

# Artemis Alpha Trust plc

## Annual Report and Accounts

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*for the year ended 30th April 2008*



**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	18
Directors' Remuneration Report	23
Statement of Directors' Responsibilities	25
Independent Auditors' Report	26
Consolidated Income Statement	28
Balance Sheets	29
Statements of Changes in Equity	30
Cash Flow Statements	31
Notes to the Financial Statements	32
Investment Manager, Secretary and Advisers	48
Notice of Annual General Meeting	49
Appendix to Notice of Annual General Meeting	53

This document is important and requires your immediate attention. If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 immediately. If you have sold or otherwise transferred all of your shares in Artemis Alpha Trust plc, please forward this document, together with the accompanying form of proxy, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

# Group Summary

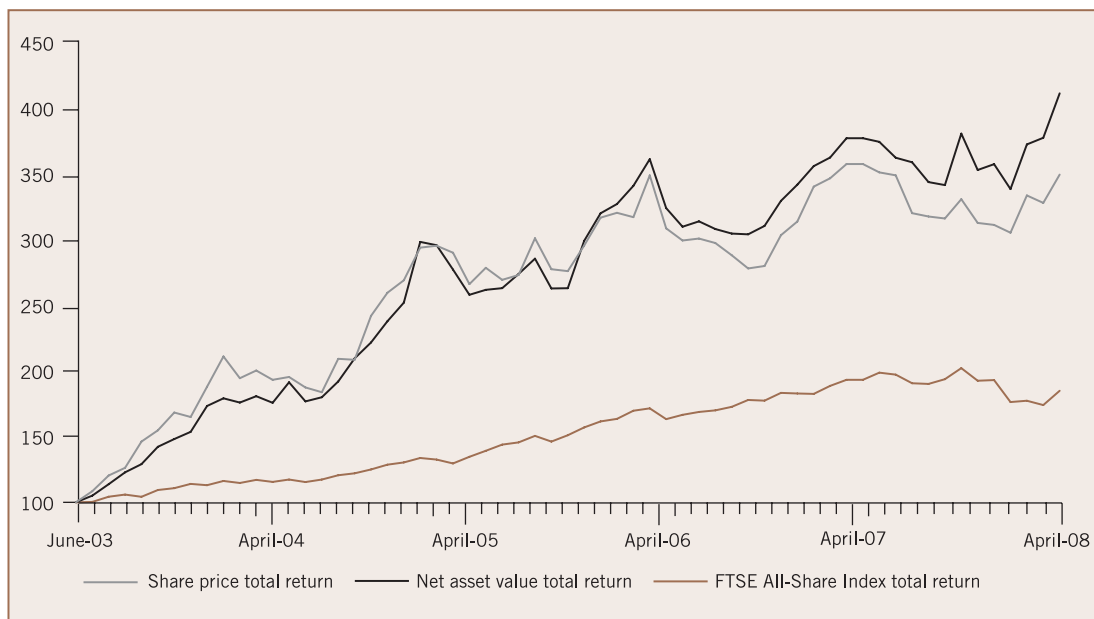
Objective and Policy	<p>The investment objective of the Company is to achieve above average rates of total return over the longer term and to achieve a growing dividend stream. The investment policy is to invest mainly in UK and selected international equities, with the potential for investment in limited 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 2008	£91.6 million
Market Capitalisation at 30th April 2008	£75.5 million
Capital Structure at 30th April 2008	32,668,488 ordinary shares in issue 690,000 ordinary shares held in treasury 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 14
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: 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 2008	Year ended 30th April 2007	Since launch*
Net asset value – basic	9.1%	4.4%	311.4%
Net asset value – diluted	8.3%	4.2%	273.0%
Share price	(2.2)%	2.5%	249.5%
FTSE All-Share Index	(4.3)%	12.7%	84.9%
Capital	As at 30th April 2008	As at 30th April 2007	
Net assets	£91.6m	£86.3m	
Net asset value – basic	280.47p	259.77p	
Net asset value – diluted	253.54p	236.69p	
Share price	231.00p	239.00p	
(Discount)/Premium – diluted net asset value	(8.9)%	1.0%	
Net gearing (as a % of shareholders' funds)	12.0%	12.2%	
Returns for the year	Year ended 30th April 2008	Year ended 30th April 2007	
Revenue earnings per share – basic	2.10p	3.51p	
Revenue earnings per share – diluted	1.93p	3.24p	
Dividends per share	2.45p	2.30p	
Total expense ratio	0.9%	1.2%	

Source: Artemis/Datastream

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

# Chairman's Statement

For the year ended 30th April 2008

## Performance

In what has been a challenging period for stock markets, the year to 30th April 2008 was a successful one for your Company. The total return of the diluted net asset value was 8.3 per cent and this compared favourably to the FTSE All-Share Index, which fell by 4.3 per cent.

The Company's broad investment policy allows your Investment Manager to be selective in identifying long term investment opportunities irrespective of market conditions and the Company's performance, over the long term, is testament to this approach. Strong contributions to performance came from Food Producers and Oil & Gas at a sector level and the largest contributors at the individual company level were Artemis Asset Management and New Britain Palm Oil.

## Investment in unlisted companies

Your Company continues to pursue a strategy of investing a proportion of its assets in unlisted companies which has proved to be beneficial to the Company's overall performance. At last year's Annual General Meeting shareholders approved a resolution amending the Investment Management Agreement to allow the Investment Manager to invest up to 30 per cent of the Company's net assets (based on the lower of cost or valuation) in unlisted investments. As at 30th April 2008, on this basis these investments represented 19 per cent of the Company's net assets.

Further information on the Company's portfolio is contained in the Investment Manager's Review that follows.

## Dividends

Your Board has declared a second interim dividend of 1.4 pence (2007: 1.3 pence) per ordinary share bringing total dividends for the year to 30th April 2008 to 2.45 pence (2007: 2.3 pence) per ordinary share, an increase of 6.5 per cent over dividends paid in 2007. The second interim dividend will be paid on 29th August 2008 to those shareholders on the register on 13th August 2008.

## Buy Back of Shares

During the year your Company bought back 565,000 of its own ordinary shares of 1p each at a cost of £1.2 million. These shares were bought at an average discount of 5.8 per cent and added 0.12 pence to the net asset value for continuing shareholders. The shares are presently held in treasury and may be re-issued by the Company at prices higher than the diluted net asset value at the time of re-issue. As set out in the Notice of Annual General Meeting, a resolution to re-new the Company's authority to buy back its own shares and hold them in treasury will be put to shareholders at the forthcoming Annual General Meeting.

## Board of Directors

In January 2008 Andrzej Sobczak resigned as a director of the Company, having served on the Board since 2001. On behalf of the Board I would like to thank him for his valuable contribution.

## VAT on Management Fees

In November 2007 HM Revenue & Customs ("HMRC") announced that it had accepted the judgement of the European Court of Justice in the JP Morgan Claverhouse Investment Trust and AIC VAT case, thereby confirming that investment management fees should be exempt from VAT. Accordingly, your Investment Manager stopped charging VAT on these fees with effect from 1st October 2007.

This change in VAT position should enable your Company to make a recovery of at least part of the VAT incurred in previous years. Due to the continuing uncertainty over how HMRC will effect back claims, together with the added complication of a change in investment manager in 2003, it is not possible to determine an exact amount that will be recovered at this stage. In view of this the financial statements have not been

# Chairman's Statement continued

For the year ended 30th April 2008

adjusted to take account of the possible recovery of VAT. The amounts involved are not expected to have a material impact on the Company's net asset value. Your Board will continue to monitor developments on this matter and will inform shareholders accordingly in due course.

## 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 11th September 2008 at 12.30 pm.

A special resolution is being proposed at the AGM to approve the adoption of a new set of Articles of Association to take account of changes in company law, following the introduction of the Companies Act 2006 (the "Act"). The Act is being introduced in stages and is expected to be fully implemented by 1st October 2009. The new Articles of Association, together with the new Article 100 to be adopted pursuant to resolution 11, will enable the Company to comply with those parts of the Act that are in effect now and those which will come into effect on 1st October 2008. It is intended that a further review of the Articles of Association will be carried out following the implementation of the final parts of the Act. Information on the principal changes to the Articles of Association are included in the Directors' Report on page 16 and the Appendix to the Notice of Annual General Meeting on pages 53 to 56.

Full details of all the business to be conducted at the meeting are set out in the Notice of Annual General Meeting on pages 49 to 52.

Your Board looks forward to welcoming shareholders to the AGM, which provides an opportunity to meet both the Directors and Investment Manager and to ask any questions of them. Should you have any detailed or technical questions, it would be helpful if these could be raised in advance of the meeting with the Company Secretary. If you are unable to attend the meeting, your Board would encourage you to submit your proxy votes.

## Investment Plan

The Investment Plan enables investors to acquire shares in the Company in a cost effective manner, either through lump sum 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).

## Outlook

In the current environment stock markets are likely to remain volatile. In such times, good stock selection is a fundamental driver of performance and your Board believes that your Investment Manager will continue to take advantage of the Company's wide investment policy to identify further attractive long term investment opportunities. Investment in equities is not without risk, but as an asset class it has historically produced positive returns for investors over longer time periods. Your Board remains confident that the way in which your Company is managed will continue to produce above average rates of total return over the longer term.

Simon Miller

Chairman

6th August 2008

# Investment Manager's Review

## Performance and Portfolio Analysis

It has been a good year for the Company's performance with the diluted net asset value per share rising 8.3 per cent, which compares favourably to the performance of the FTSE All-Share Index, which declined by 4.3 per cent. The Company's long term performance remains good and since Artemis Investment Management was appointed as Investment Manager in June 2003, the diluted net asset value has risen by 273.0 per cent, outstripping the benchmark FTSE All-Share Index, which rose by 84.9 per cent.

Our flexible investment approach has allowed these positive returns to be generated against some very challenging stock market conditions which have been well reported. Our focus has continued to favour oil exploration and resources where there is positive momentum in pricing. We have avoided the UK banking sector and also those sectors with too much reliance on the consumer. We have hedged the portfolio through the ownership of a number of fund management holdings as any unexpected recovery in the stock market would benefit these companies.

Our stock picking style has always resulted in a portfolio biased towards non large cap companies, but during the year we have reduced our exposure to smaller companies in favour of mid cap companies. In the current environment we do expect an eventual shift towards both mid and smaller cap companies given their recent poor relative performance and also their more attractive valuations.

## Portfolio

The rising crude oil price has provided a positive backdrop for our investments in the oil sector, which at the year end represented 30 per cent of the portfolio. We have seen a strong recovery in Solana Resources following a management change and a greater focus which has resulted in a major oil discovery. Salamander Energy and Revus Energy continue to expand their portfolios and are now benefiting from their exciting drilling programs.

During the year we have supported further funding of companies within our unlisted portfolio, such as Vostok Energy, which is involved in exploration and production in the Saratov region of Russia and also Hurricane Exploration, which has exploration licenses in the West of Shetland basin. Expro International has announced that it has received an offer for its business and since the year end a further party has expressed an interest and is considering a bid. Genesis Petroleum, which principally has interests in both the UK and Norwegian sectors of the North Sea, has staged a remarkable recovery in share price terms. Geopark, whose interests are in Chile, has also made excellent progress in its exploration efforts.

Also, within the unlisted portfolio we benefited from the listing of Valiant Petroleum, the North Sea based explorer and we expect to see some positive news from Buried Hill whose operations in Turkmenistan have now made good progress.

In the current environment, we do not expect any major changes to our weightings in this sector. Although it is quite clear that the oil price may correct, many of our investments continue to offer further upside given their drilling programs and production targets.

We have also continued to see a strong re-rating in REA Holdings – the Indonesian based grower of oil palms. Our largest quoted equity contribution over the year has come from the purchase of a holding in New Britain Palm Oil, a well established producer of palm oil in Papua New Guinea. Both companies have benefited from a strong price rise in palm oil which is a major source of cooking oil and an ingredient for soaps and detergents. Given the longer term cycle of the oil palm cultivation process, these well established companies have a strong future given the demand profile for palm oil.

The largest contribution to performance has come from the increase in value of Artemis Asset Management which was reported a few months ago. Given the falls we have experienced in stock markets, our investments in ACP Capital and Polar Capital have not performed well. We sold our holding in New Star Asset Management to favour BlueBay, the leading credit asset manager which is benefiting from strong inflows at present.

# Investment Manager's Review continued

## Outlook

The world is a different and difficult place at the time of writing, particularly from a fund manager's viewpoint. Stock markets are adjusting to slower and eventual negative economic growth which is also being compounded by inflationary pressures. Most of this is well reported and in the short term indebted governments have very little room to manoeuvre.

We have reduced our gearing in readiness for some attractive buying opportunities and in the short term our portfolio is well placed to perform in the current environment.

John Dodd  
Artemis Investment Management Limited  
Investment Manager  
6th August 2008

# Portfolio of Investments

As at 30th April 2008

Company	Sector	Country	Market value £'000	% of total investments
Artemis Asset Management <sup>3</sup>	General Financial	UK	10,972	10.7
New Britain Palm Oil	Food Producers	Papua New Guinea	8,636	8.5
Vostok Energy <sup>1,3</sup>	Oil & Gas Producers	UK	6,396	6.3
Salamander Energy <sup>1</sup>	Oil & Gas Producers	UK	5,225	5.1
Aricom <sup>1</sup>	Mining	UK	4,804	4.7
Expro International Group	Oil Equipment, Services & Distribution	UK	3,702	3.6
Hurricane Exploration <sup>3</sup>	Oil & Gas Producers	UK	3,429	3.4
Revus Energy	Oil & Gas Producers	Norway	3,231	3.2
Solana Resources <sup>2</sup>	Oil & Gas Producers	Canada	3,155	3.1
REA Holdings <sup>4</sup>	Food Producers	UK	2,939	2.9
<b>Top 10 Investments</b>			<b>52,489</b>	<b>51.5</b>
Geopark Holdings <sup>2</sup>	Oil & Gas Producers	Bermuda	2,310	2.3
TSI <sup>3</sup>	Electronic & Electrical Equipment	UK	2,094	2.0
Amazing Holdings <sup>2,4</sup>	Travel & Leisure	UK	1,796	1.8
Geiger Counter	Equity Investment Instruments	UK	1,780	1.7
Playtech <sup>1,2</sup>	Software & Computer Services	UK	1,533	1.5
mForm <sup>1,3,4</sup>	General Financial	UK	1,530	1.5
Redhall Group <sup>2</sup>	Industrial Engineering	UK	1,435	1.4
Lynton Holding Asia <sup>3</sup>	Aerospace & Defence	Denmark	1,418	1.4
Polar Capital Holdings <sup>2</sup>	General Financial	UK	1,385	1.3
Qinetiq Group	Aerospace & Defence	UK	1,358	1.3
<b>Top 20 Investments</b>			<b>69,128</b>	<b>67.7</b>
Gasol <sup>1,2</sup>	Oil & Gas Producers	UK	1,294	1.3
Hichens Harrison & Co <sup>2</sup>	General Financial	UK	1,228	1.2
ACP Capital <sup>2</sup>	General Financial	UK	1,215	1.2
Genesis Petroleum <sup>2</sup>	Oil & Gas Producers	UK	1,211	1.2
Real Estate Investors <sup>2</sup>	Real Estate	UK	1,198	1.2
Valiant Petroleum <sup>1,2</sup>	Oil & Gas Producers	UK	1,113	1.1
BlueBay Asset Management <sup>1</sup>	General Financial	UK	1,068	1.0
Central Rand Gold <sup>1</sup>	Mining	Australia	1,066	1.0
ORA Capital Partners <sup>1,2</sup>	General Financial	UK	1,054	1.0
Macau Property Opportunities <sup>2</sup>	Real Estate	UK	1,045	1.0
<b>Top 30 Investments</b>			<b>80,620</b>	<b>78.9</b>
Arena Leisure	Travel & Leisure	UK	1,019	1.0
Ondine Biopharma <sup>2</sup>	Pharmaceuticals & Biotechnology	Canada	1,015	1.0
Buried Hill Energy (Cyprus) <sup>3</sup>	Oil & Gas Producers	Cyprus	1,010	1.0
Homeland Renewable Energy <sup>3</sup>	Electricity	USA	959	0.9
Hargreaves Lansdown	General Financial	UK	939	0.9
Cluff Gold <sup>2</sup>	Mining	UK	930	0.9
Music Copyright Solutions <sup>2</sup>	Media	UK	909	0.9
Individual Restaurant Group <sup>2</sup>	Travel & Leisure	UK	860	0.8
Hawk Group <sup>3,4</sup>	General Financial	Luxembourg	822	0.8
Anglo Irish Bank	Banks	Ireland	777	0.8
<b>Top 40 Investments</b>			<b>89,860</b>	<b>87.9</b>

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

<sup>2</sup> AIM Listed

<sup>3</sup> Unlisted investment

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

# Portfolio of Investments continued

As at 30th April 2008

Investments	Sector	Country	Valuation £'000	% of total investments
Plexus <sup>2</sup>	Oil Equipment, Services & Distribution	UK	750	0.7
Lamp Group <sup>3</sup>	Nonlife Insurance	UK	750	0.7
Oxford Nanolabs <sup>1,3</sup>	Pharmaceuticals & Biotechnology	UK	692	0.7
Ceramic Fuel Cells <sup>2</sup>	Electronic & Electrical Equipment	Australia	690	0.7
Suroco Energy	Oil & Gas Producers	Canada	673	0.7
Gem Diamonds	Mining	UK	648	0.6
Havelock Europa	Household Goods	UK	618	0.6
Booker Group <sup>1,2</sup>	Food & Drug Retailers	UK	598	0.6
Noida Toll Bridge <sup>2</sup>	Industrial Transportation	India	574	0.6
Petrohunter Energy	Oil & Gas Producers	USA	466	0.4
<b>Top 50 Investments</b>			<b>96,319</b>	<b>94.2</b>
Neptune Minerals <sup>2</sup>	Mining	UK	450	0.4
Parkmead Group <sup>1,2</sup>	Support Services	UK	400	0.4
Telford Homes <sup>2</sup>	Household Goods	UK	399	0.4
Armor Group International <sup>1</sup>	Support Services	UK	393	0.4
Bankers Petroleum <sup>1, 2</sup>	Oil & Gas Producers	Canada	391	0.4
Ascent Resources Group <sup>2</sup>	Oil & Gas Producers	UK	358	0.3
Rok Entertainment <sup>3,4</sup>	Media	UK	320	0.3
Imprint <sup>1,2</sup>	Support Services	UK	300	0.3
Origo Sino India <sup>2</sup>	General Financial	UK	270	0.3
Energetix Group <sup>2</sup>	Industrial Engineering	UK	266	0.3
<b>Top 60 Investments</b>			<b>99,866</b>	<b>97.7</b>
Golden Peaks Resources	Mining	Canada	219	0.2
Quadnetics Group <sup>2</sup>	Support Services	UK	215	0.2
SMG	Media	UK	198	0.2
ADVFN <sup>2</sup>	General Financial	UK	195	0.2
Summit Corporation <sup>2</sup>	Pharmaceuticals & Biotechnology	UK	171	0.2
Healthcare Enterprise Group <sup>2</sup>	Healthcare Equipment & Services	UK	164	0.2
New Star Asset Management Group <sup>1</sup>	General Financial	UK	160	0.2
Reenergy Group <sup>2</sup>	Support Services	UK	135	0.1
Cyprotex <sup>2</sup>	Pharmaceuticals & Biotechnology	UK	109	0.1
Evolutec Group <sup>2</sup>	Pharmaceuticals & Biotechnology	UK	106	0.1
<b>Top 70 Investments</b>			<b>101,538</b>	<b>99.4</b>
Lansdowne Oil & Gas <sup>2</sup>	Oil & Gas Producers	UK	98	0.1
Biofutures International <sup>2</sup>	Chemicals	UK	94	0.1
Inion <sup>1</sup>	Healthcare Equipment & Services	Finland	90	0.1
Brazilian Diamonds <sup>2</sup>	Mining	Canada	74	0.1
Crosby Capital Partners <sup>2</sup>	General Financial	UK	63	0.1
AIM Realisation Fund <sup>1,2</sup>	Equity Investment Instruments	UK	61	0.1
Arian Silver <sup>2</sup>	Mining	Canada	49	–
Energy Equity Resources (Norway) <sup>3</sup>	Oil & Gas Producers	Norway	–	–
Buildstore <sup>3</sup>	Construction & Materials	UK	–	–
Mice Group	Support Services	UK	–	–
<b>Top 80 Investments</b>			<b>102,067</b>	<b>100.0</b>
Betex Group	Travel & Leisure	UK	–	–
Aeon <sup>3</sup>	General Retailers	UK	–	–
<b>Total Investments</b>			<b>102,067</b>	<b>100.0</b>

<sup>1</sup> Held by other Artemis managed 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 2008 was as follows:

Country	2008 %	2007 %
UK	72.8	76.7
Papua New Guinea	8.5	–
Canada	5.5	7.1
Norway	3.2	4.0
Bermuda	2.3	2.2
Australia	1.7	2.7
Denmark	1.4	1.3
United States	1.3	3.7
Cyprus	1.0	–
Luxembourg	0.8	0.8
Ireland	0.8	1.3
India	0.6	–
Finland	0.1	0.2
	100.0	100.0

The sector analysis of the investment portfolio as at 30th April 2008 was as follows:

Sector	2008 %	2007 %
Oil & Gas Producers	29.9	20.1
General Financial	20.4	21.2
Food Producers	11.4	2.5
Mining	7.9	11.3
Oil Equipment, Services & Distribution	4.3	0.5
Travel & Leisure	3.6	9.1
Electronic & Electrical Equipment	2.7	2.8
Aerospace & Defence	2.7	2.7
Real Estate	2.2	1.5
Pharmaceuticals & Biotechnology	2.1	3.0
Equity Investment Instruments	1.8	3.3
Industrial Engineering	1.7	3.4
Software & Computer Services	1.5	–
Support Services	1.4	5.2
Media	1.4	3.4
Household Goods	1.0	1.9
Electricity	0.9	1.0
Banks	0.8	1.3
Nonlife Insurance	0.7	2.9
Industrial Transportation	0.6	0.7
Food & Drug Retailers	0.6	–
Healthcare Equipment & Services	0.3	1.0
Chemicals	0.1	–
Construction & Materials	–	0.5
General Retailers	–	0.4
Basic Materials	–	0.3
	100.0	100.0

# Directors

## S E C Miller (Chairman)\*†#

Simon Edward Callum Miller, aged 55, 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 Noble AiM VCT plc, 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 49, 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 60, 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 48, 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 63, 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 The Mercantile Investment Trust plc and Ingenious Music VCT plc.

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

\* 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 2008.

## Business Review

### Operating Environment

The Company operates as an investment trust company and is an investment company within the meaning of Section 833 of the Companies Act 2006 (the "Act"). The Company was approved by HM Revenue & Customs as an investment trust in accordance with the requirements of Section 842 of the Income and Corporation Taxes Act 1988 ("ICTA") for the year ended 30th April 2007. 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 2008 and each subsequent year. The Company is not a close company within the definitions of ICTA. The Company has no employees and delegates most of its operational functions to service providers, details of which are set out below.

### Objective and Investment Policy

The objective of the Company is to achieve above average rates of total return over the longer term and to achieve a growing dividend stream.

In pursuit of 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 and as a consequence of this process, materially divergent sector weightings from those of the FTSE All-Share Index may arise. There is no restriction on the number of investments that can be held in the portfolio.

The Company uses gearing as part of its investment strategy. The Articles of Association permit the Company to borrow up to 25 per cent of its net assets. Subject to this, the permitted 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. The Board has approved total borrowings of up to £14 million. The utilisation of this by the Investment Manager will fluctuate, reflecting changing market conditions and his views on the potential returns from having gearing in place. Gearing is considered by the Board and Investment Manager at regular meetings.

The Company will not invest more than 15 per cent of its gross assets in other investment companies listed on the London Stock Exchange. The Company invests in unlisted companies; the Investment Management Agreement provides that such investment shall be limited to a maximum of 30 per cent of net assets, determined by the lower of cost or the fair value of such investments. The Company will not invest more than 30 per cent of its net assets in hedge funds and/or other unregulated collective investment schemes.

### Performance

The performance of the Company is reviewed regularly by the Board and it uses a number of key performance indicators ("KPIs") to assess the Company's success in meeting its objective. The KPIs which have been established for this purpose are:

- NAV and share price total returns
- Dividends per share
- Total expenses as a proportion of shareholders' funds

Details of the KPIs can be found on the Financial Highlights summary on page 3.

In addition to the above KPIs, the Board assesses the discount at which the shares trade at against the underlying attributable net asset value. No specific targets are set, but 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 565,000 ordinary shares were bought back at an average discount to NAV of 5.8 per cent.

# Directors' Report continued

## Current and Future Developments

A summary of the Company's developments during the year ended 30th April 2008, together 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 returns for shareholders which will be 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 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 main 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 information on these risks and the management of them are set out in the notes to the financial statements on pages 44 to 46.

The Company's investments are selected on their individual merits and the performance of the portfolio will, from time to time, exhibit significant variation from the wider market (FTSE All-Share Index). The Board believes this approach will continue to generate good long-term returns. Currently 33 per cent of the Company's net assets is represented by 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 risks faced by the Company include:

- *Regulatory*: failure to comply with the requirements of a framework of regulation and legislation, within which the Company operates. The Company relies on the services of the Company Secretary/Investment Manager to monitor the ongoing compliance with the relevant regulations and legislation.
- *Operational*: failure of the Investment Manager's and/or any third party service providers' systems which could result in an inability to accurately report and monitor the Company's financial position.
- *Financial*: any failings in the Investment Manager's and/or third party service providers' controls which could lead to the Company's assets being misappropriated. Failure to comply with appropriate accounting standards could result in a reporting error or breach of regulations or legislation.

The Board, in conjunction with the Investment Manager, has developed a risk map which sets out the principal risks faced by the Company. This is used on an on-going basis to monitor these risks and the effectiveness of the controls established to mitigate them. Further information on the Company's internal controls is set out in the Corporate Governance report which follows.

## Other Matters

### Results and Dividends

The Group's results for the year are set out in the Consolidated Income Statement on page 28.

The Board has declared dividends for the year totalling 2.45 pence per share. The second interim dividend for the year of 1.4 pence per ordinary share will be paid on 29th August 2008 to eligible shareholders who are on the Register of Members at the close of business on 13th August 2008.

### Share Capital and Manager Warrants

Details of the Company's share capital and manager warrants are set out in note 15 on pages 42 and 43. No shares were issued during the year ended 30th April 2008 (2007: nil). The Company made market purchases of its own ordinary shares of 1p each totalling 565,000 during the year (2007: 125,000). The shares were

## Directors' Report continued

bought at an average price and discount of 213.4 pence per share and 5.8 per cent respectively. These shares were placed in treasury and as at the date of this report the Company has 690,000 ordinary shares held in treasury (2007: 125,000).

### 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 Company'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 management fee of 0.75 per cent 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. In the event of the Company terminating the contract by giving less than twelve months' notice Artemis is entitled to an amount in lieu of notice equivalent to 0.75 per cent of the market capitalisation of the Company on the date of termination.

John Dodd acts as the lead manager for the Company. Artemis is authorised and regulated by the Financial Services Authority and at 30th April 2008 had a total of £15.7 billion of assets under management.

BNP Paribas Fund Services UK Limited and its subsidiary, BNP Paribas Secretarial Services Limited (together "BNP Paribas"), act 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.

### 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. Each of these Directors held office throughout the year under review. Mr Sobczak resigned as a Director on 4th January 2008.

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 2008		1st May 2007	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Mr S E C Miller	10,000	–	7,873	–
Mr D J Barron	5,000	–	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	100,000	–	500,000	–

There have been no changes to the above holdings between 30th April 2008 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.

# Directors' Report continued

## Share Capital

The Company's authorised share capital consists of 60,000,000 ordinary shares of 1p each. At 30 April 2008 there were 33,358,488 ordinary shares of 1p each (2007: 33,358,488) (including treasury shares) issued and fully paid up. The Company has only one class of share. Each share confers the right to one vote to every member present in person or by proxy at any general meeting of the Company where voting on the business of the meeting is carried out by way of a show of hands. Where voting is carried out by way of a poll, every member present or represented by proxy has one vote for every share held. There are no restrictions concerning the holding or transfer of the Company's shares and there are no special rights attached to any of the shares. Holders of the Company's shares may by ordinary resolution declare dividends, provided such dividends are not in excess of any dividends recommended by the Directors. The Directors may also pay interim dividends. Dividends can only be paid out of the Company's profits available for distribution. The Company is not aware of any agreements between shareholders which may result in restriction on the transfer of shares or of the voting rights. Details of the substantial shareholders known to the Company are set out in the table below.

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
Clients of Rathbone Brothers plc	2,105,210	6.4
Clients of Brewin Dolphin	1,991,487	6.1
Troy Asset Management	1,545,504	4.7
Rensburg Sheppards Investment Management	1,422,439	4.3
Murray Asset Management Limited	1,282,594	3.9
Colin Rutherford	1,200,229	3.7
HSBC Securities Services	1,005,813	3.1

## Additional Shareholder Information

The rules concerning the appointment and replacement of Directors, amendment of the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Acts 1985 and 2006; there are no agreements which the Company is party to that might affect its control following a takeover bid; and there are no agreements between the Company and its Directors concerning compensation for loss of office.

## 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 2008 there were no amounts owed to suppliers in respect of invoices received but unpaid (30th April 2007: 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.

## Recommendation

The Directors consider that passing the resolutions to be proposed at the AGM will be in the best interests of the Company and shareholders as a whole and unanimously recommend that shareholders vote in favour of each of those resolutions.

## Directors' Report continued

### Amendment to the Articles of Association

Company law and best practice has undergone a number of changes since the current Articles of Association of the Company were last amended in August 2003, particularly since January 2007 when the staged implementation of the Companies Act 2006 (the "2006 Act") commenced. The Board considers that it is prudent to replace the Company's existing Articles with new Articles that take account of those developments (the "New Articles").

A summary of the material changes contained in the proposed New Articles is set out in the Appendix to the Notice of Annual General Meeting on pages 53 to 56 of this document. Other changes, which are of a minor, technical or clarifying nature have not been noted in the Appendix.

Further amendments to the New Articles may be required in the coming years as a result of the implementation of the 2006 Act. The 2006 Act represents a major reform of UK companies' legislation and is being brought into force in stages, with full implementation scheduled by October 2009. At this year's AGM the Company proposes to adopt provisions that reflect changes in the law brought about by the 2006 Act in respect of, among other things, electronic communications, notice periods for meetings, proxy voting and directors' conflicts of interest. Over the course of the next year the Company intends to conduct a further review of the New Articles in order to identify any additional amendments that might be necessary following the full implementation of the 2006 Act by October 2009. It is the Board's intention that any further amendments will be put to shareholders at the 2009 AGM.

A copy of the New Articles will be available for inspection from the date of this document until the conclusion of the AGM during normal business hours on any weekday at the registered office of the Company. The New Articles will also be available for inspection at any time until the conclusion of the AGM on the Investment Manager's website ([www.artemisonline.co.uk](http://www.artemisonline.co.uk)) and shall be available at the venue of the AGM from 15 minutes prior to and until the conclusion of the meeting.

### 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 (subject to statutory limits). 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. Shares which have been held in treasury for twelve months from the date of acquisition will be cancelled. 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 shares in issue at the date of the AGM, such authority to expire on 11th March 2010 or if earlier at the conclusion of the AGM in 2009.

The Directors will only utilise this authority to make market purchases of the Company's shares where it is considered to be in shareholders' best interests. Market purchases will only be made at prices below the prevailing diluted net asset value, thereby increasing the net asset value for continuing shareholders.

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

The current authority for Directors to allot authorised but unissued 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. Resolutions 7 and 8, if approved, will authorise the Directors to allot ordinary shares without complying with statutory offer round procedures where the allotment is pursuant to certain Manager Warrant Agreements and otherwise up to an aggregate nominal value of £166,792, being 50 per cent of the issued share capital at 6th August 2008. The Directors do not intend to exercise this authority at the present time but consider that it provides flexibility to issue shares in the future. The authority to issue shares in accordance with Resolution 8 will continue until the AGM in 2009 (or 15 months from the date of passing Resolution 8 (if earlier)).

# Directors' Report continued

## 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 Group 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, a resolution is to be proposed at the forthcoming AGM for their re-appointment and to authorise the Directors to agree their remuneration for the ensuing year.

## 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 Company's 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 Company's Auditors are aware of that information.

## AGM

Details of the 2008 AGM are set out in the Chairman's Statement on page 5 and the Notice of Meeting on pages 49 and 50.

By order of the Board

Artemis Investment Management Limited  
Secretary

6th August 2008

# Corporate Governance

## Compliance

The Company is committed to high standards of corporate governance and has applied the principles of good governance set out in the AIC's Code of Corporate Governance (the "AIC Code"). The AIC Code has been endorsed by the Financial Reporting Council and compliance with the AIC Code enables the Company to meet its obligations in relation to the provisions of the Combined Code, insofar as they relate to the Company's business, and paragraph 9.8.6 of the Listing Rules. The Board considers that in the course of the year and up to the date of this Report the Company has complied with the AIC Code. Set out below is how the Company applied the principles of the AIC Code.

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

The Board considers that four of the five Directors are independent of the Investment Manager and comply with the criteria for independence as set out in the AIC 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 five 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.

# Corporate Governance continued

## 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 AIC Code. No Director shall 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 the Board, led by the Nomination Committee, conducted a review of its performance and that of its Committees, the Chairman and individual Directors. This review was based on a process of appraisal by interview, with the evaluation of the performance of the Chairman being undertaken by the other Directors, led by the Senior Independent Director. The Board is satisfied that it continues to have an appropriate balance of skills and experience. The 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 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 provides a forum through which the Company's Auditors report to the Board.

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.

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 controls that exist within its third party service providers.

# Corporate Governance continued

## 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		Annual General Meetings	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
	Mr S E C Miller	4	3	3	2	1	1	1
Mr D J Barron	4	4	3	3	1	1	1	1
Mr T Cross Brown*	4	4	3	3	1	1	1	1
Mr A D Dalrymple	4	4	3	3	1	1	1	1
Mr C E W Peel	4	4	3	3	1	1	1	1
Mr A W Sobczak†	4	3	3	2	1	1	1	1

The meeting of the Nomination Committee which was scheduled to take place in March 2008 was deferred until July 2008.

\* 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.

† Mr Sobczak resigned on 4th January 2008.

## Directors' Remuneration

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

## 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 receives feedback on the views of shareholders from the Investment Manager and the Company's broker. 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 Company prepares

## Corporate Governance continued

Interim Management Statements during the six months between the annual and interim reporting periods and these are announced to the London Stock Exchange, as well as being available on the Investment Manager's website.

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).

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 49 and 50 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 service 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 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 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, 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.

## Corporate Governance continued

- 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 2008, in accordance with the Directors' Remuneration Report Regulations 2002.

The Company's Auditors are required to audit certain information contained within this 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 26 and 27.

## 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. 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 2008 the Board comprised five non-executive Directors, four of whom are deemed to be independent of the Investment Manager. The Company's current Articles of Association require new Directors to stand for election at the first Annual General Meeting following their appointment, and thereafter, Directors 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. The New Articles of Association make amendments to these provisions to comply with the Combined Code on Corporate Governance.

	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 2008*
Mr C E W Peel	14th July 2003	AGM 2009
Mr A D Dalrymple	1st April 2004	AGM 2010

\* Mr Cross Brown is deemed non-independent and is subject to annual re-election in accordance with the recommendations of the AIC 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 years to 30th April 2008 and 30th April 2007 received the following emoluments:

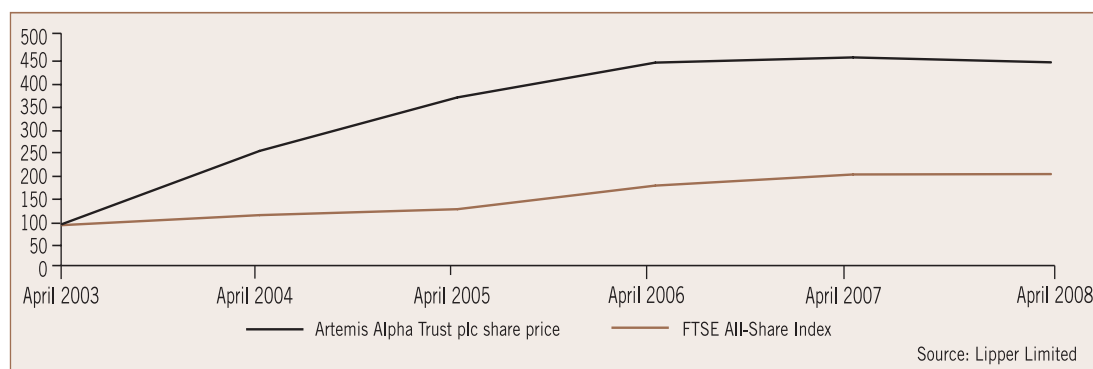
Director <sup>1</sup>	2008	2007
Mr S E C Miller	£22,500	£22,500
Mr D J Barron <sup>2</sup>	£17,500	£17,500
Mr T Cross Brown	£17,500	£17,500
Mr A D Dalrymple	£17,500	£17,500
Mr C E W Peel	£17,500	£17,500
Mr A W Sobczak <sup>3</sup>	£11,858	£17,500
<b>Total</b>	<b>£104,358</b>	<b>£110,000</b>

<sup>1</sup> None of the Directors who are Directors of the Company's wholly owned subsidiaries received any remuneration from those companies.

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

<sup>3</sup> Mr Sobczak resigned as a Director on 4th January 2008.

### Performance Graph



The performance graph above sets out the Company's share price total return (assuming re-investment of dividends) to ordinary shareholders from 30th April 2003 to 30th April 2008 compared to the total return of a notional investment in the FTSE All-Share Index. As investments are selected on their individual merits, the portfolio will not track any benchmark index, and there is likely to be a divergence in performance between the Company and the index.

By order of the Board

Artemis Investment Management Limited

Secretary

6th August 2008

# Statement of Directors' Responsibilities

## in respect of the Financial Statements

Company law in the United Kingdom requires the Directors to prepare Group and Company financial statements for each financial year. 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; and
- state whether they have been prepared in accordance with IFRSs as adopted by the EU.

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 applicable laws and regulations.

The financial statements are published on a website, [www.artemisonline.co.uk](http://www.artemisonline.co.uk), maintained by the Company's Investment Manager, Artemis Investment Management Limited. The maintenance and integrity of the corporate and financial information relating to the Group and 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.

The Directors confirm that, to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the issuer together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board

Simon Miller

Chairman

6th August 2008

# Independent Auditors' Report

To the members 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 2008 which comprise the Consolidated Income Statement, the Group and Company Balance Sheets, the Group and Company Statements of Changes in Equity, the Group and Company 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 25.

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 2006 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 judgements 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 2008 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 2008;
- 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 2008

# Consolidated Income Statement

For the year ended 30th April 2008

	Notes	Year ended 30th April 2008			Year ended 30th April 2007		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment income	2	1,080	–	1,080	1,268	–	1,268
Other income	2	308	–	308	848	–	848
<b>Total revenue</b>		1,388	–	1,388	2,116	–	2,116
Gains on investments		–	7,791	7,791	–	3,234	3,234
Losses on current asset investments		(282)	–	(282)	(295)	–	(295)
Currency gains/(losses)		1	(1)	–	–	5	5
<b>Total income</b>		1,107	7,790	8,897	1,821	3,239	5,060
<b>Expenses</b>							
Investment management fees	3	(55)	(493)	(548)	(57)	(515)	(572)
Other expenses	4	(272)	–	(272)	(359)	–	(359)
<b>Profit before finance costs and tax</b>		780	7,297	8,077	1,405	2,724	4,129
Finance costs	5	(79)	(711)	(790)	(64)	(577)	(641)
<b>Profit before tax</b>		701	6,586	7,287	1,341	2,147	3,488
Tax	6	(7)	6	(1)	(173)	167	(6)
<b>Profit for the year</b>		694	6,592	7,286	1,168	2,314	3,482
<b>Earnings per ordinary share (basic)</b>	8	2.10p	19.91p	22.01p	3.51p	6.95p	10.46p
<b>Earnings per ordinary share (diluted)</b>	8	1.93p	18.28p	20.21p	3.24p	6.43p	9.67p

The total column of this statement represents the Income Statement of the Group, prepared in accordance with International Financial Reporting Standards (“IFRS”). 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 32 to 47 form part of these financial statements.**

# Balance Sheets

As at 30th April 2008

	Notes	Group 2008 £'000	Company 2008 £'000	Group 2007 £'000	Company 2007 £'000
<b>Non-current assets</b>					
Investments	9	102,067	110,789	95,411	104,112
<b>Current assets</b>					
Investments held by subsidiary		629	–	1,167	–
Other receivables	12	385	384	506	505
Cash and cash equivalents		496	309	1,119	937
		1,510	693	2,792	1,442
<b>Total assets</b>		<b>103,577</b>	<b>111,482</b>	<b>98,203</b>	<b>105,554</b>
<b>Current liabilities</b>					
Other payables	13	(452)	(8,357)	(371)	(7,722)
Bank loan	14	(11,500)	(11,500)	(11,500)	(11,500)
		(11,952)	(19,857)	(11,871)	(19,222)
<b>Net assets</b>		<b>91,625</b>	<b>91,625</b>	<b>86,332</b>	<b>86,332</b>
<b>Equity attributable to equity holders</b>					
Share capital	15	334	334	334	334
Share premium		23,984	23,984	23,984	23,984
Special reserve		6,762	6,762	7,974	7,974
Warrant reserve		1,299	1,299	1,299	1,299
Capital redemption reserve		2	2	2	2
Retained earnings – revenue		1,888	531	1,975	635
Retained earnings – capital	16	57,356	58,713	50,764	52,104
<b>Total equity</b>		<b>91,625</b>	<b>91,625</b>	<b>86,332</b>	<b>86,332</b>
<b>Net asset value per ordinary share (basic)</b>	17	280.47p		259.77p	
<b>Net asset value per ordinary share (diluted)</b>	17	253.54p		236.69p	

These financial statements were approved by the Board of Directors and signed on its behalf on 6th August 2008 by:

Simon Miller  
Chairman

**The notes on pages 32 to 47 form part of these financial statements.**

# Statements of Changes in Equity

For the year ended 30th April 2008

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 2008</b>								
At 1st May 2007	334	23,984	7,974	1,299	2	1,975	50,764	86,332
Profit for the year	–	–	–	–	–	694	6,592	7,286
Repurchase of own shares	–	–	(1,212)	–	–	–	–	(1,212)
Dividends paid	–	–	–	–	–	(781)	–	(781)
<b>At 30th April 2008</b>	<b>334</b>	<b>23,984</b>	<b>6,762</b>	<b>1,299</b>	<b>2</b>	<b>1,888</b>	<b>57,356</b>	<b>91,625</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	–	–	(234)	–	–	–	–	(234)
Dividends paid	–	–	–	–	–	(733)	–	(733)
<b>At 30th April 2007</b>	<b>334</b>	<b>23,984</b>	<b>7,974</b>	<b>1,299</b>	<b>2</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 2008</b>								
At 1st May 2007	334	23,984	7,974	1,299	2	635	52,104	86,332
Profit for the year	–	–	–	–	–	677	6,609	7,286
Repurchase of own shares	–	–	(1,212)	–	–	–	–	(1,212)
Dividends paid	–	–	–	–	–	(781)	–	(781)
<b>At 30th April 2008</b>	<b>334</b>	<b>23,984</b>	<b>6,762</b>	<b>1,299</b>	<b>2</b>	<b>531</b>	<b>58,713</b>	<b>91,625</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	–	–	(234)	–	–	–	–	(234)
Dividends paid	–	–	–	–	–	(733)	–	(733)
<b>At 30th April 2007</b>	<b>334</b>	<b>23,984</b>	<b>7,974</b>	<b>1,299</b>	<b>2</b>	<b>635</b>	<b>52,104</b>	<b>86,332</b>

The notes on pages 32 to 47 form part of the financial statements.

# Cash Flow Statements

For the year ended 30th April 2008

	Group 2008 £'000	Company 2008 £'000	Group 2007 £'000	Company 2007 £'000
<b>Operating activities</b>				
Profit before tax	7,287	7,286	3,488	3,479
Interest payable	790	790	641	642
Gains on investments	(7,791)	(7,812)	(3,234)	(3,690)
Loss/(gain) on foreign exchange	1	-	(5)	(5)
Net movement in current asset investments	282	-	295	-
(Increase)/decrease in other receivables	(52)	(52)	210	210
Decrease in other payables	(33)	(19)	(10)	(5)
<b>Net cash inflow from operating activities before interest and tax</b>	<b>484</b>	<b>193</b>	<b>1,385</b>	<b>631</b>
Interest paid	(774)	(774)	(633)	(633)
Corporation tax (paid)/refunded	(4)	-	21	-
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(294)</b>	<b>(581)</b>	<b>773</b>	<b>(2)</b>
<b>Investing activities</b>				
Purchases of investments	(22,113)	(21,275)	(44,811)	(43,353)
Sales of investments	23,776	22,681	38,135	37,173
<b>Net cash inflow/(outflow) from investment activities</b>	<b>1,663</b>	<b>1,406</b>	<b>(6,676)</b>	<b>(6,180)</b>
<b>Financing activities</b>				
Repurchase of own shares	(1,212)	(1,212)	(234)	(234)
Dividends paid	(781)	(781)	(733)	(733)
Increase in inter-company loan	-	540	-	225
<b>Net cash outflow from financing activities</b>	<b>(1,993)</b>	<b>(1,453)</b>	<b>(967)</b>	<b>(742)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(624)</b>	<b>(628)</b>	<b>(6,870)</b>	<b>(6,924)</b>
<b>Cash and cash equivalents at the start of the year</b>	<b>(10,381)</b>	<b>(10,563)</b>	<b>(3,506)</b>	<b>(3,634)</b>
Effect of foreign exchange rate changes	1	-	(5)	(5)
<b>Cash and cash equivalents at the end of the year</b>	<b>(11,004)</b>	<b>(11,191)</b>	<b>(10,381)</b>	<b>(10,563)</b>
Bank loan	(11,500)	(11,500)	(11,500)	(11,500)
Cash	496	309	1,119	937
	(11,004)	(11,191)	(10,381)	(10,563)

The notes on pages 32 to 47 form part of the financial statements.

# Notes to the Financial Statements

## 1. Accounting policies

### (a) Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). The Company's financial statements have also been prepared in accordance with IFRS as adopted by the EU and in accordance with the provisions of the Companies Act 1985 (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 presentational guidance set out in the Statement of Recommended Practice ("SORP") for investment trusts issued by the Association of Investment Companies in December 2005 is consistent with the requirements of IFRS, 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 have been applied in preparing the financial statements for the year ended 30th April 2008. 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.

#### IFRS Applied

The following IFRS standards have been applied in the current financial year: IFRS 7 "Financial Instruments: Disclosures" and the amendment to IAS 1 "Presentation of Financial Statements"

There is no material financial impact arising from the application of these standards and interpretations. The financial statements have been updated to include new disclosures arising from these standards where appropriate.

### (b) Basis of Consolidation

The Group financial statements consolidate the financial statements of Artemis Alpha Trust plc 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.

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 1(e) below.

### (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

## 1. Accounting policies (continued)

### (e) Investments

Investments (including current asset investments) are designated as fair value through profit or loss upon initial recognition. 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 valued at fair value which is determined by the Directors, through discussion with the Investment Manager and with reference to the valuation guidelines issued by the International Private Equity and Venture Capital Valuation Board.

Assets are de-recognised 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 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 interest rate basis.

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

Special dividends are treated as repayment of capital or as income depending on the facts of each particular case.

### (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 and recognised through purchases and sales of investments.
- 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.

### (i) Cash and cash equivalents

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

Other than the bank loan, 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.

# Notes to the Financial Statements continued

## 1. Accounting policies (continued)

### (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) Capital reserves

#### Capital reserve – realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments and changes in fair value investments which are readily convertible to cash without accepting adverse terms; and
- expenses, together with any related taxation effect, in accordance with the above policies.

#### Capital reserve – unrealised

The following is accounted for in this reserve:

- changes in fair value of investments that are not readily convertible to cash.

### (n) Accounting Developments

The following standards and interpretations have been published by IASB and adopted by the European Union but were not effective for the year ended 30th April 2008.

- IFRS 8, Operating Segments;
- IFRIC 11, Group and Treasury Share Transactions;

The following standards and interpretations have not yet been adopted by the European Union, are not effective for the year ended 30th April 2008 and have not been applied in preparing the financial statements. Where appropriate disclosures will be revised in the financial statements in the year in which the standard or interpretation becomes applicable.

- Amendments to IAS 1, Presentation of Financial Statements;
- Amendments to IAS 23, Borrowing Costs;
- IFRIC 12, Service Concession Arrangements;
- IFRIC 13, Customer Loyalty Programmes;
- IFRIC 14, Defined Benefit Assets and Minimum Funding Requirements;

The following standards have been issued during 2008, have not been endorsed by the European Union, are not effective for the year ended 30th April 2008 and have not been applied in preparing the financial statements.

- IFRS 2 (revised), Share-based Payments;
- Revised IFRS 3, Business Combinations (2008) and Revised IAS 27, Consolidated and Separate Financial Statements (2008),
- Amendments to IAS 32, Financial Instruments;

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

## Notes to the Financial Statements continued

### 2. Income

	2008 £'000	2007 £'000
<b>Investment income*</b>		
UK dividend income	780	748
UK fixed interest	21	41
Overseas dividend income	202	97
Overseas fixed interest	77	382
	1,080	1,268
<b>Other Income</b>		
Subsidiary undertaking's dealing profits	286	730
Bank interest	22	60
Other	-	58
	1,388	2,116
<b>Total income comprises</b>		
Dividends and interest from investments	1,080	1,268
Bank interest	22	60
Other income and dealing profits	286	788
	1,388	2,116
<b>Income from investments</b>		
UK listed investments	445	388
UK unlisted investments	356	401
Overseas listed investments	202	97
Overseas unlisted investments	77	382
	1,080	1,268

\* All investments have been designated as fair value through profit or loss on initial recognition, therefore all investment income arises on investments at fair value through profit or loss.

### 3. Investment management fees

	2008			2007		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	54	484	538	50	453	503
Irrecoverable VAT thereon	1	9	10	7	62	69
	55	493	548	57	515	572

Under the terms of the Investment Management 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 (where applicable), based on 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 month's notice.

On 30th April 2008, an amount of £177,000 was outstanding in respect of amounts due to the Investment Manager (2007: £186,000 plus VAT). From 1st October 2007 VAT has not been charged by the Investment Manager. Further information on VAT on investment management fees is set out in note 21.

## Notes to the Financial Statements continued

### 4. Other expenses

	2008			2007		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Auditors' remuneration (excluding VAT):						
Fee for the audit of the Company's Annual Accounts	15	–	15	13	–	13
Audit of the subsidiary pursuant to legislation	1	–	1	1	–	1
Directors remuneration (excluding VAT and NIC)	104	–	104	110	–	110
Other	152	–	152	235	–	235
	<u>272</u>	<u>–</u>	<u>272</u>	<u>359</u>	<u>–</u>	<u>359</u>

### 5. Finance costs

	2008			2007		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Overdraft interest*	4	35	39	–	–	–
Loan interest*	75	676	751	64	577	641
	<u>79</u>	<u>711</u>	<u>790</u>	<u>64</u>	<u>577</u>	<u>641</u>

\* Interest on financial liabilities that are not at fair value through profit or loss.

### 6. Tax

#### (a) Tax charge for the year

	2008			2007		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Corporation tax	1	–	1	5	–	5
Tax relief on expenses charged to capital	6	(6)	–	167	(167)	–
Overseas tax suffered	–	–	–	3	–	3
Prior year adjustment	–	–	–	(2)	–	(2)
	<u>7</u>	<u>(6)</u>	<u>1</u>	<u>173</u>	<u>(167)</u>	<u>6</u>

## Notes to the Financial Statements continued

### 6. Tax (continued)

#### (b) Factors affecting the tax charge for the year

The tax assessed on the profit of the year is lower than the standard rate of corporation tax of 29.83 per cent (2007: 30 per cent).

	2008 £'000	2007 £'000
Profit before taxation	7,287	3,488
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 29.83% (2007: 30%)	2,174	1,046
UK dividends not taxable	(233)	(224)
Gains on investments	(2,324)	(970)
Excess expenses for the year	384	428
Tax relief on expenses charged to capital	–	(275)
Overseas tax	–	3
Prior year adjustment	–	(2)
	1	6

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

The Company has excess management expenses and surplus loan relationship deficits of £3,885,000 (2007: £2,597,000) that are available to offset future taxable revenue. No deferred tax asset has been recognised in respect of this amount.

### 7. Dividends paid and proposed

	2008 £'000	2007 £'000
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
Second interim dividend for year ended 30th April 2007 (1.3p)	432	–
First interim dividend for the year ended 30th April 2008 (1.05p)	349	–
	781	733

Under IFRS, dividends are not recognised until the period in which they are due to be paid and are shown through the Statement of Changes in Equity. Therefore, the Statement of Changes in Equity for the year ended 30th April 2008 reflects the second interim dividend for the year ended 30th April 2007 which was paid on 31st August 2007. For the year ended 30th April 2008, a first interim dividend of 1.05p has been paid and a second interim dividend of 1.4p per ordinary share will be paid on 29th August 2008.

## Notes to the Financial Statements continued

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

Set out below are the total dividends paid/payable in respect of the financial year.

	2008 £'000	2007 £'000
First interim dividend paid at 1.05p per ordinary share (2007: 1.0p)	349	333
Second interim dividend payable at 1.4p per ordinary share (2007: 1.3p)	457	432
	806	765

### 8. Earnings per ordinary share

The basic revenue return per ordinary share is based on the revenue profit for the year of £694,000 (2007: £1,168,000) and on 33,103,283 (2007: 33,294,789) 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 £6,592,000 (2007: £2,314,000) and on 33,103,283 (2007: 33,294,789) 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 2,956,257 (2007: 2,771,003).

### 9. Non current assets – Investments

#### (a) Valuation of investments

All investments are designated as fair value through profit or loss at initial recognition and all gains and losses arise on investments designated as fair value through profit or loss. Where investments are considered to be readily realisable for cash, the fair value gains and losses, recognised in these financial statements are treated as realised. All other fair value gains and losses are treated as unrealised.

	Group 2008 £'000	Company 2008 £'000	Group 2007 £'000	Company 2007 £'000
Overseas quoted investments	7,573	7,573	15,711	15,711
UK quoted investments				
– UK listed	30,029	30,029	21,031	21,031
– Quoted on AIM	33,378	33,378	39,689	39,689
– Fixed interest	679	679	183	183
– Preference shares and loan notes	16	16	–	–
Unlisted investments				
– Equities and warrants	28,423	28,423	17,350	17,350
– Preference shares and loan notes	1,969	1,969	1,447	1,447
– Subsidiary undertakings	–	8,722	–	8,701
	102,067	110,789	95,411	104,112

## Notes to the Financial Statements continued

### 9. Non current assets – Investments

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

	2008			2007		
	Quoted £'000	Unlisted £'000	Total £'000	Quoted £'000	Unlisted £'000	Total £'000
Opening book cost	60,359	14,803	75,162	52,365	13,538	65,903
Opening fair value adjustment	16,255	3,994	20,249	18,907	2,701	21,608
Opening valuation	76,614	18,797	95,411	71,272	16,239	87,511
<b>Movements in year:</b>						
Purchases at cost	17,159	4,214	21,373	34,656	6,915	41,571
Sales – proceeds	(22,508)	–	(22,508)	(34,370)	(2,535)	(36,905)
– realised gains/(losses) on sales	5,819	–	5,819	4,776	(183)	4,593
Transfer to quoted investments	2,034	(2,034)	–	2,932	(2,932)	–
Transfer to unlisted investments	(697)	697	–	–	–	–
(Decrease)/increase in fair value adjustment	(6,746)	8,718	1,972	(2,652)	1,293	(1,359)
Closing valuation	71,675	30,392	102,067	76,614	18,797	95,411
Closing book cost	62,166	17,680	79,846	60,359	14,803	75,162
Closing fair value adjustment	9,509	12,712	22,221	16,255	3,994	20,249
	71,675	30,392	102,067	76,614	18,797	95,411

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

	2008			2007		
	Quoted £'000	Unlisted £'000	Total £'000	Quoted £'000	Unlisted £'000	Total £'000
Opening book cost	60,359	21,823	82,182	52,365	20,558	72,923
Opening fair value adjustment	16,255	5,675	21,930	18,907	3,925	22,832
Opening valuation	76,614	27,498	104,112	71,272	24,483	95,755
<b>Movements in year:</b>						
Purchases at cost	17,159	4,214	21,373	34,656	6,915	41,571
Sales – proceeds	(22,508)	–	(22,508)	(34,370)	(2,535)	(36,905)
– realised gains on sales	5,819	–	5,819	4,776	(183)	4,593
Transfer to quoted investments	2,034	(2,034)	–	2,932	(2,932)	–
Transfer to unlisted investments	(697)	697	–	–	–	–
(Decrease)/increase in fair value adjustment	(6,746)	8,739	1,993	(2,652)	1,750	(902)
Closing valuation	71,675	39,114	110,789	76,614	27,498	104,112
Closing book cost	62,166	24,700	86,866	60,359	21,823	82,182
Closing fair value adjustment	9,509	14,414	23,923	16,255	5,675	21,930
	71,675	39,114	110,789	76,614	27,498	104,112

## Notes to the Financial Statements continued

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

#### (d) Gains on investments – Group

	2008 £'000	2007 £'000
Realised gains on sales of investments	5,819	4,593
Increase/(decrease) in fair value adjustment	1,972	(1,359)
	7,791	3,234

#### (e) Transaction costs

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

	Group 2008 £'000	Company 2008 £'000	Group 2007 £'000	Company 2007 £'000
Sales	57	52	111	104
Purchases	62	59	137	128
	119	111	248	232

### 10. 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

### 11. Significant interests

At 30th April 2008 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	32.0
mForm	Ordinary	12.3
Hurricane Exploration	Ordinary	7.4
Music Copyright Solutions	Ordinary	7.2
Suroco Energy	Ordinary	6.2
TSI	Ordinary	5.8
Hawk Group	A Ordinary	5.6
Healthcare Enterprise Group	Ordinary	5.0
Amazing Holdings	Ordinary	5.0
Buildstore	Ordinary	4.5
Geiger Counter	Ordinary	3.9
Mice Group	Ordinary	3.8
Vostok Energy	Ordinary	3.6
Ondine Biopharma	Ordinary	3.5
Real Estate Investors	Ordinary	3.5
Neptune Minerals	Ordinary	3.0

\* 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.

### 12. Other receivables

	Group 2008 £'000	Company 2008 £'000	Group 2007 £'000	Company 2007 £'000
Amounts due from brokers	112	112	285	285
Prepayments and accrued income	267	266	188	187
Taxation recoverable	6	6	3	3
Other debtors	–	–	30	30
	385	384	506	505

### 13. Other payables

	Group 2008 £'000	Company 2008 £'000	Group 2007 £'000	Company 2007 £'000
Amounts due to subsidiary undertakings	–	7,921	–	7,381
Accruals	353	338	366	341
Amounts due to brokers	98	98	–	–
Corporation tax payable	1	–	5	–
	452	8,357	371	7,722

## Notes to the Financial Statements continued

### 14. Bank loan

	Group 2008 £'000	Company 2008 £'000	Group 2007 £'000	Company 2007 £'000
Bank loan	11,500	11,500	11,500	11,500
	11,500	11,500	11,500	11,500

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

### 15. Share capital and manager warrants

#### (a) Share capital

	2008 £'000	2007 £'000
<b>Authorised:</b>		
60,000,000 ordinary shares of 1 p each (2007: 60,000,000)	600	600
<b>Allotted, called up and fully paid:</b>		
Allotted, called up and fully paid:		
32,668,488 ordinary shares of 1 p each (2007: 33,233,488)	327	333
690,000 treasury shares of 1p each (2007: 125,000)	7	1
	334	334

	Number	£'000
<b>Movements in share capital during the year</b>		
Shares in issue on 1st May 2007	33,233,488	333
Purchased for placement in treasury on 7th January 2008	(50,000)	–
Purchased for placement in treasury on 8th January 2008	(50,000)	(1)
Purchased for placement in treasury on 10th January 2008	(100,000)	(1)
Purchased for placement in treasury on 11th January 2008	(100,000)	(1)
Purchased for placement in treasury on 8th February 2008	(65,000)	(1)
Purchased for placement in treasury on 15th February 2008	(75,000)	(1)
Purchased for placement in treasury on 4th April 2008	(125,000)	(1)
Shares in issue on 30th April 2008	32,668,488	327

Of the above shares in issue the movements in the ordinary shares held in treasury are as follows:

	2008		2007	
	Number	£'000	Number	£'000
Balance brought forward	125,000	–	–	–
Purchased during the year	565,000	6	125,000	1
Balance carried forward	690,000	7	125,000	1

## Notes to the Financial Statements continued

### 15. Share capital and manager warrants (continued)

During the year ended 30th April 2008, a total of 565,000 ordinary shares of 1p each were repurchased by the Company at a total cost, including transaction costs, of £1,212,000 for placement in treasury (2007: 125,000 shares were repurchased for placement in treasury). These shares represented 1.7 per cent of the issued share capital of the Company at 30th April 2007. At 30th April 2008 the Company held 690,000 (2007: 125,000) shares in treasury.

The capital of the Company is managed in accordance with its investment objective and policy as set out on page 2. The Company does not have any externally imposed capital requirements.

#### (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 2008</b>	<b>6,671,697</b>		

Each manager warrant entitles a holder to subscribe for 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.

### 16. Retained earnings – capital

	Group			Company		
	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Total Capital reserve £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Total Capital reserve £'000
Balance at 1st May 2007	30,515	20,249	50,764	30,174	21,930	52,104
Current year transfer	10,325	(10,325)	–	10,325	(10,325)	–
	<b>40,840</b>	<b>9,924</b>	<b>50,764</b>	<b>40,499</b>	<b>11,605</b>	<b>52,104</b>
Decrease in fair value adjustment	–	1,972	1,972	–	1,993	1,993
Net gain on realisation of investments	5,819	–	5,819	5,819	–	5,819
Exchange gain on capital items	(1)	–	(1)	(1)	–	(1)
Costs charged to capital (net of tax relief)	(1,198)	–	(1,198)	(1,202)	–	(1,202)
Transfer between reserves	1,744	(1,744)	–	1,744	(1,744)	–
<b>Balance at 30th April 2008</b>	<b>47,204</b>	<b>10,152</b>	<b>57,356</b>	<b>46,859</b>	<b>11,854</b>	<b>58,713</b>
Balance at 1st May 2006	26,842	21,608	48,450	26,633	22,832	49,465
Decrease in fair value adjustment	–	(1,359)	(1,359)	–	(902)	(902)
Net gain on realisation of investments	4,593	–	4,593	4,593	–	4,593
Exchange loss 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>

## Notes to the Financial Statements continued

### 17. Net asset value per ordinary share

The basic net asset value per ordinary share is based on net assets of £91,625,000 (2007: £86,332,000) and on 32,668,488 (2007: 33,233,488) shares, being the number of ordinary shares in issue at the year end.

The diluted net asset value per ordinary share has been calculated on the assumption that the 6,671,697 manager warrants (2007: 6,671,697) in issue were exercised resulting in a total of 39,340,185 ordinary shares in issue (2007: 39,905,185).

### 18. Financial commitments

At 30th April 2008 the Group and Company did not have any financial commitments which had not been accrued (2007: nil).

### 19. 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, fixed interest securities, warrants, cash balances, a bank loan, as well as debtors and creditors that arise from its operations. These are held in accordance with its investment policy. The principal risks the Group faces are (i) market price risk (comprising currency risk, interest rate risk and other price risk); (ii) liquidity risk; and (iii) credit risk.

#### Market price risk

Market risk, which includes foreign currency, interest rate and other price risk, arises mainly from uncertainty about future values of financial instruments held in the Company's investment portfolio. It is the Board's policy that the Company should maintain an appropriate spread of investments in the portfolio to seek to reduce the risks arising from factors specific to a particular company and sector. The day to day management of the portfolio is the responsibility of the Investment Manager, in accordance with the Company's investment policy. This includes ongoing detailed analysis of existing and potential investee companies. No derivatives or hedging instruments are used to manage market risk. The Board monitors the Company's overall market positions on a regular basis.

Details of the investments at 30th April 2008 are disclosed in the investment portfolio set out on pages 8 and 9.

#### Foreign currency risk

The portfolio has a number of overseas investments and the income and capital value can be affected by movements 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. It is not the Company's policy to hedge currency risk on an ongoing basis.

## Notes to the Financial Statements continued

### 19. Financial instruments (continued)

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

	Investments		Net monetary assets	
	at 30th April		at 30th April	
	2008		2007	
	£'000		£'000	
US Dollar	9,585	–	5,503	–
Canadian Dollar	3,877	–	6,762	–
Norwegian Kroner	3,231	–	3,727	–
Euro	1,599	–	2,462	–
Danish Kroner	1,418	–	1,233	–
Australian Dollar	–	–	2,586	–
<b>Total</b>	<b>19,710</b>	<b>–</b>	<b>22,273</b>	<b>–</b>

#### Foreign currency sensitivity

A 5 per cent increase in sterling against the relevant foreign currencies would have the effect of reducing the profit or loss and equity by £986,000 (2007: £1,114,000). A 5 per cent decrease in sterling would have an equal and opposite effect.

#### Interest rate risk

The majority of the Group's financial assets are non interest bearing and therefore exposure to fair value interest rate fluctuations is limited.

#### Floating rate

When the Company has cash balances these are maintained in an interest bearing account.

The benchmark that determines the interest paid on the cash balances is the UK bank base rate, which was 5.0 per cent at 30th April 2008 (2007: 5.5 per cent). The Company has a 364-day multi-currency revolving credit facility of £11.5 million which was fully drawn at 30th April 2008. Interest is charged at variable rates equivalent to 60 basis points over the London interbank market rate. At the year end the interest rate on this loan was 6.38 per cent.

#### Fixed rate

The table below sets out the weighted average effective interest rates for the fixed interest-bearing financial instruments:

	2008			2007		
	Fixed rate investments £'000	Weighted	Weighted	Fixed rate investments £'000	Weighted	Weighted
		average	Average		average	Average
		interest rate %	period until maturity Years		interest rate %	period until maturity Years
Interest bearing securities	2,664	7.35	4.2	1,630	6.4	5.4

## Notes to the Financial Statements continued

### 19. Financial instruments (continued)

#### Other price risk

Other price risk is the risk that the value of an instrument will fluctuate as result of changes in market prices (other than those relating to interest rate and credit risk), whether caused by factors specific to an investment of wider issues affecting the market generally. A 5 per cent increase in the value of the Group's investments would have the effect of increasing net assets by £5,103,000 (2007: £4,770,000). A 5 per cent decrease would have an equal and opposite effect.

#### Liquidity risk

This is the risk that the Group will encounter difficulty in meeting obligations associated with financial commitments.

The Group's 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 Company has an agreed overdraft facility of £2,500,000 to provide short term funding flexibility.

#### Financial liabilities

The Group primarily finances its operations through equity, retained profits and bank borrowings. As at 30th April 2008, the Group had drawn down £11.5 million of its £11.5 million committed 364 day multi-currency revolving credit facility with The Royal Bank of Scotland plc (30th April 2007: £11.5 million). This has been drawn down 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 6.38 per cent (30th April 2007: 6.006 per cent) per annum and was payable on 1st May 2008, 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 2008 or 30th April 2007. There is no difference between the fair value of the financial liabilities and their carrying value.

#### Credit risk

This is the risk that an issuer or counterparty will fail to discharge its obligations or commitments to the Company resulting in a financial loss. The Investment Manager has a pre-approved list of counterparties it uses for investment transactions, which is reviewed on a regular basis.

The largest counterparty risk is with HSBC, which acts as custodian and banker. Bankruptcy or insolvency of HSBC may cause the Company's rights with regard to securities and cash balances held to be delayed or limited. The Board receives and reviews HSBC's annual report on internal controls.

### 20. 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 3. 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 £20,000 (2007: £438,000) 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 (2007: £nil). Outstanding balances are set out in note 13.

## Notes to the Financial Statements continued

### 21. Contingent asset

In June 2007 the European Court of Justice ruled that investment trust management fees should be exempt from VAT and this decision has now been accepted by HM Revenue and Customs. Management fees are no longer subject to VAT and the Company will be able to recover some VAT incurred on past management fees. A number of procedural matters remain unresolved regarding the amount of VAT that will be repaid. Consequently, no amounts have been recognised as an asset within these financial statements.

# 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  
2nd Floor  
Aurora  
120 Bothwell Street  
Glasgow G2 7JS  
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

Landsbanki Securities (UK) Limited  
Beaufort House  
15 St Botolph Street  
London EC3A 7QR

## 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 Section 833 of the Companies Act 2006.

Registered in England No. 253644

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that at an Annual General Meeting (“AGM”) of Artemis Alpha Trust plc (“the Company”) will be held at the offices of Artemis Investment Management Limited, Cassini House, 57 St James’s Street, London SW1A 1LD on Thursday, 11th September 2008 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 2008.
- Resolution 2. To approve the Directors’ Remuneration Report for the year ended 30th April 2008.
- Resolution 3. To re-elect Mr Simon Miller as a Director\*.
- Resolution 4. To re-elect Mr David Barron as a Director\*.
- Resolution 5. To re-elect Mr Tom Cross Brown as a Director\*.
- Resolution 6. To re-appoint KPMG Audit Plc as independent Auditors of the Company and to authorise the Directors to fix their remuneration.

## Special Business

To consider and, if thought fit, pass resolution 7 as an Ordinary Resolution of the Company and resolutions 8, 9, 10 and 11 as Special Resolutions of the Company:

- Resolution 7. That the Directors of the Company be and are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 (the “Act”) to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal value of £166,792, in substitution for any existing authority under Section 80 of the Act but without prejudice to any exercise of any such authority prior to the date hereof, such authority to expire (unless previously renewed, varied or revoked by the Company in general meeting) on the earlier of the conclusion of the annual general meeting of the Company in 2013 and 11th September 2013 save that the Company may before such expiry (or the expiry of any renewal of this authority) make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if this authority had not expired.
- Resolution 8. That in substitution for all existing powers, the Directors of the Company be and are hereby generally empowered, pursuant to Section 95 of the Companies Act 1985 (the “Act”), to (a) allot equity securities (within the meaning of Section 94 of the Act) wholly for cash pursuant to the authority conferred by resolution 7 above or otherwise as if sub-section (1) of Section 89 of the Act did not apply to any such allotment and (b) 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 sub-section (1) of Section 89 of the Act did not apply to any such sale or transfer, provided that this power:
- (a) expires at the earlier of 15 months from the date of this resolution and the end of the next AGM of the Company in 2009, provided that 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 1p each in the Company are proportionate (as nearly as may be) to the respective numbers of ordinary shares in the Company held by them, but subject to such exclusions or other arrangements as

## Notice of Annual General Meeting continued

the Directors deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws or any territory or the requirements of any regulatory body or stock exchange in any territory;

- (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 Ltd; and
- (iii) (otherwise than pursuant to paragraphs (i) and (ii) above) up to an aggregate nominal value of £166,792 being 50 per cent of the Company's issued ordinary share capital as at 6th August 2008.

Resolution 9. That the Company be and is hereby generally and unconditionally authorised, in accordance with Section 166 of the Companies Act 1985 (the "Act"), to make one or more market purchases (within the meaning of Section 163 of the Act) of ordinary shares of 1p each in the share capital of the Company (either for retention as treasury shares for future reissue and resale or transfer, or cancellation), on such terms as the Directors think fit, 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 1p (exclusive of any associated expenses);
- (c) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall be not more than the higher of (a) 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 day on which the purchase is made and (b) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out; and
- (d) unless varied, revoked or renewed, the authority hereby conferred shall expire on 11th March 2010 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.

Resolution 10. That the draft regulations produced to the meeting and, for the purposes of identification, initialled by the Chairman of the meeting be adopted as the Articles of Association of the Company in substitution for, and to the entire exclusion of, the existing Articles of Association of the Company.

Resolution 11. That, subject to resolution 10 set out in the notice of annual general meeting of the Company convened for 11th September 2008 being passed and with effect from 12.01 am on 1st October 2008 (or such later date as section 175 of the Companies Act 2006 shall be brought into force), Article 100 of the Company's Articles of Association adopted pursuant to such resolution 10 be deleted in its entirety and replaced by Article 100 as set out in the document produced to the meeting, marked "B" and, for the purposes of identification, initialled by the Chairman of the meeting.

By order of the Board

Artemis Investment Management Limited  
Secretary

6th August 2008

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

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

## Notice of Annual General Meeting continued

### Notes:

1. Pursuant to Regulation 41(i) of the Uncertificated Securities Regulations 2001, only those shareholders registered on the register of members of the Company at 6.00 pm on Tuesday, 9th September 2008 or, in the event that the meeting is adjourned, on the register of members 48 hours before the time of the adjourned meeting shall be entitled to attend, speak and/or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6.00 pm on Tuesday, 9th September 2008 or, in the event that the meeting is adjourned, on the register of members 48 hours before the time of the adjourned meeting shall be disregarded in determining the rights of any person to attend, speak and vote at the meeting.
2. Pursuant to section 324 of the Companies Act 2006 a member entitled to attend and vote at the meeting may appoint one or more proxies to attend, speak and vote on his behalf. If multiple proxies are appointed, they must not be appointed in respect of the same shares. A proxy or corporate representative need not be a member of the Company. A form of proxy is enclosed and to be valid must be lodged with the Company's Registrars at Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR, not less than 48 hours before the time fixed for the meeting. This right does not apply to persons nominated to receive information rights pursuant to Section 146 of the Companies Act 2006. Persons nominated to receive information rights under Section 146 of the Companies Act 2006 have been sent this notice of meeting and are hereby informed, in accordance with Section 149(2) of the Companies Act 2006, that they may have the right under an agreement with the registered member by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this meeting. If they have such right but do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.
3. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for this meeting by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
4. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must, in order to be valid, be transmitted so as to be received by the Company's agent (ID RA10) not later than 48 hours before the time fixed for the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the proxy through other means. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
5. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
6. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll these

## Notice of Annual General Meeting continued

corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – [www.icsa.org.uk](http://www.icsa.org.uk) – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

7. If the meeting is adjourned to a time not more than 48 hours after the time applicable to the original meeting, the above specified time will also apply for the purpose of determining entitlement of members (and any proxies or corporate representatives appointed) to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at such time that is 48 hours prior to the adjourned meeting, at any time specified in that notice.
8. 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.
9. The following documents will be available for inspection at the registered office of the Company during usual business hours on any weekday (except Public Holidays) until the date of the meeting and for 15 minutes prior to, and at, the meeting:
  - (a) The Articles of Association of the Company as proposed to be adopted with effect from the passing of resolution 10;
  - (b) The directors' letters of appointment; and
  - (c) The proposed new Article 100 of the Company's Articles of Association to be adopted with effect from the time stated in resolution 11 subject to resolution 11 being passed.
10. As at 6th August 2008 (being the latest business day prior to the publication of this Notice), the Company's share capital consists of 32,668,488 ordinary shares, carrying one vote each and 690,000 ordinary shares held in treasury. The total voting rights in the Company are 32,668,488.

# Appendix to Notice of Annual General Meeting

## Summary of the material changes to the Articles of Association of the Company

The principal changes arising from the proposed adoption of the New Articles are set out below. References to Article numbers are references to a particular Article in the New Articles.

## Articles that duplicate statutory provisions

Certain provisions in the current Articles which replicate provisions contained in companies legislation are being amended to bring them into line with the 2006 Act. Some of those provisions, including provisions as to convening general meetings and proxies, are detailed below.

## Electronic Communications

The New Articles contain amendments designed to maximise the Company's ability to use electronic systems for communication with shareholders.

Companies have been able to communicate with shareholders by electronic means (i.e. email) in respect of certain types of information for some years. However, the 2006 Act extends this communication method to all shareholder information (including company notices, documents and other information) and enables the Company to invite shareholders to agree that information may be supplied by means of a website. The amendments within the New Articles allow the Company to take advantage of the changes within the 2006 Act which may lead to administrative cost savings in the future.

The key change in the 2006 Act is that it enables the Company to communicate with shareholders by placing documents on the Company's website unless shareholders expressly elect to receive hard copy documents. It is important to note that before doing so the Company is required to write to all shareholders and give them the opportunity to decide whether they would prefer to receive documentation in hard copy form. They are given a period to respond and, if they do not, website communication becomes the default method. The website can be used to distribute various items including notices of meetings, annual reports, accounts and summary financial statements. This will reduce overheads by cutting down substantially on printing costs and paper usage and will also benefit the environment.

The New Articles also provide, in Article 80(B), for the Board to make provision for holders of uncertificated shares to appoint a proxy by electronic means.

In addition, the New Articles further simplify procedures for transacting the business of the Board by permitting the service of notice of resignation, appointment of alternates and execution of directors' resolutions by electronic means.

## Uncertificated Shares

The New Articles carry over the provisions permitting the holding of shares in uncertificated form in accordance with the CREST uncertificated securities system. In addition, the New Articles provide that Euroclear UK & Ireland Limited is the holder of the register of uncertificated shares in the Company and that the Company will not be liable for a failure of the Company's obligations to maintain a register of uncertificated shares.

## Treasury Shares

Since 1st December 2003, listed companies that buy back shares out of distributable profits have been able to hold up to 10 per cent of the nominal value of their issued share capital in "treasury", rather than having to cancel them. The New Articles are prepared in a manner consistent with the treasury shares regime, including provisions which clarify that the Company cannot attend meetings, vote, receive any distributions or exercise any other rights attaching to any shares held in treasury.

## Form of resolution

The existing Articles contain provisions referring to "extraordinary" resolutions and "extraordinary" general meetings. These concepts have been abolished under the 2006 Act. Meetings of shareholders (other than annual general meetings) are referred to simply as "general meetings". Any resolution requiring a 75 per cent majority will be a "special" resolution. Where for any purpose an ordinary resolution is required a special resolution shall also be effective.

# Appendix to Notice of Annual General Meeting continued

## Suspension of register of members

The current Articles provide that the register of members shall not be closed for more than 30 days in any year. The 2006 Act repeals the provisions of the 1985 Act which allow the Company to close the register of members with the result that the register must be open for inspection at all times. The New Articles reflect this provision.

## Stock

The existing Articles provide that the Company may by ordinary resolution convert any fully paid shares into stock. The 2006 Act abolishes the power to convert shares into stock but allows a company that currently has stock to re-convert this stock back into paid up shares of any nominal value by means of an ordinary resolution. The 2006 Act removes the requirement for a company's articles to permit re-conversion, but a company wishing to re-convert its stock will still have to pass an ordinary resolution authorising it to do so. The New Articles reflect the provisions of the 2006 Act.

## Convening of general meetings and annual general meetings

The provisions of the existing Articles dealing with the convening of general meetings and annual general meetings and the length of notice required to convene such meetings are amended in the New Articles to conform to the provisions of the 2006 Act. In particular, general meetings to consider special resolutions can now be convened on 14 clear days' notice whereas previously 21 clear days' notice was required. An annual general meeting still requires 21 clear days' notice.

## Ordinary and special business

Given the nature of the Company, the definition of ordinary business has been extended in the New Articles to include granting, renewing or varying any authority under section 80 of the 1985 Act, disapplying section 89 of the 1985 Act or renewing share buy back authority as ordinary business when it is transacted at an annual general meeting of the Company. This is beneficial to the Company because it can take advantage of the exception under Listing Rule 13.8.8 which allows, for example, the annual reports and accounts to be prepared without the need to include (i) a heading drawing attention to the documents' importance on the first page, (ii) a recommendation from the Board on the resolutions proposed, or (iii) a statement informing the addressee that if all securities have been sold or transferred the accounts should be passed to the person to whom the securities were sold or transferred to.

## Votes of members

Under the 2006 Act proxies are entitled to vote on a show of hands whereas under the existing Articles proxies are only entitled to vote on a poll. The time limits for the appointment of proxies have also been altered by the 2006 Act so that weekends and bank holidays do not need to be counted in determining the time limits for lodging of proxies. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share or class of shares held by the shareholder.

## Corporate Representatives

The 2006 Act permits a corporate shareholder to appoint multiple corporate representatives who can attend, speak, vote and count towards a quorum at any general meeting. However, where multiple corporate representatives exercise votes in different ways, the 2006 Act provides that no votes have been exercised. The New Articles reflect the provisions in the 2006 Act.

## Retirement of directors by rotation

The Combined Code on Corporate Governance recommends that all directors must submit themselves for election at every third annual general meeting following the meeting at which they were elected or last re-elected. The New Articles reflect this position.

## Age of directors on appointment or re-appointment

The existing Articles refer to section 293 of the Companies Act 1985 (now repealed) which set an upper age limit on directors. No similar age limit shall be contained in the New Articles as it may fall foul of age discrimination legislation.

# Appendix to Notice of Annual General Meeting continued

## Removal of directors

The New Articles contain all the current provisions regarding the removal of a director and, in addition, permit the Company to remove a director by special resolution.

## Directors titles, local committees etc

The existing Articles contain various provisions relating to officers which have not been carried over into the New Articles because they are not relevant to the activities of the Company. This includes provisions relating to executive offices of the Company, the appointment of a President, overseas branch registers and provisions dealing with local management.

## Conflicts of interest

The New Articles contain a new formulation of the provisions on directors' conflicts of interest which reflects current best practice. It is intended that with effect from 1st October 2008 these provisions will be amended further to reflect new provisions of the 2006 Act in relation to directors' conflicts of interests which are expected to come into force on that date.

The 2006 Act sets out directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act, from 1st October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or may conflict, with the Company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, insofar as the articles of association contain a provision to this effect. It is proposed that the New Articles will contain provisions giving the directors authority to approve situations involving directors' conflicts of interest and to allow conflicts of interest to be dealt with by the Board.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision, the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at board meetings and the availability of board papers to protect a director being in breach of duty if a conflict of interest or a potential conflict of interest arises. It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers to authorise conflicts are operating effectively.

The New Articles contain, at Article 100, conflict provisions reflecting current practice and resolution 11 set out in the notice of the Annual General Meeting sets out a further update to that Article 100 which will, if adopted, take effect from 1st October 2008. The New Articles cannot incorporate all of the changes with effect from adoption of those New Articles because the current rules on authorising conflicts (which require shareholder as opposed to Board authorisation) apply until that date.

## Borrowing Powers

The existing Articles of the Company place limits on the extent to which the Board can exercise the powers of the Company to borrow money. They prevent the Board from borrowing in excess of 25 per cent of the value of the net assets of the Company without members' approval. The New Articles contain similar restrictions at Article 101. However, Article 101 limits borrowing to 25 per cent of the Company's "adjusted capital and reserves" without prior members' approval. The New Articles provide an extensive definition of "adjusted capital and reserves" and are prescriptive as to what adjustments can be made to the statutory accounts in determining the "adjusted capital and reserves".

## Winding Up

Under current statutes a company may propose a reconstruction which involves the transfer of assets to one or more bodies corporate (such as another investment trust or an OEIC). The existing Articles are proposed to be extended with the adoption of the New Articles so as to allow a unit trust to be included in the options on any such reconstruction.

## Appendix to Notice of Annual General Meeting continued

### Indemnity

The 2006 Act allows companies to indemnify their directors and other officers and to provide to their directors funds to cover the costs of defending legal proceedings brought against them on an “as incurred” basis. In addition, a company may indemnify the directors of an associated company and the directors of a company acting as trustee to an occupational pension scheme. Since directors are increasingly being added as defendants in actions against companies and litigation is often very lengthy and expensive, the Board believes the risk of directors being placed under significant financial strain is increasing. This may impact on the ability of the Company to recruit and retain members of the Board of an appropriate calibre. Accordingly, the New Articles take advantage of the new law. The Board believes that the power of the Company to indemnify its directors in the manner described above is fair and reasonable and introduces a more appropriate balance of risk and reward. The indemnity does not extend to the auditors of the Company.



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