UK and through a network of offices and agents across the globe to supply their clients with highly-skilled, shortage staff.

Financial Summary

Year ended	£'000
31 December 2005	
Loss before tax	(1,356)
Retained loss	(1,497)
Net assets	15,395

Holding	Class held	% of Class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
1,090,910	Ordinary Shares	2.1	2.1	600	660	Bid price	1.9

	Cost £'000	Valuation £'000	% of net assets
Top ten investments	7,116	8,788	24.7

† Non qualifying Investment for VCT purposes

* Other funds managed by Artemis Investment Management Limited hold this investment.

Investment Portfolio continued

As at 30 September 2006

Company	Description of business	Cost Valuation		% of net assets
		£'000	£'000	
Sovereign Oilfield (AIM Listed)	Drilling and fabrication services for the oil and gas sectors	434	651	1.8
Inspicio (AIM Listed)	Acquisition and management of organisations in the testing, inspection and performance conformity markets	500	650	1.8
Independent Resources*† (AIM Listed)	Underground natural gas storage	690	610	1.7
Datong Electronics ^ (AIM Listed)	Advanced surveillance products	750	574	1.6
Abcam (AIM Listed)	Producer of medical antibody products	350	549	1.5
Neutrahealth* (AIM Listed)	NeutraHealth operates several companies in the nutraceutical market. Nutraceuticals are food based products that may provide health benefits and promote well being	451	516	1.4
Iqur* (Unquoted)	Pharmaceutical company specialising in the detection and treatment of liver diseases	500	500	1.4
Earthport (AIM Listed)	Provider of secure, low cost, international money movement platform	850	500	1.4
Infrared Integrated Systems (Unquoted)	Develops and manufactures thermal detection solutions	500	500	1.4
TMO Renewables (Unquoted)	Biomass ethanol production	500	500	1.4
Top twenty investments		12,641	14,338	40.1
Proactis (AIM Listed)	Cost control software	400	493	1.4
Software Radio Technology (AIM Listed)	Advanced voice and wireless technology solutions for security markets	425	493	1.4
Parkmead Group*† (AIM Listed)	Merchant bank	462	490	1.4
Ilika Technologies* (Unquoted)	A science-led materials discovery company	475	475	1.3
Angle (AIM Listed)	Technology consultancy	400	420	1.2
Strategic Thought (AIM Listed)	Technology and services company	280	408	1.1
Pelikon (Unquoted)	Design of printed segmented electroluminescent touch displays, backlights and specialised driver electronics	400	400	1.1
Proximagen Neuroscience (AIM Listed)	Drug development for neurodegenerative disorders	500	378	1.1
Vianet Group (AIM Listed)	Remote monitoring equipment	500	375	1.0
Gourmet Holdings (AIM Listed)	Pub & restaurant operator	500	375	1.0
Top thirty investments		16,983	18,645	52.1

† Non qualifying investment for VCT purposes.

* Other funds managed by Artemis Investment Management Limited hold this investment.

^ Part qualifying investment.

Investment Portfolio continued

As at 30 September 2006

Company	Description of business	Cost £'000	Valuation £'000	% of net assets
Mama Group (AIM Listed)	Music and marketing businesses	495	359	1.0
Ffastfill†* (AIM Listed)	Application services for trading and risk management	600	343	1.0
@UK (AIM Listed)	Online trading technology	400	280	0.8
Vimio†* (AIM Listed)	Provider of media distribution and content solutions for mobile phone markets	500	275	0.8
Vivdas (AIM Listed)	Broadcast-quality video streamed over internet & networks	600	271	0.8
Ovum† (AIM Listed)	Consultancy and advisory services	271	249	0.7
Cyan Holdings (AIM Listed)	UK based fabless semiconductor company	390	248	0.7
Quercus Publishing (PLUS)	Book publishing business	248	248	0.7
Croma Group (AIM Listed)	Croma high performance surveillance equipment	350	245	0.7
Starnevesse (Unquoted)	Holding company for a group of consumer brand based businesses	240	240	0.7
Top forty investments		21,077	21,403	60.0
Judges Capital (AIM Listed)	Investment company	250	238	0.7
Visual Defence† (AIM Listed)	Security-oriented communications systems	425	170	0.5
Kiotech (AIM Listed)	Pheromone-based technologies in aquaculture and commercial fishing	250	152	0.4
Western & Oriental (AIM Listed)	Independent holiday companies operator	250	136	0.4
Connectus Direct (Unquoted)	Online marketing technologies and services	272	75	0.2
Charterhouse Food Group# (Unquoted)	Meat wholesaler	750	–	–
Elevation Events# (AIM Listed)	Event management	800	–	–
Top forty-seven investments		24,074	22,174	62.2
Fixed interest investment				
European Investment Bank 5% 2006		13,005	12,993	36.5
Total investments		37,079	35,167	98.7
Net current assets		466	466	1.3
Net assets		37,545	35,633	100.0

† Non qualifying investments for VCT purposes.

* Other funds managed by Artemis Investment Management Limited hold this investment.

In administration.

Sector Analysis of Investments

As at 30 September 2006

	% of Portfolio 30 September 2006*	% of Portfolio 30 September 2005*
Software & Computer Services	16.5	26.0
Support Services	15.7	16.9
Electronic & Electrical Equipment	10.6	3.2
Pharmaceuticals & Biotechnology	9.4	14.8
General Industrials	9.3	4.2
General Financial	7.3	2.1
Oil Equipment, Services & Distribution	6.3	8.1
Technology Hardware & Equipment	5.0	3.6
Electricity	4.4	7.9
Media	4.3	6.4
Travel & Leisure	3.9	–
Oil & Gas Producers	2.8	–
Food Processors	2.3	4.9
General Retailers	1.1	1.9
Aerospace & Defence	1.1	–
	100.0	100.0

Sectors are those used by FTSE AIM Index. Sectors at 30 September 2005 have been restated to reflect the change in classification for several investments during the year.

* Excludes listed fixed interest holdings.

Directors' Report

The Directors have pleasure in presenting their report and audited accounts for the year ended 30 September 2006.

Business Review

Operating environment

The Company operates as a venture capital trust ("VCT") and is an investment company within the meaning of section 266 of the Companies Act 1985. As a VCT, the Company is required to meet the requirements of Section 842AA of the Income and Corporation Taxes Act 1988 ("S842AA") (summarised on page 2). HM Revenue & Customs has confirmed in writing that the Company has been granted provisional approval as a VCT effective from the launch of the Company. Full approval will only be obtained if 70 per cent of the Company's investments are represented by qualifying holdings by not later than 30 September 2007. The Company has been managed during the year under review in order to comply with all the other requirements relating to VCTs. VCT status is monitored through regular reports from the Manager and Administrator. The Directors have managed, and continue to manage, the business in order to comply with the legislation applicable to VCTs. In this regard the Company has retained Ernst & Young LLP to oversee compliance with the relevant tax regulations. The Company does not have any employees and delegates most of its operational functions to service providers, details of which are set out below.

Objective and Strategy

The objective of the Company is to achieve long term capital and income growth and to generate tax free distributions, through a diversified portfolio of growth orientated companies, with a particular emphasis on companies whose shares are traded on AIM. In seeking to achieve this objective, the Company's investment portfolio is managed by Artemis Investment Management Limited. The portfolio is managed in order to meet the investment requirements of S842AA, which, *inter alia*, require at least 70 per cent of the investments to be qualifying holdings, of which 30 per cent must be in eligible shares. Investments are selected on their individual merits, including their ability to meet the investment test criteria above. As a result of the portfolio having to meet certain investment tests, the universe of investable companies is reduced and therefore it is unlikely that the performance of the Company will track that of any particular benchmark indices.

Performance

The performance of the Company is reviewed regularly by the Board and a number of key performance indicators (KPIs) are used to measure the progress of the Company. The KPIs which have been established for this purpose are:

- Net asset value performance
- Dividends/distributions
- Share price performance
- Peer group performance

Details of a number of the KPIs can be found on the Financial Highlights summary on page 2.

In addition to the above KPIs, the Board monitors the activity in the Company's shares and the discount to net asset value at which they trade. As the secondary market for VCT shares is often limited, any significant sales may have an adverse effect on the Company's share price and therefore the discount. In order to try to mitigate this, the Company has obtained shareholders' authority to buy back its own shares and such buy backs will be made from time to time within guidelines established by the Board for this purpose. Details of shares bought back during the year are set out below.

Directors' Report continued

Current and Future Developments

Details of the Company's developments over the year to 30 September 2006, along with its prospects for the future are set out in the Chairman's Statement and Investment Manager's Review on pages 3 to 8.

The Board's main focus is to seek to deliver successful long term investment returns for shareholders and it regularly discusses investment process and factors that may have an influence on this process in the future, with the Investment Manager. The Board regularly considers the ongoing development and direction of the Company, in the context of developments in the VCT marketplace, the promotion of the Company, and the effectiveness of communication with shareholders and other external parties.

Principal Risks and Uncertainties

As a VCT, the principal risks faced by the Company relate to the nature of the individual investments and the investment activities generally. As the Company has a focus of AIM traded companies, as well as general market price risk, liquidity in such shares can often be an issue and it may not always be possible to realise investments at prices which the investment manager considers to be representative of their fair value. In addition, the nature of the investable universe of companies, younger growth orientated, carries a higher degree of risk than investment in companies that are larger and have mature businesses. Further details of these risks and how they are managed are set out in note 18 of the notes to the financial statements on pages 43 and 44.

The Company, and consequently its shareholders, can benefit from certain tax reliefs extended to VCTs. These are, however, conditional upon the Company satisfying the conditions of S842AA and failure to do so could result in these tax reliefs being withdrawn by HM Revenue & Customs.

Life of the Company

The Company's Articles of Association require the Directors to put forward a resolution for the continuation of the Company as a VCT at its Annual General Meeting ("AGM") in 2011 and thereafter at three-year intervals.

Results and Dividend

The results for the year ended 30 September 2006 can be found in the Income Statement on page 30.

The Directors are recommending the payment of a final dividend of 0.8 pence per ordinary share to shareholders on the register as at 22 December 2006, which, if approved at the AGM will be payable on 24 January 2007.

Net Asset Value

At the year end, the net asset value per ordinary share, including retained income, was 89.4 pence.

Issue and Buy Back of Shares

The Company issued 122,002 ordinary shares on 19 January 2006 to those shareholders who elected to reinvest the final dividend for the period ended 30 September 2005. A total of £122,000 was re-invested.

The Company purchased for cancellation a total of 265,000 ordinary shares, representing 0.66 per cent of the issued share capital at 11 January 2006. These shares cost £214,000 including stamp duty.

Full details of the Company's share capital are set out in note 12 of these financial statements on page 41.

Directors' Report continued

Share Premium Account

On 23 February 2006, the Company received notification from the Registrar of Companies confirming the cancellation of the Company's share premium account. An amount of £33.9 million was subsequently transferred to a distributable special reserve.

Directors

The Directors of the Company, who held office throughout the year under review are shown on page 6. In accordance with the Company's Articles of Association, Mr Arthur is to retire as a Director and being eligible, will be seeking re-election at the forthcoming Annual General Meeting. The Nomination Committee, having reviewed his individual performance as a Director, and his contribution to the operation of the Company, concluded that the Company benefited from Mr Arthur's services. Accordingly, the Committee recommended to the Board that the resolution be put to shareholders for his re-election as a Director. The Board concurred with the conclusions of the Nomination Committee and recommend that shareholders vote in favour of his re-election.

Directors' Interests

The Directors' interests in the issued share capital of the Company were as follows:

Director	30 September 2006	1 October 2005
Peter Arthur	51,500	51,500
Robin Field	41,200	41,200
Edward Murray	30,900	30,900
Fiona Wollocombe	20,600	20,600

No changes to the holdings at 30 September 2006 have been notified up to the date of this report.

Management and Administration Agreements

The Company's investments are managed by Artemis Investment Management Limited ("Artemis") under a management agreement (the "agreement") dated 7 October 2004. The principal terms of this agreement, including the management fee, which were agreed at launch, are set out in note 3 of these financial statements. The agreement may be terminated by either party on no less than 12 months' notice in writing, such notice not to expire on any date prior to the third anniversary of the date upon which the Company's shares were first admitted to the Official List. Should the agreement be terminated by the Company before this time, compensation shall be payable to the Manager. This is calculated at 1.75 per cent of the average market capitalisation at that date and adjusted *pro rata* for any notice period given. Artemis is also Company Secretary.

Artemis is regulated by the Financial Services Authority and as at 30 September 2006 had £11.2 billion of assets under management.

Administration services are provided to the Company by BNP Paribas Fund Services UK Limited subject to an agreement dated 7 October 2004. The fees for these services are set at £63,000 (exclusive of VAT) per annum. In addition, this fee may be increased annually by the percentage increase in the average earnings index. The agreement may be terminated by six months' notice in writing by either party.

Continuing Appointment of the Manager

Having assessed the performance of the Manager throughout the year under review, the Board is satisfied of the Manager's continued ability to produce satisfactory results. Accordingly, the Board believes that the continued appointment of the Manager on its current terms is in the interests of shareholders.

Directors' Report continued

Substantial Shareholdings

As at the date of this report, the Directors were not aware of any person who is interested in 3 per cent or more of the Company's issued ordinary share capital.

Creditor Payment Policy and Practice

The Company does not subscribe to a particular creditor payment policy, however, it agrees with each supplier the terms on which business will take place and it is the Company's policy to adhere to those terms. Investment purchases are settled in accordance with the stated terms. At the year end, there were no trade creditors (2005: £nil).

Going Concern

The Directors believe that the Company has the necessary resources to continue in operation for the foreseeable future and, accordingly, have prepared the financial statements on the going concern basis.

Change in Accounting Policy

A number of changes to UK accounting standards came into effect for the Company for the first time during the year. The main impact on the Company's financial statements is the non accrual, at the balance sheet date, of dividends which have not been approved by shareholders. Accordingly, the 2005 figures have been re-stated to reflect this change. Further information on this change is given in note 1 of the notes to the financial statements.

Annual General Meeting

The Company's second AGM will be held at 12.30 pm on Thursday, 11 January 2007 at the offices of Artemis Investment Management Limited, Cassini House, 57 St. James's Street, London SW1A 1LA. The business to be transacted at the meeting is detailed in the Notice of Meeting on pages 46 and 47.

Auditors

Ernst & Young LLP, has expressed its willingness to continue in office as independent auditors to the Company. The Audit Committee has considered their effectiveness throughout the year under review and has recommended to the Board that they be re-appointed as the Company's Auditors. Accordingly, a resolution to re-appoint Ernst & Young LLP and to authorise the Directors to determine their remuneration will be proposed at the forthcoming AGM.

Audited Information

The Directors who held office at the date of approval of this Directors' Report confirm that, in so far as they are each aware, there is no relevant audit information of which the Auditors are unaware; and each Director has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Auditors are aware of that information.

Authority to Allot Shares

The Directors are seeking authority to allot shares up to an aggregate nominal amount of £398,570, such authority to expire at the conclusion of the AGM in 2008. This resolution is being proposed as an ordinary resolution. In addition, authority is being sought to empower the Directors to allot shares without first offering them to existing shareholders. Resolution 7 will, if approved, authorise the Directors to allot new ordinary shares up to an aggregate nominal amount of £398,570, being 10 per cent of the Company's issued share capital as at the date of this report, for cash without first offering such shares to existing shareholders *pro rata* to their existing holdings. Resolution 7 will be proposed as a special resolution and this authority will

Directors' Report continued

continue in effect until 11 April 2008 or, if earlier, at the conclusion of the AGM to be held in 2008. The Directors will only issue new ordinary shares pursuant to these authorities if they believe it is advantageous to the Company's shareholders to do so and in no circumstances would result in a dilution of the net asset value per share.

Authority to Buy Back Shares

The Company was authorised by a special resolution at last year's AGM to make market purchases of its own ordinary shares. This authority remains valid until the conclusion of the forthcoming AGM.

The Directors consider that the Company should continue to have authority to make market purchases of its own shares. Accordingly, a special resolution will be proposed at the forthcoming AGM to authorise the Company to make market purchases of up to 14.99 per cent of the ordinary shares in issue at the date of the AGM, such authority to expire at the conclusion of the AGM to be held in 2008 or, if earlier, 11 July 2008.

The price paid for shares will not be less than the nominal value of 10 pence per share nor more than 5 per cent above the average of the middle market values of those shares for the five business days before the share are purchased. This power will be exercised if the Directors consider it to be in the best interest of shareholders generally. Purchases of ordinary shares will be made within guidelines established from time to time by the Directors. Shares purchased under this authority may be cancelled or held in treasury for future re-issue, as the Directors may determine from time to time.

By order of the Board

Artemis Investment Management Limited
Company Secretary

8 December 2006

Corporate Governance

Background

The UK Listing Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the Combined Code on Corporate Governance (the “Code”), as issued by the Financial Reporting Council in July 2003. This statement aims to provide sufficient explanation to enable the Company’s shareholders to evaluate how these principles were applied during the year and up to the date of this report.

Corporate Governance Principles

Throughout the year to 30 September 2006 the Company complied with the provisions of the Code subject to the exceptions explained in this statement and due to its special circumstances as a VCT. The Board considers adherence to the Combined Code to be of the utmost importance and strives to observe its principles. It should be noted that as a VCT, all Directors on the Board of the Company are non-executive and the Company’s day to day responsibilities are delegated to third parties.

Board Responsibilities

The Board is responsible for determining the strategic direction of the Company. It meets at least four times a year to review the performance of the Company’s investments, the financial position of the Company, its performance in line with the agreed investment objective, the key performance indicators and all other important issues to ensure that the Company’s affairs are operated within a framework of prudent and effective controls. Whilst certain responsibilities are delegated, a schedule of matters specifically reserved for its decision has been adopted by the Board.

Responsibilities are clearly defined and allocated between the Chairman, the Directors, the Investment Manager and all third parties. No one individual has unfettered powers of decision. The Chairman leads the Board and ensures that it remains effective and that each Director receives accurate, timely and clear information enabling them to perform effectively as a Board. In addition, the Chairman is responsible for ensuring effective communication with shareholders. The Chairman at the time of his appointment was, and remains, independent of the Investment Manager.

The Board has formalised arrangements under which Directors, in furtherance of their duties, may take independent professional advice at the Company’s expense. The Directors have access to the advice and services of the Company Secretary, through its appointed representatives, who are responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible for ensuring that there is good information flows between all parties. The appointment and removal of the Company Secretary is a matter for the whole Board. It is the Chairman’s responsibility to ensure that the Directors have sufficient knowledge to fulfil their role and Directors are encouraged to participate in training courses as appropriate.

Appointment of Directors and Performance Evaluation

Directors are appointed subject to the provisions of the Companies Act 1985 and the Company’s Articles of Association. All Directors are subject to election by shareholders at the first AGM following their appointment. Thereafter all Directors are subject to re-election in accordance with the Articles of Association and taking account of the ongoing requirements of the Code. No Director would serve more than three years in office without shareholder approval.

An induction programme for any new Directors appointed to the Board has been developed. The induction process is designed to cover the key aspects of the Company’s strategy, policies and its practices. Following induction, Directors are provided with a Directors’ Handbook, which is regularly updated by the Company Secretary.

Corporate Governance continued

The Board has formalised a process to evaluate its own performance, the Committees and that of its Chairman. This process is based on a self-assessment questionnaire and interview with the Chairman. The evaluation of the Chairman is undertaken by the other Directors led by Mrs Wollocombe. This process is considered to be constructive with regard to identifying areas where improvements could be made to enhance the functioning of the Board and its Committees. The Directors carry out an evaluation of their performance on an annual basis.

Directors and Directors' Independence

The Board comprises four Directors, all of whom are non-executive. There is no Chief Executive position within the Company. The names of the Directors, together with their biographical details are set out on page 6 of this report.

The Board considers that all of the Directors are independent of the Investment Manager and comply with the criteria for independence as set out in the Code. All four Directors are deemed to be independent in character and judgement. The Nomination Committee meets annually to consider matters of independence.

During the year under review, the Nomination Committee considered the requirement for a Senior Independent Director. The Committee concluded that given the size of the Board and breadth of knowledge and experience of each Director, there was no need to appoint a Senior Independent Director at this time. This matter will be reviewed annually.

The Directors do not have service contracts but the terms and conditions of their appointments are set out in their Letters of Appointment, which are available for inspection at the registered office and immediately prior to the AGM.

Board Committees

In order to enable the Directors to discharge their duties, four Board Committees, with written terms of reference, have been established. Committee membership is set out on page 6 of this report. Attendance at the meetings of any of the Committees is restricted to members and persons expressly invited to attend. Copies of the terms of reference for the Board Committees are available from the Company Secretary. The Chairman of the Board acts as Chairman for each of the Committees, with the exception of the Audit Committee, which is chaired by Edward Murray. The Company Secretary acts as the Secretary to each Committee.

Audit Committee

The Audit Committee provides a forum through which the Company's external Auditors report to the Board. The main responsibilities of the Audit Committee include monitoring the integrity of the Company's financial statements and the appropriateness of its accounting policies; reviewing the internal control systems and the risks to which the Company is exposed; and making recommendations to the Board regarding the appointment of the external auditor, the independence of the auditor and the objectivity and effectiveness of the audit process.

The Audit Committee monitors the non-audit services being provided to the Company by its external auditor and, in accordance with the recommendations of the Code, a policy with regard to the provision of these services has been formalised.

All members of the Audit Committee have relevant and recent financial and investment experience, for the purposes of the Code requirements, as a result of their employment in the financial services and other industries. Mr Murray, the Chairman of the Audit Committee, is a chartered accountant.

Corporate Governance continued

As the Company has no employees there is no dedicated resource to the Audit Committee. Representatives from BNP Paribas Fund Services UK Limited, which produces the financial information for the Company, are invited to attend the meetings of the Audit Committee to report on issues as required. In addition, representatives of the Investment Manager are invited to attend the Audit Committee meetings and are asked to present on specific issues.

The Company does not have an internal audit function as most of its day to day operations are delegated to third parties. Both the Investment Manager and Administrator have established internal control frameworks to provide reasonable assurance as to the effectiveness of the internal controls operated on behalf of their client. Both third parties report any breaches of law or regulation as and when they arise and on a quarterly basis. The Audit Committee considers annually whether there is any need for an internal audit function, and it has agreed that it is appropriate for the Company to rely on the internal controls that exist within its third party providers and therefore there is no requirement for an internal audit function.

A whistleblowing policy and procedure has not been formalised. The Board has agreed that it is appropriate for the Company to rely on the whistleblowing policies of the principal third party service providers, which they deem to be of industry standard.

Management Engagement Committee

The Management Engagement Committee reviews the performance of the third party service providers, including the Investment Manager, and reviews their terms of appointment. The Committee meets annually.

Nomination Committee

The Nomination Committee meets at least annually and is responsible for identifying and nominating to the Board new Directors, and for proposing that existing Directors be re-elected. On those occasions when the Committee is reviewing the performance of the Chairman, or considering his successor, the Nomination Committee is chaired by another Committee member.

Remuneration Committee

The Remuneration Committee meets annually. It is responsible for reviewing the remuneration of the Directors and for making recommendations to the Board as appropriate, taking into account relevant factors such as industry research, peer group comparisons, Directors' time constraints and the need to recruit and retain individuals of sufficient calibre to optimise the Board's effectiveness. Further information on Directors' fees can be found in the Directors' Remuneration Report on pages 25 and 26.

Board and Committee Meeting Dates and Attendance

The following table sets out the Directors' attendance at the Board and Committee meetings held in the year under review.

Director	Board Meetings		Audit Committee Meetings		Management Engagement Committee Meetings		Nomination Committee Meetings		Remuneration Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
	Peter Arthur	4	4	3	3	1	1	1	1	1
Robin Field	4	4	3	3	1	1	1	1	1	1
Edward Murray	4	4	3	3	1	1	1	1	1	1
Fiona Wollocombe	4	4	3	3	1	1	1	1	1	1

Corporate Governance continued

Board Succession Planning

In view of the Company's relatively recent formation, the Board has not as yet adopted a timetable for succession. The Nomination Committee has, however, devised a policy on the tenure of the Directors' appointments and has recommended that, to coincide with the Company's continuation vote in 2011, the Directors should serve for a fixed term up to the time of the AGM in 2011. The Directors carry out an annual evaluation of their performance and each of the Directors will be required to stand for re-election as required by the Company's Articles of Association. The Board has approved and adopted this recommendation.

Relations with Shareholders

The Board places a great deal of importance on communication with shareholders and Directors are available to respond to shareholder queries. The Board aims to keep shareholders fully informed of significant developments in the Company's business through the published annual and interim reports.

All shareholders are encouraged to attend and vote at the AGM, during which the Board and the Investment Manager will be available to discuss issues affecting the Company. Proxy votes and abstentions will be declared at each AGM. All Directors intend to attend the forthcoming AGM, details of which are set out in the Notice of Meeting on pages 46 and 47 as of this report.

Further information on the Company is available on the Investment Manager's website, www.artemisonline.co.uk, which contains a dedicated page for the Company. This page provides a short commentary from the Investment Manager as well as portfolio and financial information and is updated on a monthly basis. The Board would encourage shareholders to use the website to keep abreast of the Company's progress, however, if you would prefer to receive a hard copy of the information contained on the website please contact Artemis Investment Management's client services team on 0800 092 2051.

Voting Policy

The Directors have given the Investment Manager the discretion to exercise the Company's voting rights and the Investment Manager exercises them in respect of all resolutions proposed by investee companies.

Internal Controls

The Board recognises its responsibility for the implementation, review and maintenance of effective systems of internal control to manage the risks to which the Company is exposed. As the majority of the Company's systems are maintained on behalf of the Company by third party providers under contract, the Board fulfils its obligations by requiring these service providers to report and provide assurances as to their internal control systems, which are designed to manage rather than eliminate risks. In light of the Board's reliance on these systems and the reports thereon, the Board can only provide reasonable and not absolute assurance against material misstatement or loss. In addition, the Board ensures that these service providers are employed subject to clearly defined contracts. The Manager and Administrator have both established internal control frameworks to provide reasonable assurances as to the effectiveness of the internal control systems operated on behalf of their clients. The Board reviews reports on these processes on a quarterly basis, which identify any known internal control failures.

The key procedures, which have been established to provide effective internal controls, are as follows:

- The Board has carried out and documented a risk and control assessment, which was reviewed during the period and will be kept under ongoing, and at least an annual, review.
- The duties of the investment management, accounting and custody of assets are segregated. The procedures of the individual parties are designed to complement each other.

Corporate Governance continued

- Investment management and Company Secretarial services are provided by Artemis Investment Management Limited. The Board is responsible for setting the overall investment policy and monitoring the actions of the Investment Manager at regular Board Meetings. The Board reviews information produced by the Investment Manager in detail on a regular basis.
- Administration services are provided by BNP Paribas Fund Services UK Limited (“BNP Paribas”). BNP Paribas reports to the Board on a quarterly basis and ad hoc as appropriate. In addition the Board reviews BNP Paribas’ annual report on internal controls.
- Safekeeping of the Company’s assets is undertaken by HSBC Global Investor Services whose services are monitored by the Company’s third party service providers.
- The Directors of the Company clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts. The appointment of agents and advisers is conducted by the Board after consideration of the quality of parties involved; the Board monitors their ongoing performance and contractual arrangements to ensure that they remain effective.
- Mandates for authorisation of investment transactions and expense payments are set and monitored by the Board.

By the procedures set out above, and in accordance with the Turnbull “Guidance for Directors on the Combined Code” published by the Institute of Chartered Accountants in England and Wales, the Directors have kept under review the effectiveness of the Company’s internal controls throughout the year under review and up to the date of this report.

Compliance with the Provisions of the Combined Code

The Directors have reviewed the principles outlined in the Code and consider that, subject to the exception of the appointment of a Senior Independent Director (as required by Code Provision A.3.3), the Company has complied with the provisions of Section 1 of the Combined Code during the year ended 30 September 2006 and up to the date of this report.

Directors' Remuneration Report

The Directors are pleased to present their report on remuneration for the year ended 30 September 2006, in accordance with the Directors' Remuneration Report Regulations.

The Company's Auditors are required to report on certain information contained within this report. Where information set out below has been audited, this is clearly indicated. The Auditors' opinion is included in the Independent Auditors' Report, which can be found on pages 28 and 29.

Directors' Fees

The Board consists solely of independent non-executive Directors. A Remuneration Committee, which comprises the whole Board, has been established and considers at least annually the level of the Directors' fees and makes recommendations to the Board on its conclusions.

Policy on Directors' Remuneration

The Company's Articles of Association limit the fees payable to Directors to £100,000 per annum. The Company's policy is that fees payable to the Directors should reflect the time spent on the Company's affairs and the responsibilities borne by the Directors and should be sufficient to attract and retain candidates of a high calibre.

The Company's policy is for the Chairman of the Board to be paid a higher fee than the other Directors, to reflect his more onerous role, and for the Directors' fees to be reviewed from time to time.

At launch, the Company considered the fees to be paid to Directors on the basis of a review of the fees paid to directors of similarly sized investment companies and those with a similar investment objective; together with an assessment of the scale of the corporate governance responsibilities. Having due regard to this information, it was agreed that the Chairman should be paid a fee of £17,500 per annum with each of the other Directors being entitled to fees of £12,500 per person per annum.

Mr Murray, in recognition of the additional work in carrying out his role as Chairman of the Audit Committee, receives an additional £1,000 per annum over his basic fee.

It is the Company's policy that no Director shall be entitled to any benefits in kind, share options, long-term incentives, pensions or other retirement benefits, or compensation for loss of office. It is also considered appropriate that no aspect of Directors' remuneration should be performance-related in light of the Directors' non-executive status. Directors are entitled to claim expenses in respect of duties undertaken in connection with the management of the Company.

It is the intention of the Board that, unless it is deemed appropriate to implement a revision, the above remuneration policy will continue to apply for the forthcoming and subsequent financial years.

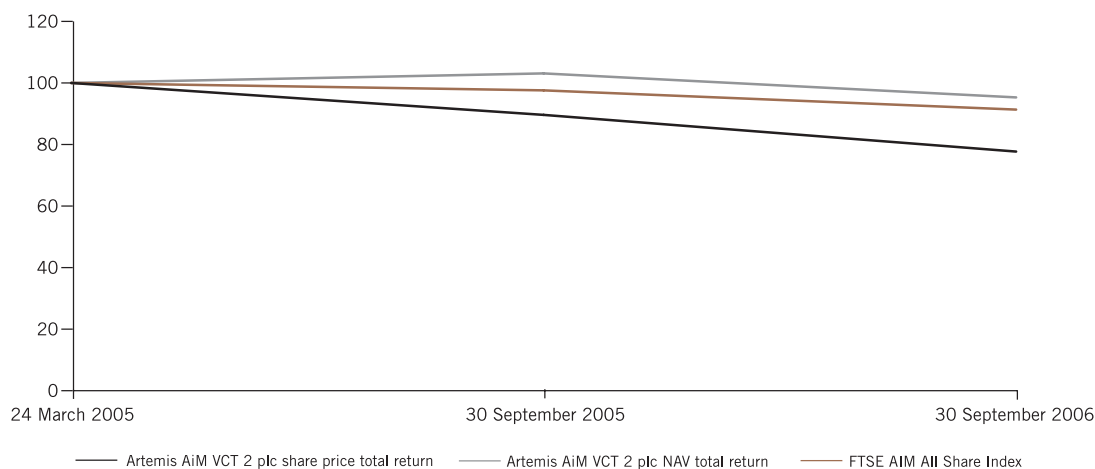
Directors' and Officers' liability insurance cover is held by the Company in respect of the Directors and is renewed annually.

Directors' Service Contracts

No Director has a contract of service with the Company. The terms and conditions of the appointment of Directors are set out in the Directors' letters of appointment. A Director may resign in writing to the Board at any time; there are no fixed notice periods nor any entitlement to compensation for loss of office.

In accordance with the Company's Articles of Association, all new Directors are required to stand for election at the first AGM following their appointment and, thereafter, are required to retire by rotation, so that over a three-year period all Directors will have retired from the Board and would have been offered up for re-election at least once.

Directors' Remuneration Report continued



The performance chart above shows the Company's share price total return to ordinary shareholders from 24 March 2005, being the date on which the Company announced its Offers for Subscription were fully subscribed to 30 September 2006 compared to the total return on a notional investment in the FTSE AIM Index over the same period. This index was chosen for comparison purposes, as it represents a comparable broad equity market index. However, as not all the constituents of this index are suitable investments for the Company, there is likely to be a divergence between the performance of each.

Directors' Fees (audited)

The information in this section has been subject to audit.

The Directors' who served during the year to 30 September 2006 received the following emoluments:

Director	30 September 2006	30 September 2005
Peter Arthur	£17,500	£13,988
Robin Field	£12,500	£9,991
Edward Murray	£13,500	£9,991
Fiona Wollocombe	£12,500	£9,991

By order of the Board

Artemis Investment Management Limited

Company Secretary

8 December 2006

Statement of Directors' Responsibilities

in respect of the Financial Statements

Company law in the United Kingdom requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for the year. In preparing these financial statements, the Directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent; and
- followed applicable United Kingdom accounting standards.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. 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 Directors' Report, Directors' Remuneration Report and other information included in the Annual Report are prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority.

Independent Auditors' Report

to the members of Artemis AiM VCT 2 plc

We have audited the Company's financial statements for the year ended 30 September 2006 which comprise the Income Statement, Balance Sheet, Cash Flow Statement, Reconciliation of Movements in Shareholders' Funds and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and accounting standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the Statement of Corporate Governance reflects the Company's compliance with the nine provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Corporate Policy and Financial Highlights, Chairman's Statement, Directors, Investment Manager's Review, Investment Portfolio, Sector Analysis, Directors' Report, Corporate Governance, unaudited part of the Directors' Remuneration Report, Notice of Annual General Meeting, General Information and the Reporting Calendar. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and part of the Directors' Remuneration Report to be audited are free from material

Independent Auditors' Report continued

misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practices of the state of affairs of the Company as at 30 September 2006 and of its net loss for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Financial Statements.

Ernst & Young LLP

Registered Auditor
Edinburgh

8 December 2006

Income Statement

For the year ended 30 September 2006

	Note	Year ended 30 September 2006			For the period 21 July 2004 to 30 September 2005 (Restated)*		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments	8	–	(2,782)	(2,782)	–	1,011	1,011
Investment income and deposit interest	2	811	–	811	896	–	896
Investment management fee	3	(188)	(564)	(752)	(127)	(380)	(507)
Currency gains		–	–	–	–	4	4
Other expenses	4	(234)	–	(234)	(181)	–	(181)
Return/(loss) on ordinary activities before tax		389	(3,346)	(2,957)	588	635	1,223
Tax on ordinary activities	5	(73)	73	–	(163)	122	(41)
Return/(loss) attributable to ordinary shareholders	7	316	(3,273)	(2,957)	425	757	1,182
Return/(loss) per ordinary share (pence):	7	0.79	(8.17)	(7.38)	2.02	3.61	5.63

* The re-statement adjustment resulting from changes in accounting standards is detailed in note 1(a) of the accompanying notes.

The total column of this statement represents the profit and loss account of the Company.

No separate Statement of Recognised Gains and Losses is presented as all gains and losses are included in the Income Statement.

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year.

The Company has only one class of business and derives its income from investments made in shares, securities, loans and bank deposits.

The accompanying notes on pages 34 to 45 are an integral part of the financial statements.

Balance Sheet

As at 30 September 2006

	Note	As at 30 September 2006 £'000	As at 30 September 2005 (Restated)* £'000
Fixed assets			
Investments	8	35,167	12,336
Current assets			
Debtors	10	539	104
Cash at bank	16	374	26,955
		913	27,059
Creditors: amounts falling due within one year	11	(447)	(313)
Net current assets		466	26,746
Net assets		35,633	39,082
Equity shareholders' funds			
Called-up share capital	12	3,986	4,000
Share premium	13	110	33,900
Special reserve	13	33,686	–
Capital reserve – realised	13	(604)	(254)
Capital reserve – unrealised	13	(1,912)	1,011
Capital redemption reserve	13	26	–
Revenue reserve	13	341	425
Equity shareholders' funds		35,633	39,082
Net asset value per ordinary share (pence):	14	89.40p	97.70p

* The re-statement adjustment resulting from changes in accounting standards is detailed in note 1a of the accompanying notes.

The financial statements were approved and authorised for issue by the Board of Directors on 8 December 2006 and were signed on their behalf by:

Peter Arthur
Director

8 December 2006

The accompanying notes on pages 34 to 45 are an integral part of the financial statements.

Cash Flow Statement

For the year ended 30 September 2006

	Note	Year ended 30 September 2006		For the period 21 July 2004 to 30 September 2005	
		£'000	£'000	£'000	£'000
Operating activities					
Deposit and similar interest received		250		797	
Investment income received		129		–	
Investment management fees paid		(765)		(312)	
Administrator's fees paid		(93)		(40)	
Other cash payments		(169)		(69)	
Net cash (outflow)/inflow from operating activities	15		(648)		376
Taxation					
Corporation tax paid			(41)		–
Financial investment					
Purchases of investments		(44,414)		(11,325)	
Sales of investments		18,799		–	
Net cash outflow from financial investment			(25,615)		(11,325)
Equity dividends paid					
			(400)		–
Net cash outflow before financing			(26,704)		(10,949)
Financing					
Share issues		122		40,000	
Share issue expenses		1		(2,100)	
Net cash inflow from financing			123		37,900
(Decrease)/increase in cash	16		(26,581)		26,951

The accompanying notes on pages 34 to 45 are an integral part of the financial statements.

Reconciliation of Movements in Shareholders' Funds

For the year ended 30 September 2006

	For the year ended 30 September 2006							
	Share capital	Share premium	Special reserve	Capital reserve – realised	Capital reserve – unrealised	Capital Redemption reserve	Revenue reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 30 September 2005 (as previously reported)	4,000	33,900	–	(254)	1,011	–	25	38,682
Dividends written back	–	–	–	–	–	–	400	400
At 30 September 2005 (restated)	4,000	33,900	–	(254)	1,011	–	425	39,082
(Loss)/return on ordinary activities after taxation	–	–	–	(458)	(2,815)	–	316	(2,957)
Transfer on disposal of investments	–	–	–	108	(108)	–	–	–
Transfer to special reserve	–	(33,900)	33,900	–	–	–	–	–
Dividends paid	–	–	–	–	–	–	(400)	(400)
Issues of new shares less expenses	12	110	–	–	–	–	–	122
Repurchase of shares	(26)	–	(214)	–	–	26	–	(214)
At 30 September 2006	3,986	110	33,686	(604)	(1,912)	26	341	35,633
	For the period 21 July 2004 to 30 September 2005							
	Share capital	Share premium	Special reserve	Capital reserve – realised	Capital reserve – unrealised	Capital Redemption reserve	Revenue reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 21 July 2004	–	–	–	–	–	–	–	–
(Loss)/return on ordinary activities after taxation	–	–	–	(254)	1,011	–	25	782
Issues of new shares less expenses	4,000	33,900	–	–	–	–	–	37,900
At 30 September 2005	4,000	33,900	–	(254)	1,011	–	25	38,682

The accompanying notes on pages 34 to 45 are an integral part of the financial statements.

Notes to the Financial Statements

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice ("UK GAAP") and with the Statement of Recommended Practice for 'Financial Statements of Investment Trust Companies' ("SORP") (December 2005).

For the year commencing 1 October 2005 the Company had the option to prepare its financial statements in accordance with International Financial Reporting Standards ("IFRS") as set by the International Accounting Standards Board ("IASB") and adopted by the EU. The Board has elected to continue to prepare the Company's financial statements under UK GAAP and therefore comply with the new Financial Reporting Standards (FRS's) issued by the Accounting Standards Board as part of a programme to converge UK GAAP with IFRS.

The main effect on these accounts arising as a result of these new FRS's is as follows:

In accordance with the requirements of FRS 21 "Events after the Balance Sheet Date", dividends should only be accrued if they are a liability at the Balance Sheet date. The final dividend for the period ended 30 September 2005 was approved by the Shareholders at the Annual General Meeting held on 12 January 2006 and therefore no provision should have been made for the final dividend in the financial statements for the period ended 30 September 2005. Accordingly, the figures for that period have been restated, increasing shareholders' funds by £400,000.

(b) Investments

All investments have been designated as fair value through profit or loss, and recognised on the trade date and are initially measured at fair value. Listed investments and investments traded on AIM/PLUS are stated at fair value which is assumed to be bid market prices as at 30 September 2006.

Unlisted investments are also stated at fair value, in accordance with generally accepted accounting practice, investments in unquoted companies, other than those traded on AIM/PLUS are held at the Directors' estimate of fair value with reference to the International Private Equity and Venture Capital Valuation Guidelines ("IPEVC") guidelines:

- Investments which have been made within the last twelve months are valued at cost except where the company's performance against plan is significantly below the expectations on which the investment was made, in which case provision against cost is made as appropriate.
- Where a company is in the early stage of development, it will normally continue to be held at cost on the basis described above.
- Where a company is well established, after one year from the date of investment, the holding may be valued by applying a suitable price-earnings ratio to that company's historical post-tax earnings. The ratio used is based on a comparable listed company or sector but discounted to reflect the lack of marketability.
- Where a value is indicated by a material arms length transaction by a third party in the shares of the company, the valuation will normally be based on this.
- Where there is evidence of deterioration, a provision may be made against the previous valuation of the investment.
- In the absence of evidence of deterioration or increase in value, the fair value is determined to be that reported at the previous Balance Sheet date.

Changes in fair value are included in the Income Statement as a capital item.

Notes to the Financial Statements continued

Realised surpluses or deficits on the disposal of investments and impairments in the value of investments are taken to the Capital reserve – realised, and unrealised surpluses and deficits on the revaluation of investments are taken to the Capital reserve – unrealised.

(c) Income

Dividends receivable on listed equity shares are brought into account on the ex-dividend date. Dividends receivable on unlisted equity shares are brought into account when the Company's right to receive payment is established and there is no reasonable doubt that payment will be received.

Interest from fixed interest securities is recognised on an effective yield basis. Bank and deposit interest is recognised on an accruals basis.

(d) Expenses

All expenses (inclusive of VAT) are accounted for on an accruals basis. Expenses are charged wholly to revenue, with the exception of;

- Expenses incidental to the acquisition or disposal of an investment which are charged to the capital reserves.
- Management fees payable to Artemis Investment Management Limited which are charged 75 per cent to Capital reserve – realised and 25 per cent to Revenue reserve.

(e) Deferred Tax

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more, or right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

(f) Exchange Rates

Transactions involving foreign currencies are converted at the rate ruling at the date of the transaction.

Assets and liabilities denominated in foreign currency are translated to sterling at the rate of exchange at the balance sheet date. Differences arising from translation are treated as capital or revenue depending on the nature of the gain or loss.

Notes to the Financial Statements continued

2. Income

	Year ended 30 September 2006 £'000	For the period 21 July 2004 to 30 September 2005 £'000
UK dividends	13	–
Interest		
– from fixed interest securities	644	–
– from bank deposits	154	896
	811	896

3. Investment management fee

	Year ended 30 September 2006			For the period 21 July 2004 to 30 September 2005		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Investment management fee	160	480	640	108	323	431
Irrecoverable VAT thereon	28	84	112	19	57	76
	188	564	752	127	380	507

The Company pays the Manager a quarterly management fee (exclusive of VAT and payable quarterly in arrears) of 0.4375 per cent of the average market capitalisation of the Company adjusted as follows:

- no fee is paid in respect of funds invested in the Manager's unit trusts or other collective investment schemes.

The Manager may also become entitled to receive a performance fee from the Company equal to 20 per cent of any distributions of income or capital profits (other than certain distributions by way of the purchase of the Company's own shares) made by the Company in any accounting period, provided that at the end of the relevant accounting period, the increase in the Company's net asset value, after adding back any earlier distributions made by the Company and the amount of any performance fees paid in respect of prior accounting periods, exceeds a hurdle amount equal to simple interest at a rate of 8 per cent per annum on the amount paid up on each ordinary share in issue at the end of the relevant accounting period calculated from the date of admission of that share to trading. No performance fee shall be payable until the end of the Company's third accounting period (30 September 2007) but any fee paid at that time shall take account of distributions made in the first three accounting periods of the Company.

Notes to the Financial Statements continued

The Investment Management Agreement may be terminated by giving one year's notice provided that such notice shall not expire on any date prior to the third anniversary of the date upon which the Company's shares were first admitted to the Official List. If less than one year's notice is given to terminate, then a termination fee is payable to the Investment Manager. This is calculated at 1.75 per cent of the average market capitalisation at that date and adjusted *pro rata* for any notice period given. The appointment may also be terminated in circumstances of material breach by either party.

4. Other expenses

	Year ended 30 September 2006 £'000	For the period 21 July 2004 to 30 September 2005 £'000
Directors' remuneration	56	44
Administrator's fees	74	59
Auditors' fees – for audit services	14	13
Auditors' fees – interim review	5	4
Auditors' fees – for non audit services	6	4
Legal fees	6	11
Printing costs	19	16
Other expenses	54	30
	234	181

The Company has no employees (2005: none).

The Company is not VAT registered and therefore all expenses above are inclusive of irrecoverable VAT thereon.

5. Tax on ordinary activities

	Year ended 30 September 2006			For the period 21 July 2004 to 30 September 2005		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Corporation tax	73	(73)	–	163	(122)	41

Notes to the Financial Statements continued

5. Tax on ordinary activities continued

The tax charge for the year is lower than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	Year ended 30 September 2006 £'000	For the period 21 July 2004 to 30 September 2005 £'000
Revenue return on ordinary activities before taxation	389	588
Revenue return on ordinary activities multiplied by the applicable rate of corporation tax of 30% (30 September 2005: 30%)	116	176
Effects of:		
Non taxable income	(2)	–
Disallowable expenses	–	3
Smaller companies relief	(41)	(16)
Revenue tax charge for the year	73	163

Capital returns are not included as VCT's are exempt from tax on realised capital gains.

No provision for deferred tax has been made in the current accounting period (2005: nil).

6. Dividends

	Year ended 30 September 2006 £'000	For the period 21 July 2004 to 30 September 2005 £'000
Final dividend for period ended 30 September 2005 (1.0p)	400	–

Under FRS21, dividends are recognised in the accounting period in which they are authorised for payment and are shown in the Reconciliation in Movements in Shareholder's Funds. Therefore the final dividend for the period ended 30 September 2005, which was approved by the Shareholders on 11 January 2006, is included in the current year's Reconciliation of Movements in Shareholder's Funds. Set out below are the total dividends paid and proposed in respect of each financial year, which is the basis on which the requirements of Section 842AA of the Income and Corporation Taxes Act 1988 are considered.

	2006 £'000	2005 £'000
Final dividend of 0.8p per ordinary share (2005: 1.0p)	319	400

Notes to the Financial Statements continued

7. Return/(loss) per ordinary share

	Year ended			For the period 21 July 2004 to		
	30 September 2006			30 September 2005 (restated)		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Return/(loss) per ordinary share (pence)	0.79	(8.17)	(7.38)	2.02	3.61	5.63

Revenue return per ordinary share is based on the return attributable to ordinary shareholders of £316,000 and on 40,063,849 Shares, being the weighted average number of ordinary shares in issue during the year (2005: £425,000 and on 20,992,197 ordinary shares).

Capital return per ordinary share is based on net losses attributable to ordinary shareholders of £3,273,000 and on 40,063,849 ordinary shares, being the weighted number of ordinary shares in issue during the year (2005: £757,000 gain and on 20,992,197 ordinary shares).

The total return per ordinary share is the sum of the revenue return and capital return.

8. Investments

Movements in investments during the year are summarised as follows:

	AIM	Unquoted	Fixed	Total
	£'000	£'000	Interest	Total
	£'000	£'000	£'000	£'000
Opening book cost	7,449	3,876	–	11,325
Unrealised gains at 30 September 2005	975	36	–	1,011
Valuation at 30 September 2005	8,424	3,912	–	12,336
Purchases at cost	10,590	2,817	31,007	44,414
Disposals – proceeds	(800)	–	(17,999)	(18,799)
– realised gains/(losses)	142	–	(1)	141
Amortisation of book cost	–	–	(2)	(2)
Transfer	517	(517)	–	–
Movement in unrealised gains/(losses)	(2,020)	(891)	(12)	(2,923)
Valuation as at 30 September 2006	16,853	5,321	12,993	35,167
Book cost at 30 September 2006	17,896	6,178	13,005	37,079
Unrealised losses at 30 September 2006	(1,043)	(857)	(12)	(1,912)
Valuation as at 30 September 2006	16,853	5,321	12,993	35,167
Realised gains/(losses) on disposal	142	–	(1)	141
Net (gains)/losses thereon already recognised in earlier periods	(108)	–	–	(108)
Realised gains/(losses) during the year	34	–	(1)	33
Movement in unrealised losses	(1,912)	(891)	(12)	(2,815)
Losses on investments during the year	(1,878)	(891)	(13)	(2,782)

The cost and carrying value of each investment held as at 30 September 2006 are given on pages 9 to 13. Income of £13,000 was received from equity investments in the year ended 30 September 2006 (period to 30 September 2005: nil).

Notes to the Financial Statements continued

8. Investments continued

Transaction costs

Included in the (losses)/gains on investments are transaction costs incurred on purchases and disposals of investments, as shown below:

	Year ended 30 September 2006 £'000	For the period 21 July 2004 to 30 September 2005 £'000
Purchases	–	–
Sales	(4)	–
	(4)	–

9. Significant interests

At 30 September 2006 the Company held shares amounting to 3 per cent or more of the nominal value of any class of share, in the following investee companies:

	Class Held	Investment at Cost £'000	Percentage of Class Held %
Charterhouse Food Group	Ordinary	750	9.7
Croma Group	Ordinary	350	4.7
Datong Electronics	Ordinary	750	4.2
Earthport	Ordinary	850	7.6
Eclipse Energy	Ordinary	975	7.4
Elevation Events	Ordinary	800	13.5
Fastfill	Ordinary	600	3.0
Gourmet Holdings	Ordinary	500	4.1
Independent Resources	Ordinary	690	3.4
Iqur	Ordinary	500	3.2
Judges Capital	Ordinary	250	7.0
Kiotech	Ordinary	250	5.4
mForm	Ordinary	167	6.0
Mission Marketing	Ordinary	750	3.1
Neutrahealth	Ordinary	451	3.1
Pelikon	Ordinary	400	3.1
Proactis	Ordinary	400	3.1
Quercus Publishing	Ordinary	248	5.8
Starnevesse	Ordinary	240	3.3
TMO Renewables	Ordinary	500	5.1
Vianet Group	Ordinary	500	5.0
Vienco Oil & Gas	Ordinary	649	5.1
Vividas Group	Ordinary	600	3.0

Notes to the Financial Statements continued

10. Debtors

	As at 30 September 2006 £'000	As at 30 September 2005 £'000
Accrued interest	534	99
Prepayments	5	5
	539	104

11. Creditors: amounts falling due within one year

	As at 30 September 2006 £'000	As at 30 September 2005 £'000 (Restated)
Sundry creditors and accruals	447	272
Tax payable	–	41
	447	313

12. Share capital

	As at 30 September 2006 £'000	As at 30 September 2005 £'000
Authorised: 80,000,000 ordinary shares of 10p each (2005: 80,000,000)	8,000	8,000
Allotted, called-up and fully paid: 39,857,004 ordinary shares of 10p each (2005: 40,000,002)	3,986	4,000

During the year the Company issued 122,002 ordinary shares as detailed below:

	Proceeds £'000
Allotted, called-up and fully paid: 122,002 ordinary shares of 10p each on 19 January 2006	122

During the year the Company repurchased 265,000 ordinary shares for a consideration of £214,000 (2005: nil). These shares were cancelled and the amount of £26,500 by which the called up share capital has been diminished has been transferred to the Capital redemption reserve.

Notes to the Financial Statements continued

13. Reserves

	Share premium £'000	Special reserve £'000	Capital reserve- realised £'000	Capital reserve- unrealised £'000	Capital redemption reserve £'000	Revenue reserve £'000	Total £'000
At 30 September 2005 (restated)	33,900	–	(254)	1,011	–	425	35,082
Issue of new shares	110	–	–	–	–	–	110
Transfer to distributable reserve	(33,900)	33,900	–	–	–	–	–
Dividend paid	–	–	–	–	–	(400)	(400)
Repurchase of shares	–	(214)	–	–	26	–	(188)
Movement in unrealised reserves	–	–	–	(2,815)	–	–	(2,815)
Management fees net of tax relief	–	–	(491)	–	–	–	(491)
Profit on disposal of investments	–	–	33	–	–	–	33
Transfer on disposal of investments	–	–	108	(108)	–	–	–
Profit for the year	–	–	–	–	–	316	316
At 30 September 2006	110	33,686	(604)	(1,912)	26	341	31,647

14. Net asset value per share

The net asset value per ordinary share at the year end is calculated in accordance with the Articles of Association and was as follows:

	2006 £'000	2005 £'000 (restated)
Net assets	35,633	39,082
Number of ordinary shares	39,857,004	40,000,002
Net Asset Value per ordinary share (pence)	89.40	97.70

15. Reconciliation of (loss)/return on ordinary activities before taxation to net cash (outflow)/inflow from operating activities

	Year ended 30 September 2006 £'000	For the period 21 July 2004 to 30 September 2005 £'000
(Loss)/return on ordinary activities before taxation	(2,957)	1,223
Losses/(gains) on investments	2,782	(1,011)
Currency gains	–	(4)
Increase in debtors	(435)	(104)
(Decrease)/increase in creditors and accruals	(40)	272
Amortisation of fixed interest securities	2	–
Net cash (outflow)/inflow from operating activities	(648)	376

Notes to the Financial Statements continued

16. Analysis of changes in net funds

	Cash £'000
At 30 September 2005	26,955
Cash flows for the year	(26,581)
At 30 September 2006	374
	Cash £'000
At 21 July 2004	–
Cash flows for the period	26,951
Effect of foreign exchange movements	4
At 30 September 2005	26,955

A statement reconciling the movements in net funds to the net cash flow has not been presented as there are no differences from the above analysis (2005: none).

17. Financial instruments

The Company's financial instruments comprise its investment portfolio and cash balances.

The Company holds financial assets in accordance with its investment policy to invest in a diverse portfolio of companies raising new share capital on AIM, PLUS traded and other UK quoted companies.

18. Risk management, financial assets and liabilities

Risk management

The Company's objectives are detailed on page 2. The Company's financial instruments comprise equity and fixed interest investments, cash balances, debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, and debtors for accrued income.

The main risks the Company faces from its financial instruments are (i) market price risk, (ii) liquidity risk, (iii) interest rate risk and (iv) foreign currency risk.

The Board regularly reviews and agrees policies for managing each of these risks. The Manager's policies for managing these risks are summarised below and have been applied throughout the year. The numerical disclosures exclude short-term debtors and creditors. Further details of the actions taken to implement some of these policies are given in the Chairman's Statement and Investment Manager's Review.

Notes to the Financial Statements continued

18. Risk management, financial assets and liabilities continued

(i) Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's operations. It represents the potential loss the Company might suffer through holding market positions as a consequence of price movements. It is the Board's policy to hold an appropriate spread of investments in the portfolio in order to reduce the risks arising from factors specific to a particular company or sector. The Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to consider investment strategy. At the year end there were no short-term borrowings (2005: nil). The Company has not used derivative instruments to hedge its portfolio, but in such an event, the value of derivative instruments held at balance sheet date would be determined by reference to its market value on that date.

(ii) Liquidity risk

The majority of the Company's portfolio comprises companies traded on AIM and a number of unquoted investments which may not all be readily realisable. Included in the Company's assets is a listed fixed interest investment as detailed in note 8. This is readily realisable and could be sold to meet funding commitments if necessary.

(iii) Interest rate risk

The benchmark that determines the interest paid or received on the current account is the Bank of England bank base rate, which was 4.75 per cent at 30 September 2006 (30 September 2005: 4.5 per cent).

The interest rate risk of the portfolio of financial assets at the Balance Sheet date (excluding short term debtors and creditors) was as follows:

	2006			2005		
	Fixed Rate £'000	Floating Rate £'000	Non-Interest Bearing £'000	Fixed Rate £'000	Floating Rate £'000	Non-Interest Bearing £'000
Sterling	13,495	374	20,019	–	26,955	11,514
Canadian Dollar	–	–	75	–	–	305
Euro	–	–	1,578	–	–	517
Total	13,495	374	21,672	–	26,955	12,336

The floating rate assets consist of cash deposits on call earning interest at prevailing market rates.

The fixed interest rate exposure comprises £13 million in European Investment Bank Bonds (2005: none) due to mature in December 2006 with an interest rate of 5 per cent. The Company also has an unquoted loan note for £0.5 million (2005: none) with a maturity of 7 years and an effective yield of 5.1 per cent.

Notes to the Financial Statements continued

18. Risk management, financial assets and liabilities continued

(iv) Foreign currency risk

At the year end the Company held two investments which were denominated in foreign currencies. The value of these investments can be affected by movements in foreign exchange rates. It is not the Company's policy to hedge this risk on a continuing basis.

An analysis of the Company's currency exposure is detailed below.

	2006			2005		
		Net	Total		Net	Total
	Investments £'000	Monetary Assets £'000	Currency Exposure £'000	Investments £'000	Monetary Assets £'000	Currency Exposure £'000
Canadian Dollar	75	–	75	305	–	305
Euro	1,578	–	1,578	517	–	517
Total	1,653	–	1,653	822	–	822

(v) Fair value of financial assets and liabilities

The fair values of the Company's financial assets and liabilities are the same as the carrying values in the balance sheet.

Fixed asset investments (see note 8) are valued in accordance with the accounting policies set out in note 1 on page 34. The Company's liquidity is held in sterling in an interest-bearing account.

Notice of Annual General Meeting

Notice is hereby given that the second Annual General Meeting of Artemis AiM VCT 2 plc will be held at the offices of Artemis Investment Management Limited, Cassini House, 57 St. James's Street, London SW1A 1LD on Thursday, 11 January 2007 at 12.30 pm for the purpose of transacting the following business:

To consider and if thought fit, to pass the following as ordinary resolutions:

- Resolution 1. To receive the Report of the Directors and audited accounts for the year ended 30 September 2006.
- Resolution 2. To approve the Directors' remuneration report for the year ended 30 September 2006.
- Resolution 3. To approve a final dividend of 0.8 pence per ordinary share.
- Resolution 4. To re-elect Mr Peter Arthur as a Director of the Company.
- Resolution 5. To re-appoint Ernst & Young LLP as Auditors of the Company and to authorise the Directors to determine the remuneration of Ernst & Young LLP.
- Resolution 6. THAT the Directors be and they are hereby generally and unconditionally authorised, in accordance with Section 80 of the Companies Act 1985 (the "Act"), to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £398,570 during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the Annual General Meeting of the Company in 2008.

To consider and if thought fit, to pass the following as special resolutions:

- Resolution 7. (a) THAT, subject to the passing of Resolution 6 above, the Directors of the Company be and are hereby authorised, pursuant to Section 95 of the Act, to allot equity securities pursuant to the authority given in accordance with Section 80 of the Act under the authority conferred by Resolution 6 above as if Section 89(1) of that Act did not apply to such allotment, but so that this authority shall enable the Company to make offers or agreements which would or might require relevant securities or equity securities to be allotted after the expiry of this authority and power and notwithstanding such expiry the Directors may allot relevant securities and/or equity securities in pursuance of such offers or agreements; and
- (b) THAT words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution.
- Resolution 8. THAT, the Company be and is hereby generally and unconditionally authorised, in accordance with Section 166 of the Companies Act 1985 (the "Act") to make market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of 10 pence each in the Company ("ordinary shares") (either for cancellation or for retention as treasury shares for future re-issue or transfer), provided that:
- (a) the maximum number of ordinary shares hereby authorised to be purchased shall be 14.99 per cent of the issued share capital as at the date of this resolution;
- (b) the minimum price which may be paid for an ordinary share shall be 10 pence;
- (c) the maximum price (exclusive of expenses) which may be paid for any such ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately proceeding the day on which the ordinary share is purchased or such other amount as may be specified by the UK Listing Authority from time to time; and
- (d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2008 or on the expiry of 18 months from the passing of this resolution, whichever is earlier, unless such authority is reviewed prior to such time;

Notice of Annual General Meeting continued

- (e) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract; and
- (f) such authority to be in substitution for any existing authority.

By order of the Board

Artemis Investment Management Limited

Company Secretary

42 Melville Street

Edinburgh

EH3 7HA

8 December 2006

Notes:

- 1 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 to be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast). Members must be registered on the Company's Register of Members at 12.30 pm on 9 January 2007. If the meeting is adjourned to a time not more than 48 hours after the specific time applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of Members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, Members must be entered on the Company's Register of Members at the time which is not less than 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at a time specified in the notice.
- 2 A Member of the Company entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a Member of the Company. A form of proxy for use at the above meeting is enclosed. To be valid, the form of proxy must be completed and deposited at the office of the Company's Registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA, not less than 48 hours before the time fixed for holding the meeting or adjourned meeting. Lodgement of the form of proxy will not preclude a member from attending and voting at the meeting.
- 3 Members (and any proxies or corporate representatives appointed) agree, by attending the Annual General Meeting, that they are expressly requesting and that they are willing to receive any communications relating to the Company's securities made at the Annual General Meeting.
- 4 The following documents will be available for inspection at the registered office of the Company during usual business hours on any weekday (except Public Holidays) until the date of the meeting and at the place of the meeting for a period of 15 minutes prior to and during the meeting:
 - (a) A statement of all transactions of each Director and of their family interests in the share capital of the Company;
 - (b) The Memorandum and Articles of Association; and
 - (c) Terms and conditions of appointment of non-executive Directors.

General Information

Directors

P A K Arthur (Chairman)
R A Field
E D Murray
F E Wollocombe

Investment Manager and Secretary

Artemis Investment Management Limited
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Registrars

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PO Box 28506
Finance House
Orchard Brae
Edinburgh EH4 1XZ

Shareholder enquiries: 0870 601 5366
Website: www.shareview.co.uk

Bankers and Custodian

HSBC Global Investor Services
8 Canada Square
London
E14 5HQ

Auditors, Tax and VCT Adviser

Ernst & Young LLP
Ten George Street
Edinburgh EH2 2DZ

Administrator

BNP Paribas Fund Services UK Limited
55 Moorgate
London EC2R 6PA

Telephone: 020 7410 4186

Solicitors

Dickson Minto W.S.
16 Charlotte Square
Edinburgh EH2 4DF

Reporting Calendar

Year end:	30 September
Results announced:	Interim – May Annual – December
Annual General Meeting:	January

The Company is a member of the Association of Investment Companies.

An investment company as defined under Section 266 of the Companies Act 1985.

Registered in Scotland Number: SC270952.



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