

Artemis AiM VCT plc

Annual Report

For the year ended 31 January 2006



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# Corporate Policy

## Investment Objective and Policy

The objective is to achieve long-term capital and income growth and to generate tax-free capital and income distributions. This is to be achieved through an investment policy focusing on companies to be traded on the Alternative Investment Market of London Stock Exchange plc (“AIM”) and, to a lesser extent, companies traded on the OFEX trading facility operated by OFEX plc or its successors (“OFEX”) and unquoted companies with flexibility to invest in other assets for no more than 30% of the Company’s funds. The Company is managed as a Venture Capital Trust in order that the shareholders in the Company may benefit from the potentially substantial tax reliefs available.

The policy is that at least 70% of the Company’s funds are invested in qualifying holdings (within three years of such funds being raised) in a spread of AIM, OFEX traded and unquoted companies with the majority of the holdings comprising AIM-traded stocks. Subject to maintaining a prudent margin of safety over the 70% level, the balance of the Company’s funds may be invested in liquid assets (such as cash or short-term money market deposits), fixed interest securities, smaller companies listed on the Official List of the UK’s Listing Authority and traded on London Stock Exchange plc’s market for listed securities, the market capitalisations of which meet the criteria of the Hoare Govett Smaller Companies Index (excluding investment companies), as well as AIM and OFEX-traded and unquoted companies.

## Venture Capital Trust Status

For the year under review the Directors have managed the Company’s affairs in such a manner as to comply with the requirements of Section 842AA of the Income and Corporation Taxes Act 1988 and the Directors intend to continue the business of the Company so as to comply with that Section. This will mean that the undernoted conditions have to be met in respect of the Company’s present and future accounting periods.

VCT Condition	% Required
Minimum income from shares and securities	70% of the Company’s income
Maximum investment in one company or group	15% by value of the Company’s investments
Maximum retention of income from shares and securities	15% of such income
Minimum investment in qualifying holdings of shares or securities (“70% test”)	70% by value of the Company’s investments
Minimum investment in holdings of eligible shares (“30% test”)	30% by value of the Company’s qualifying holdings

# Financial Highlights

	As at 31 January 2006	As at 31 January 2005	% Change
<b>Capital values</b>			
Net asset value per Ordinary Share	94.85p	108.10p*	(12.3)
Share price	85.00p	94.00p	(9.6)
Discount	10.4%	13.0%	-
FTSE AIM Index	1,139.50	1,075.59	5.9
Net assets	£43.86m	£48.61m	(9.8)
	Year Ended 31 January 2006	Year Ended 31 January 2005	
<b>Returns/(losses)</b>			
Revenue loss per Ordinary Share	(0.50p)	(0.78p)	
Capital (loss)/return per Ordinary Share	(14.20p)	16.07p	
Total (loss)/return per Ordinary Share	(14.70p)	15.29p	

\* The net asset value per Ordinary Share at 31 January 2005 has been restated using bid prices for the Company's listed investments and those traded on AIM/OFEX. Previously these investments were valued at mid market prices. Further information is set out in the accounting policies note on page 34 and in note 13 on page 41.

# Chairman's Statement

## Overview

In the interim statement I reported that the Company had suffered a disappointing fall in net asset value. For the full year to 31 January 2006 net asset value per share, measured on a bid price basis, fell 12.3% from 108.10p to 94.85p.

The primary objective of the Company is the achievement of long-term growth and, despite this set back, we believe that this will still be achieved. Short term performance has been disappointing for reasons set out below, but we are nevertheless confident that a sound portfolio of equity investments has been assembled and that these will deliver good returns over the longer term.

A secondary objective has always been the payment of tax free dividends, but, although an initial dividend of 0.85p per share was paid in respect of the period to 31 January 2002, the substantial fall in equity values in the first two years after launch, has largely frustrated this intention. I am pleased to report that profitable realisations for the year ended 31 January 2006 have enabled us to recommend a dividend payment, further details of which are set out below.

Meanwhile VCT qualifying status has been maintained with over 75% of the total funds raised invested in VCT qualifying shares at 31 January 2006. The Board intends to continue to manage the affairs of the Company in order that it can continue to qualify as a VCT.

## Performance and Investment Strategy

The fall in net asset value over the period was substantially due to three of our larger AIM listed investments, Amino Technologies, Offshore Hydrocarbon Mapping ("OHM") and Zoo Digital which together contributed 9.8p out of the net asset value decline of 13.2p for the year. The Manager's Review comments in greater detail on these companies, their prospects and our current stance. It is worth noting, however, that the aggregate value of the three holdings is still significantly ahead of our investment cost and that we have in addition realised a cash profit from a partial disposal of OHM.

In addition to absolute performance the Board monitors performance against the AIM market and against other venture capital trusts that invest in the AIM market. There is no index that closely reflects the main investment universe for our Company, businesses that meet the "qualifying investment" requirements of HM Revenue & Customs for VCTs. The FTSE AIM All Share Index is the broadest index for the AIM market and over the year to 31 January 2006 increased by 5.9%. Since the Company's launch in February 2001 this index has decreased by 19.2% and the Company's net asset value has decreased by 0.2%.

Given the constraints placed on VCTs' investing, the most relevant peer group for our Company is the one comprising AIM focussed VCTs launched in the 2000/01 tax year, the year the Company was launched. Against this group the Company ranks 1 out of 4\* measured by the total return to shareholders since launch.

Younger and smaller companies, characteristics possessed by many VCT qualifying stocks, tend to have greater volatility and, for much of the time can have limited liquidity. Your Manager's views, which the Board supports, is that in such circumstances long term growth is best achieved by investing in companies with good management at sensible valuations and holding these investments for the longer term. This tends to lead to a more concentrated portfolio with some substantial holdings. Whilst this can lead to short term volatility, we believe it will create value over the life of the Company.

Some 63% of the Company's year end net assets was represented by our largest 25 investments, details of which are set out on pages 10 to 13. It is interesting to observe that this portion of the portfolio, taken in aggregate, is already valued at 66% more than its cost and we believe that it is set for further growth.

In summary, although the last year has been a disappointing one, we are confident that we have a sound portfolio which, with active management, should deliver good returns to shareholders over the medium and long term.

\* Source: [www.taxshelterreport.co.uk](http://www.taxshelterreport.co.uk)

# Chairman's Statement continued

## Budget Changes

In his recent Budget, the Chancellor announced a number of changes to the regulations for VCTs which will affect both investors and VCTs. The main changes, which take effect from 6 April 2006 are, investors in any new VCT share issues will receive income tax relief at 30% (40% for the last two years) on condition that the shares are held for 5 years (previously 3 years) from the date of investment. The significant change for VCTs is to one of the investment tests, the gross assets test, which sets limits on the gross assets a VCT qualifying company can have before and after it raises any new capital to continue to be considered a qualifying investment. The limits have been dramatically reduced to £7m pre, and £8m post any fund raising. Previously these limits were £15m and £16m respectively. This is likely to have a significant impact on the VCT market, particularly those VCTs with an AIM focus, as it is likely to considerably reduce the number of AIM quoted qualifying companies available for VCT portfolios.

It should be noted, however, that as the change to the gross assets test will be applicable only to the investment of new money raised after 5 April 2006, it is not expected that it will have a detrimental effect on the management of the Company's investment portfolio.

## Share Issues and Buy Backs

Until the Spring of 2005 the Company had offered regular top up issues, principally in order to allow existing shareholders the opportunity of increasing their stakes and enjoying the associated tax relief. The introduction of new prospectus rules by the UK Listing Authority, however, now means that anything but an unattractively small and restricted share issue would incur the expense of a full prospectus. Previously top up issues were done by way of a Chairman's letter and short circular. The recent changes in VCT regulations also mitigate against the raising of further capital and the Board has concluded that the Company will not seek to raise any new money at this point.

We continue our policy of buying back those shares that come to the market through market makers at a discount of approximately 10% to net asset value. During the year 2,727,756 shares were repurchased at a cost of £2.5m. From launch to 31 January 2006, a total of 4,238,929 shares had been repurchased at an aggregate of £3.8m and remaining shareholders have benefited by an uplift in NAV of approximately 0.9p per share. Since the year end a further 220,000 shares have been repurchased at a cost of £190,000.

## Dividend

As stated above, one part of the Company's objectives is to generate tax free dividend distributions. As has been well documented in previous years, realised capital losses have constrained the Company's ability to make such distributions. The Company has recently had discussions with HM Revenue & Customs to establish whether a dividend could be paid out of realised capital gains for the year ended 31 January 2006, notwithstanding the fact that prior to this year realised losses had been accumulated and I am pleased to advise you that HM Revenue & Customs has confirmed that the Company can distribute its realised capital gains for the year. The Board is recommending a final dividend of 5p per ordinary share, thus distributing substantially all of these gains. The dividend, if approved by shareholders at the Annual General Meeting, will be paid on 7 July 2006 to those shareholders on the register as at 9 June 2006.

Whilst it is the Board's intention to make such distributions of capital where possible, it is impossible to foresee the extent to which capital gains, if any, will be realised in any year.

In view of the forthcoming distribution, the Board has reviewed the Company's dividend re-investment scheme ("The Scheme") and has decided that, as a result of the Budget changes outlined above and the small number of participants in the scheme, and consequently the small amount of money that would be re-invested, the scheme should be withdrawn. All shareholders will therefore receive the recommended dividend, and future dividends, in cash.

# Chairman's Statement continued

## Managers and Advisers

During the year the Board thoroughly examined the performance of all the Company's service providers together with that of each board member individually. Subsequent to the year end, the Company's custodian bank was changed to HSBC plc, following a detailed custody review by our Managers. Following this, and the changes to the Administrators and Registrars that we made last year, we are satisfied that all parties are offering a good service to the Company at a reasonable cost.

## Annual General Meeting

Following the 2005 Annual General Meeting ("AGM") which was held in London, this year's AGM will be held at 42 Melville Street, Edinburgh EH3 7HA at 12 noon on Tuesday 30 May 2006. At this year's AGM Ian Fitz-Harris and I will retire by rotation, as is required by the Company's Articles of Association, and will be proposed for re-election. Shareholders will again be asked to renew the Company's authority to buy back its shares in order for the Board to continue the policy that I referred to above. Full details of the business to be conducted are set out in the Notice of Meeting on pages 44 and 45.

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.

## Outlook

We are confident that a portfolio of quality companies has been assembled and is being actively and prudently managed. We look forward to a steady appreciation of value over the long term.

**Robin Field**

Chairman

28 April 2006

# Board of Directors

## Robin Field †\* (Chairman), aged 54

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 an MBA with distinction at INSEAD before serving as a strategy consultant with the LEK Partnership. He was subsequently chief executive of Filofax Group plc, when the company floated on the London Stock Exchange, and then chairman. He is also a director of Metal Bulletin plc, Artemis AiM VCT 2 plc and several private companies.

Appointed as a Director on 30 January 2001.

## Ian Fitz-Harris †\*, aged 44

is currently chief executive of Hawk Group SA, a Luxembourg registered trade receivable securitisation fund. He was chief executive of Euro Sales Finance plc which was the first fund raising on AIM in June 1995. Prior to joining Euro Sales Finance, Ian was with the factoring arm of the Bank of Scotland, latterly as deputy managing director. He started his career as a chartered accountant.

Appointed as a Director on 30 January 2001.

## Sir Bill Gammell †\*, aged 53

is chief executive of Cairn Energy plc, the independent exploration company which was listed on the London Stock Exchange in 1988. He holds a BA in economics and accounting from Stirling University and was one of the founder members of Cairn Energy Management Limited. A former Scotland rugby internationalist, he was appointed to the board of the Scottish Institute of Sport in 1998.

Appointed as a Director on 30 January 2001.

## Calum Paterson †\*, aged 43

is managing director of Scottish Equity Partners, a venture capital firm based in Glasgow. Scottish Equity Partners is a leading investor in early stage and emerging growth technology companies. He trained as a chartered accountant with Ernst & Young and he has BA and MBA degrees from the University of Strathclyde.

Appointed as a Director on 30 January 2001.

## Richard Ramsay \*, aged 56

qualified as an accountant with Price Waterhouse before becoming an investment banker with Grindlay Brandts, Hill Samuel & Co. and Barclays de Zoete Wedd where he was a managing director. Whilst at Hill Samuel & Co and Barclays de Zoete Wedd he was responsible for some of the largest fund raisings and takeovers in the investment trust sector. He joined Ivory & Sime plc as a director in 1993 and was responsible for the firm's marketing and its private client business. He left Ivory & Sime in 1996 and in 1997 joined Aberdeen Football Club as finance director and company secretary, leaving in 2000. From March 2001 to 2003, he was managing director, regulation and financial affairs, at Ofgem and is a director of Intelli Corporate Finance, an adviser to Artemis Investment Management Limited.

Appointed as a Director on 30 January 2001.

† Independent Director.

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

# Manager's Review

## Performance

As the Chairman indicated in his Statement, the performance over the last twelve months has been disappointing. Part of the underperformance against the index was due to structural reasons. The FTSE AIM All-Share index is dominated by Oil & Gas and Mining companies and as at 31 January 2006 taken together, those two sectors represented some 30% of the total market capitalisation of the index and accounted for 4.3% of a total rise of 5.9% in that index over the twelve months to 31 January 2006. The investment rules embedded within the VCT legislation effectively preclude the majority of companies in these sectors as Qualifying Companies and thus these sectors were inevitably underrepresented within the portfolio of investments held by the Company.

## Investment Review

Within the portfolio there were also specific company disappointments that impacted the net asset value. Offshore Hydrocarbon Mapping ("OHM") represented 5.7% of net assets as at 31 January 2005, after floating on AIM in March 2004 at a significant uplift to the original cost of the investment and performing strongly in the aftermarket. The company was originally set up to commercialise technology emanating from extensive research at the renowned Oceanography Centre at the University of Southampton, providing remote electromagnetic sensing services to detect the presence of offshore oil and gas. In essence the technology extends the quality of information provided by 3 dimensional seismic studies, and offers the potential to reduce the wasted expenditure by oil exploration companies on drilling dry wells. Assessing risks in a young company in a new field of technology always presents challenges, but as Manager we believe that the management and technology, together with the market feedback on the merits of the technique and the associated commercial opportunity, provide a basis on which to continue to back the company.

A UK patent office hearing initiated by Statoil to investigate the award of a patent on the technology to the University of Southampton and then licensed to OHM, was considered by OHM and its legal advisers to be without merit and that the hearing would go in OHM's favour. The award of the patent to Statoil at this hearing not only surprised management and the University of Southampton, but deterred investors, as it appeared to cast doubts over the company's long term future. This led to a sharp correction in the OHM share price and the subsequent fall in value impacted the net asset value by 3.1% over the year to 31 January 2006.

The University of Southampton has lodged an appeal against the decision, and this is scheduled to be heard in late May 2006. In the meantime the uncertainty surrounding the outcome has not prejudiced OHM's ability to trade and a recent update confirmed that its expected turnover in the six months to February 2006 will be in excess of that for the whole of the previous year. Additionally, it has made good progress in other areas of related technology that will not be affected by the outcome of the appeal. The Company had realised £748,000 from partial sales, which was some £298,000 in excess of the entire cost of the investment, prior to the Statoil judgment. With hindsight, it is a matter of regret that more stock was not sold at higher levels, however, we believe it is premature to believe the company is without potential.

Another portfolio company that impacted performance over the period was Amino Technologies. This again is a company where investment was made pre flotation, and where the flotation shortly thereafter was at a multiple to the original investment. Amino is a designer and supplier of applications for telco companies triple play products (voice, data and video on demand services) and for in-home multimedia distribution. The development of the IPTV (telco triple-play applications) market which encompasses the company's products is in its relative infancy and it is difficult to predict take up rates and therefore revenue growth.

Sector euphoria was dissipated when it became clear that major operators would likely be slower in deployments than first anticipated. The effect was a general mark down of the sector by some 50% which adversely affected Amino's share price and this resulted in a 4.0% negative impact on the net asset value.

However, the core statistics of the company remain interesting, with turnover of £1m in 2003 likely to rise to £24m in 2005. Further significant turnover growth is forecast in 2006, although as with all fast growing businesses, issues of timing and execution risk remain. Nonetheless we believe the company has a market leading product in a sector that should show good growth, and has the potential to build value over the longer term.

## Manager's Review continued

Finally, Zoo Digital contributed to a 2.0% decrease in the net asset value over the year. This company has two activities, namely as a publisher of established video games on platforms such as Playstation and Xbox, and secondly the company's proprietary technology for the creation of complex interactive content for standard DVD players. The latter was regarded as the higher risk activity, but in late 2005 it was the publishing activities that disappointed due to aggressive price cutting in the market pre the crucial Christmas selling season. A decision to sell this investment had been taken ahead of the profits warning, despite positive noises from management up until that point, but thin liquidity resulted in only a modest profit realisation at that time. New management is now in place with a revised plan, but credibility will not be rebuilt overnight.

Although it is always disappointing to write about negative events, there were a number of positives in the year and it would be wrong not to comment upon these. The largest holding, Glisten, the confectionery and snack food manufacturer, continues to demonstrate good growth both organically and through acquisition, recently extending its product lines into organic and natural fruit and cereal bars. Management's ability to improve margins post acquisition has been impressive, and the prospects to repeat the formula across the extended product line appears well founded.

Equally, Synergy Healthcare has been a long standing investment in the portfolio, which has risen by over 150% over bookcost. With activities in the UK and the Netherlands for both linen services and sterilisation services to hospitals, the growth to date has been well managed and further growth is underpinned by the forward order book that now stands in excess of £550m.

Another of the larger holdings, Imprint, the recruitment specialist, has broadened its market coverage through astute acquisition and from a start up in 2001 has grown to an organisation with 310 fee earning staff, operating from 13 offices in 7 countries.

We had two successful disposals from within the unquoted investment portfolio. Nectar Taverns, the regional pub operator was sold in the year at an uplift of over £1 million above bookcost, a 111% increase and a 40% increase over the carrying value at 31 January 2005. Additionally, the investment in LFR, the restaurant chain, was sold in the year at an uplift of almost 50% to cost and the carrying valuation at the previous year end. It is also expected there will be further realisations from this portfolio over the coming year. While early days, there are also grounds for cautious optimism that certain of the individual holdings in this section of the portfolio could be capable of material growth.

With the Company effectively now fully invested, investment activity during the year has been more muted than in past years. Nonetheless there have been 23 investments made during the year at a total cost of £8.4m, of which there was £7.2 m allocated to 17 new investments. The disposals during the year generated proceeds of £7.9m and realised a gain over bookcost of £2.3m.

A number of these investments represent a broadening of the investment profile, such as Coal International, the vehicle established explicitly to make acquisitions in the coal sector, and Rurelec, the provider of electrification solutions to Latin America. Although non Qualifying companies in terms of the VCT legislation, investments were able to be made as the Company has already met and surpassed the statutory 70% Qualifying companies investment criteria.

### Outlook

The portfolio is now broadly based, both in terms of stage of development and risk profile. It is also demonstrating maturity in terms of a core group of investments that represent a significant proportion of the Company's net assets. The top 25 holdings now represent approximately 63% of the net assets. That said, however, the portfolio also contains a number of newer investments that have the potential to appreciate materially, and a number of investments that have suffered disappointment but for whom the business model still affords upside. The Managers remain focused on generating value from all aspects of the portfolio.

### Artemis Investment Management Limited

Investment Manager

28 April 2006

# Top 25 Investments

As at 31 January 2006

## Glisten plc (AIM listed)

Glisten is a fast-growing confectionery, snack foods and specialist ingredients group. It serves a wide variety of customers including many high street retailers, major food manufacturers, the food service sector and global export markets. The principal activities of Glisten are the manufacture of chocolate and sugar-based confectionery, edible decorations, cereal and health bars, and specialist confectionery ingredients.

Financial Summary	
Accounts for the year ended 30 June 2005	£'000
Profit before tax	1,622
Retained profit	1,021
Net assets	17,954

Holding	Security	% of class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
964,750	Ordinary shares	7.2	7.2	1,048	3,205	Bid price	7.3

## Synergy Healthcare plc (AIM listed)

Synergy Healthcare is a leading provider of outsourced healthcare support services. Its services are aimed at reducing operational risks for healthcare providers, maintaining high quality standards and promoting the achievement of efficiency targets. Synergy currently operates three main businesses: Surgical Support Services, Patient Support Services and Managed Equipment Services. The business operates throughout the United Kingdom, the Netherlands and Northern Germany.

Financial Summary	
Accounts for the year ended 3 April 2005	£'000
Profit before tax	8,449
Retained profit	3,198
Net assets	67,094

Holding	Security	% of class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
579,000	Ordinary shares	1.6	1.6	1,018	2,620	Bid price	6.0

## Amino Technologies plc (AIM listed)

Amino Technologies designs and supplies electronic systems, software and consultancy for IPTV (telco triple-play applications), on-demand video and in-home multimedia distribution.

Financial Summary	
Accounts for the year ended 30 November 2005	£'000
Profit before tax	64
Retained profit	64
Net assets	28,250

Holding	Security	% of class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
1,547,619	Ordinary shares	2.7	2.7	650	2,422	Bid price	5.5

# Top 25 Investments continued

As at 31 January 2006

## Imprint plc (AIM listed)

Imprint is a multi-functional, multi-tiered, international recruitment business providing a diverse range of services to blue-chip clients, from contingency to search support to board level, across multiple industries and locations. The Imprint Group comprises five brands: Accreate, ECHM, Imprint Search & Selection, Morgan McKinley and WoodHamill.

Financial Summary	
Accounts for the year ended 31 December 2005	£'000
Profit before tax	4,533
Retained profit	2,743
Net assets	42,640

Holding	Security	% of class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
571,000	Ordinary shares	1.6	1.6	529	1,719	Bid price	3.9

## Huveaux plc (AIM listed)

Huveaux was formed in 2001 with the objective of building a substantial, high quality publishing and media group through organic and acquisition-led growth. Huveaux provides essential and intelligent information to both the public and private sectors.

Financial Summary	
Accounts for the year ended 31 December 2005	£'000
Profit before tax	2,136
Retained profit	1,703
Net assets	44,041

Holding	Security	% of class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
3,641,025	Ordinary shares	2.6	2.6	1,000	1,638	Bid price	3.7

## Eurovestech plc (AIM listed)

Eurovestech is a pan-European development capital fund focused on high-technology enterprises.

Financial Summary	
Accounts for the year ended 31 March 2005	£'000
Loss before tax	(662)
Retained loss	(662)
Net assets	13,348

Holding	Security	% of class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
9,090,909	Ordinary shares	2.9	2.9	500	1,386	Bid price	3.2

## Smallbone plc (AIM listed)

Smallbone is a Group that brings together creative design and high quality craftsmanship to deliver bespoke, stylish, functional living spaces that satisfy the specific requirements of its client base. It consists of three complementary businesses that target similar customer bases in the UK and the US.

Financial Summary	
Accounts for the year ended 31 December 2005	£'000
Loss before tax	(114)
Retained profit	307
Net assets	5,976

Holding	Security	% of class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
1,525,424	Ordinary shares	6.8	6.8	900	1,255	Bid price	2.9

# Top 25 Investments continued

As at 31 January 2006

## Offshore Hydrocarbon Mapping plc (AIM Listed)

Offshore Hydrocarbon Mapping (OHM) is the world's leading provider of Controlled Source Electromagnetic Imaging (CSEMI) services, including surveying, data processing, and data interpretation services to the offshore oil industry. CSEMI has been used for over 20 years by researchers to examine hydrothermal and volcanic systems on mid-ocean ridges. OHM has assembled a team of leading scientists in this field to further refine and develop the CSEMI technique and transform it into a potent tool for optimising hydrocarbon exploration and production. With offices in Aberdeen, Scotland and Houston, Texas, we serve clients from around the globe in offshore locations ranging from shallow to ultra deep water.

Financial Summary	
Accounts for the year ended 31 August 2005	£'000
Loss before tax	(3,789)
Retained loss	(3,789)
Net assets	8,606

Holding	Security	% of class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
1,173,241	Ordinary shares	4.0	4.0	350	1,206	Bid price	2.7

## Bridgewell Group Limited (Unquoted)

The Bridgewell Group is a rapidly growing investment banking and securities business based in the City of London. It is majority owned by its employees and backed by Halifax Bank of Scotland, Invesco and other significant investors. It employs over 70 staff in its stockbroking (including research, sales & sales trading, and trading), corporate advisory and corporate broking activities focusing on providing the highest quality independent advice to both its corporate and institutional client base. Bridgewell works with many types of companies but is particularly committed to medium and smaller-sized companies in the UK.

Financial Summary	
Accounts for the year ended 31 December 2004	£'000
Profit before tax	1,086
Retained profit	461
Net assets	13,047

Holding	Security	% of class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
939,571	Ordinary shares	2.8	2.8	977	1,127	Directors' valuation	2.6

## Neutec Pharma plc (AIM Listed)

Neutec Pharma focuses on the development of therapeutics to be used against a range of existing and emerging infections which are resistant to, or difficult to treat with, antibiotics.

Financial Summary	
Accounts for the year ended 30 June 2005	£'000
Loss before tax	(3,597)
Retained loss	(3,597)
Net assets	27,684

Holding	Security	% of class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
213,888	Ordinary shares	0.7	0.7	453	962	Bid price	2.2

	Cost £'000	Valuation £'000	% of net assets
<b>Top Ten Investments</b>	<b>7,425</b>	<b>17,540</b>	<b>40.0</b>

# Top 25 Investments continued

As at 31 January 2006

Company	Description of business	Cost £'000	Valuation £'000	% of net assets
Rurelec	Development of rural electrification projects in Latin America	750	914	2.1
Strathdon Investment	Venture capital company	985	848	1.9
Hallin Marine Subsea International	Offshore sub-sea intervention primarily for the oil, gas and telecommunications industries	800	828	1.9
Medal Entertainment & Media	Acquiring and exploiting intellectual property rights in the areas of TV and video productions, home videos and DVD, programme format and underlying publishing rights on a national and international basis	867	787	1.8
PM Group	Design, manufacture and service of vehicle mounted weighing systems and associated software for the bulk haulage and waste management industries	300	779	1.8
Colliers CRE	Real estate consultancy providing a range of agency, strategic, advisory and implementation services to property owners, investors, developers and occupiers	450	741	1.7
Quadnetics Group	Provision of advanced CCTV and networked video systems and related services	700	640	1.5
Oneclick HR	Design, production, marketing and selling of human resources software and related products and services	750	637	1.5
FSG Security	The core business is the provision of a comprehensive range of Manned Guarding Services	950	598	1.4
Tissue Science Laboratories	Discovery, commercialisation and development of medical device products for surgical implant and wound management therapies	496	560	1.3
Grasshopper Investments	Venture capital company	300	532	1.2
Capital Pub Company	Managed pubs operator	500	523	1.2
Media Square	Marketing and advertising services, printing, reprographics and new media together with internet/web strategy design and integration	306	522	1.2
Adventis Group	Multi media marketing and advertising agency providing services principally to the residential and commercial property industries, as well as the pharmaceutical, legal and financial services sectors	500	513	1.2
Andor Technology	Development and manufacture of high performance digital cameras and their associated products	400	499	1.1
<b>Top Twenty Five Investments</b>		<b>16,479</b>	<b>27,461</b>	<b>62.8</b>
Other investments		23,077	14,766	33.5
Net current assets		1,631	1,631	3.7
<b>Net assets</b>		<b>41,187</b>	<b>43,858</b>	<b>100.0</b>

# Investment Portfolio

As at 31 January 2006

Company	Sector	Cost £'000	Valuation £'000	% of net assets
<b>AIM Listed</b>				
1st Dental Laboratories	Health Care Equipment & Services	500	337	0.8
Advanced Medical Solutions Group	Health Care Equipment & Services	500	485	1.1
Adventis Group	Media	500	513	1.2
Aero Inventory <sup>1</sup>	Aerospace & Defence	14	25	0.1
Amino Technologies <sup>2</sup>	Technology Hardware & Equipment	650	2,422	5.5
Andor Technology	Electronic & Electrical Equipment	400	499	1.1
Asfare Group	Industrial Engineering	280	222	0.5
Avionic Services	Industrial Transportation	450	-	-
Bankers Petroleum <sup>1,2,4</sup>	Oil & Gas Producers	291	351	0.8
Coal International <sup>1</sup>	Mining	300	351	0.8
Cobra Bio-Manufacturing	Pharmaceuticals & Biotechnology	219	151	0.3
Colliers CRE	Real Estate	450	741	1.7
Dream Direct Group	General Retailers	500	326	0.7
EBT Mobile China <sup>2</sup>	General Retailers	442	242	0.6
Empire Interactive	Software & Computer Services	500	68	0.2
Eurogold <sup>1</sup>	Mining	408	255	0.6
Eurovestech <sup>1</sup>	General Financial	500	1,386	3.2
Ffastfill <sup>2</sup>	Software & Computer Services	749	455	1.0
Frontier Mining <sup>1</sup>	Mining	190	188	0.4
Fulcrum Pharma	Pharmaceuticals & Biotechnology	374	114	0.3
Gasol <sup>1,2</sup>	Oil & Gas Producers	125	287	0.7
Glisten <sup>1</sup>	Food Producers	1,048	3,205	7.3
Grasshopper Investments <sup>1</sup>	Support Services	300	532	1.2
Hallin Marine Subsea International <sup>1</sup>	Oil Equipment, Services & Distribution	800	828	1.9
Huveaux <sup>1</sup>	Media	1,000	1,638	3.7
ID Data	Electronic & Electrical Equipment	711	377	0.9
Imprint <sup>2</sup>	Support Services	529	1,719	3.9
Lighthouse Group	General Financial	549	169	0.4
Maelor	Health Care Equipment & Services	183	55	0.1
Medal Entertainment & Media	General Financial	867	787	1.8
Media Square	Media	306	522	1.2
Medical House (The)	Health Care Equipment & Services	500	437	1.0
Neutec Pharma <sup>1</sup>	Pharmaceutical & Biotechnology	453	962	2.2
Neutrahealth plc <sup>2</sup>	Food & Drug Retailers	215	237	0.5
Offshore Hydrocarbon Mapping <sup>2</sup>	Oil Equipment, Services & Distribution	350	1,206	2.7
OneClick HR	Software & Computer Services	750	637	1.5
Oriel Resources <sup>1</sup>	Mining	30	13	-
PM Group	Support Services	300	779	1.8
Portrait Software	Software & Computer Services	1,000	450	1.0
Quadnetics Group <sup>2</sup>	Support Services	700	640	1.5
Rurelec <sup>1</sup>	Electricity	750	914	2.1
Sectorguard	Support Services	250	469	1.1
Smallbone	Household Goods	900	1,255	2.9
Strathdon Investments <sup>1</sup>	Equity Investment Instruments	985	848	1.9
Surface Transforms	Industrial Engineering	655	151	0.3
Symphony Plastic Technologies	General Industrials	491	166	0.4
Synaigen	Pharmaceuticals & Biotechnology	494	427	1.0
Synergy Healthcare <sup>1,2</sup>	Health Care Equipment & Services	1,018	2,620	6.0
Synigence	General Financial	414	1	-
Tanfield Group	Support Services	500	61	0.1
Tepnel Life Sciences	Pharmaceuticals & Biotechnology	729	320	0.7
Tissue Science Laboratories	Health Care Equipment & Services	496	560	1.3
Top Ten Holdings	Travel & Leisure	371	456	1.0
TripleArc	Support Services	500	56	0.1
UBC Media Group	Media	410	363	0.8
VI Group	Software & Computer Services	500	233	0.5
Vitesse Media	Media	500	421	1.0
Zoo Digital Group	Software & Computer Services	299	269	0.6
		29,195	34,201	78.0

# Investment Portfolio continued

As at 31 January 2006

Company	Sector	Cost £'000	Valuation £'000	% of net assets
<b>UK Listed</b>				
Armor Group <sup>1,2</sup>	Support Services	614	472	1.1
Trafficmaster	Automobiles & Parts	988	69	0.1
		1,602	541	1.2
<b>OFEX Traded</b>				
FSG Security <sup>3</sup>	Support Services	950	598	1.4
Coinmaster Gaming	Media	250	-	-
		1,200	598	1.4
<b>Unquoted investments</b>				
Avionic Services Limited Loan Notes <sup>1,3</sup>	Industrial Transportation	310	-	-
Bridgewell Group <sup>1</sup>	General Financial	977	1,127	2.6
Capital Pub Company	Travel & Leisure	500	523	1.2
Capsant Neurotechnologies	Pharmaceuticals & Biotechnology	100	100	0.2
Connectus Direct Solutions <sup>1</sup>	Support Services	272	308	0.7
Digit (Online) <sup>3</sup>	General Retailers	450	-	-
E-Point Group	Electronic & Electrical Equipment	600	100	0.2
iQur <sup>2</sup>	Pharmaceuticals & Biotechnology	300	429	0.9
McLaren <sup>3</sup>	Electronic & Electrical Equipment	625	375	0.9
Nanotecture	Pharmaceuticals & Biotechnology	375	375	0.9
Signature Brands Group	General Retailers	650	325	0.7
Sphere Medical Holdings	Pharmaceuticals & Biotechnology	400	400	0.9
Vienco Oil & Gas	Oil Equipment, Services & Distribution	475	475	1.1
Zyentia	Pharmaceuticals & Biotechnology	100	100	0.2
		6,134	4,637	10.5
<b>Unit Trusts</b>				
Artemis Income Fund <sup>1</sup>	-	341	437	1.0
Artemis UK Smaller Companies Fund <sup>1</sup>	-	370	682	1.6
Artemis UK Growth Fund <sup>1</sup>	-	139	201	0.5
Artemis UK Special Situations Fund <sup>1</sup>	-	575	930	2.1
		1,425	2,250	5.2
<b>Net current assets</b>		1,631	1,631	3.7
<b>Net assets</b>		41,187	43,858	100.0

<sup>1</sup> Non qualifying investment for VCT purposes.

<sup>2</sup> Held by other Artemis managed clients or funds.

<sup>3</sup> A proportion of the investment is a fixed interest security.

<sup>4</sup> Bankers Petroleum is traded on both the AIM market and the Toronto Stock Exchange.

All holdings in companies are ordinary shares unless denoted otherwise.

## Sector Analysis of Investments by Valuation

Sector	31 January 2006 % of net assets*	31 January 2005 % of net assets*
Support Services	14.1	11.1
Health Care Equipment & Services	11.3	11.5
General Financial	8.7	8.3
Media	8.6	11.4
Pharmaceuticals & Biotechnology	8.4	5.6
Food Producers	8.0	6.0
Oil Equipment, Services & Distribution	6.3	6.1
Technology Hardware & Equipment	6.1	9.8
Software & Computer Services	5.3	9.0
Electronic & Electrical Equipment	3.4	4.8
Household Goods	3.1	1.8
Travel & Leisure	2.4	6.4
Electricity	2.3	-
General Retailers	2.2	1.8
Equity Investment Instruments	2.1	2.0
Mining	2.0	0.1
Real Estate	1.9	1.2
Oil & Gas Producers	1.6	-
Industrial Engineering	0.9	1.5
Food & Drug Retailers	0.6	-
General Industrials	0.4	0.6
Automobiles & Parts	0.2	0.2
Aerospace & Defence	0.1	-
Industrial Transportation	-	0.8
	100.0	100.0

Sectors are those used by FTSE AIM Index.

\*The figures above are calculated excluding the unit trust investments, which are held for liquidity purposes.

# Directors' Report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 January 2006.

## Principal Activity and Status

The principal activity of the Company is the making of investments in Venture Capital Trust ("VCT") qualifying holdings of shares or securities. The Company is an investment company within the meaning of Section 266 of the Companies Act 1985. The Company has been granted approval by the HM Revenue & Customs under Section 842AA of the Income and Corporation Taxes Act 1988 as a Venture Capital Trust for the year ended 31 January 2005. The Directors have managed, and continue to manage, the Company's affairs in such a manner as to comply with Section 842AA of the Income and Corporation Taxes Act 1988. A review of the Company's business during the year and consideration of its future development and prospects are contained in the Chairman's Statement and Manager's Review.

## Life of the Company

The Company's Articles of Association require the Directors to put forward a proposal for the continuation of the Company as a Venture Capital Trust at its Annual General Meeting ("AGM") in 2008 and thereafter at three-year intervals.

## Results and Dividend

The results for the year ended 31 January 2006 are set out in the Income Statement on page 30.

The Directors are recommending a final dividend of 5 pence per Ordinary Share, which if approved by shareholders at the AGM will be paid on 7 July 2006 to shareholders on the register as at 9 June 2006. The dividend will be paid from realised capital gains for the year.

## Issue and Buy Back of Shares

During the year to 31 January 2006, the Company issued 4,181,996 Ordinary Shares by way of a top up offer, raising a total of £4.6m, net of expenses.

During the year to 31 January 2006, the Company purchased for cancellation a total of 2,727,756 of its own Ordinary Shares, representing 5.7% of the Ordinary Shares in issue as at 31 May 2005 (2005 AGM). These purchases cost £2.5m including stamp duty. Following the year end, the Company purchased for cancellation a further 220,000 of its own Ordinary Shares, representing 0.5% of the Ordinary Shares in issue as at 31 May 2005, at a cost of £0.2m, including stamp duty.

The authorised and issued share capital of the Company is detailed in note 11 of the notes to the financial statement on page 40.

## Directors

The Directors of the Company and their biographies are set out on page 7. All the Directors held office throughout the year under review.

In accordance with the Company's Articles of Association, Mr Field and Mr Fitz-Harris are retiring by rotation and, being eligible, will be seeking re-election by shareholders at the forthcoming AGM. The Nomination Committee, having reviewed their performance as Directors and their contribution to the operation of the Company, concluded that the Company benefited from the services and advice of both of these Directors, and particularly their contributions as Chairman of the Board and Audit Committee respectively. Accordingly, the Nomination Committee recommended to the Board that resolutions be put to shareholders at the 2006 AGM that Messrs Field and Fitz-Harris be recommended for re-election. The Board concurred with this view and recommends that shareholders vote in favour of their re-election.

# Directors' Report continued

## Directors' Interests

The interests of the Directors in the Ordinary Shares of the Company at the beginning and end of the financial year, all of which were beneficial, were as follows:

Director	31 January 2006	1 February 2005
Robin Field	145,752	143,156
Ian Fitz-Harris	103,000	103,000
Sir Bill Gammell	542,333	295,125
Calum Paterson	19,049	10,246
Richard Ramsay	105,061	105,061

There have been no changes to the above holdings up to the date of this Report.

None of the Directors, nor any persons connected with them, had a material interest in any of the Company's transactions, arrangements or agreements during the year under review.

None of the Directors has a contract of service with the Company.

## Management and Administration Agreements

The Company's investments are managed by Artemis Investment Management Limited ("Artemis") subject to an Investment Management Agreement dated 1 February 2001. The principal terms of this agreement, including the management fee which was agreed at launch, are set out in note 3 of the notes to the financial statements. Artemis' appointment may be terminated by either party on not less than one year's written notice. Artemis is also the appointed Company Secretary.

Artemis is authorised and regulated by the Financial Services Authority and as at 31 January 2006 had £9.6bn of assets under management.

Administration services are provided to the Company by BNP Paribas Fund Services UK Limited ("BNP Paribas") subject to an Administration Agreement dated 15 December 2004. BNP Paribas receives an annual fee of £63,000 (excluding VAT). Either party may terminate the Administration Agreement on not less than six months' written notice.

## Continuing Appointment of the Investment Manager (the "Manager")

The Board has reviewed the performance of the Manager throughout the period, taking into account investment performance, their management processes, resources and the Manager's ability to continue to produce satisfactory results. It is the Board's opinion that the continuing appointment of the Manager, on the current terms, is in the interests of the shareholders.

## VCT Status Monitoring

The Company has retained Ernst & Young LLP as advisers to oversee compliance with relevant tax regulations. The Directors monitor the Company's VCT status through regular reports from the Manager and Administrator.

## Substantial Shareholdings

As at the date of this report, the Directors are not aware of any person who is interested in 3% or more of the Company's Ordinary Share capital.

## Creditor Payment Policy and Practice

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

# Directors' Report continued

## Financial Risk Management

The financial risks faced by the Company are disclosed in note 17 of these accounts on page 42.

## Going Concern

The Directors are of the opinion that it is appropriate to continue to adopt the going concern basis in the preparation of the accounts as, after due consideration, the Directors consider that the Company has adequate resources to continue in operation for the foreseeable future.

## Change in Accounting Policy

The Company has continued to prepare its financial statements under UK Generally Accepted Accounting Practice ("UK GAAP") rather than adopt International Accounting Standards. Several changes have been made to UK GAAP since the prior year, with the main impact on the Company's financial statements having been the change in the basis of valuing quoted investments, which is now done at bid price rather than at mid market price. Further information on this change is given in note 1 of the notes to the financial statements.

## Auditors

The Company's Auditors, Ernst & Young LLP, have expressed their willingness to continue in office. The Audit Committee has considered their effectiveness during the year 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 for the ensuing year will be proposed at the forthcoming AGM.

## Annual General Meeting

The fifth AGM of the Company will be held on 30 May 2006 at the offices of Artemis in Edinburgh. The formal Notice convening this meeting can be found on pages 44 and 45.

## Authority to Issue Shares

The Directors are seeking authority to allot shares without first offering them to existing shareholders. Resolution 8 will, if approved, authorise the Directors to allot new Ordinary Shares up to an aggregate nominal amount of £460,168, being 10% of the Company's issued share capital as at 28 April 2006, for cash without first offering such shares to existing shareholders *pro rata* to their existing holdings. Resolution 8 will be proposed as a special resolution and this authority will continue in effect until 30 August 2007 or, if earlier, at the conclusion of the AGM to be held in 2007. 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 net asset value per share.

## Authority to Buy Back Shares

At the AGM held on 31 May 2005 shareholders authorised the Company to make market purchases of its own Ordinary Shares up to a maximum of 7,222,710 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 for cancellation. Accordingly, an ordinary resolution will be proposed at the forthcoming AGM to authorise the Company to make market purchases of up to 14.99% of the Ordinary Shares in issue as at the date of the Meeting, such authority to expire at the conclusion of the AGM to be held in 2007 or, if earlier, 30 October 2007.

## Directors' Report continued

The price paid for shares will not be less than the nominal value of 10 pence per share nor more than 5% above the average of the middle market values of those shares for the five business days before the shares are purchased. This power will be exercised if the Directors consider it to be in the best interests of shareholders generally. Purchases of Ordinary Shares will be made within guidelines established from time to time by the Directors. Current guidelines are that shares will, where possible, be purchased through market makers at a discount of approximately 10% to net asset value. Any Ordinary Shares purchased under this authority will be cancelled and the number of Ordinary Shares in issue will be reduced accordingly.

By order of the Board

**Artemis Investment Management Limited**

Company Secretary

28 April 2006

# Corporate Governance

## Background

The UK Listing Authority requires all UK listed companies to disclose how they have applied the principles and complied with the provisions of the Combined Code on Corporate Governance, 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.

## Board Responsibilities

The Board currently consists of five non-executive Directors, four of whom are deemed to be independent. Mr Ramsay is deemed non-independent by virtue of his position as a director of Intelli Corporate Finance, an adviser to the Manager. The Chairman was at the time of his appointment, and, as mentioned above, remains independent. All Directors are considered to be independent in character and judgement. Continued Director independence is examined as part of the annual Board evaluation process.

Biographical details of the Directors are set out on page 7 of this Report and demonstrate the wide range of skills and experience they bring to the Board. As all the Directors are non-executive, the Board has not appointed a senior independent director. No chief executive officer has been appointed as the Company has no staff and management of its assets has been delegated to the Manager. No single individual has unfettered powers of decision. The Chairman is responsible for leading the Board to ensure it remains effective and for ensuring that Directors receive accurate, timely and clear information. The Chairman also ensures that there is effective communication with shareholders.

There is a clear division of responsibility between the Board, Manager and other third party service providers and there is a formal schedule of matters reserved for Board consideration. The Board determines the strategic direction of the Company and sets the boundaries within which the Manager operates. It regularly reviews the Company's portfolio, financial position and matters of investment policy, strategy and compliance. Investment decisions are made at the discretion of the Manager and the Board measures the Manager's performance against the Company's investment objectives.

The Manager ensures that the Board is provided with financial information in a timely manner and its representatives attend each Board meeting, to enable the Board to seek clarification on specific issues. The Board takes responsibility for the content of major corporate communications.

During the year under review the Board evaluated its own performance and that of its Chairman and the Board Committees. This evaluation is one of self-assessment of the Board's strengths and weaknesses. The Chairman reviews the findings of these assessments and reports back to the Board with recommendations to improve the performance where necessary. The evaluation concluded that the Board and its Committees were well balanced and performing effectively and there were no recommendations for change.

A formal induction programme has been adopted, under which new Board appointees will be briefed on the Company's investment objectives, policy and practices and given the opportunity to meet with the Chairman, Manager, and other key individuals representing the Company.

The Board has formalised arrangements under which the Directors, in the 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 applicable rules, regulations and matters of corporate governance are complied with. The appointment and removal of the Company Secretary is a matter for the Board as a whole. The Chairman is responsible for ensuring that the Directors have sufficient knowledge to fulfil their role and Directors are encouraged to participate in training courses as appropriate.

# Corporate Governance continued

## *Board Committees*

The Board has established four standing Committees to assist Directors in discharging their duties by making specific recommendations to the Board. These comprise the Audit, Nomination, Remuneration and Management Engagement Committees.

Each Committee comprises all the non-executive members of the Board and is chaired by the Chairman of the Board, with the exception of the Audit Committee, which is chaired by Mr Fitz-Harris. Under the provisions of the Code, members of the Audit Committee and Remuneration Committee should be independent. Mr Ramsay who is not considered independent, has been appointed to these committees, as the Board considers that he makes a valuable contribution to their operation. Each Committee operates within written terms of reference, all of which were updated, or established, on 25 February 2005. Copies of the terms of reference of all the Board Committees are available from the Company Secretary upon request.

## *Audit Committee*

The Audit Committee meets at least twice a year. Its responsibilities include monitoring the integrity of the Company's financial statements, considering the appropriateness of its accounting policies and making recommendations to the Board regarding the appointment of the auditors and the auditors' independence and objectivity, together with the effectiveness of the audit process. The Committee is responsible for reviewing internal control systems and risk to which the Company is exposed. Further details of this are set out under the disclosures relating to Internal Controls on page 24.

The Audit Committee has approved and implemented a policy on the engagement of the auditors to supply non-audit services. The policy allows for auditor objectivity and independence to be safeguarded through a restriction on the level of fees paid for such services and a requirement for the prior approval by the Audit Committee of specified services. The policy also prohibits the auditors from performing accounting and other services related to the Company's accounting records that would involve them auditing their own work.

The Board considers that all the Directors have relevant and recent financial experience as a result of their professional positions in the financial services and other industries. Mr Fitz-Harris, the chairman of the Audit Committee, is a chartered accountant.

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 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 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 clients. Both third parties report, on a quarterly basis, any breaches of law or regulation as and when they arise. 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 audit controls that exist within its third party providers.

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.

## *Nomination Committee*

The Nomination Committee meets at least annually. It is responsible for leading the annual Board evaluation process and making recommendations to the Board regarding succession planning, the identification and nomination of new Directors to the Board and proposing their election by shareholders. The Committee also proposes the re-election of retiring Directors. In instances where the Committee is considering the performance or succession of the Chairman, the Committee elects another of its members to chair proceedings.

# Corporate Governance continued

## *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 commitments and the need to recruit and retain individuals of sufficient calibre to optimise the Board's effectiveness. Further details of Directors' fees can be found on pages 25 and 26 of this Report.

## *Management Engagement Committee*

The Management Engagement Committee was established on 25 February 2005 and meets at least annually. It is responsible for reviewing the terms of engagement and performance of the Company's third party service providers, including the Manager, and making recommendations to the Board as appropriate.

## Board and Committee Meetings

The following table sets out the Directors' attendance at the Board and Committee meetings held during the year and up to the date of this Report.

Director	Board Meetings		Audit Committee Meetings		Nomination Committee Meetings		Management Engagement Committee Meeting		Remuneration Committee Meeting	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Robin Field	5	5	2	2	2	2	1	1	1	1
Ian Fitz-Harris	5	4	2	1	2	1	1	1	1	1
Sir Bill Gammell	5	4	2	1	2	1	1	1	1	1
Calum Paterson	5	4	2	1	2	1	1	1	1	1
Richard Ramsay	5	5	2	2	2	2	1	1	1	1

## Board Succession Planning

The Board has considered the matter of succession planning and determined that, in light of the continuation vote in 2008, the Company would benefit from the knowledge and experience of the current Board composition until this time. Therefore, while Directors remain subject to periodic re-election by shareholders, there is no fixed tenure policy. This position will be reviewed following the results of the continuation vote in 2008.

The Board has agreed a procedure for the appointment of new Directors. Formal consideration of the skills and experience of the Board will be given when a vacancy arises.

## Relations with Shareholders

The Directors are always available to enter into dialogue with shareholders. The Board aims to keep the Company's shareholders fully informed of significant developments in the Company's business through its published annual and interim reports. The Company discloses the investment portfolio semi-annually.

Shareholders are encouraged to attend and vote at the AGM, during which the Board and Manager are available to discuss issues affecting the Company. Proxy votes and abstentions are declared at the AGM.

Further information on the Company is available on the Manager's website, [www.artemisonline.co.uk](http://www.artemisonline.co.uk), which contains a dedicated page on the Company.

All Directors intend to attend this year's AGM, details of which are set out in the Notice of Meeting on pages 44 and 45 of this Report.

## Voting Policy

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

# Corporate Governance continued

## Internal Controls

The Board recognises its responsibility for ensuring that the Company has implemented, and reviews and maintains, effective systems of internal control to manage the risks to which the Company is exposed. This encompasses all material controls, including financial, operational and compliance, and risk management systems. Priority is given to monitoring higher risk activities. Errors or weaknesses identified are reported to the Board and timetables agreed for implementing improvements to systems. As the majority of the Company's systems are maintained by third party service providers under contract, the Board fulfils its obligations by requiring that those service providers provide assurances on their internal control systems. 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 assurance on the effectiveness of the internal control systems operated on behalf of their clients and the Board reviews reports on these processes on a quarterly basis, which identify any known internal control failures. In light of the Board's reliance on these reporting structures, it can only provide reasonable but not absolute assurance against material misstatement or loss.

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

- The Board has identified and evaluated the Company's risks and controls and these have been recorded in a Risk Map, which is subject to annual review. The existing Risk Map was last reviewed and revised in February 2006.
- The duties of investment management, accounting and custody of assets are segregated. The procedures of the individual parties are designed to complement each other.
- The Board clearly defines the duties and responsibilities of the Company's agents and advisers in the terms of their contracts. Appointments are made based on the Board's assessment of the quality of service offered by the parties involved. Once appointed, the Board monitors the ongoing performance of its agents and advisers to ensure that they remain effective and competitive.
- Investment management and company secretarial services are provided by Artemis. The Board is responsible for setting the Company's overall investment policy. The Board reviews information produced by Artemis in detail on a regular basis.
- Administration services are provided by BNP Paribas, which reports to the Board on a quarterly and ad hoc basis as necessary. In addition, the Board reviews BNP Paribas's FRAG 21 report on internal controls.
- Custody of assets is undertaken by HSBC Global Investor Services ("HSBC"), having been appointed on 13 February 2006 to succeed Bank of New York Limited ("BONY"), and whose services are monitored by the Company's third party service providers. The Board reviewed BONY's FRAG 21 on internal controls in February 2006 and will review HSBC's FRAG 21 internal controls report going forward.
- Mandates for the 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 control systems throughout the year and up to the date of this Report.

## Statement of Compliance with the Combined Code

The Board has reviewed the principles outlined in the Code and considers that, subject to the exception of the appointment of a senior independent director (as required by Code provision A3.3), Richard Ramsay's membership of the Audit Committee (Code provision C3.1) and the Remuneration Committee (Code provision B2.1) and taking into account its specific circumstances as a Venture Capital Trust, the Company has complied with the provisions set out in Section 1 of the Code up to the date of this Report.

# Directors' Remuneration Report

The Directors are pleased to present their Report on Remuneration for the year ended 31 January 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 disclosures have been audited, they are indicated as such. The Auditors' opinion is included within their report on pages 28 and 29.

## Policy on Directors' Fees

The Company's Articles of Association limit the aggregate fees payable to Directors to £85,000 per annum. The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole and be fair and comparable to that of other relevant VCTs that are similar in size and have similar investment objectives and structures. Furthermore, the level of remuneration should be sufficient to attract and retain Directors of a calibre needed to properly oversee the Company and to reflect its specific circumstances, as well as the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ending 31 January 2007 and subsequent years.

It is the Company's policy that no Director shall be entitled to any benefits in kind, share options, long-term incentives, pension or other retirement benefits, or compensation for loss of office.

## Directors' Fees

The Board consists solely of non-executive directors and are independent, with the exception of Mr Ramsay who is a director of Intelli Corporate Finance, an adviser to the Manager. The members of the Board are detailed on page 7. The Remuneration Committee considers at least annually the level of the Directors' fees and makes recommendations to the Board on its conclusions. Following a review of the fees on 24 February 2006, the Committee recommended to the Board that fees be maintained at their present level, which was approved. Accordingly, Directors' fees remain at £12,500 for each Director and £17,500 for the Chairman.

## Directors' Service Contracts

It is the Board's policy that Directors do not have service contracts, but are each appointed subject to the terms of a letter of appointment. These letters contain no notice period nor provision for compensation for loss of office.

In accordance with the Company's Articles of Association, new Directors are required to stand for election at the first Annual General Meeting 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 have been offered up for re-election at least once.

	Date of last Re-election	Due date for Re-election
Robin Field	30 May 2003	AGM 2006
Ian Fitz-Harris	30 May 2003	AGM 2006
Sir Bill Gammell	4 June 2004	AGM 2007
Calum Paterson	4 June 2004	AGM 2007
Richard Ramsay	31 May 2005	AGM 2008

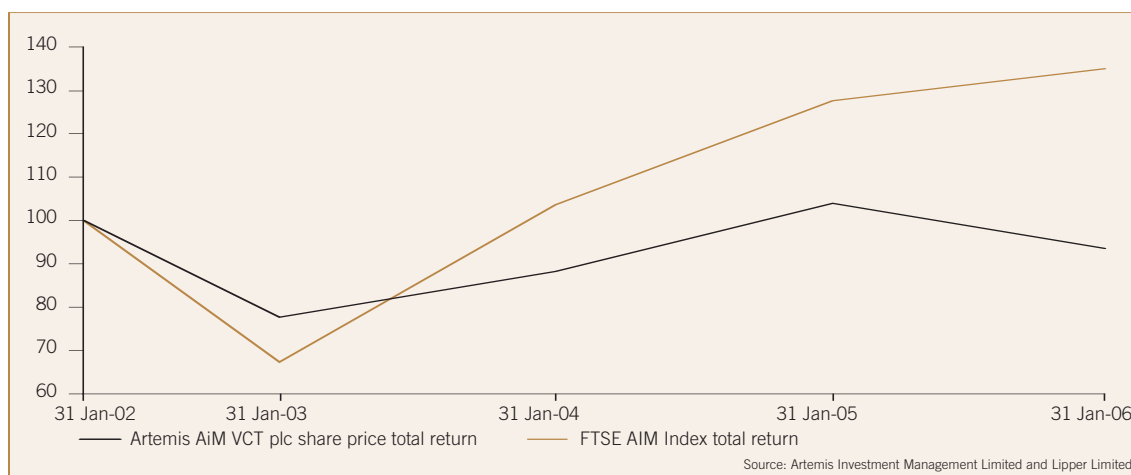
## Directors' and Officers' Liability Insurance

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

# Directors' Remuneration Report continued

## Performance Chart

The graph below charts the Company's share price total return (with all dividends reinvested) for the last five years 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 for the Company, there is likely to be a divergence between the performance of each.



## Directors' Emoluments for the Year (audited)

The Directors who served during the year have received the following emoluments:

	2006 £	2005 £
Robin Field	17,500	15,000
Ian Fitz-Harris	12,500	10,000
Sir Bill Gammell	12,500	10,000
Calum Paterson	12,500	10,000
Richard Ramsay	12,500	10,000
Total	67,500	55,000

## Notes

Of the fees payable to Directors as set out above, the following sums were paid to, or receivable by, third parties for making available the services of the person as a Director in respect of the year ended 31 January 2006:

- Mr Paterson's fees were paid to Scottish Equity Partners Limited.
- Mr Ramsay's fees were paid to Intelli Corporate Finance Limited.

On behalf of the Board

**Robin Field**

Chairman

28 April 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 return for that year. In preparing such statements, the Directors are required to:

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

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect 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 shareholders of Artemis AiM VCT plc

We have audited the Company's financial statements for the year ended 31 January 2006 which comprise the Income Statement, Balance Sheet, Cash Flow Statement and Reconciliation of Movements in Shareholders' Funds and the related Notes 1 to 17. These financial statements have been prepared on the basis of 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 auditors' 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, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in respect of the financial statements.

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, International Standards on Auditing (UK and Ireland) and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether 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. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, 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 Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC 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 the other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. The other information comprises the Corporate Policy and Financial Highlights, Chairman's Statement, Board of Directors, Manager's Review, Top 25 Investments, Investment Portfolio Summary, Sector Analysis of Investments by Valuation, Directors' Report, Corporate Governance, Directors' Remuneration Report, Statement of Directors' Responsibilities in respect of the financial statements, Notice of Annual General Meeting and General Information. 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.

# Independent Auditors' Report continued

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 the part of the Directors' Remuneration Report to be audited are free from material 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 of the state of affairs of the Company as at 31 January 2006 and of its net loss for the year then ended; and
- 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.

Ernst & Young LLP  
Registered Auditor  
Edinburgh  
28 April 2006

# Income Statement

For the year ended 31 January 2006

	Note	Year ended 31 January 2006			Year ended 31 January 2005		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments		-	(5,882)	(5,882)	-	7,999	7,999
Income	2	430	-	430	269	-	269
Investment management fees	3	(266)	(799)	(1,065)	(245)	(735)	(980)
Other expenses	4	(398)	-	(398)	(376)	-	(376)
<b>(Loss)/return on ordinary activities before taxation</b>		(234)	(6,681)	(6,915)	(352)	7,264	6,912
Tax on ordinary activities	5	-	-	-	-	-	-
<b>(Loss)/return attributable to ordinary shareholders</b>	6	(234)	(6,681)	(6,915)	(352)	7,264	6,912
<b>(Loss)/return per Ordinary Share (pence)</b>	6	(0.50)	(14.20)	(14.70)	(0.78)	16.07	15.29

The total column of this statement represents the profit and loss account of the Company. All revenue and capital items in the above statement derive from continuing operations. The Company has only one class of business and derives its income from investments made in shares, securities, loans and bank deposits. The Company has no other gains and losses other than those recognised in the Income Statement above and has not therefore prepared a statement of recognised gains and losses.

**The accompanying notes on pages 34 to 43 are an integral part of the financial statements.**

# Balance Sheet

As at 31 January 2006

	Note	As at 31 January 2006 £'000	As at 31 January 2005 £'000
<b>Fixed assets</b>			
Investments	1,7	42,227	47,543
<b>Current assets</b>			
Debtors	9	645	19
Cash at bank	15	1,648	1,496
		2,293	1,515
<b>Creditors: amounts falling due within one year</b>	10	(662)	(444)
<b>Net current assets</b>		1,631	1,071
<b>Net assets</b>		43,858	48,614
<b>Capital and reserves</b>			
Called up share capital	11	4,624	4,478
Capital redemption reserve	12	3,970	3,698
Share premium	12	7,637	3,415
Special reserve	12	27,949	30,430
Capital reserve - realised	12	(2,086)	(3,645)
Capital reserve - unrealised	12	2,671	10,911
Revenue reserve	12	(907)	(673)
<b>Equity Shareholders' funds</b>		43,858	48,614
<b>Net asset value per Ordinary Share (pence)</b>	13	94.85	108.56

These financial statements were approved and authorised for issue by the Board of Directors on 28 April 2006 and were signed on their behalf by:

**Robin Field**

Director

28 April 2006

**The accompanying notes on pages 34 to 43 are an integral part of the financial statements.**

# Cash Flow Statement

For the year ended 31 January 2006

	Note	Year ended 31 January 2006		Year ended 31 January 2005	
		£'000	£'000	£'000	£'000
<b>Operating activities</b>					
Investment income received		378		200	
Deposit and similar interest received		18		53	
Income from unit trust investments		30		12	
Investment management fees paid		(1,092)		(695)	
Administrator's fees paid		(59)		(78)	
Other cash payments		(255)		(273)	
<b>Net cash outflow from operating activities</b>	14		(980)		(781)
<b>Financial investment</b>					
Sale of investments		7,315		12,310	
Purchase of investments		(8,497)		(11,044)	
<b>Net cash (outflow)/inflow from financial investment</b>			(1,182)		1,266
<b>Net cash (outflow)/inflow before financing</b>			(2,162)		485
<b>Financing</b>					
Share issues		4,897		1,960	
Share issue expenses		(257)		(99)	
Repurchase of shares		(2,326)		(1,256)	
<b>Net cash inflow from financing</b>			2,314		605
<b>Increase in cash</b>	15		152		1,090

The accompanying notes on pages 34 to 43 are an integral part of the financial statements.

# Reconciliation of Movements in Shareholders' Funds

For the year ended 31 January 2006

	For the year ended 31 January 2006							
	Share capital	Capital redemption reserve	Share premium account	Special reserve	Capital reserve - realised	Capital reserve - unrealised	Revenue reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 February 2005	4,478	3,698	3,415	30,430	(3,645)	10,911	(673)	48,614
Return/(loss) on ordinary activities after taxation	-	-	-	-	1,559	(8,240)	(234)	(6,915)
Issues of new shares less expenses	418	-	4,222	-	-	-	-	4,640
Repurchases of shares	(272)	272	-	(2,481)	-	-	-	(2,481)
<b>At 31 January 2006</b>	<b>4,624</b>	<b>3,970</b>	<b>7,637</b>	<b>27,949</b>	<b>(2,086)</b>	<b>2,671</b>	<b>(907)</b>	<b>43,858</b>
	For the year ended 31 January 2005							
At 1 February 2004	4,434	3,557	1,739	31,687	(4,403)	4,405	(321)	41,098
Return/(loss) on ordinary activities after taxation	-	-	-	-	758	6,506	(352)	6,912
Issues of new shares less expenses	185	-	1,676	-	-	-	-	1,861
Repurchases of shares	(141)	141	-	(1,257)	-	-	-	(1,257)
<b>At 31 January 2005</b>	<b>4,478</b>	<b>3,698</b>	<b>3,415</b>	<b>30,430</b>	<b>(3,645)</b>	<b>10,911</b>	<b>(673)</b>	<b>48,614</b>

# 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” (December 2005).

For the year commencing 1 February 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 its financial statements under UK GAAP which therefore comply with the new Financial Reporting Standards issued by the Accounting Standards Board as part of a programme to converge UK GAAP with IFRS.

The financial statements have been prepared in accordance with accounting policies used for the year ended 31 January 2005, except that the basis of valuing investments has been changed. The Company has adopted Financial Reporting Standard 26, “Financial Instruments: Measurement” under which the Company’s investments have been designated as “financial assets at fair value through profit and loss account”. For listed investments and those traded on AIM/OFEX, fair value is deemed to be the bid market price. Unquoted investments will be valued by the Directors at fair value, with reference to the International Private Equity and Venture Capital Valuation Guidelines (“IPEVC”). The Company has taken advantage of an exemption from restating the 2005 comparatives.

Previously, the Company’s listed investments and those traded on AIM/OFEX were valued at mid-market prices. The change in accounting policy for the valuation of investments has reduced Shareholders’ funds by £462,000 equivalent to 1.0p per share as at 31 January 2006 (31 January 2005: 0.5p per share).

### b) Investments

All investments are designated as fair value through profit and loss account, and recognised on the trade date and are initially measured at fair value. Listed investments and investments traded on AIM/OFEX are stated at bid market prices as at 31 January 2006. They are measured at subsequent reporting dates at fair value which is assumed to be the bid market prices. Unlisted investments are stated at fair value. Changes in fair value are included in the Income Statement as a capital item.

In accordance with generally accepted accounting practice, investments in unquoted companies, other than those traded on AIM/OFEX are valued at fair value by the Directors with reference to the following 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 shares 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 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.

# Notes to the Financial Statements continued

## c) Income

Income from unit trusts and 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. Deposit interest is included on an accrual basis.

## d) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:

- expenses which are incidental to the acquisition or disposal of an investment are charged to capital; and
- expenses are charged to realised capital reserves where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. In this respect, 25 per cent of the fees payable to Artemis has been allocated to revenue and 75 per cent to realised capital reserves to reflect the Company's investment policy and prospective income and capital growth.

## 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.

## 2. Income

	Year ended 31 January 2006 £'000	Year ended 31 January 2005 £'000
<b>UK Dividends</b>	353	112
<b>Interest</b>		
- from fixed interest securities	25	91
- from bank deposits	22	53
<b>Other income</b>		
- Unit trust dividends	30	13
	<hr/> 430	<hr/> 269

# Notes to the Financial Statements continued

## 3. Investment Management Fees

	Year ended 31 January 2006			Year ended 31 January 2005		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Investment management fee	227	680	907	208	625	833
Irrecoverable VAT thereon	39	119	158	37	110	147
	266	799	1,065	245	735	980

The appointment of Artemis as Manager may be terminated by either party on giving one year's notice. This appointment may also be terminated in circumstances of material breach by either party.

The Company pays Artemis an annual management fee (exclusive of VAT and payable quarterly in arrears) of 2% of the value of the Company's net assets adjusted as follows:

- no fee is paid in respect of funds invested in Artemis unit trusts (the unit trusts each pay Artemis Fund Managers Limited a fee of 1.5% per annum of the value of the fund).
- no fee is paid by the Company to Artemis in respect of the funds invested in the fixed interest portfolio.
- no fee is paid in respect of funds held as cash.

Artemis is also entitled to receive a performance fee from the Company equal to 20% of the amount by which the increase in the adjusted Net Asset Value ("NAV") of the Company in an accounting period and all prior accounting periods exceeds a hurdle amount equal to simple interest on the gross proceeds of the Offers at a rate of 8 per cent per annum less the amount of any performance fee paid in respect of prior accounting periods as determined by the Directors. To date no performance fee is due.

As stated above the management agreement may be terminated by giving 12 months' notice. If less than 12 months' notice is given to terminate then a termination fee is payable to Artemis. This is calculated at 2% of the value of the portfolio at that date and adjusted pro rata for any notice period given.

## 4. Other Expenses

	Year ended 31 January 2006 £'000	Year ended 31 January 2005 £'000
Directors' remuneration (excluding VAT)	68	55
Administrator's fees	75	81
Auditor's fees - for audit services	15	11
Auditor's fees - interim review	5	4
Auditor's fees - for tax services	6	7
Corporate finance advisory fees	134	134
Printing	16	17
Other expenses	79	67
	398	376

The above expenses include irrecoverable VAT where charged, except where indicated.

The Company has no employees.

The corporate finance advisory fee is payable to Noble & Company Limited for the provision of investor relations and corporate finance assistance and was agreed at the time that the overall fees for the raising of new capital were agreed. The fee is payable at an annual rate of 0.25% of gross funds raised. This arrangement ran for a period of five years to 31 January 2006.

# Notes to the Financial Statements continued

## 5. Taxation on Ordinary Activities

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

	Year ended 31 January 2006 £'000	Year ended 31 January 2005 £'000
Loss on ordinary activities before taxation	(234)	(352)
Loss on ordinary activities multiplied by the applicable rate of corporation tax of 30% (2005: 30%)	(70)	(106)
Effects of:		
Non taxable UK dividends	(115)	(37)
Unutilised management expenses	425	364
Expenses charged to capital available to be utilised	(240)	(221)
Taxation on ordinary activities	-	-

No provision for deferred tax has been made in the current or prior year.

The Company has not recognised a deferred tax asset of £1,166,000 (2005: £741,000) arising as a result of having unutilised management expenses. These expenses will only be utilised if the tax treatment of realised capital gains made by venture capital trusts changes, or the Company's taxable investment income increases significantly.

## 6. (Loss)/return per Ordinary Share

	Year ended 31 January 2006			Year ended 31 January 2005		
	Revenue	Capital	Total	Revenue	Capital	Total
(Loss)/return per Ordinary Share (pence)	(0.50)	(14.20)	(14.70)	(0.78)	16.07	15.29

Revenue return per Ordinary Share is based on the net loss from ordinary activities after taxation of £(234,000) and on 47,055,628 Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year (2005: £(352,000) and on 45,213,828 Ordinary Shares).

Capital return per Ordinary Share is based on net capital losses after taxation of £(6,681,000) and on 47,055,628 Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year (2005: net capital gains of £7,264,000 on 45,213,828 Ordinary Shares).

The total return per Ordinary Share is the sum of the revenue return and capital return.

# Notes to the Financial Statements continued

## 7. Investments

Movements in investments during the year are summarised as follows:

	AIM & UK Listed £'000	OFEX & Unquoted £'000	Unit Trusts £'000	Fixed Interest £'000	Total £'000
Opening book cost	28,075	7,085	1,402	70	36,632
Opening unrealised gains/(losses) at 31 January 2005	11,563	(1,134)	498	(16)	10,911
Valuation at 31 January 2005	39,638	5,951	1,900	54	47,543
Purchases at cost	6,625	1,849	23	-	8,497
Disposals - proceeds	(5,002)	(2,870)	-	(59)	(7,931)
- realised gains/(losses)	1,099	1,270	-	(11)	2,358
(Decrease)/increase in unrealised (losses)/gains	(7,618)	(965)	327	16	(8,240)
	34,742	5,235	2,250	-	42,227
Book cost at 31 January 2006	30,797	7,334	1,425	-	39,556
Unrealised gains/(losses) at 31 January 2006	3,945	(2,099)	825	-	2,671
	34,742	5,235	2,250	-	42,227
Realised gains/(losses) on disposal	1,099	1,270	-	(11)	2,358
Net (gains)/losses thereon already recognised in earlier periods	(451)	(500)	-	16	(935)
Realised gains in current year	648	770	-	5	1,423
Movement in unrealised (losses)/gains	(7,167)	(465)	327	-	(7,305)
(Losses)/gains on investments	(6,519)	305	327	5	(5,882)

The cost and carrying value of investments held as at 31 January 2006 are given on pages 14 and 15. At 31 January 2006, total provisions against the unquoted portfolio amounted to £2.1m (2005: £1.0m, 2004: £0.3m).

Income of £353,000 was received from equity investments in the year ended 31 January 2006 (2005: £112,000).

### Transaction costs

Included in (losses)/gains on investments are expenses incurred in purchasing and disposing of investments, as shown below:

	Year ended 31 January 2006 £'000	Year ended 31 January 2005 £'000
Purchases	-	-
Sales	21	7
	21	7

# Notes to the Financial Statements continued

## 7. Investments continued

The following unlisted investments were sold during the year:

Company	Cost £'000	Disposal Proceeds £'000	Value at 31 January 2005 £'000
Nectar Taverns	1,000,000	1,921,882*	1,500,000
LFR	600,000	888,890	600,000
Rhetorical Group (residual proceeds)	-	59,089	-

\* In addition to the sale proceeds a cumulative preference dividend of £190,495 was received, resulting in a total gain over cost of £1,112,377.

## 8. Significant Interests

At 31 January 2006 the Company had interests, amounting to 3% or more of any class of capital, in the following investee companies:

Company	Class held	Investment at cost £'000	Percentage Class Held %
Vitesse Media	Ordinary shares	500	10.5
OneClick HR	Ordinary shares	750	10.1
Medal Entertainment & Media	Ordinary shares	867	9.1
FSG Security	Ordinary shares	450	7.8
FSG Security	Loan notes 2009	150	38.5
FSG Security	Loan notes 2008	350	50.0
Glisten	Ordinary shares	1,048	7.2
Smallbone	Ordinary shares	900	6.8
VI Group	Ordinary shares	500	6.2
Dream Direct Group	Ordinary shares	500	5.9
Strathdon Investments	Ordinary shares	985	5.8
Surface Transforms	Ordinary shares	655	5.8
Asfare Group	Ordinary shares	280	5.7
Adventis Group	Ordinary shares	500	5.4
Ffastfill	Ordinary shares	749	4.4
Advanced Medical Solutions Group	Ordinary shares	500	4.1
Hallin Marine Subsea International	Ordinary shares	800	4.1
Sectorguard	Ordinary shares	250	4.1
Offshore Hydrocarbon Mapping	Ordinary shares	350	4.0
1st Dental Laboratories	Ordinary shares	500	4.0
ID Data	Ordinary shares	711	3.5

It is considered that, as permitted by FRS 9 "Associates and Joint Ventures", the above investments are held as part of an investment portfolio as their value to the Company is through their marketable value as part of a portfolio of investments rather than as a medium through which the Company carries out its business. Therefore the investments are not considered to be associates.

# Notes to the Financial Statements continued

## 9. Debtors

	As at 31 January 2006 £'000	As at 31 January 2005 £'000
Accrued interest and other accrued income	10	6
Amounts due from brokers	616	-
Prepayments	2	3
Income tax recoverable	17	10
	645	19

## 10. Creditors: Amounts Falling Due Within One Year

	As at 31 January 2006 £'000	As at 31 January 2005 £'000
Accruals	506	443
Amounts outstanding on repurchase of shares	156	1
	662	444

## 11. Share Capital

	As at 31 January 2006 £'000	As at 31 January 2005 £'000
<b>Authorised:</b>		
84,608,365 Ordinary Shares of 10p each (2005: 84,608,365)	8,461	8,461
<b>Allotted, called-up and fully paid:</b>		
46,236,878 Ordinary Shares of 10p each (2005: 44,782,638)	4,624	4,478

During the year the Company issued 4,181,996 Ordinary Shares as detailed below:

	Proceeds £'000
<b>Allotted, called-up and fully paid:</b>	
1,113,398 Ordinary shares of 10p each on 18 March 2005	1,325
2,210,499 Ordinary shares of 10p each on 1 April 2005	2,586
555,760 Ordinary shares of 10p each on 15 April 2005	650
302,339 Ordinary shares of 10p each on 29 April 2005	336
	4,897

In addition, during the year the Company repurchased 2,727,756 Ordinary Shares for a consideration of £2,481,000. The amount of £272,000 by which the called-up share capital has been diminished has been transferred to the Capital Redemption Reserve.

# Notes to the Financial Statements continued

## 12. Reserves

	Capital redemption reserve £'000	Share premium £'000	Special reserve £'000	Capital reserve-realised £'000	Capital reserve-unrealised £'000	Revenue reserve £'000	Total £'000
At 1 February 2005	3,698	3,415	30,430	(3,645)	10,911	(673)	44,136
Share issues	-	4,479	-	-	-	-	4,479
Share issue expenses	-	(257)	-	-	-	-	(257)
Repurchase of shares	272	-	(2,481)	-	-	-	(2,209)
Movement in unrealised reserves	-	-	-	-	(8,240)	-	(8,240)
Capital management fees	-	-	-	(799)	-	-	(799)
Profit on disposal of investments	-	-	-	2,358	-	-	2,358
Loss for the year	-	-	-	-	-	(234)	(234)
At 31 January 2006	3,970	7,637	27,949	(2,086)	2,671	(907)	39,234

## 13. Net Asset Value per Ordinary 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:

	Based on 2006 accounting policies		Based on 2005 accounting policies	
	As at 31 January 2006	As at 31 January 2005	As at 31 January 2006	As at 31 January 2005
	Pence	Pence	Pence	Pence
Net asset value per Ordinary Share	94.85	108.10	95.85	108.56

Net asset value per Ordinary Share is based on net assets and on 46,236,878 Ordinary Shares, being the number of shares in issue at 31 January 2006 (31 January 2005: 44,782,638).

## 14. Reconciliation of Net Loss Before Taxation to Net Cash Outflow from Operating Activities

	Year ended 31 January 2006 £'000	Year ended 31 January 2005 £'000
Net (loss)/return before taxation	(6,915)	6,912
Losses/(gains) on investments	5,882	(7,999)
Increase in debtors	(10)	(4)
Increase in creditors and accruals	63	310
Net cash outflow from operating activities	(980)	(781)

# Notes to the Financial Statements continued

## 15. Analysis of Changes in Net Funds

	Cash £'000
At 1 February 2005	1,496
Cash flows in year	152
At 31 January 2006	1,648
At 1 February 2004	406
Cash flows in year	1,090
At 31 January 2005	1,496

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.

## 16. Financial Instruments

The Company's financial instruments comprise its investment portfolio and cash balances. All financial assets and liabilities are held (see note 1) at fair value.

## 17. Risk Management, Financial Assets and Liabilities

### Risk Management

The Company's objectives are detailed on page 2. The Company's financial instruments comprise equity 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, being the risk that the value of the investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency movements, (ii) liquidity risk and (iii) interest rate 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 Manager's Review.

### 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.

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 their market value on that date.

# Notes to the Financial Statements continued

## 17. Risk Management, Financial Assets and Liabilities continued

### Liquidity Risk

The majority of the Company's portfolio comprises companies traded on AIM and a number of unquoted investments and these may not all be readily realisable. The Company has investments in unit trusts as detailed in note 7 and these are readily realisable securities which can be sold to meet funding commitments if necessary.

### 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 4.5% at 31 January 2006 (2005: 4.75%).

### Interest Risk Profile

The interest risk profile of the Company's financial assets as at 31 January 2006 was as follows:

	2006			2005		
	Floating Rate	Non-interest Bearing	Fixed Rate	Floating Rate	Non-interest Bearing	Fixed Rate
	£'000	£'000	£'000	£'000	£'000	£'000
Sterling	1,648	40,706	862	1,496	46,066	1,477
Canadian Dollar	-	659	-	-	-	-

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

The fixed interest rate exposure at 31 January 2006 comprised of 3 securities (2005: 7) with a maturity of 5.6 years (2005: 5.4) and an interest rate of 7.0% (2005: 7.0%).

### Foreign Currency Risk

The majority of the Company's assets and liabilities are denominated in Sterling. At the year end the Company held two investments which were denominated in foreign currencies (2005: none). 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:

The Company held £659,000 of investments in Canadian dollars at 31 January 2006 (2005: £nil).

### Fair Values 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 7) are valued in accordance with the accounting policies set out in note 1 on page 34. The Company's liquidity is held in sterling on an interest-bearing current account. The current account deposits are held in a floating rate account.

# Notice of Annual General Meeting

Notice is hereby given that an Annual General Meeting of Artemis AiM VCT plc will be held on Tuesday, 30 May 2006 at the offices of Artemis Investment Management Limited, 42 Melville Street, Edinburgh EH3 7HA at 12 noon for the purposes of considering the following business:

## Ordinary Business

- Resolution 1 To receive the Report of the Directors and the audited financial statements for the year ended 31 January 2006.
- Resolution 2 To approve the Directors' Remuneration Report for the year ended 31 January 2006.
- Resolution 3 To approve a final dividend of 5p per Ordinary Share.
- Resolution 4 To re-elect Robin Field as a Director.\*
- Resolution 5 To re-elect Ian Fitz-Harris as a Director.\*
- Resolution 6 To re-appoint Ernst & Young LLP as Auditors and to authorise the Directors to determine their remuneration.

## Special Business

- Resolution 7 To consider and, if thought fit, pass the following resolution as an ordinary resolution:
- 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 ("Shares"), provided that:
- (a) the maximum number of Shares hereby authorised to be purchased shall not exceed 14.99% of the total number of Shares in issue immediately following the passing of this resolution;
  - (b) the minimum price which may be paid for a Share shall be 10 pence (exclusive of expenses);
  - (c) the maximum price (exclusive of expenses) which may be paid for a Share shall be an amount equal to 105% of the average of the middle market quotations (as derived from the Daily Official List) for the Shares for the five business days immediately preceding the date of purchase; and
  - (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 30 October 2007 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2007, save that the Company may, prior to such expiry, enter into a contract to purchase Shares under such authority as if the authority conferred hereby had not expired and may make a purchase of Shares pursuant to any such contract which will or may be executed wholly or partly after the expiry of this authority.

## Special Resolution

- Resolution 8 To consider and, if thought fit, pass the following resolution as a special resolution:
- That, in substitution for any existing powers under section 95 of the Companies Act 1985 (as amended and from time to time in force) (the "Act") but without prejudice to the exercise of any such powers prior to the date hereof, the Directors be and are hereby authorised to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority conferred on the Directors under section 80 of the Act, as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:
- (a) the allotment of equity securities in connection with an offer or issue to or in favour of the holders of equity securities in the Company ("Shares") on a date fixed by the Directors where the equity securities respectively attributable to the interests of all such

# Notice of Annual General Meeting continued

shareholders are proportionate (as nearly as may be) to the respective number of Shares held (or deemed or notionally held) by them on that date but subject to such exclusions or other arrangements as the Directors may think fit in relation to fractional entitlements or to deal with problems under the laws of any territory, or requirements of any regulatory body or stock exchange; and

- (b) the allotment (other than pursuant to paragraph (a) of this resolution) of equity securities up to an aggregate nominal value of £460,168 (being 10% of the equity share capital in issue on 28 April 2006; and shall expire on (unless previously renewed, varied or revoked by the Company in general meeting) 30 August 2007 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2007, save that the Company may, before such expiry, make any offer or agreement which would or might require equity securities to be allotted after such expiry, and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By order of the Board

**Artemis Investment Management Limited**

42 Melville Street

Edinburgh

Company Secretary

28 April 2006

\* The biographies of Messrs Field and Fitz-Harris are set out on page 7 and the recommendation for their re-election can be found on page 17.

## Notes:

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders registered in the register of members of the Company at the start of business on Monday, 29 May 2006 shall be entitled to attend and/or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after the start of business on Monday, 29 May 2006 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

A member entitled to vote at this meeting may appoint one or more proxies to attend and vote in his or her stead. A proxy need not be a member of the Company. To be effective, forms of proxy must be lodged with the Company's Registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA, not less than 48 hours before the time appointed for holding the meeting. Lodgement of the form of proxy will not preclude a shareholder from attending the meeting and voting in person.

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.

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:

- (a) a statement of all transactions of each Director and of their family interests in the share capital of the Company; and
- (b) the Memorandum and Articles of Association.

None of the Directors has a contract of service with the Company, however, copies of the Directors' letters of appointment are available for inspection at the Company's registered office and for 15 minutes prior to, and at, the meeting.

# General Information

## Directors

Robin Anthony Field (Chairman)  
Robert Ian Fitz-Harris  
Sir Bill Gammell  
Calum MacDonald Paterson  
Richard Alexander McGregor Ramsay

## Manager, Secretary and Registered Office

Artemis Investment Management Limited  
42 Melville Street  
Edinburgh EH3 7HA  
Telephone: 0800 092 2051  
Email: [investorsupport@artemisfunds.com](mailto:investorsupport@artemisfunds.com)  
Website: [www.artemisonline.co.uk](http://www.artemisonline.co.uk)

## Auditors and VCT Status Adviser

Ernst & Young LLP  
Registered Auditor  
Ten George Street  
Edinburgh EH2 2DZ

## Administrator

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

## Registrars

Lloyds TSB Registrars Scotland  
PO Box 28448  
Finance House  
Orchard Brae  
Edinburgh EH4 1PF  
Shareholder helpline: 0870 6015366

## Solicitors

Dickson Minto WS  
16 Charlotte Square  
Edinburgh EH2 4DF

## Bankers and Custodian

HSBC Global Investor Services  
8 Canada Square  
London E14 5HQ

# Reporting Calendar

Year end:	31 January
Results announced:	Interim – September Annual – April
Annual General Meeting :	May

Registered in Scotland, Company Registration Number SC214871.

# Form of Proxy

## Artemis AiM VCT plc

I/We .....  
(BLOCK LETTERS PLEASE)

of .....  
being a registered holder(s) of Ordinary Shares of 10p each in the capital of Artemis AiM VCT plc (the "Company"), hereby appoint the Chairman of the meeting (see note 3)

or .....  
as my/our proxy to act and to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at 12 noon on Tuesday, 30 May 2006 at the offices of Artemis Investment Management Limited, 42 Melville Street, Edinburgh EH3 7HA and at any adjournment thereof.

I/We hereby direct that our votes be cast as follows on the resolutions to be proposed at the meeting:

	For*	Against*	Vote Withheld* (See note 1)
<b>Ordinary Resolutions</b>			
1. To receive the Report of the Directors and the audited financial statements for the year ended 31 January 2006	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve the Directors' Remuneration Report for the year ended 31 January 2006	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To approve a final dividend of 5p per Ordinary Share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Robin Field as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Ian Fitz-Harris as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-appoint Ernst & Young LLP as Auditors and to authorise the Directors to determine their remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Special Business</b>			
<b>Ordinary Resolution</b>			
7. To authorise the Company to purchase up to 14.99% of its issued share capital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Special Resolution</b>			
8. To empower the Directors to disapply pre-emption rights when allotting equity securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

\* Please indicate by marking "X" in the appropriate box how you wish your votes to be cast. Unless so indicated the proxy will vote or abstain as he or she thinks fit.

Signature(s) ..... Dated ..... 2006

### Notes

1. If this form is returned without any indication as to how the person appointed proxy shall vote, the proxy will exercise his discretion as to how he or she votes or whether he or she abstains from voting. The "Vote Withheld" option is provided to enable you to abstain on any particular resolution, however it should be noted that a "Vote Withheld" is not a vote by law and will not be counted in the calculation of the votes "For" and "Against".
2. This form of proxy, duly signed and any power of attorney or other authority (if any) under which it is executed (or a notorially certified copy of such power or authority) must be deposited at the offices 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 any adjourned meeting.
3. A member may appoint a proxy of his or her own choice by deleting the reference to the Chairman and inserting the name of his proxy in the space provided. A proxy need not be a member but must attend the meeting in person to represent his or her appointor.
4. A corporation should execute this form under its seal or under the hand of a duly authorised officer, attorney or by any other authorised representative of the corporation.
5. In the case of joint members, this form may be signed by any one of the members, but the names of all of them should be stated. The vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority will be determined by the order in which the names stand in the register of members.
6. If this form is returned without indication as to how the person appointed proxy shall vote and in relation to any adjournment or other motions proposed at the meeting, he or she will exercise his or her discretion as to how he or she votes or whether he or she abstains from voting.
7. The completion of a proxy does not preclude a member from subsequently attending the meeting and voting at the meeting in person.
8. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that, to be entitled to attend and vote at the meeting (and for the purpose of determining the number of votes they may cast), members must be entered on the Company's register of members at 9.00 a.m. on Monday, 29 May 2006. If the meeting is adjourned, then to be so entitled, members must be entered on the Company's register of members 48 hours before the time of any adjourned meeting. Changes to entries on the register of members after that time will be disregarded in determining the rights of any person to attend or vote at the meeting or any adjourned meeting, as the case may be. Postage has been paid.

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**Artemis Investment Management Limited**

42 Melville Street, Edinburgh EH3 7HA

Cassini House, 57 St James's Street, London SW1A 1LD

**Telephone** 0800 092 2051

**Email** [investorsupport@artemisfunds.com](mailto:investorsupport@artemisfunds.com)

**Website** [www.artemisonline.co.uk](http://www.artemisonline.co.uk)

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