

# Artemis Alpha Trust plc

## Annual Report and Accounts

---

*for the year ended 30th April 2007*



**ARTEMIS**  
The PROFIT Hunter

# Contents

Group Summary and Reporting Calendar	2
Financial Highlights	3
Chairman's Statement	4
Investment Manager's Review	6
Portfolio of Investments	8
Directors	11
Directors' Report	12
Corporate Governance	17
Directors' Remuneration Report	22
Statement of Directors' Responsibilities	24
Independent Auditors' Report	25
Consolidated Income Statement	27
Balance Sheets	28
Statements of Changes in Equity	29
Cash Flow Statements	30
Notes to the Financial Statements	31
Investment Manager, Secretary and Advisers	46
Notice of Annual General Meeting	47

# Group Summary

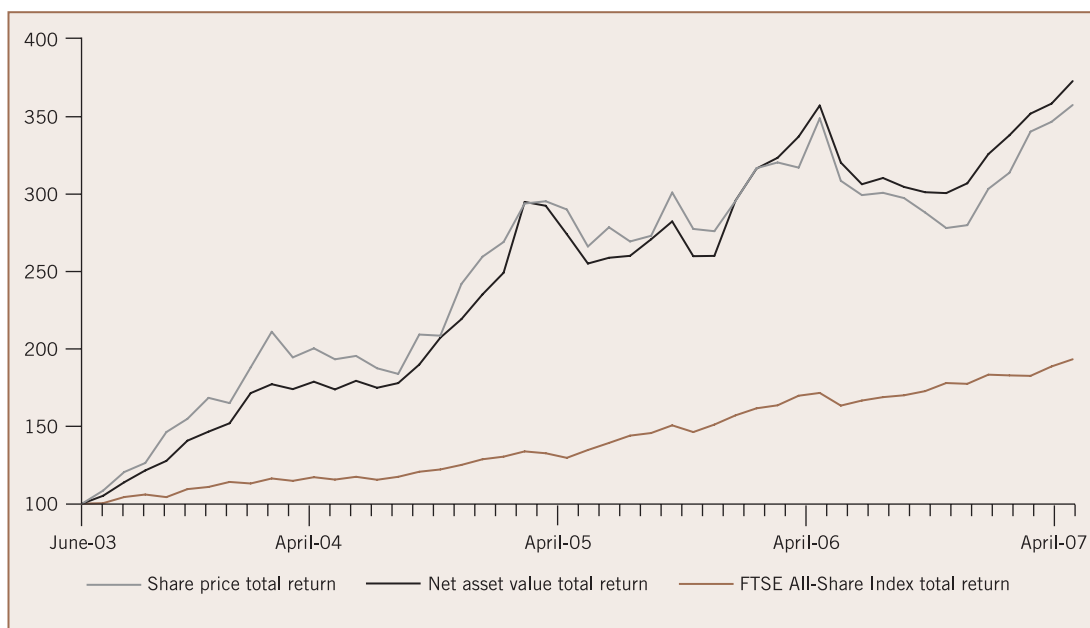
Objective and Policy	<p>The investment objective of the Company is to achieve above average rates of total return over the longer term and to achieve a growing dividend stream. The investment policy is to invest mainly in UK and selected international equities, with the potential for investment in limited liability hedge funds, cash and bonds, unquoted investments, derivative instruments and other investments and securities as appropriate.</p> <p>The Company will not invest more than 15 per cent of its gross assets in securities issued by other UK listed investment companies, including investment trusts.</p>
Investment Manager	Artemis Investment Management Limited (“Artemis”)
Shareholders’ Funds at 30th April 2007	£86.3 million
Market Capitalisation at 30th April 2007	£79.4 million
Capital Structure at 30th April 2007	33,233,488 ordinary shares 6,671,697 manager warrants
ISIN Number	GB0004355946
SEDOL Number	0435594
March 1982 Valuation	13.22p per ordinary share
Continuation Vote Date	At the Annual General Meeting in 2013, an ordinary resolution will be put to shareholders for the voluntary winding up of the Company and every five years thereafter.
Management and Administration Fees	See Directors’ Report on page 13.
ISA/PEP Status	The Company is a qualifying investment trust for ISA and PEP purposes.
Investment Plan	The Company’s shares can be acquired through the Artemis Alpha Trust Investment Plan – details of which are available from the Investment Manager.
AIC	The Company is a member of the Association of Investment Companies.

## Reporting Calendar

Year End	30th April
Results Announced	Interim: December Annual: July/August
Dividends Payable	February and August
Annual General Meeting	September

# Financial Highlights

Performance chart showing Artemis Alpha Trust plc vs FTSE All Share Index Total Return since the appointment of Artemis Investment Management Limited.



Total Returns	Year ended 30th April 2007	Year ended 30th April 2006	Since launch*
Net asset value – basic	4.4%	28.9%	273.0%
Net asset value – diluted	4.2%	26.1%	240.6%
Share Price	2.5%	20.2%	257.6%
FTSE All-Share Index	12.7%	32.4%	93.3%
Capital	As at 30th April 2007	As at 30th April 2006	
Net assets	£86.3m	£83.8m	
Net asset value – basic	259.77p	251.26p	
Net asset value – diluted	236.69p	229.67p	
Share Price	239.00p	235.75p	
Premium – diluted net asset value	1.0%	2.6%	
Net gearing	12.2%	4.2%	
Returns for the year	Year ended 30th April 2007	Year ended 30th April 2006	
Revenue earnings per share – basic	3.51p	3.63p	
Revenue earnings per share – diluted	3.24p	3.37p	
Dividends per ordinary share	2.30p	2.20p	
Total expense ratio	1.2%	1.3%	

Source: Artemis/Lipper Limited

\* 1st June 2003 – the date when Artemis was appointed as Investment Manager.

# Chairman's Statement

## Performance

In my interim statement I reported a disappointing first six months which was reflected by a fall in the diluted net asset value ("NAV") of 14.5 per cent. It is therefore satisfying to report a strong recovery in the second six months with an uplift in the diluted NAV return of 21.9 per cent, resulting in a net increase for the full year of 4.2 per cent. The broader market, as represented by the FTSE All-Share Index, increased by 12.7 per cent for the year to 30th April 2007.

The second half of the year to 30th April 2007 was characterised by a robust performance from smaller caps, particularly AIM traded companies which, given the portfolio's bias towards this area, was a welcome development. This is in marked contrast to AIM's poor performance in the first half of the year.

## Investment in unlisted

As shareholders are aware, your Company has pursued a policy of investing in unlisted companies which, to date, has proved to be the source of a number of good investments. Such investments are often made at the pre-IPO stage. Your Board shares the Investment Manager's belief that this approach will continue to generate positive returns for shareholders.

The Investment Management Agreement contains a provision that limits the amount the Company can have invested in unlisted securities to 10 per cent of net assets. During the year, the Board waived this restriction and authorised the Investment Manager to invest up to 30 per cent of the Company's net assets in unlisted companies, in order to allow attractive opportunities to be pursued. At the time the Board took this decision, it was agreed that this should be put to shareholders for approval at the next Annual General Meeting. Accordingly, a resolution to amend the relevant provision, as set out in the Investment Management Agreement, is contained in the Notice of the Meeting on pages 47 and 48.

As at 30th April 2007, unlisted investments represented 22 per cent of the Company's net assets.

## Dividends

The Board has declared a second interim dividend of 1.3p (2006:1.2p) per ordinary share bringing the total dividend for the year to 2.3p (2006: 2.2p) per share, an increase of 4.5 per cent over dividends paid in 2006. The second interim dividend will be paid on 31st August 2007 to those shareholders on the register on 17th August 2007.

## Buy Back of Shares

The Company is authorised to buy back its own shares and has adopted a policy of buying back shares, whenever possible, at a discount to NAV. During the year your Company acquired 125,000 of its own ordinary shares at a cost of £234,000. The shares were bought at a 4.1 per cent discount to the prevailing NAV per share and are presently held in treasury. A resolution to renew the Company's authority to buy its own shares will be put to shareholders at the forthcoming Annual General Meeting.

## Investment Plan

The Investment Plan enables investors to acquire shares in the Company in a cost effective manner, either through lump sum investments or regular monthly investments. Documentation can be obtained by contacting Artemis Investment Management Limited on 0800 092 2051 or from the following web address, [www.artemisonline.co.uk/pdf/brochures/alphatrustinvestmentplan.pdf](http://www.artemisonline.co.uk/pdf/brochures/alphatrustinvestmentplan.pdf).

# Chairman's Statement continued

## Annual General Meeting

Your Company's Annual General Meeting ("AGM") this year will be held at the offices of Artemis Investment Management Limited, Cassini House, 57 St James's Street, London SW1A 1LD on Thursday, 6th September 2007 at 12.30 pm.

Full details of the business to be conducted at the AGM are set out in the Notice of Meeting on pages 47 and 48.

Your Board would welcome your attendance at the AGM as it provides an opportunity to ask questions of the Directors and Investment Manager. Should you have any detailed or technical questions, it would be helpful if these could be raised in advance of the AGM with the Company Secretary (contact details for which can be found on page 46). If you are unable to attend the AGM, your Board would encourage you to send in your proxy votes.

## Outlook

There remain various inherent risks in the equity market. That said, the valuation of the UK equity market remains relatively attractive by historic standards, with many companies continuing to report growing earnings and dividends. There also remains a considerable amount of money waiting to be invested, much of which is with private equity groups, and this in part is behind the high level of merger activity being experienced. All of these factors continue to provide support for the equity market.

It is difficult to say with any certainty how markets will move in the coming months, but, at present, your Investment Manager continues to believe that equities still remain attractive compared to other asset classes. For its part, your Board considers that the Company's broad investment policy will allow the Investment Manager to continue to be selective in identifying long-term investment opportunities, irrespective of market conditions.

I look forward to welcoming you to the AGM on Thursday, 6th September 2007.

**Simon Miller**

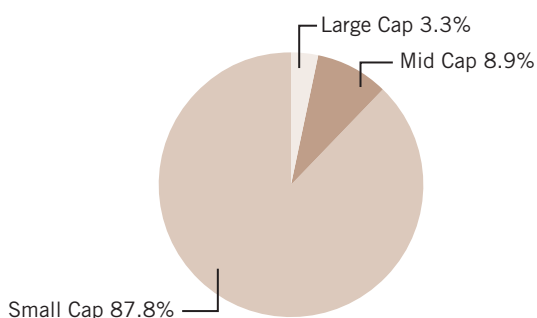
Chairman

6th August 2007

# Investment Manager's Review

## Performance and Portfolio Analysis

In a similar pattern to last year we have maintained our focus of favouring non large cap companies. The following chart provides an illustration of the Company's position as at 30th April 2007.



We continue to believe that this area offers more exciting growth prospects over the longer term, and most companies that will deliver the greatest returns in terms of share price tend to be of a smaller size. Although small and medium cap companies have continued to outperform large cap on a relative basis, we had a poor first half of the year mainly due to our large position in emerging oil and natural resource plays, as well as the general de-rating of AIM listed companies.

The poor first six months was reversed in the second half of the year and the NAV rose by 21.9 per cent, compared to an increase of 8.6 per cent for the FTSE All-Share Index, although it was not sufficient to beat the benchmark over the full period under review. Since Artemis became the Investment Manager in June 2003, the share price has risen by 257.6 per cent and the diluted NAV by 240.6 per cent, which compares to an increase of 93.3 per cent for the FTSE All-Share Index over this period.

The portfolio continues to be managed as a best ideas portfolio and receives input from the whole Artemis fund management team, whose interests are directly aligned with shareholders through holding ordinary shares in the Company and/or manager warrants. Like any best ideas fund, not all our best ideas worked as well as we had hoped, and we have had some poor investments such as Blueheath and MICE Group. The former has, however, reinvented itself into a vehicle to take the Booker cash and carry business forward, which we have supported through a further investment.

## Portfolio

Although our overweight exposure to the oil exploration sector has been correct from a macro viewpoint, the stock selection has tended to focus on the highest return type investments, which by their nature, are somewhat speculative. This worked well for the Company in 2005/6, but, as the cycle matures we have reduced our positions in such companies where possible and bought new holdings in lower risk companies such as Venture Production, which is a North Sea focused oil and gas production business, and Expro Group, an international oil services business which has the most exciting future in sub sea areas, such as rig-less intervention. We have seen good progress across holdings such as Ascent Resources, Genesis Petroleum and Revus Energy. This has been partly offset by the performance of Petrohunter, which failed to complete wells it had successfully drilled and whose shares have performed poorly over the period as it seeks further funding.

The ability to make unlisted investments, which are often made at a pre-IPO stage, has been positive for the portfolio. A good example of this, and a significant contributor to performance, was Salamander Energy, which listed on the London Stock Exchange's main market in December 2006. The company is led by a highly regarded management team who are building up a South East Asian oil exploration and production company. More recently the shares were de-rated following an operational update from their Phu Horm field in Thailand. We think the shares remain attractive over the medium-term. Another unlisted stock that looks attractive is Vostok Energy, a Kazakh based oil and gas exploration and production business, which recently received further funding to develop its business and may list in the year ahead.

Looking forward we still believe the oil and gas exploration sector offers great opportunities to make returns, particularly with the oil price making new highs. Our overall weighting has been reduced to approximately 21 per cent from the very highest levels to better reflect the lessons learned from the sectors de-rating last year.

## Investment Manager's Review continued

The largest portfolio holding by value, and also the largest unlisted investment, remains the investment in Artemis. This holding has been valued in line with an independent valuation carried out for Artemis in November 2006. Since then the company has traded well, with assets under management rising to £15.5 billion as at 30th April 2007.

The financials sector is the portfolio's largest exposure, principally through holdings in fund management companies. Alongside existing holdings such as ACP Capital and New Star we have made new investments in BlueBay Asset Management, a leading credit asset manager, which is experiencing strong growth across its long only products and also its hedged long/short strategy funds. The other new investment was Polar Capital Holdings. Further progress for our asset management holdings is clearly dependent on stock market levels but we have sought to spread the risk across a wide range of market exposures. During the period we benefited from the listing of ORA Capital Partners, which the Company invested in as an unlisted, and also rumoured bid activity with Domestic and General.

The mining sector has provided the greatest contribution this year, principally through our investments in the uranium sector in Geiger Counter and URASIA Energy, which was recently taken over by SXR Uranium. Both companies have benefited from a significant re-rating of the sector, reflecting the current demand and supply imbalance. Our principal unlisted investment in this sector, Gem Diamonds, listed on the London Stock Exchange during the period under review. Led by a highly regarded management team, this diamond business will continue to grow through a combination of both organic and acquisitive growth. Aricom, which has strategic iron ore and ilemite deposits in the Amur region in the Far East of Russia, has continued to attract investor interest on the back of rising commodity prices.

Recent investment activity has resulted in the portfolio comprising too many holdings and we are taking steps to reduce this number accordingly. We wish to reassure shareholders that there are a number of very exciting opportunities in the portfolio and the process of identifying the winners and losers is constant. Some of the other new investments that spring to mind from a positive viewpoint include Music Copyright Solutions which, as its name implies, is an international publishing company and Redhall Group, a specialist engineering business. We have also bought Qinetiq, the UK based defence business which is often in the national press for the wrong reasons.

Gearing in the portfolio continues to be actively used, stood at 12 per cent at year end, and was 14 per cent at the date of this Report.

### Outlook

At present there is a lot more to be pessimistic about when writing an outlook. On the positive side we have stronger than forecast economic growth, combined with fair valuations for equities, the likelihood of higher institutional liquidity and the wall of money argument from private equity as support for equity markets. This is pitted against rising inflation, rising interest rates and the start of a credit crisis, given the various well reported issues of the debt financial markets and contagion of sub prime lending problems. Although we see volatile stock market conditions ahead, we are as confident as we can be of our ability to create meaningful returns and our money is with yours.

John Dodd  
Artemis Investment Management Limited  
Investment Manager  
6th August 2007

# Portfolio of Investments

As at 30th April 2007

Investments	Sector	Country	Valuation £'000	% of total investments
Artemis Investment Management <sup>3</sup>	General Financial	UK	4,920	5.2
Salamander Energy	Oil & Gas Producers	UK	4,416	4.6
Redhall Group <sup>2</sup>	Industrial Engineering	UK	3,204	3.4
Geiger Counter	Equity Instrument Investments	UK	2,965	3.1
Revus Energy	Oil & Gas Producers	Norway	2,852	3.0
SXR Uranium One	Mining	Canada	2,813	2.9
Aricom <sup>2</sup>	Mining	UK	2,797	2.9
REA Holdings <sup>4</sup>	Food Producers	UK	2,314	2.4
New Star Asset Management <sup>2</sup>	General Financial	UK	2,301	2.4
Polar Capital Holdings	General Financial	UK	2,259	2.4
<b>Top 10 Investments</b>			<b>30,841</b>	<b>32.3</b>
Gem Diamonds	Mining	UK	2,242	2.3
ACP Capital <sup>2</sup>	General Financial	UK	2,130	2.2
Geopark Holdings <sup>2</sup>	Oil & Gas Producers	Bermuda	2,041	2.1
Arena Leisure	Travel & Leisure	UK	1,980	2.1
Vostok Energy <sup>3</sup>	Oil & Gas Producers	UK	1,969	2.1
Domestic & General Group	Nonlife Insurance	UK	1,954	2.1
Enterprise Inns	Travel & Leisure	UK	1,923	2.0
Petrohunter Energy Corp <sup>3</sup>	Oil & Gas Producers	United States	1,897	2.0
Ondine Biopharma <sup>2</sup>	Pharmaceuticals & Biotechnology	Canada	1,765	1.9
Ceramic Fuel Cells <sup>2</sup>	Electronic & Electrical Equipment	Australia	1,732	1.8
<b>Top 20 Investments</b>			<b>50,474</b>	<b>52.9</b>
BlueBay Asset Management	General Financial	UK	1,725	1.8
Hurricane Exploration <sup>3</sup>	Oil & Gas Producers	UK	1,714	1.8
Individual Restaurant Group <sup>2</sup>	Travel & Leisure	UK	1,570	1.7
Playtech <sup>2</sup>	Travel & Leisure	UK	1,464	1.5
Music Copyright Solutions <sup>2</sup>	Media	UK	1,429	1.5
Havelock Europa	Household Goods	UK	1,419	1.5
Real Estate Investors <sup>2</sup>	Real Estate	UK	1,407	1.5
Macau Property Opportunities <sup>2</sup>	General Financial	UK	1,350	1.4
Qinetiq Group	Aerospace & Defence	UK	1,335	1.4
Amazing Holdings <sup>2</sup>	Travel & Leisure	UK	1,320	1.4
<b>Top 30 Investments</b>			<b>65,207</b>	<b>68.4</b>
SMG	Media	UK	1,270	1.3
Anglo Irish Bank	Banks	Ireland	1,266	1.3
Lynton Holding Asia <sup>3</sup>	Aerospace & Defence	Denmark	1,233	1.3
Cluff Gold <sup>2</sup>	Mining	UK	1,140	1.2
Hichens Harrison & Co <sup>2</sup>	General Financial	UK	1,089	1.1
Ascent Resources <sup>2</sup>	Oil & Gas Producers	UK	1,086	1.1
Cape Industries <sup>2</sup>	Support Services	UK	1,065	1.1
Hawk Group <sup>3,4</sup>	General Financial	Luxembourg	1,053	1.1
mForm <sup>3,4</sup>	General Financial	UK	1,011	1.1
ORA Capital Partners <sup>2</sup>	General Financial	UK	1,000	1.1
<b>Top 40 Investments</b>			<b>76,420</b>	<b>80.1</b>

The Company's investment in Artemis Investment Management, a specialist fund management company, represents 1.35 per cent of the company's issued share capital. The cost of the holding is £1,592,000 and at 30th April 2007 was valued at £4,920,000. The following information has been obtained from the accounts of Artemis Investment Management, being the latest set of its audited accounts lodged at Companies House, for the year ended 31st December 2005: earnings per share: £419.28; dividends per share: £275; and net assets attributable to the ordinary shares held by the Company: £876,000.

## Portfolio of Investments continued

As at 30th April 2007

Investments	Sector	Country	Valuation £'000	% of total investments
Homeland Renewable Energy <sup>3</sup>	Electricity	United States	950	1.0
Genesis Petroleum Corp <sup>2</sup>	Oil & Gas Producers	UK	889	0.9
Energy Equity Resources <sup>3</sup>	Oil & Gas Producers	Norway	875	0.9
TSI <sup>3</sup>	Electronic & Electrical Equipment	UK	875	0.9
Healthcare Enterprise Group <sup>2</sup>	Healthcare Equipment & Services	UK	827	0.9
Suroco Energy	General Financial	Canada	791	0.8
Imprint <sup>2</sup>	Support Services	UK	783	0.8
MICE Group	Support Services	UK	781	0.8
Lamp Group <sup>3</sup>	Nonlife Insurance	UK	750	0.8
Quadnetics Group <sup>2</sup>	Support Services	UK	727	0.8
<b>Top 50 Investments</b>			<b>84,668</b>	<b>88.7</b>
Neptune Minerals <sup>2</sup>	Mining	UK	685	0.7
Gasol <sup>2</sup>	Oil & Gas Producers	UK	650	0.7
Parkmead Group <sup>2</sup>	Support Services	UK	650	0.7
Noida Toll Bridge <sup>2</sup>	Industrial Transportation	United States	615	0.7
Armorgroup	Support Services	UK	613	0.6
First Australian Resources	Oil & Gas Producers	Australia	604	0.6
Golden Peaks Resources	Mining	Canada	523	0.6
Buildstore <sup>3</sup>	Construction & Materials	UK	500	0.5
Greengrass <sup>3</sup>	Media	UK	500	0.5
Solana Resources <sup>2</sup>	Oil & Gas Producers	Canada	459	0.5
<b>Top 60 Investments</b>			<b>90,467</b>	<b>94.8</b>
Plexus <sup>2</sup>	Oil Equipment, Services & Distribution	UK	450	0.5
Vastox <sup>2</sup>	Pharmaceuticals & Biotechnology	UK	450	0.5
Barratt Developments	Household Goods	UK	347	0.4
Crosby Capital Partners <sup>2</sup>	General Financial	UK	313	0.3
Oxford Nanolabs <sup>3</sup>	Pharmaceuticals & Biotechnology	UK	300	0.3
Lansdowne Oil & Gas <sup>2</sup>	Oil & Gas Producers	UK	279	0.3
Betex Group <sup>2</sup>	Travel & Leisure	UK	267	0.3
Reenergy Group <sup>2</sup>	Support Services	UK	255	0.3
Rand Quest Syndicate <sup>3</sup>	Mining	Australia	250	0.2
Biofutures International <sup>2</sup>	Basic Materials	UK	238	0.2
<b>Top 70 Investments</b>			<b>93,616</b>	<b>98.1</b>
ADVFN <sup>2</sup>	General Financial	UK	236	0.2
White Nile <sup>2</sup>	Oil & Gas Producers	UK	226	0.2
Tersus Energy <sup>2</sup>	General Financial	UK	198	0.2
Cyprotex <sup>2</sup>	Pharmaceuticals & Biotechnology	UK	189	0.2
Brazilian Diamonds <sup>2</sup>	Mining	Canada	180	0.2
Inion	Healthcare Equipment & Services	Finland	143	0.2
Arian Silver Corp <sup>2</sup>	Mining	Canada	135	0.1
AIM Realisation Fund <sup>2</sup>	Equity Instrument Investments	UK	114	0.1
Evolutec Group <sup>2</sup>	Pharmaceuticals & Biotechnology	UK	100	0.1
Bankers Petroleum	Oil & Gas Producers	Canada	96	0.1
<b>Top 80 Investments</b>			<b>95,233</b>	<b>99.7</b>
Media Corp <sup>2</sup>	Travel & Leisure	UK	74	0.1
Blueheath Holdings <sup>2</sup>	Food Producers	UK	55	0.1
Independent Resources <sup>2</sup>	Oil & Gas Producers	UK	49	0.1
Aeon <sup>3</sup>	General Retailers	UK	–	–
<b>Total Investments</b>			<b>95,411</b>	<b>100.0</b>

<sup>1</sup> Held by other Artemis Funds

<sup>2</sup> AIM Listed

<sup>3</sup> Unlisted investment

<sup>4</sup> Investment includes a fixed interest element

## Portfolio of Investments continued

The geographical analysis of the investment portfolio as at 30th April 2007 was as follows:

Country	2007 %	2006 %
UK	76.7	69.8
Canada	7.1	13.6
Norway	3.9	3.9
United States	3.6	2.0
Australia	2.7	2.9
Bermuda	2.1	–
Ireland	1.3	2.4
Denmark	1.3	1.2
Luxembourg	1.1	0.8
Finland	0.2	0.3
Guernsey	–	3.1
	100.0	100.0

The sector analysis of the investment portfolio as at 30th April 2007 was as follows:

Sector	2007 %	2006 %
General Financial	21.4	17.7
Oil & Gas Producers	21.1	25.4
Mining	11.3	8.8
Travel & Leisure	9.0	5.3
Support Services	5.1	4.2
Media	3.4	1.0
Industrial Engineering	3.4	0.9
Equity Investment Instruments	3.2	–
Pharmaceuticals & Biotechnology	2.9	5.8
Nonlife Insurance	2.8	2.7
Electronic & Electrical Equipment	2.7	2.2
Aerospace & Defence	2.7	1.4
Food Producers	2.5	3.9
Household Goods	1.9	2.9
Real Estate	1.5	–
Banks	1.3	4.0
Healthcare Equipment & Services	1.0	0.6
Electricity	1.0	–
Industrial Transportation	0.6	3.0
Oil Equipment, Services & Distribution	0.5	1.4
Construction & Materials	0.5	0.3
Chemicals	0.2	2.4
General Retailers	–	0.2
Tobacco	–	3.1
Software & Computer Services	–	0.8
Food & Drug Retailers	–	0.7
	100.0	100.0

# Directors

## S E C Miller (Chairman)\*†#

Simon Edward Callum Miller, aged 54, is chairman of Dunedin Capital Partners, a private equity business. He qualified as a barrister before joining Lazard Brothers in 1976. He is chairman of First State AiM VCT plc, deputy chairman of JPMorgan Elect plc, a non-executive director of Brewin Dolphin Holdings plc, Dunedin Enterprise Investment Trust plc and Adam & Company.

Appointed as a non-executive Director on 14th July 2003 and Chairman on 25th September 2003.

## D J Barron\*†#

David James Barron, aged 48, is head of the investment trust business at JPMorgan Asset Management. He joined the asset management business of Robert Fleming & Co. Limited in 1995 and has worked in the investment trust team, which manages nineteen investment trust clients, for five years. Before joining Flemings in 1995, Mr Barron worked in corporate finance for Hambros Bank and Merrill Lynch. He is a non-executive director of the Association of Investment Companies. He is a member of the Institute of Chartered Accountants of Scotland and holds an MBA from INSEAD.

Appointed as a non-executive Director on 17th February 2005.

## T Cross Brown†

Tom Cross Brown, aged 59, was until 2003 global chief executive officer of ABN AMRO Asset Management, having previously been chief executive officer of ABN AMRO Asset Management in the UK and global head of business development. Prior to joining ABN AMRO, Mr Cross Brown spent 21 years at Lazard Brothers & Co. and was chief executive of Lazard Brothers Asset Management Limited between 1994 and 1997. He is currently the chairman of Pearl Assurance plc, Just Retirement (Holdings) plc and a director of BlueBay Asset Management plc, and previously served as a director of Artemis Investment Management Limited.

Appointed as a non-executive Director on 5th April 2006.

## A D Dalrymple\*†#

Andrew Dalrymple, aged 47, is currently an investment manager at Aubrey Capital Management Limited, having previously been a senior portfolio manager (Global Equities) with First State Investments (UK) Limited where he managed the First State Global Opportunities Fund since its inception in July 1999 until 2006. He joined Stewart Ivory Limited as a portfolio manager in 1998 before its acquisition by First State in 2000. Between 1991 and 1998 he was based in Hong Kong as a director and dealing director with S.G. Warburg and UBS Warburg Limited. He was also a director of James Capel (Far East) Limited during that period, having served at Cazenove & Co. Limited in London for several years.

Appointed as a non-executive Director on 1st April 2004.

## C E W Peel (Senior Independent Director)\*†#

Charles Edward Willoughby Peel, aged 62, was chairman of KBC Peel Hunt Limited. He was previously chief executive of Fielding, Newson-Smith & Co. before joining Morgan Grenfell Securities. In 1989 he became a founding director of Peel Hunt. He is also a non-executive director of JPMorgan Fleming Mercantile Trust plc and Ingenious Music VCT plc.

Appointed as a non-executive Director on 14th July 2003.

## A W Sobczak\*†#

Andrzej Wiktor Sobczak, aged 56, has over 30 years of experience in the securities industry. He was previously head of investment trust business at BZW Securities and then subsequently at ABN AMRO. He also served as a director of Henderson Global Investors Limited and then, most recently, as a director of Intelli Corporate Finance Limited. He is currently part of the investment trust team at Winterflood Securities Limited.

Appointed as a non-executive Director on 29th March 2001.

\* Independent Director.

† Member of the Nomination Committee.

# Member of Audit Committee and Management Engagement Committee.

# Directors' Report

The Directors have pleasure in presenting their report, together with the audited financial statements of the Group and the Company for the year ended 30th April 2007.

## Business Review

### Operating Environment

The Company operates as an investment trust company and is an investment company within the meaning of Section 266 of the Companies Act 1985 (the "Act"). The Company has no employees and delegates most of its operational functions to service providers, details of which are set out below. As an investment trust, the Company is required to demonstrate to HM Revenue & Customs that for every accounting period it has complied with the requirements of Section 842 of the Income and Corporation Taxes Act 1988 ("ICTA"). This has been done for the year ended 30th April 2006 and the Directors have continued to manage the business in order that the Company will continue to meet these requirements and will seek such approval for the year ended 30th April 2007. The Company is not a close company within the definitions of ICTA.

### Objective and Strategy

The objective of the Company is to achieve above average rate of total return over the longer term and to achieve a growing dividend stream. In seeking to achieve this objective, the Company's portfolio is actively managed by Artemis and comprises mainly UK equities, with selected overseas investments. Investments are selected on their individual merits and the portfolio will not track any benchmark index. The Company uses gearing as part of its investment strategy and the level of borrowing is a matter for the Board, whilst the utilisation of any agreed level of borrowing is a matter for the Investment Manager. Gearing is considered by the Board and Investment Manager at regular meetings.

### Performance

The performance of the Company is reviewed regularly by the Board and it has a number of key performance indicators ("KPIs") that it uses to monitor and assess the performance of the Company. The KPIs which have been established for this purpose are:

- NAV movement
- Share price movement
- Dividends per share
- Total expense ratio

Details of the Company's performance against the KPIs can be found on the Financial Highlights summary on page 3.

In addition to the above KPIs, the Board assesses the discount/premium at which the share price stands against the underlying attributable net assets. The Board considers that stability in the premium/discount comes from good long-term performance and this has been reflected over the year where the shares have traded between a discount of 6 per cent and a premium of 7 per cent to NAV. No premium/discount targets are set, but in the event that the shares were trading at a discount, the Board has empowered the Investment Manager to exercise the Company's authority to buy back its own shares, within guidelines established for this purpose. During the year 125,000 ordinary shares were bought back at a 4.1 per cent discount to NAV.

### Current and Future Developments

Details of the Company's developments during the year ended 30th April 2007, along with its prospects for the future are set out in the Chairman's Statement and Investment Manager's Review on pages 4 to 7.

The Board's principal focus is the delivery of successful long term investment returns for shareholders which is clearly dependent on the success of the investment strategy in the context of economic and stockmarket developments. The investment strategy and factors that may have an influence on it, are discussed regularly

## Directors' Report continued

by the Board and Investment Manager. The Board regularly considers the ongoing development and strategic direction of the Company, including its promotion and marketing and the effectiveness of communication with shareholders and stakeholders alike.

### Principal Risks and Uncertainties

As an investment company the principal risks relate to the nature of the individual investments and the investment activities generally, and include market price risk, foreign currency risk, interest rate risk and liquidity risk. Further details of these risks and how they are managed are set out in note 20 of the notes to the financial statements on pages 43 to 45.

Investments are selected on their individual merits and the performance of the portfolio of the Company will, from time to time, exhibit significant variation from the wider market. The Board believes this approach will continue to generate good long-term returns. Currently 22 per cent of the Company's portfolio is unlisted companies and these investments carry higher liquidity and realisation risks. The Board believes, however, these risks are justified by the longer-term nature of the investments and the Company's closed-ended structure, and that they will deliver good returns for shareholders.

### Other Matters

#### Results and Dividends

The Group's results for the year are set out in the Consolidated Income Statement on page 27.

The Board has declared dividends for the year totalling 2.3 pence per ordinary share. The second interim dividend for the year will be paid on 31st August 2007 to eligible shareholders who are on the Register of Members at the close of business on 17th August 2007.

#### Share Capital and Manager Warrants

The Company's authorised share capital is set out in note 16 on page 41. No shares were issued during the year ended 30th April 2007 (2006: 37,689 ordinary shares). The Company made a market purchase of 125,000 of its own ordinary shares (2006: nil), which represented 0.37 per cent of the issued share capital at that time. The shares were bought at 186p per share, representing a discount of 4.1 per cent to the prevailing NAV. These shares are currently held in treasury.

The Company did not issue any further Manager Warrants during the year.

#### Life of the Company

The Company's Articles of Association provide that, at the AGM to be held in 2013, and at every fifth Annual General Meeting thereafter, a vote on whether the Company should continue in existence as an investment trust will be proposed as an ordinary resolution.

#### Management Agreements

The Group's investments are managed by Artemis, subject to an Investment Management Agreement (the "Agreement") dated 3rd June 2003. Under the terms of this Agreement, Artemis receives a basic management fee of 0.75 per cent (plus VAT) per annum of the market capitalisation of the Company, payable quarterly in arrears. The Agreement may be terminated by either party on twelve months' written notice.

John Dodd acts as the lead manager for the Company. Artemis is authorised and regulated by the Financial Services Authority and at 30th April 2007 had a total of £15.5 billion of assets under management. BNP Paribas Fund Services UK Limited and its subsidiary, BNP Paribas Secretarial Services Limited (together "BNP Paribas") acted as Administrator to the Company subject to an Administration and Company Secretarial Services Agreement dated 20th June 2003, as subsequently amended. This agreement may be terminated by either party on six months' written notice.

## Directors' Report continued

### Continuing Appointment of the Investment Manager

Having recently reviewed the Investment Manager's performance, the Board believes that its continuing appointment, on its current terms, is in the interests of shareholders. In arriving at this view, consideration was given to the long-term performance against the broader market, represented by the FTSE All-Share Index, the investment strategy and the general support and information provided by Artemis. Such a review is carried out on an annual basis.

### Directors

The Directors of the Company and their biographical details are set out on page 11. All the Directors held office throughout the year under review.

Mr Cross Brown and Mr Dalrymple are to retire as Directors and, being eligible, will be seeking re-election by shareholders at the forthcoming AGM. The Nomination Committee, having reviewed their respective performances as Directors and contribution to the Board and its Committees, concluded that the Company benefited from their individual services and accordingly recommended to the Board that a resolution be put to shareholders at the AGM that Mr Cross Brown and Mr Dalrymple be re-elected as Directors of the Company. The Board concurred with the Nomination Committee's conclusions and recommends that shareholders vote in favour of these re-elections.

No Director has a contract of service with the Company.

### Directors' Interests

The interests of the current Directors in the ordinary shares of the Company at the beginning and end of the year under review were as follows:

	30th April 2007		1st May 2006	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Mr S E C Miller	7,873	–	7,873	–
Mr D J Barron	5,000	–	–	–
Mr T Cross Brown	44,321	–	44,321	–
Mr A D Dalrymple	58,000	20,000	58,000	20,000
Mr C E W Peel	500,000	–	500,000	–
Mr A W Sobczak	5,000	–	5,000	–

There have been no changes to the above holdings between 30th April 2007 and the date of this report.

At no time during the year did any Director hold a material interest in any contract, arrangement or transaction with the Company or its subsidiary undertakings.

### Substantial Shareholdings

As at the date of this report the Company is aware of the following interests exceeding 3 per cent in the voting rights attached to the Company's issued share capital:

Shareholder	Number of shares	% of voting rights
limia plc	2,382,500	7.2
Rensburg Sheppards Investment Management	2,203,355	6.6
Clients of Brewin Dolphin	2,039,887	6.1
Rathbone Brothers plc	1,782,099	5.4
Troy Asset Management	1,545,504	4.6
Murray Beith Murray Asset Management Limited	1,374,409	4.1
Colin Rutherford	1,200,229	3.6

## Directors' Report continued

### Payment of Suppliers

It is the Company's policy to obtain the best possible terms for all business and therefore there are no standard payment terms. The Company agrees with its suppliers the terms on which business will be transacted and it is the Company's policy to abide by those terms. At 30th April 2007 there were no amounts owed to suppliers in respect of invoices received but unpaid (30th April 2006: none).

### 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 Group has adequate resources to continue in operational existence for the foreseeable future.

### Authority to Buy Back Shares

The Company's existing authority to make purchases of up to 14.99 per cent of the issued share capital will expire at the forthcoming AGM. The Directors consider that the Company should continue to have authority to make market purchases of its own shares for cancellation or to be held in treasury. Shares held in treasury will only be re-issued at prices which are in excess of the diluted NAV of the Company's ordinary shares immediately before such re-issue. Accordingly, a special resolution will be proposed at the forthcoming AGM to authorise the Company to make market purchases of up to 14.99 per cent of the ordinary shares in issue at the date of the AGM, such authority to expire on 6th March 2009 or if earlier at the conclusion of the AGM in 2008.

The Company will make market purchases in accordance with guidelines set by the Board and at all times at prices below the prevailing net asset value.

### Authority to Allot Shares and Disapply Pre-Emption Rights

The current authority for Directors to allot authorised but unissued ordinary shares without first offering them to existing shareholders in accordance with statutory pre-emption procedures will expire at the forthcoming AGM. The Directors believe it to be in shareholders' interests to continue to have such an authority for the forthcoming year and accordingly will seek to renew the authority and to disapply pre-emption rights at the forthcoming AGM. This authority would only be exercised if the Directors considered it to be in the best interest of the Company generally.

### Change to Investment Management Agreement

Set out in Resolution 6 in the Notice of Meeting is an ordinary resolution to amend the investment restriction set out in Schedule 1 of the Agreement dated 3rd June 2003, which relates to investment in unlisted companies. The Directors consider that by increasing the limit on the amount of the Company's net assets that can be invested in unlisted companies from 10 per cent to 30 per cent, it will provide your Investment Manager with greater scope to take advantage of a larger number of investment opportunities in, what has been to date, an area that has served the Company well.

### Independent Auditors

KPMG Audit Plc, has expressed its willingness to continue in office as independent Auditors. The Audit Committee has responsibility for making a recommendation to the Board on the re-appointment of the external Auditors. After careful consideration of the services provided to the Company during the year and a review of their effectiveness, the Audit Committee recommended to the Board that KPMG Audit Plc should be re-appointed as Auditors. Accordingly, resolutions are to be proposed at the forthcoming Annual General Meeting for their reappointment and to authorise the Directors to agree their remuneration for the ensuing year.

# Directors' Report continued

## Audited Information

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

## AGM

Details of the 2007 AGM are set out in the Chairman's Statement on page 5 and the Notice of Meeting on pages 47 and 48.

By order of the Board

Artemis Investment Management Limited  
Secretary

6th August 2007

# Corporate Governance

## Background

The UK Listing Authority requires that all listed companies disclose how they have applied the principles and complied with the provisions of the Combined Code on Corporate Governance (the “Combined Code”), as issued by the Financial Reporting Council in July 2003 and updated in June 2006. The Board considers adherence to the Combined Code to be of the utmost importance and strives to observe its principles. The Company has also applied the principles of good governance set out in the AIC’s Code of Corporate Governance (the “AIC Code”), which provides guidance on best practice for investment trust companies.

## Compliance

It is the Board’s view that the Company has been compliant throughout the year under review, save for the exceptions explained below and its special circumstances as an investment trust company, with the provisions of the Combined Code and the AIC Code. This report sets out details of how the Company has applied the principles and complied with the provisions of the Combined Code during the year under review.

It should be noted that as an investment trust, all Directors on the Board of the Company are non-executive and the Company’s day-to-day responsibilities are delegated to third party service providers.

## Board Responsibilities

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

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

The Board sets the parameters within which the Investment Manager operates. This includes decisions as to the purchase and sale of individual investments and to ensure that the Board receives all relevant management and financial information in a timely manner. Representatives of the Investment Manager attend each Board meeting enabling Directors to seek clarification on specific issues.

The Board has formalised arrangements under which Directors, in furtherance of their duties, may take independent professional advice at the Company’s expense. The Directors have access to the advice and services of the Company Secretary, through its appointed representatives, who are responsible to the Board for ensuring that proper procedures are followed and that applicable rules and regulations are complied with. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

## Board Composition

The Board comprises six Directors, all of whom are non-executive and served throughout the year. There is no chief executive position within the Company. The names of the Directors, together with their biographical details, are set out on page 11 of this Report.

## Corporate Governance continued

The Board considers that five of the six Directors are independent of the Investment Manager and comply with the criteria for independence as set out in the Combined Code. Mr Cross Brown is not deemed to be independent by virtue of his previous position as a non-executive director of the Investment Manager. However, all six Directors are deemed to be independent in character and judgement. The Nomination Committee meets annually to consider matters of independence.

During the year under review, the Nomination Committee reviewed the position of Senior Independent Director. Having due regard to the principles of best practice and recognising the potential value of this post within the Company, the Nomination Committee recommended that a Senior Independent Director continued to be appointed and that Mr Peel act in this capacity accordingly. This appointment is reviewed on an annual basis.

### Appointment of Directors and Performance Evaluation

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

The Directors of the Company have not been appointed subject to a service contract. The terms and conditions of their appointments are set out in letters of appointment, which are available for inspection at the registered office of the Company and at the AGM.

During the year under review, the Board, led by the Nomination Committee, conducted a review of its performance as a Board and that of its Committees, the Chairman and individual Directors. This review was based on a process of self-appraisal by interview, with the evaluation of the performance of the Chairman being undertaken by the other Directors, led by the Senior Independent Director. Such evaluation is conducted annually.

### Board Committees

In order to enable the Directors to discharge their duties, three Board Committees with written terms of reference have been established. Committee membership is set out on page 11 of this report. Attendance at meetings of the Committee is restricted to members and persons expressly invited to attend. Copies of the terms of reference for the Board Committees are available from the Company Secretary. The Chairman of the Board acts as Chairman for the Committees, with the exception of the Audit Committee, which is chaired by Mr Barron. The Company Secretary acts as the Secretary to each Committee.

### Audit Committee

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

The Audit Committee monitors the non-audit services being provided to the Company by its Auditors and a policy with regard to the provision of these services has been formalised.

All members of the Audit Committee are considered to have relevant and recent financial and investment experience as a result of their employment in the financial services and other industries. In addition, the Committee's chairman, Mr Barron, is a chartered accountant.

## Corporate Governance continued

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

The Company does not have an internal audit function as most of its day to day operations are delegated to third parties. Both the Investment Manager and Administrator have established internal control frameworks to provide reasonable assurance as to the effectiveness of the internal controls operated on behalf of their clients. Both third parties report, on a quarterly basis, any breaches of law or regulation or any operational errors, as and when they arise. The Audit Committee considers annually whether there is 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.

### *Management Engagement Committee*

The Management Engagement Committee, which meets at least annually, reviews the performance of the Company's third party service providers, including the Investment Manager, and reviews their terms of appointment, making recommendations to the Board for improvement or change as appropriate.

### *Nomination Committee*

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

### Board and Committee Meetings

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

Director	Board Meetings		Audit Committee Meetings		Management Engagement Committee Meetings		Nomination Committee Meetings		Annual General Meetings	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
	Mr S E C Miller	4	4	3	3	1	1	1	1	1
Mr D J Barron	4	4	3	3	1	1	1	1	1	1
Mr T Cross Brown	4	4	3	3*	1	1*	1	1	1	1
Mr A D Dalrymple	4	4	3	3	1	1	1	1	1	1
Mr C E W Peel	4	4	3	3	1	1	1	1	1	1
Mr A W Sobczak	4	4	3	3	1	1	1	1	1	1

\* Mr Cross Brown is not a member of the Audit or Management Engagement Committees but was invited to attend the meetings of these committees held during the year.

### Directors' Remuneration

As the Company has no executive Directors, the Directors do not consider it appropriate to appoint a Remuneration Committee. In accordance with the Combined Code, the Board as a whole considers the Directors' remuneration within the limits set by the Company's Articles of Association.

# Corporate Governance continued

## Board Succession Planning

In order to provide continuity when the longer serving members of the Board retire, the Directors have approved a timetable for Board succession planning. A nine year tenure policy has been adopted, although all Directors' continuing appointments are subject to re-election by shareholders. Each Director is subject to rigorous review after six years of service.

The Board has agreed a procedure for the appointment of new Directors. Formal consideration of the skills and experience of the Board is undertaken to help identify the capabilities of a new Director when a vacancy arises.

## Relations with Shareholders

The Board places a great deal of importance on communication with shareholders and Directors are always available to respond to shareholder queries. The Board aims to ensure that shareholders are kept fully informed of developments in the Company's business through the Annual and Interim Reports and daily announcement of the NAV of the Company's shares to the London Stock Exchange.

The Investment Manager produces a monthly factsheet that contains a short commentary, in addition to portfolio and financial information, including the NAV of the Company's shares. This can be found on the Investment Manager's website at [www.artemisonline.co.uk](http://www.artemisonline.co.uk). Following the implementation in the United Kingdom of the EU's Transparency Directive in January 2007, a number of new requirements were introduced for listed companies. As a result, the Company will in future be required to prepare Interim Management Statements. These will be prepared during the six months between the annual and interim reporting periods and will be announced to the London Stock Exchange, as well as being available on the Investment Manager's website.

All shareholders are encouraged to attend and vote at the AGM, during which the Board and Investment Manager will be available to discuss issues affecting the Company. Proxy votes and abstentions are declared immediately following each resolution at every AGM. All Directors intend to attend this year's AGM, details of which are set out in the Notice of Meeting on pages 47 and 48 of this Report.

## Voting Policy

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

## Internal Controls

The Board recognises its responsibility for the implementation, review and maintenance of effective systems of internal control to manage the risks to which the Company is exposed. As the majority of the Company's systems are maintained on behalf of the Company by third party providers under contract, the Board fulfils its obligations by requiring these service providers to report and provide assurances as to their systems of internal control, which are designed to manage rather than eliminate risks. In light of the Board's reliance on these systems and the reports thereon, the Board can only provide reasonable and not absolute assurances against material misstatement or loss. The Board does, however, ensure that these service providers are employed subject to clearly defined contracts.

As the main operations of the Company are delegated to third party service providers, and it has no employees, an internal audit function has not been established. The Investment Manager and Administrator have both established internal control frameworks to provide reasonable assurances as to the effectiveness of the internal control systems operated on behalf of their clients. The Investment Manager reports to the Board on a regular basis with regard to the operation of its internal controls and risk management within its operations in so far as it impacts on the Company. In addition, the Investment Manager reports quarterly to the Board on compliance with the terms of its delegated authorities under the Investment Management

## Corporate Governance continued

Agreement. The Administrator also reports, on a quarterly basis, any breaches of law and regulation. This enables the Board to address any issues with regard to the management of the Company as and when they arise and to identify any known internal control failures.

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

- The Board has carried out and documented a risk and control assessment, which was reviewed during the year and is kept under ongoing, and at least an annual, review.
- Investment management, accounting and custody of assets are segregated. The procedures of the individual parties are designed to complement each other.
- Investment management and company secretarial services are provided by Artemis. The Board is responsible for setting the overall investment policy and monitoring the actions of the Investment Manager. The Board reviews information produced by the Investment Manager in detail on a regular basis.
- Administration is provided by BNP Paribas Fund Services UK Limited (“BNP Paribas”). BNP Paribas reports to the Board on a quarterly and *ad hoc* basis as appropriate. In addition, the Board reviews BNP Paribas’s annual audited report on its internal controls.
- The Board is aware of the whistleblowing procedures of Artemis and BNP Paribas, which are considered satisfactory.
- Safekeeping of the Company’s assets is undertaken by HSBC Global Investor Services.
- The Directors of the Company clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts. The appointment of agents and advisers is conducted by the Board after consideration of the quality of parties involved; their ongoing performance and contractual arrangements are monitored to ensure that they remain effective.
- Mandates for authorisation of investment transactions and expense payments are set by the Board.

By the procedures set out above, and in accordance with the Turnbull guidance, the Directors have reviewed the effectiveness of the Company’s internal controls throughout the year under review and up to the date of this Report.

# Directors' Remuneration Report

The Directors are pleased to present their report on remuneration for the year ended 30th April 2007, in accordance with the Directors' Remuneration Report Regulations 2002.

The Company's Auditors are required to audit certain information contained within the report. Where information set out below has been audited, it is clearly indicated. The Auditors' opinion is included in the Independent Auditors' Report, which can be found on pages 25 and 26.

## Policy on Directors' Remuneration

The Company's policy is that fees payable to the Directors should reflect the time spent on the Company's affairs, the responsibilities borne by the Directors and should be sufficient to enable candidates of a high calibre to be recruited. Consideration is also given to a range of external information, including peer group comparisons and independent research.

The Company's policy is for the Chairman of the Board to be paid a higher fee than the other Directors, to reflect his more onerous role and for the Directors' fees to be reviewed from time to time. The Board annually reviews the level of the Directors' fees taking into account fees payable to Directors of investment trust companies of a similar size and with a comparable investment objective, although this review does not necessarily result in any change to their rates. The Board deemed it appropriate for the Chairman's fee to remain at £22,500 and the other Directors fees to remain at £17,500 for the forthcoming year. The Company's Articles of Association limit the fees payable to Directors to £150,000 per annum.

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

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

## The Board

The Board is comprised entirely of non-executive Directors, who determine their remuneration as a whole. Accordingly, a separate Remuneration Committee has not been established. The Board has not relied upon the advice or services of any person to assist in making its remuneration decisions, although the Directors carry out reviews from time to time of the fees paid to Directors of other investment trusts.

As at 30th April 2007 the Board comprised six non-executive Directors, five of whom are deemed to be independent of the Investment Manager. The Company's Articles of Association, require new Directors 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 would have retired from the Board and been offered up for re-election.

	Date of appointment	Due for Re-election
Mr S E C Miller	14th July 2003	AGM 2008
Mr D J Barron	17th February 2005	AGM 2008
Mr T Cross Brown*	5th April 2006	AGM 2007*
Mr A D Dalrymple	1st April 2004	AGM 2007
Mr C E W Peel	14th July 2003	AGM 2009
Mr A W Sobczak	29th March 2001	AGM 2009

\* Mr Cross Brown is deemed non-independent and is subject to annual re-election in accordance with the recommendations of the Combined Code.

## Directors' Remuneration Report continued

The Directors do not have a contract of service with the Company but are instead appointed by letters of appointment. A Director may resign in writing to the Board at any time; there are no fixed notice periods nor any entitlement to compensation for loss of office.

### Directors' and Officers' Liability Insurance

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

### Directors' Fees (Audited)

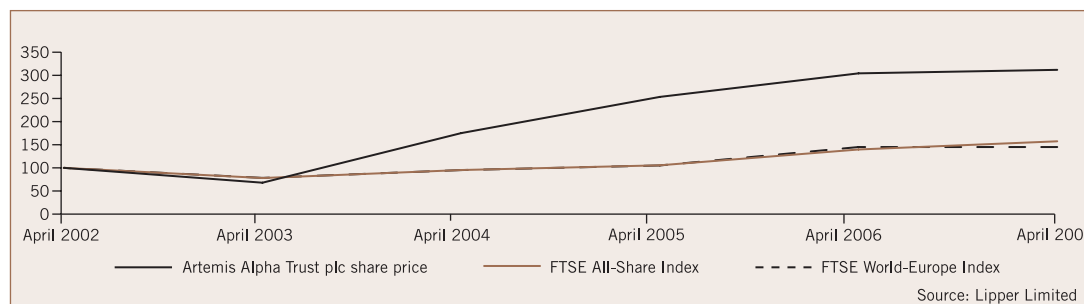
*The information in this section has been subject to audit.*

The Directors who served during the year to 30th April 2007 and 30th April 2006 received the following emoluments:

Director <sup>1</sup>	2007	2006
Mr S E C Miller	£22,500	£17,500
Mr D J Barron <sup>2</sup>	£17,500	£12,500
Mr T Cross Brown	£17,500	£1,199
Mr A D Dalrymple	£17,500	£12,500
Mr C E W Peel	£17,500	£12,500
Mr A W Sobczak	£17,500	£12,500
<b>Total</b>	<b>£110,000</b>	<b>£68,699</b>

<sup>1</sup> None of the Directors who are Directors of the Company's wholly owned subsidiaries, Alpha Securities Trading Limited and DMWS 504 Limited, received any remuneration from those companies.

<sup>2</sup> Mr Barron's fees are paid to charity.



### Performance Graph

Following the appointment of Artemis as the Company's Investment Manager, and the change of investment objective and policy on 1st June 2003, the Board considers the FTSE All-Share Index to be a more appropriate comparison for the Company (previously the FTSE World-Europe Index). In accordance with the Regulations, the performance graph above sets out the share price total return (assuming re-investment of dividends) to ordinary shareholders from 30th April 2002 to 30th April 2007 compared to the total return of a notional investment in the FTSE All-Share Index and the FTSE World-Europe Index.

By order of the Board

Artemis Investment Management Limited

Secretary

6th August 2007

## Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and Accounts and the Group and Company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law the Directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and have elected to prepare the parent Company financial statements on the same basis.

The Group and Company financial statements are required by law and International Financial Reporting Standards as adopted by the EU to present fairly the financial position of the Group and the Company and the performance for that year; the Companies Act 1985 provides, in relation to such financial statements, that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The financial statements are published on a website, [www.artemisonline.co.uk](http://www.artemisonline.co.uk), maintained by Company's Investment Manager, Artemis Investment Management Limited. The maintenance and integrity of the corporate and financial information relating to the Company is the responsibility of the Investment Manager. Visitors to the website should note that legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Independent Auditors' Report

To the shareholders of Artemis Alpha Trust plc

We have audited the Group and Company financial statements (the "financial statements") of Artemis Alpha Trust plc for the year ended 30th April 2007 which comprise the Consolidated Income Statement, the Group and Company Balance Sheets, Statements of Changes in Equity, the Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

## Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and Accounts and the Group and Company financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU, and for preparing the Directors' Remuneration Report in accordance with applicable law are set out in the Statement of Directors' Responsibilities on page 24.

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

We report to you our opinion as to whether the financial statements give a true and fair view 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that information presented in the Financial Highlights, Chairman's Statement and Investment Manager's Review which is cross referenced from the Business Review section of the Directors' Report. We also report to you if, in our opinion, 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 regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and Accounts and consider whether it is consistent with the audited financial statements. 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 judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 30th April 2007 and of its profit for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 30th April 2007;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

### KPMG Audit Plc

Chartered Accountants  
Registered Auditor  
Edinburgh, Scotland

6th August 2007

# Consolidated Income Statement

For the year ended 30th April 2007

	Notes	Year ended 30th April 2007			Year ended 30th April 2006		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment income	3	1,268	–	1,268	1,272	–	1,272
Other income	3	848	–	848	575	–	575
<b>Total revenue</b>		2,116	–	2,116	1,847	–	1,847
Gains on investments		–	3,234	3,234	–	19,003	19,003
Losses on current asset investments		(295)	–	(295)	(23)	–	(23)
Currency gains/(losses)		–	5	5	–	(50)	(50)
<b>Total income</b>		1,821	3,239	5,060	1,824	18,953	20,777
<b>Expenses</b>							
Investment management fees	4	(57)	(515)	(572)	(58)	(520)	(578)
Other expenses	5	(359)	–	(359)	(339)	–	(339)
<b>Profit before finance costs and tax</b>		1,405	2,724	4,129	1,427	18,433	19,860
Finance costs	6	(64)	(577)	(641)	(64)	(570)	(634)
<b>Profit before tax</b>		1,341	2,147	3,488	1,363	17,863	19,226
Tax	7	(173)	167	(6)	(154)	209	55
<b>Profit for the year</b>		1,168	2,314	3,482	1,209	18,072	19,281
<b>Earnings per ordinary share (basic)</b>	9	3.51p	6.95p	10.46p	3.63p	54.21p	57.84p
<b>Earnings per ordinary share (diluted)</b>	9	3.24p	6.43p	9.67p	3.37p	50.31p	53.68p

The total column of this statement represents the Income Statement of the Group, prepared in accordance with International Financial Reporting Standards (“IFRSs”). The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies. All items in the above statement derive from continuing operations.

All income is attributable to the equity shareholders of Artemis Alpha Trust plc. There are no minority interests.

**The notes on pages 31 to 45 form part of these financial statements.**

# Balance Sheets

As at 30th April 2007

	Notes	Group 2007 £'000	Company 2007 £'000	Group 2006 £'000	Company 2006 £'000
<b>Non-current assets</b>					
Investments	10	95,411	104,112	87,511	95,755
<b>Current assets</b>					
Investments held by subsidiary		1,167	–	768	–
Other receivables	13	506	505	1,202	980
Cash		1,119	937	7,994	7,866
		2,792	1,442	9,964	8,846
<b>Total assets</b>		<b>98,203</b>	<b>105,554</b>	<b>97,475</b>	<b>104,601</b>
<b>Current liabilities</b>					
Other payables	14	(371)	(7,722)	(2,158)	(9,284)
Bank loan	15	(11,500)	(11,500)	(11,500)	(11,500)
		(11,871)	(19,222)	(13,658)	(20,784)
<b>Net assets</b>		<b>86,332</b>	<b>86,332</b>	<b>83,817</b>	<b>83,817</b>
<b>Equity attributable to equity holders</b>					
Share capital	16	333	333	334	334
Share premium		23,984	23,984	23,984	23,984
Special reserve		7,974	7,974	8,208	8,208
Warrant reserve		1,299	1,299	1,299	1,299
Capital redemption reserve		3	3	2	2
Retained earnings – revenue		1,975	635	1,540	525
Retained earnings – capital	17	50,764	52,104	48,450	49,465
<b>Total equity</b>		<b>86,332</b>	<b>86,332</b>	<b>83,817</b>	<b>83,817</b>
<b>Net asset value per ordinary share (basic)</b>	18	259.77p		251.26p	
<b>Net asset value per ordinary share (diluted)</b>	18	236.69p		229.67p	

These financial statements were approved by the Board of Directors and signed on its behalf on 6th August 2007 by:

Simon Miller  
Chairman

**The notes on pages 31 to 45 form part of these financial statements.**

# Statements of Changes in Equity

For the year ended 30th April 2007

Group	Share capital	Share premium	Special reserve	Warrant reserve	Capital redemption reserve	Retained earnings		Total
	£'000	£'000	£'000	£'000	£'000	Revenue	Capital	
<b>For the year ended 30th April 2006</b>								
At 1st May 2005	333	23,912	8,208	1,101	2	1,001	30,378	64,935
Profit for the year	–	–	–	–	–	1,209	18,072	19,281
Issue of manager warrants	–	–	–	198	–	–	–	198
Issue of shares	1	72	–	–	–	–	–	73
Dividends paid and declared	–	–	–	–	–	(670)	–	(670)
<b>At 30th April 2006</b>	<b>334</b>	<b>23,984</b>	<b>8,208</b>	<b>1,299</b>	<b>2</b>	<b>1,540</b>	<b>48,450</b>	<b>83,817</b>
<b>For the year ended 30th April 2007</b>								
At 1st May 2006	334	23,984	8,208	1,299	2	1,540	48,450	83,817
Profit for the year	–	–	–	–	–	1,168	2,314	3,482
Repurchase of own shares	(1)	–	(234)	–	1	–	–	(234)
Dividends paid and declared	–	–	–	–	–	(733)	–	(733)
<b>At 30th April 2007</b>	<b>333</b>	<b>23,984</b>	<b>7,974</b>	<b>1,299</b>	<b>3</b>	<b>1,975</b>	<b>50,764</b>	<b>86,332</b>
Company	Share capital	Share premium	Special reserve	Warrant reserve	Capital redemption reserve	Retained earnings		Total
	£'000	£'000	£'000	£'000	£'000	Revenue	Capital	
<b>For the year ended 30th April 2006</b>								
At 1st May 2005	333	23,912	8,208	1,101	2	376	31,003	64,935
Profit for the year	–	–	–	–	–	819	18,462	19,281
Issue of manager warrants	–	–	–	198	–	–	–	198
Issues of shares	1	72	–	–	–	–	–	73
Dividends paid and declared	–	–	–	–	–	(670)	–	(670)
<b>At 30th April 2006</b>	<b>334</b>	<b>23,984</b>	<b>8,208</b>	<b>1,299</b>	<b>2</b>	<b>525</b>	<b>49,465</b>	<b>83,817</b>
<b>For the year ended 30th April 2007</b>								
At 1st May 2006	334	23,984	8,208	1,299	2	525	49,465	83,817
Profit for the year	–	–	–	–	–	843	2,639	3,482
Repurchase of own shares	(1)	–	(234)	–	1	–	–	(234)
Dividends paid and declared	–	–	–	–	–	(733)	–	(733)
<b>At 30th April 2007</b>	<b>333</b>	<b>23,984</b>	<b>7,974</b>	<b>1,299</b>	<b>3</b>	<b>635</b>	<b>52,104</b>	<b>86,332</b>

The notes on pages 31 to 45 form part of the financial statements.

# Cash Flow Statements

For the year ended 30th April 2007

	Group 2007 £'000	Company 2007 £'000	Group 2006 £'000	Company 2006 £'000
<b>Operating activities</b>				
Profit before tax	3,488	3,479	19,226	19,281
Interest payable	641	642	634	634
Gains on investments	(3,234)	(3,690)	(19,003)	(19,539)
(Gain)/loss on foreign exchange	(5)	(5)	50	50
Net movement in current asset investments	295	–	23	–
Decrease/(increase) in other receivables	210	210	(313)	(312)
(Decrease)/increase in other payables	(10)	(5)	36	36
Overseas tax received	–	–	6	6
<b>Net cash inflow from operating activities before interest and tax</b>	<b>1,385</b>	<b>631</b>	<b>659</b>	<b>156</b>
Interest paid	(633)	(633)	(607)	(607)
Corporation tax refunded/(paid)	21	–	(445)	–
<b>Net cash inflow/(outflow) from operating activities</b>	<b>773</b>	<b>(2)</b>	<b>(393)</b>	<b>(451)</b>
<b>Investing activities</b>				
Purchases of investments	(44,811)	(43,353)	(35,768)	(35,286)
Sales of investments	38,135	37,173	43,172	43,172
<b>Net cash (outflow)/inflow from investment activities</b>	<b>(6,676)</b>	<b>(6,180)</b>	<b>7,404</b>	<b>7,886</b>
<b>Financing activities</b>				
Repurchase of own shares	(234)	(234)	–	–
Dividends paid	(733)	(733)	(670)	(670)
Issue of manager warrants	–	–	198	198
Increase in inter-company loan	–	225	–	2,355
Issue of shares	–	–	73	73
Share issue expenses	–	–	(72)	(72)
<b>Net cash(outflow)/inflow from financing activities</b>	<b>(967)</b>	<b>(742)</b>	<b>(471)</b>	<b>1,884</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(6,870)</b>	<b>(6,924)</b>	<b>6,540</b>	<b>9,319</b>
<b>Cash and cash equivalents at the start of the year</b>	<b>(3,506)</b>	<b>(3,634)</b>	<b>(10,096)</b>	<b>(13,003)</b>
Effect of foreign exchange rate changes	(5)	(5)	50	50
<b>Cash and cash equivalents at the end of the year</b>	<b>(10,381)</b>	<b>(10,563)</b>	<b>(3,506)</b>	<b>(3,634)</b>
Bank loans	(11,500)	(11,500)	(11,500)	(11,500)
Cash	1,119	937	7,994	7,866
	(10,381)	(10,563)	(3,506)	(3,634)

The notes on pages 31 to 45 form part of the financial statements.

# Notes to the Financial Statements

## 1. Principal activity

The principal activity of the Company is that of an investment trust company within the meaning of Section 842 of the ICTA ("S842").

## 2. Accounting policies

### (a) Basis of preparation

The Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU"). The Company's financial statements have also been prepared in accordance with IFRSs as adopted by the EU and in accordance with the provisions of the Act. The principal accounting policies adopted by the Group and by the Company are set out below. The Company has taken advantage of the exemption provided under Section 230 of the Act not to publish its income statement and related notes.

Where presentation guidance set out in the Statement of Recommended Practice ("SORP") for investment trusts issued by the Association of Investment Companies (the "AIC") in December 2005 is consistent with the requirements of IFRSs, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 30th April 2007. There are no differences between the accounting policies applied in the Group and the Company.

The Group and Company financial statements are presented in Sterling, which is the currency of the primary environment in which the Group operates. All values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

A number of estimates and judgements have been made in the preparation of the financial statements. These are reviewed regularly by the Board and Investment Manager. The most significant judgement is the valuation of unlisted investments, which is described in note 2(e) below.

### (b) Basis of Consolidation

The Group financial statements consolidate the financial statements of the Company and the entities it controls (its subsidiaries) drawn up to 30th April each year.

Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. The financial statements of subsidiaries are prepared for the same reporting year as the parent Company, using consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated.

### (c) Presentation of consolidated income statement

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Consolidated Income Statement between items of revenue and capital nature has been presented alongside the Consolidated Income Statement. In accordance with the Company's status as a UK investment company under section 266 of the Act, net capital returns may not be distributed by way of dividend.

### (d) Segmental reporting

The Group is engaged in a single segment of business being that of an investment trust company.

## Notes to the Financial Statements continued

### 2. Accounting policies (continued)

#### (e) Investments

Investments (including current asset investments) are all held at fair value through profit or loss. Listed investments are measured initially at cost, and are recognised at trade date. Investments in subsidiary undertakings are stated in the Company's accounts at fair value.

For financial assets acquired, the cost is the fair value of the consideration. Subsequent to initial recognition, all listed investments are measured at their quoted bid prices without deduction for the estimated future selling cost. Unlisted investments are fair valued by the Directors using primary valuation methodologies such as earning multiples, recent transactions and net assets. Where fair value cannot reliably be measured, the investment will be carried at the previous reporting date value unless there is evidence that the investment has since been impaired. In such cases the value will be reduced to reflect the estimated extent of impairment.

Assets are derecognised at the trade date of the disposal. Proceeds are measured at fair value which are regarded as the proceeds of sale less any transaction costs.

Changes in the value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Consolidated Income Statement as gains/(losses) on investments. Also included within this caption are transaction costs in relation to the purchase or sale of investments.

#### (f) Income

Dividends receivable on equity shares are recognised as revenue on an ex-dividend basis. Provision is made for any dividends not expected to be received.

Income from fixed interest securities is recognised on an effective yield basis.

Interest receivable from cash and short-term deposits and interest payable is recognised on an effective yield basis.

#### (g) Expenses and finance costs

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue column in the Consolidated Income Statement except as follows:

- expenses which are incidental to the acquisition or disposal of an investment are treated as capital.
- expenses are treated as capital where they are made in connection with the maintenance or enhancement of the value of the investments. As a result, investment management fees and finance costs are allocated on the basis of 10 per cent to revenue and 90 per cent to capital.

#### (h) Taxation

Deferred taxation is recognised in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Due to the Company's status as an investment trust, and the intention to meet the conditions required to obtain approval under S842 in the foreseeable future, the Company has not provided for deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

## Notes to the Financial Statements continued

### 2. Accounting policies (continued)

#### (i) Cash and cash equivalents

Cash and cash equivalents comprises current deposits, overdrafts with banks and bank loans.

These are subject to an insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purpose.

#### (j) Dividends payable

Dividends are recognised from the date on which they are irrevocably committed to payment.

#### (k) Foreign currency translation

Transactions involving foreign currencies are converted at the rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated into Sterling at the rate ruling on the balance sheet date. Foreign exchange differences arising on investment transactions are recognised through capital.

#### (l) Other receivables and payables

Other receivables do not carry any interest and are short-term in nature and are accordingly stated at their nominal value. Other payables are non interest bearing and are stated at their nominal value.

#### (m) Accounting Developments

The following standards and interpretations have been published by IASB but were not effective for the year ended 30th April 2007.

- IFRS 7, Financial Instruments Disclosure,
- IFRIC 9, Reassessment of Embedded Derivatives,
- IFRS 8, Operating Segments;
- IFRIC 10, Interim Financial Reporting and Impairment,
- IFRIC 11, Group and Treasury Share Transactions,
- IFRIC 12, Service Concession Arrangements.

The application of these standards and interpretations would not have affected the financial statements.

## Notes to the Financial Statements continued

### 3. Income

	2007 £'000	2006 £'000
<b>Investment Income</b>		
UK dividend income	748	663
UK fixed interest	41	14
Overseas dividend income	97	18
Overseas fixed interest	382	577
	1,268	1,272
<b>Other Income</b>		
Subsidiary undertaking's dealing profits	730	474
Bank interest	60	99
Other	58	2
	2,116	1,847
<b>Total income comprises</b>		
Dividends and interest from investments	1,268	1,272
Bank interest	60	99
Other income and dealing profits	788	476
	2,116	1,847
<b>Income from investments</b>		
UK listed investments	388	373
UK unlisted investments	401	304
Overseas listed investments	97	18
Overseas unlisted investments	382	577
	1,268	1,272

### 4. Investment management fees

	2007			2006		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	50	453	503	50	448	498
Irrecoverable VAT thereon	7	62	69	8	72	80
	57	515	572	58	520	578

Under the terms of its Agreement, the Investment Manager is entitled to an annual fee payable quarterly in arrears at the rate of 0.75 per cent per annum plus VAT, of the market capitalisation of the Company on the last business day of each quarter. This contract can be terminated at any date by either party giving twelve months' notice.

On 30th April 2007, an amount of £186,000 (plus VAT) was outstanding in respect of amounts due to the Investment Manager (2006: £181,000 plus VAT).

## Notes to the Financial Statements continued

### 5. Other expenses

	2007			2006		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Auditors' remuneration:						
Fees for the audit of the Company's Annual Accounts	13	–	13	12	–	12
Audit of the subsidiaries pursuant to legislation	1	–	1	1	–	1
Other services pursuant to legislation	–	–	–	8	–	8
Directors' remuneration	110	–	110	69	–	69
Other	235	–	235	249	–	249
	<u>359</u>	<u>–</u>	<u>359</u>	<u>339</u>	<u>–</u>	<u>339</u>

### 6. Finance costs

	2007			2006		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Overdraft interest	–	–	–	3	23	26
Loan interest payable	64	577	641	61	547	608
	<u>64</u>	<u>577</u>	<u>641</u>	<u>64</u>	<u>570</u>	<u>634</u>

### 7. Tax

	2007			2006		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Corporation tax	5	–	5	–	–	–
Tax relief on expenses charged to capital	167	(167)	–	209	(209)	–
Overseas tax suffered	3	–	3	–	–	–
Prior year adjustment	(2)	–	(2)	(55)	–	(55)
	<u>173</u>	<u>(167)</u>	<u>6</u>	<u>154</u>	<u>(209)</u>	<u>(55)</u>

## Notes to the Financial Statements continued

### 7. Tax (continued)

#### (a) Factors affecting the tax charge

The tax assessed on the profit of the year is lower than the standard rate of corporation tax of 30 per cent (2006: 30 per cent). The differences are reconciled below:

	2007 £'000	2006 £'000
Profit before taxation	3,488	19,226
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006: 30%)	1,046	5,768
UK dividends not taxable	(224)	(198)
Gains on investments	(970)	(5,701)
Losses on current asset investments	89	7
Excess expenses for the year	339	433
Tax relief on expenses charged to capital	(275)	(309)
Overseas tax	3	–
Prior year adjustment	(2)	(55)
	6	(55)

Investment trust companies are exempt from corporation tax on capital gains provided the Company obtains agreement from HMRC that S842 tests have been met.

#### (b) Factors that may affect future tax charges

The Company has excess management expenses of £2,597,000 (2006: £2,014,000) that are available to offset future taxable revenue together with eligible unrelieved foreign tax of £nil (2006: £nil). No deferred tax asset has been recognised in respect of these amounts.

### 8. Dividends paid and proposed

	2007 £'000	2006 £'000
Second interim dividend for year ended 30th April 2005 (1.1p)	–	336
First interim dividend for the year ended 30th April 2006 (1.0p)	–	334
Second interim dividend for year ended 30th April 2006 (1.2p)	400	–
First interim dividend for the year ended 30th April 2007 (1.0p)	333	–
	733	670

Under IFRSs, dividends are recognised in the period in which they are irrevocably committed to payment and are shown through the Statement of Changes in Equity. Therefore, the Statement of Changes in Equity for the year ended 30th April 2007 reflects the second interim dividend for the year ended 30th April 2006 which was paid on 31st August 2006. For the year ended 30th April 2007, a first interim dividend of 1.0p has been paid and a second interim dividend of 1.3p per ordinary share will be paid on 31st August 2007.

## Notes to the Financial Statements continued

### 8. Dividends paid and proposed (continued)

Set out below are the total dividends paid/payable in respect of the financial year, which is the basis upon which the requirements of S842 are considered.

	2007 £'000	2006 £'000
First interim dividend of 1.0p per ordinary share (2006: 1.0p)	333	334
Second interim dividend of 1.3p per ordinary share (2006: 1.2p)	432	400
	765	734

### 9. Earnings per ordinary share

The basic revenue return per ordinary share is based on the revenue profit for the year of £1,168,000 (2006: £1,209,000) and on 33,294,789 (2006: 33,338,030) ordinary shares, being the weighted average number of ordinary shares in issue during the year. The basic capital earnings per ordinary share is based on capital profits for the year of £2,314,000 (2006: £18,072,000) and on 33,294,789 (2006: 33,338,030) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

For the purposes of calculating diluted revenue and capital returns per ordinary share, the number of ordinary shares is the weighted average used in the basic calculation plus the number of ordinary shares deemed to be issued for no consideration on exercise of all manager warrants by reference to the average share price of the ordinary shares during the year. The calculations indicate that the exercise of warrants would result in an increase in the weighted average number of ordinary shares of 2,771,003 (2006: 2,583,320).

### 10. Non current assets – Investments

#### (a) Valuation of investments

	Group 2007 £'000	Company 2007 £'000	Group 2006 £'000	Company 2006 £'000
Overseas quoted investments	15,711	15,711	17,058	17,058
UK quoted investments				
– UK listed	21,031	21,031	11,388	11,388
– Listed on AIM	39,689	39,689	42,602	42,602
– Fixed interest	183	183	224	224
Unlisted investments				
– Equities and warrants	18,108	18,108	12,800	12,800
– Fixed interest	689	689	3,439	3,439
– Subsidiary undertakings	–	8,701	–	8,244
	95,411	104,112	87,511	95,755

## Notes to the Financial Statements continued

### 10. Non current assets – Investments

#### (b) Movements in investments – Group

	2007			2006		
	Quoted £'000	Unlisted £'000	Total £'000	Quoted £'000	Unlisted £'000	Total £'000
Opening book cost	52,365	13,538	65,903	48,631	8,584	57,215
Opening unrealised appreciation/ (depreciation)	18,907	2,701	21,608	17,284	(84)	17,200
Opening valuation	71,272	16,239	87,511	65,915	8,500	74,415
<b>Movements in year:</b>						
Purchases at cost	34,656	6,915	41,571	30,497	6,605	37,102
Sales – proceeds	(34,370)	(2,535)	(36,905)	(39,556)	(3,453)	(43,009)
– realised gains/(losses) on sales	4,776	(183)	4,593	12,793	1,802	14,595
Transfer to quoted investments	2,932	(2,932)	–	–	–	–
(Decrease)/increase in unrealised appreciation	(2,652)	1,293	(1,359)	1,623	2,785	4,408
Closing valuation	76,614	18,797	95,411	71,272	16,239	87,511
Closing book cost	60,359	14,803	75,162	52,365	13,538	65,903
Closing unrealised appreciation	16,255	3,994	20,249	18,907	2,701	21,608
	76,614	18,797	95,411	71,272	16,239	87,511

#### (c) Movements in investments – Company

	2007			2006		
	Quoted £'000	Unlisted £'000	Total £'000	Quoted £'000	Unlisted £'000	Total £'000
Opening book cost	52,365	20,558	72,923	48,631	15,427	64,058
Opening unrealised appreciation	18,907	3,925	22,832	17,284	604	17,888
Opening valuation	71,272	24,483	95,755	65,915	16,031	81,946
<b>Movements in year:</b>						
Purchases at cost	34,656	6,915	41,571	30,497	6,782	37,279
Sales – proceeds	(34,370)	(2,535)	(36,905)	(39,556)	(3,453)	(43,009)
– realised gains on sales	4,776	(183)	4,593	12,793	1,802	14,595
Transfer to quoted investments	2,932	(2,932)	–	–	–	–
(Decrease)/increase in unrealised appreciation	(2,652)	1,750	(902)	1,623	3,321	4,944
Closing valuation	76,614	27,498	104,112	71,272	24,483	95,755
Closing book cost	60,359	21,823	82,182	52,365	20,558	72,923
Closing unrealised appreciation	16,255	5,675	21,930	18,907	3,925	22,832
	76,614	27,498	104,112	71,272	24,483	95,755

## Notes to the Financial Statements continued

### 10. Non current assets – Investments (continued)

#### (d) Gains on investments – Group

	2007 £'000	2006 £'000
Realised gains on sales of investments	4,593	14,595
(Decrease)/increase in unrealised appreciation	(1,359)	4,408
	3,234	19,003

#### (e) Transaction costs

Included in purchases and proceeds from sales are the following transaction costs:

	Group 2007 £'000	Company 2007 £'000	Group 2006 £'000	Company 2006 £'000
Sales	111	104	123	117
Purchases	137	128	26	23
	248	232	149	140

### 11. Investment in subsidiary undertakings

	% of ordinary share capital held	Principal activity	Country of incorporation and operation
Alpha Securities Trading Limited	100	Investment dealing	England
DMWS 504 Limited	100	Holding company	Scotland

Investments in subsidiary undertakings are held at fair value, which is deemed to be the net assets of each company. Listed investments held by Alpha Securities Trading Limited are measured at their quoted bid prices.

## Notes to the Financial Statements continued

### 12. Significant interests

At 30th April 2007 the Company held shares amounting to 3 per cent or more of the nominal value of any class of share capital of the following companies, not being participating interests.

	Class held	% of class held
Lynton Holding Asia	Ordinary	32.5*
Redhall Group	Ordinary	9.7
Greengrass	Preference	9.6
Suroco Energy	Ordinary	9.3
mForm	Ordinary	9.1
Music Copyright Solutions	Ordinary	8.1
Lamp Group	Ordinary	7.5
Hurricane Exploration	Ordinary	7.4
Hawk Group	A Ordinary	5.4
Healthcare Enterprise Group	Ordinary	5.3
Amazing Holdings	Ordinary	5.2
Ondine Biopharma	Ordinary	4.9
Tersus Energy	Ordinary	4.7
Buildstore	Ordinary	4.5
Salamander Energy	Ordinary	4.3
Geiger Counter	Ordinary	3.9
MICE Group	Ordinary	3.8
Re-energy Group	Ordinary	3.7
Real Estate Investors	Ordinary	3.5
Neptune Minerals	Ordinary	3.5
Gem Diamonds	Ordinary	3.5
Homeland Renewable Energy	Ordinary	3.4
TSI	Ordinary	3.2
Vostok Energy	Ordinary	3.2

\* This investment is held by the Company at fair value through profit and loss as part of a portfolio of investments rather than as a medium through which the Company carries out its business and therefore it is not considered an associated undertaking of the Company.

### 13. Other receivables

	Group 2007 £'000	Company 2007 £'000	Group 2006 £'000	Company 2006 £'000
Amounts due from brokers	285	285	750	553
Prepayment and accrued income	188	187	418	417
Taxation recoverable	3	3	24	–
Other debtors	30	30	10	10
	506	505	1,202	980

## Notes to the Financial Statements continued

### 14. Other payables

	Group 2007 £'000	Company 2007 £'000	Group 2006 £'000	Company 2006 £'000
Amounts due to subsidiary undertakings	–	7,381	–	7,156
Amounts due to brokers	–	–	1,782	1,782
Accruals	366	341	376	346
Corporation tax payable	5	–	–	–
	371	7,722	2,158	9,284

### 15. Bank loan

	Group 2007 £'000	Company 2007 £'000	Group 2006 £'000	Company 2006 £'000
Bank loan	11,500	11,500	11,500	11,500
	11,500	11,500	11,500	11,500

The bank loan has been advanced to the Company by the Royal Bank of Scotland plc under an unsecured £11.5 million 364 day multi-currency revolving credit facility.

### 16. Share capital and manager warrants

#### (a) Share capital

	2007 £'000	2006 £'000
<b>Authorised:</b>		
60,000,000 ordinary shares of 1p each (2006: 60,000,000)	600	600
<b>Allotted, called up and fully paid:</b>		
33,233,488 ordinary shares of 1p each (2006: 33,358,488)	333	334

	Number	£'000
<b>Movements in share capital during the year</b>		
Shares in issue on 1st May 2006	33,358,488	334
Purchased for placement in treasury on 27th October 2006	(125,000)	(1)
Shares in issue on 30th April 2007	33,233,488	333

On 27th October 2006, 125,000 ordinary shares of 1p each were repurchased by the Company at a total cost, including transaction costs, of £234,000 for placement in treasury. This was the only treasury share repurchase during the year (2006: no treasury share repurchases were transacted).

At 30th April 2007, the Company held 125,000 (2006: nil) ordinary shares of 1p each in treasury.

## Notes to the Financial Statements continued

### 16. Share capital and manager warrants (continued) (b) Manager warrants

	Number	Issue price (pence)	Exercise price (pence)
Issued on 27th October 2003	2,609,939	14.0736	87.96
Issued on 7th October 2004	3,508,750	20.9104	130.69
Issued on 24th March 2006	553,008	35.8016	223.76
<b>Manager warrants in issue on 30th April 2007</b>	<b>6,671,697</b>		

Each manager warrant entitles a holder to subscribe for ordinary shares in the Company at specific subscription dates (being the last business days in March and September up to and including September 2013) and on the occurrence of certain events.

### 17. Retained earnings – capital

	Group			Company		
	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Retained earnings – capital £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Retained earnings – capital £'000
Balance at 1st May 2005	13,178	17,200	30,378	13,115	17,888	31,003
Increase in unrealised appreciation	–	4,408	4,408	–	4,944	4,944
Net gain on realisation of investments	14,595	–	14,595	14,595	–	14,595
Exchange loss on capital items	(50)	–	(50)	(50)	–	(50)
Costs charged to capital (net of tax relief)	(881)	–	(881)	(1,027)	–	(1,027)
<b>Balance at 30th April 2006</b>	<b>26,842</b>	<b>21,608</b>	<b>48,450</b>	<b>26,633</b>	<b>22,832</b>	<b>49,465</b>
Balance at 1st May 2006	26,842	21,608	48,450	26,633	22,832	49,465
Decrease in unrealised appreciation	–	(1,359)	(1,359)	–	(902)	(902)
Net gain on realisation of investments	4,593	–	4,593	4,593	–	4,593
Exchange gain on capital items	5	–	5	5	–	5
Costs charged to capital (net of tax relief)	(925)	–	(925)	(1,057)	–	(1,057)
<b>Balance at 30th April 2007</b>	<b>30,515</b>	<b>20,249</b>	<b>50,764</b>	<b>30,174</b>	<b>21,930</b>	<b>52,104</b>

### 18. Net asset value per ordinary share

The basic NAV per ordinary share is based on net assets of £86,332,000 (2006: £83,817,000) and on 33,233,488 (2006: 33,358,488) ordinary shares, being the number in issue at the year end.

The diluted NAV per ordinary share has been calculated on the assumption that the 6,671,697 manager warrants (2006: 6,671,697) in issue were exercised resulting in a total of 39,905,185 ordinary shares in issue (2006: 40,030,185).

## Notes to the Financial Statements continued

### 19. Financial commitments

At 30th April 2007, the Group and Company did not have any financial commitments that had not been accrued (2006: nil).

### 20. Financial instruments

As detailed on page 2, the principal investment objective of the Group is to achieve above average rates of total return over the longer-term and to achieve a growing dividend stream.

The Group's financial instruments comprise equities, bonds and warrants; these and cash balances and a bank loan are held to achieve its investment objective as well as debtors and creditors that arise from its operations, for example sales and purchases of securities awaiting settlement and debtors for accrued income. The principal risks the Group faces through the holding of financial instruments are:

- Market price risk;
- Foreign currency risk;
- Interest rate risk; and
- Liquidity/marketability risk.

The Directors do not consider that the Group has significant exposure to credit risk. The Investment Manager regularly monitors the financial risks affecting the Group. The Directors receive financial information on a monthly basis which is used to identify and monitor risk.

As required by IAS 32: Financial Instruments: Disclosure and Presentation, an analysis of financial assets and liabilities, which identifies the risk to the Group of holding such items is given below.

#### Financial assets

The Group holds fixed asset investments and cash balances in order to meet its investment objectives.

#### Market price risk

This represents the potential loss the Group may suffer through holding market positions in the face of price movements. The Investment Manager is responsible for monitoring the portfolio and for determining that it is managed in accordance with the objectives and to ensure that the risk reward profile is appropriate.

#### Foreign currency risk

The Group's portfolio has a number of overseas investments and the income and capital value can be affected by investments in exchange rates. The Company also operates a number of currency bank accounts and exchange gains or losses may arise as a result of the movement in the exchange rate between the date of the transaction denominated in a currency other than sterling and its settlement. This exposure is part of the risk profile of a company that has overseas assets.

## Notes to the Financial Statements continued

### 20. Financial instruments (continued)

An analysis of the Group's currency exposure is detailed below:

	Investments at 30th April 2007 £'000	Investments at 30th April 2006 £'000	Net monetary assets at 30th April 2007 £'000	Net monetary assets at 30th April 2006 £'000
Canadian Dollar	6,762	11,312	–	–
US Dollar	5,503	4,187	–	–
Norwegian Kroner	3,727	3,391	–	–
Australian Dollar	2,586	3,121	–	–
Euro	2,462	2,714	–	–
Danish Kroner	1,233	1,034	–	–
	22,273	25,759	–	–

### Interest rate risk

	Fixed rate 2007 £'000	Non interest bearing 2007 £'000	Floating rate 2007 £'000	Fixed rate 2006 £'000	Non interest bearing 2006 £'000	Floating rate 2006 £'000
Sterling	758	72,380	1,119	–	61,752	7,972
Canadian Dollar	–	6,762	–	–	11,312	–
US Dollar	183	5,320	–	2,975	1,212	–
Norwegian Kroner	–	3,727	–	–	3,391	–
Australian Dollar	–	2,586	–	–	2,714	–
Euro	689	1,773	–	689	2,432	–
Danish Kroner	–	1,233	–	–	1,034	–
	1,630	93,781	1,119	3,664	83,847	7,972

The benchmark that determines the interest paid on the cash balances is the UK bank base rate, which was 5.50 per cent at 30th April 2007 (2006: 4.5 per cent).

### Liquidity risk

Although the Group invests in unlisted and less liquid listed companies, the investment strategy is to ensure that there are a sufficient number of investments that are readily realisable and can be sold to meet any funding requirements. The Group also has an unsecured £11.5 million multi-currency revolving credit facility for short-term flexibility. This financial liability is discussed in further detail below.

## Notes to the Financial Statements continued

### 20. Financial instruments (continued)

#### Financial liabilities

The Group primarily finances its operations all through equity, retained profits and bank borrowings. As at 30th April 2007, the Group had drawn down £11.5 million of its £11.5 million committed 364 multi-currency revolving credit facility with The Royal Bank of Scotland plc (30th April 2006: £11.5 million). All tranches drawn down have been in sterling. Interest is incurred at a variable rate as agreed at the time of draw down and is payable at the maturity date of each advance. The loan is included in current liabilities. At the year end, interest was accruing at 6.006 per cent (30th April 2006: 5.18 per cent) per annum and was payable on 11th May 2007, the date at which the outstanding loan can be rolled over. There was no interest rate risk associated with other short-term creditors at 30th April 2007 or 30th April 2006.

At both 30th April 2007 and 30th April 2006, all financial liabilities were due within one year and payable in sterling.

### 21. Transactions with the Investment Manager and related parties

The amounts paid to the Investment Manager and amounts outstanding at the year end are disclosed in Note 4. However, the existence of an independent Board of Directors demonstrates that the Company is free to pursue its own financial and operating policies and therefore, under IAS 24: Related Party Disclosures, the Investment Manager is not considered to be a related party. The Company surrendered £438,000 (2006: £451,000) excess management expenses without payment to Alpha Securities Trading Limited. All other transactions with subsidiary undertakings were on an arms length basis. During the year transactions in securities between the Company and its subsidiary undertakings amounted to £nil (2006: £177,000). Outstanding balances are set out in Note 14.

# Investment Manager, Secretary and Advisers

## Investment Manager and Secretary

Artemis Investment Management Limited  
42 Melville Street  
Edinburgh EH3 7HA

## Registered Office

Cassini House  
57 St James's Street  
London SW1A 1LD  
Tel: 0800 092 2051  
Email: [investorsupport@artemisfunds.com](mailto:investorsupport@artemisfunds.com)  
Website: [www.artemisonline.co.uk](http://www.artemisonline.co.uk)

## Administrator

BNP Paribas Fund Services UK Limited  
55 Moorgate  
London EC2R 6PA  
Tel: 020 7410 4186  
Fax: 020 7477 5849

## Registrar and Transfer Office

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

Shareholders enquiries: 0870 162 3100

## Banker

HSBC Bank PLC  
International Branch  
P.O. Box 181  
22-32 Poultry  
London EC2P 2BX

## Auditors

KPMG Audit Plc  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EG

## Custodian

HSBC Global Investor Services  
Canada Square  
London E14 5HQ

## Stockbroker

Bridgewell Group plc  
3rd Floor  
Old Change House  
128 Queen Victoria Street  
London EC4V 4BJ

## Solicitors

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

A member of the Association of Investment Companies.

An investment company as defined under Sections 265 and 266 of the Companies Act 1985.

Registered in England No. 253644

# Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting (“AGM”) of Artemis Alpha Trust plc will be held at the offices of Artemis Investment Management Limited, Cassini House, 57 St James’s Street, London SW1A 1LD, on Thursday, 6th September 2007 at 12.30 pm for the purposes of transacting the following business:

## Ordinary Resolutions

- Resolution 1. To receive the Report of the Directors and the audited Financial Statements for the year ended 30th April 2007.
- Resolution 2. To approve the Directors’ Remuneration Report for the year ended 30th April 2007.
- Resolution 3. To re-elect Mr Cross Brown as a Director\*.
- Resolution 4. To re-elect Mr Dalrymple as a Director\*.
- Resolution 5. To re-appoint KPMG Audit Plc as independent Auditors of the Company and to authorise the Directors to fix their remuneration.
- Resolution 6: That Schedule 1 of the Investment Management Agreement dated 3rd June 2003 entered into between the Company and Artemis Investment Management Limited be and is hereby amended by the deletion of the figures “10 per cent” where they appear in the third line of section (a) under the heading “Investment restrictions” and by the replacement thereof with the figures “30 per cent” and the investment policy of the Company be and is hereby amended accordingly and as described in the section headed “Change to Investment Management Agreement” in the Directors’ Report contained in the Annual Report and Accounts of the Company for the financial year ended 30th April 2007.

## Special Resolutions

- Resolution 7. THAT, in substitution for all existing powers, the Directors be and are hereby generally empowered, pursuant to Section 95 of the Companies Act 1985 (the “Act”), to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority to allot shares conferred on them by an ordinary resolution passed at the Extraordinary General Meeting of the Company held on 10th December 2003 or otherwise as if subsection (1) of Section 89 of the Act did not apply to any such allotment and to sell or transfer relevant shares (within the meaning of Section 94 of the Act) if, immediately before the sale or transfer, such shares are held by the Company as treasury shares (as defined in Section 162A of the Act) (“treasury shares for cash”) as if subsection (1) of Section 89 of the Act did not apply to any such sale or transfer provided that this power:
- (a) expires at the end of the next AGM of the Company in 2008, but the Company may make an offer or agreement which would or might require equity securities to be allotted or treasury shares sold or transferred after expiry of this power and the Directors may allot equity securities or sell or transfer treasury shares in pursuance of that offer or agreement as if this power had not expired; and
  - (b) shall be limited to the allotment of equity securities and the sale or transfer of treasury shares;
    - (i) in connection with a *pro rata* issue, sale or transfer in favour of the holders of ordinary shares where the equity securities respectively attributed to the interests of all the holders of ordinary shares of 1 penny each in the Company are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them, but subject to such exclusions or other arrangements as the Directors deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory or the requirements of a regulatory body or stock exchange;
    - (ii) pursuant to the Manager Warrant Agreements dated 2nd September 2003, 7th September 2004 and 8th February 2006, in each case, between the Company and Artemis Investment Management Limited; and
    - (iii) (otherwise than pursuant to paragraphs (i) and (ii) above) up to an aggregate nominal value of £166,167, being 50 per cent of the Company’s issued ordinary share capital as at 6th August 2007.

## Notice of Annual General Meeting continued

- Resolution 8. THAT, the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 to make market purchases (within the meaning of Section 163 of the said Act) of ordinary shares of 1 penny each in the capital of the Company (either for retention as treasury shares for future reissue and resale or transfer, or Cancellation) provided that:
- (a) the maximum number of ordinary shares authorised to be purchased shall be 14.99 per cent of the issued ordinary share capital as at the date of this resolution;
  - (b) the minimum price which may be paid for each ordinary share shall be 1 penny;
  - (c) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall be not more than 5 per cent above the average of the middle market quotations for an ordinary share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately before the purchase is made; and
  - (d) unless varied, revoked or renewed, the authority hereby conferred shall expire on 6th March 2009 or if earlier at the conclusion of the next AGM of the Company, save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares which will or may be completed or executed wholly or partly after such expiry.

By order of the Board

Artemis Investment Management Limited  
Secretary

6th August 2007

Registered office:  
Cassini House  
57 St James's Street  
London SW1A 1LD

\* The Directors' biographies can be found on page 11.

# These agreements are available for inspection at the registered office of the Company.

### Notes:

Pursuant to Regulation 41(i) of the Uncertified Securities Regulations 2001, to be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast), Members must be registered on the Company's Register of Members at 12.30 pm on Tuesday, 4th September 2007. If the AGM is adjourned to a time not more than 48 hours after the specific time applicable to the original meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, Members must be entered into the Company's Register of Members at a time which is not less than 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at a time specified in the notice.

A member entitled to vote at AGM 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 or proxy must be lodged with the Company's Registrars, (Proxy Department), The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR, not less than 48 hours before the time appointed for holding the AGM.

Lodgement of the form of proxy will not preclude a shareholder from attending the AGM and voting in person. Members (and any proxies or corporate representatives appointed) agree, by attending the AGM, that they are expressly requesting and that they are willing to receive any communications relating to the Company's securities made at the AGM.

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 AGM.



**ARTEMIS**  
The PROFIT Hunter