Artemis AiM VCT 2 plc

Annual Report and Accounts

for the year ended 30 September 2008

ARTEMIS
The Profit Hunter

Contents

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 AiM VCT 2 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.

Corporate Policy and Financial Highlights

Investment Objective

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

Investment Policy

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

Capital Structure

The capital structure of the Company is 35,928,504 ordinary shares of 10p each.

VCT Status

For the year under review the Directors have managed the Company's affairs in such a manner as to comply with those requirements of Section 274 of the Income Tax Act 2007, which apply to the Company's accounting period and the Directors intend to continue to manage the business of the Company so as to comply with the requirements of this section. Set out below is a summary of the main conditions:

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

Total Returns	Year ended 30 September 2008	Year ended 30 September 2007	Since Launch*
Net asset value	(20.5)%	7.1%	(18.8)%
Share price	(21.1)%	9.7%	(32.7)%
FTSE AIM All-Share Index	(43.5)%	11.0%	(42.7)%
Capital	**As at 30 September 2008**	**As at 30 September 2007**	
Net assets	£26.4m	£37.8m	
Net asset value per share	73.5p	94.9p	
Share price	67.5p	88.5p	
Discount	8.2%	6.7%	
VCT qualifying holdings percentage	87.9%	75.0%	
Returns for the year	**Year ended 30 September 2008**	**Year ended 30 September 2007**	
Revenue (loss)/gain	(0.41)p	0.02p	
Capital (loss)/return	(19.21)p	6.32p	
Total (loss)/return	(19.62)p	6.34p	
Dividend per share	2.20p‡	2.20p	
Cumulative dividends per share	6.20p	4.00p	
Total expense ratio	2.5%	2.2%	

* 24 March 2005.

‡ Proposed dividend.

Chairman's Statement

Introduction

I present the fourth annual report of Artemis AiM VCT 2 plc for the year ended 30 September 2008, which has proven to be a very challenging one for financial markets and your Company. The full impact of the credit crunch was felt in financial markets and, together with a deteriorating economic environment, resulted in the considerable decline of many companies' share prices, most notably in the small and micro cap end of the market where a significant de-rating was experienced. Against this difficult stockmarket background your Company, on a relative basis, outperformed both the FTSE AIM All-Share Index and the FTSE All-Share Index, although there is no hiding the fact that in absolute terms your Company's assets have fallen.

At 30 September 2008 the net asset value ("NAV") stood at 73.5 pence per share, which represents a fall over the year of 20.5 per cent*. This compares with a decrease of 43.5 per cent* in the FTSE AIM All-Share Index and a decrease of 22.3 per cent* in the FTSE All-Share Index over the same period. The share price was 67.5 pence at the year end, meaning the shares were trading on a discount to NAV of 8.2 per cent at that point in time.

Portfolio and Performance

The number of investment transactions in the period was fewer than in previous years reflecting the near fully invested position of the portfolio. A total of 10 investments were made during the year, at an aggregate cost of £3.5m. These comprised seven AIM traded companies, two unquoted companies and one into a loan stock of an existing AIM traded holding. Of these, four were new qualifying holdings, two were new non-qualifying holdings and four were follow-on investments in existing holdings.

A total of nine disposals were made in the year. Of these three were the result of takeover bids and two were sold in exchange for shares in Brookwell, a fund set up to acquire underperforming shares in AIM companies from institutional investors with an objective of actively managing such companies to realise value and ultimately return cash to its shareholders. These disposals produced a net loss of £0.2m, which was made up of gains of £0.9m and losses of £1.1m.

The VCT regulations require that 70 per cent of the Company's funds be invested in qualifying holdings and as at 30 September 2008 the Company had over 87 per cent of its funds in such VCT qualifying holdings. This includes a number of disposals which, under the VCT regulations, are disregarded for a period of six months from disposal. After adjusting for these, the qualifying percentage will fall to 84 per cent. This test must be satisfied on a continuing basis and the current position therefore provides a reasonable margin of comfort over the required threshold.

As the performance figures above indicate, the portfolio declined overall during the year, largely as a result of the Company's AIM holdings decreasing in value and the reassessment of the carrying values of a number of the unquoted investments to reflect current market conditions. The largest negative contributors to the fall in the NAV were Accsys Technologies, mForm and TMO Renewables. There were, however, a number of positive performers over the year, with the largest contributions coming from Eclipse Energy, Earthport and Craneware which, in aggregate, contributed 8.5 per cent to the NAV. The best performer was Eclipse Energy, following a successful takeover of the company by Vattenfall AB, a Swedish energy company. Further details on the portfolio and an attribution analysis are set out in the Investment Manager's Review on pages 6 and 7.

Results

The return for the year ended 30 September 2008 was a loss of 19.62 pence per share, comprising a revenue loss of 0.41 pence and a capital loss of 19.21 pence, with much of the latter reflecting the decline in value of the Company's AIM holdings over the period. Your Board is proposing a final capital dividend of 2.20 pence per ordinary share which has been maintained at the same rate as the prior year. Shareholders will be asked to approve this dividend at the forthcoming Annual General Meeting ("AGM") and if approved it will be paid on 31 March 2009 to those shareholders on the register on 6 March 2009.

Share buy-backs

During the year the Company bought and cancelled some 3.9m of its own shares at a cost of £3.0m. These shares were bought at an average discount of approximately 10 per cent and added 0.86 pence per share to the NAV for the remaining shareholders.

* Source: Artemis/Datastream.

Chairman's Statement continued

VAT on Management Fees

The Government announced in March 2008 that management fees paid by VCTs would no longer be subject to VAT with effect from 1 October 2008. Subsequently it was announced that VAT on management fees paid in previous years could be reclaimed. Your Board welcomes this development which will bring a direct benefit to shareholders and your Board is currently reviewing the reclaim position with the Investment Manager.

Investment Manager and Advisors

Your Board has thoroughly examined the performance of all the Company's service providers together with that of each Board member individually. We remain satisfied with the performance of the Investment Manager, advisers and suppliers.

Proposed Merger

Your Board has been in discussions with the directors of Artemis AiM VCT plc to consider a possible merger of the two companies. These discussions have progressed well and it has been concluded that proposals should be put to the shareholders of each company, which, if approved, will enable the merger to proceed.

Both companies are managed by the same investment manager, Artemis Investment Management Limited, and have broadly the same investment objectives and policies. By putting the companies together, it is expected that a number of benefits will be achieved for shareholders, including, inter alia, a reduction in the combined annual running costs and the creation of a single company of a more economic size with a larger capital base over which to spread administration and management costs.

A joint announcement of the proposed merger has been made to the London Stock Exchange today and full details of the merger proposals will be sent to shareholders in February 2009. It is intended that the requisite shareholder meetings will be held on 20 March 2009.

Annual General Meeting

The Annual General Meeting ("AGM") of the Company, which alternates between Edinburgh and London, will be held on Friday, 20 March 2009 at the offices of Artemis Investment Management, 42 Melville Street, Edinburgh, EH3 7HA at 11.00 am.

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 implementation of the Companies Act 2006 (the "Act"). The Act is being introduced in stages and is expected to be fully implemented by 1 October 2009. Information on the principal changes to the Articles of Association are included in the Appendix to the Notice of Annual General Meeting on pages 48 to 50.

Full details of the business to be conducted at the AGM is in the Notice of the Meeting on pages 46 and 47. Your Board would welcome your attendance at the AGM as it provides an opportunity to ask questions of the Board and Investment Manager. For those shareholders who are unable to attend, I would encourage you to make use of your proxy votes.

Outlook

Stockmarkets are likely to remain volatile in the short term, as the difficult economic conditions and the continuing fall out from the credit crisis continues to overhang financial markets. That said, however, the significant fall in share prices that we have witnessed has led to the emergence of real value amongst many small and micro cap stocks and gives some grounds for optimism in the medium to long term.

As at 15 January 2009, the NAV of your Company was 62.4 pence per share, representing a fall of 15.1 per cent* since 30 September 2008. In comparison, over the same time period, the FTSE AIM All-Share Index fell by 34.9 per cent*, while the FTSE All-Share Index fell by 16.0 per cent*. The share price of your Company was 55.3 pence per share, resulting in a discount to NAV of 11.5 per cent.

Those shareholders who wish to keep up to date with developments between formal reports may wish to visit the Investment Manager's website at www.artemisonline.co.uk where there is section dedicated to your Company.

Peter Arthur

Chairman

28 January 2009

* Source: Artemis/Datastream

Directors

Peter Arthur (Chairman)*

Peter Arthur, aged 52, was managing director of the institutional and investment trust businesses of ISIS Asset Management plc from December 1999 until October 2004. Prior to this he was chief legal counsel, Europe for Franklin Templeton Global Investors Limited. He had previously served fourteen years with Edinburgh Fund Managers plc, latterly as joint managing director. He is a solicitor and a chartered secretary and is chairman of Aberdeen Asian Income Fund Limited, a non executive director of Noble Health Fund VCT plc and a director of a number of private companies.

Appointed as a Director on 30 September 2004 and is Chairman of the Board of Directors and of the Management Engagement Committee.

Robin Field*

Robin Field, aged 57, began his commercial career with Jardine Matheson & Co. in the Far East where he fulfilled a number of managerial roles including that of general manager of the largest independent shipping agency in Taiwan. He then gained an MBA with distinction at INSEAD before serving as a strategy consultant with the LEK Partnership. He was chief executive of Filofax Group plc when the company floated on the London Stock Exchange in 1996. He is chairman of Artemis AiM VCT plc, a non-executive director of mForm Limited‡ and a non-executive director of a number of private companies.

Appointed as a Director on 30 September 2004.

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

Edward Murray*

Edward Murray, aged 57, is a chartered accountant and has over twenty years experience as a corporate finance practitioner, principally with British Linen Bank. He is finance consultant to Turcan Connell, private client solicitors and asset managers, and is a non-executive director of a number of companies, including Securities Trust of Scotland plc and W A Baxter & Sons (Holdings) Limited.

Appointed as a Director on 30 September 2004 and is Chairman of the Audit Committee.

Fiona Wollocombe*

Fiona Wollocombe, aged 45, spent eighteen years in the City providing market related advice on corporate finance, specifically for UK small cap companies. Until 2003, she was managing director responsible for the European mid and small cap equity teams at Deutsche Bank (formerly NatWest Markets), which involved overseeing the marketing of smaller companies, including unquoted investments. She was also an active member of the corporate finance team. Fiona is chairman of Aberdeen Income and Growth VCT plc.

Appointed as a Director on 30 September 2004 and is Chairman of the Remuneration Committee.

All Directors are independent of the Investment Manager.

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

Investment Manager's Review

Introduction

Against a difficult background for UK small cap stocks in the six months since we last reported, we are able to report on the significant relative out performance of your Company in the second half of the year. That said it is difficult to be too euphoric about a period recording an absolute decline and one where further declines were recorded in the market subsequent to the year end.

Review of the period

Much has been written already about the credit crunch and the destabilising effect it has caused to financial markets around the world, and there would be little merit in further retrospective analysis. The impact on the target market for your Company has, however, been severe. Small cap stocks, with their higher perceived risk, have been de-rated significantly. No better proof of this is the FTSE Small Cap Index which has declined 20.8 per cent* over the six months to 30 September 2008, resulting in a fall of 38.4 per cent* for the 12 months to 30 September 2008. In times like these a lack of buying interest and the illiquid nature of many small and micro cap stocks can lead to even small sell orders impacting share prices in a disproportionate way. While valuation anomalies will not persist forever, a prerequisite for improvement will be a return of investor confidence in the prospects for equity markets.

Despite the prevailing market conditions there have been a number of positives within the portfolio in the last six months. Eclipse Energy was the subject of a takeover bid from Vattenfall AB towards the end of the period at a substantial premium to its carrying value. With the bid now completed, the uplift in valuation added 5.1 per cent to net asset value. Craneware, a provider of financial improvements software for US healthcare organisations, continued to make progress in the second half of the year and added 1.6 per cent to the net asset value in the full year as the market responded positively to its high revenue visibility and a series of upgrades to forecast earnings. Healthcare Locums, a specialist healthcare recruitment company, also enjoyed a strong performance since the interim period end, adding 0.6 per cent to net asset value on the back of accelerating growth, particularly in the UK locum market and the international permanent placement sector. Abcam, a marketer of antibodies for research purposes via its own online catalogue, continued to enjoy strong demand for its products and an improvement in margins from a product mix shift towards its own manufactured antibodies, all of which led the stock to outperform in the period, adding 1.0 per cent to the net asset value.

Top 5 Contributing Stocks

	% of net assets as 30 September 2008	Contribution† (%)
Eclipse Energy	8.9	5.1
Earthport	8.8	1.8
Craneware	6.1	1.6
Abcam	3.8	1.0
Independent Resources	3.7	0.8

Bottom 5 Contributing Stocks

	% of net assets as 30 September 2008	Contribution† (%)
Accsys Technologies	8.7	(3.2)
mForm	0.0	(2.7)
TMO Renewables	2.3	(2.3)
Medicsight	1.6	(1.9)
Pelikon	1.2	(1.5)

† for the year ended 30 September 2008

A number of stocks did struggle to perform in the second half of the reporting period. The most significant was Earthport, the global payments utility and the second largest stock in the portfolio. Despite having increased in value by some 120 per cent over the six months to 31 March 2008, performance in the six months to 30 September 2008 was much weaker. The declines in the second half of the year were not caused by company specific newsflow, but rather were the result of some profit taking in a weak market. Broker forecasts predict a strong move to profitability in the year to June 2009 but it is likely the market will want to see more evidence that this is on course before a re-rating can occur. Over the full year, the stock was a positive contributor to performance (adding 1.8 per cent to NAV) and we remain positive on the long term prospects for this stock.

* Source: Artemis/Datastream.

Investment Manager's Review continued

The other primary drag on performance in the second half of the year was AssetCo, a support services group to the UK fire and rescue authorities. While the company remains well placed with its existing long term contracts, a lack of newsflow on new contract wins, allied to concerns over debt levels, left the company exposed to a de-rating. Overall this accounted for 1.2 per cent of the NAV.

Other major negative contributors to performance were Accsys Technologies, which suffered from market reservations over its early stage business model and aggressive short selling of the stock in the first half of the reporting period, and Medicsight, again on the back of its early stage business model, coupled with a delay in an expected licensing deal. This deal was signed and we expect further positive newsflow from the company. We remain persuaded by the long term potential of each of the companies.

Two of the Company's unquoted investments were written down in the period. TMO Renewables was reduced in value to reflect the fact that the company will require additional funds, and in view of the current market conditions, it is possible that new money may be raised at a lower price than the previous carrying value. mForm was fully provided against, as the company, despite strenuous efforts by management, who had committed a significant personal investment in the company, failed to secure a deal that would have taken the business forward. The company's future is now uncertain.

New investment activity in the period was highly selective, reflecting the near fully invested nature of your Company and the declining number of attractive opportunities due to the difficult market conditions. One investment made that has significant potential is Advanced Computer Software. This company will act as a consolidator in the fragmented healthcare software markets. While the timing for this appears attractive in terms of depressed target valuations, similarly attractive is the experience and financial commitment of the senior management team, one of whom has invested over £2m personally. A new investment was also made in IS Pharma in the period to support the establishment of this profitable, earnings focused international specialty pharmaceutical company. Again the timing appears sensible in terms of finding attractively priced opportunities, particularly when allied to the management team's strong track record of product commercialisation.

One feature of the period has been the increased levels of corporate activity as evidenced by the takeover of Eclipse Energy mentioned earlier. Further to this, Imprint, a recruitment specialist, Inspicio, a food, commodity and environmental testing company, and Mediasurface, a web page software solution provider, were all the subject of takeovers. We anticipate this trend of enhanced corporate activity will continue in the next twelve months.

Activity within the unquoted portfolio has been muted, but it is pleasing to report that Infrared Integrated Systems has made strong progress in the period. The company's primary product is a predictive software model that enables retailers to optimise their checkout functions. The product has already been successfully established within Tesco, but this has now been supplemented with a major order from Morrisons.

Outlook

At the time of writing the financial markets remain in a state of volatility, and it seems likely this may persist for some time yet. In this context, predictions of short-term market direction are little more than guesses. What does appear more certain is that many share prices are now indicating an extremely prolonged and deep recession, and any indication that this may not be the case could provide a strong impetus for share price recovery for many stocks within the portfolio.

Lindsay Whitelaw

Artemis Investment Management Limited
Investment Manager

28 January 2009

Investment Portfolio

As at 30 September 2008

Eclipse Energy (Unquoted)

www.seapower-generation.co.uk

Eclipse Energy is an upstream energy company developing low carbon natural resources, primarily natural gas and wind energy.

Financial Summary Accounts for the year ended 30 September 2007	£'000
Loss before tax	(1,102)
Retained loss	(1,102)
Net assets	5,628

Holding	Security	% of class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
130,000	Ordinary shares	7.2	7.2	976	2,341	Takeover offer price	8.9

Earthport (AIM)

www.earthport.com

Earthport is a specialist electronic payments company that offers an International 'Bank-2-Bank' payments and collection service.

Financial Summary Accounts for the year ended 30 June 2008	£'000
Loss before tax	(3,661)
Retained loss	(3,381)
Net assets	2,315

Holding	Security	% of class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
3,944,100	Ordinary shares	4.9	4.9	1,213	2,308	Bid price	8.8

Accsys Technologies † (AIM)

www.accsysplc.com

Accsys Technologies is a UK incorporated environmental science and technology company which is developing a range of transformational technologies offering substantial improvements in the cost and environmental impacts of production for a range of everyday materials.

Financial Summary Accounts for the year ended 31 March 2008	€'000
Profit before tax	5,445
Retained profit	4,081
Net assets	87,461

Holding	Security	% of class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
1,307,500	Ordinary shares	0.8	0.8	407	2,292	Bid price	8.7

Investment Portfolio continued

As at 30 September 2008

Craneware †† (AIM)

www.craneware.com

Craneware is a leading supplier of business intelligence and revenue cycle software that provides clients with management software and products designed to assist in managing the revenue cycle through better information, workflow, pricing strategy, capture of lost revenue and best practice modeling.

Financial Summary Accounts for the year ended 30 June 2008	£'000
Profit before tax	4,188
Retained profit	3,289
Net assets	16,099

Holding	Security	% of class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
700,000	Ordinary shares	2.8	2.8	896	1,610	Bid price	6.1

Healthcare Locums †† (AIM)

www.hclplc.com

Healthcare Locums is one of the largest and fastest growing specialist healthcare recruitment businesses in the UK. Healthcare Locums operates through several major recruitment brands in the UK and through a network of offices and agents across the globe to supply their clients with highly-skilled staff.

Financial Summary Accounts for the year ended 31 December 2007	£'000
Profit before tax	7,317
Retained profit	5,205
Net assets	47,181

Holding	Security	% of class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
1,091,910	Ordinary shares	1.1	1.1	601	1,256	Bid price	4.8

Brulines †† (AIM)

www.brulines.com

Brulines provides a range of products and services which captures, manages and provides valuable data within the licensed trade.

Financial Summary Accounts for the year ended 31 March 2008	£'000
Profit before tax	4,165
Retained profit	2,862
Net assets	13,258

Holding	Security	% of class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
725,000	Ordinary shares	3.0	3.0	1,033	1,051	Bid price	4.0

Abcam †† (AIM)

www.abcam.com

Abcam is a producer and distributor of research-grade antibodies and associated products.

Financial Summary Accounts for the year ended 30 June 2008	£'000
Loss before tax	7,952
Retained loss	5,890
Net assets	24,122

Holding	Security	% of class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
210,581	Ordinary shares	0.6	0.6	353	1,003	Bid price	3.8

Investment Portfolio continued

As at 30 September 2008

Independent Resources † (AIM)

www.ir-plc.com

Independent Resources is developing a major underground gas storage facility in Italy, together with other mining projects in Italy and North Africa.

Financial Summary Accounts for the 15 month period ended 30 September 2007	£'000
Loss before tax	(656)
Retained loss	(656)
Net assets	7,341

Holding	Security	% of class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
1,150,000	Ordinary shares	2.8	2.8	690	977	Bid price	3.7

Concateno †† (AIM)

www.concateno.com

Concateno acquires and consolidates businesses involved in drug and alcohol testing services in the UK and Europe.

Financial Summary Accounts for the year ended 31 December 2007	£'000
Profit before tax	323
Retained profit	665
Net assets	103,188

Holding	Security	% of class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
747,388	Ordinary shares	0.8	0.8	725	953	Bid price	3.6

Ilika Technologies (Unquoted)

www.ilika.com

Ilika Technologies specialises in the development and application of high throughput, combinatorial R&D techniques for the discovery of new materials.

Financial Summary Accounts for the year ended 30 April 2008	£'000
Loss before tax	(1,829)
Retained loss	(1,829)
Net assets	6,822

Holding	Security	% of class held	% of equity held	Cost £'000	Valuation £'000	Basis of valuation	% of net assets
3,910	Ordinary shares	3.8	3.8	850	949	Latest transaction price	3.6

	Cost £'000	Valuation £'000	% of net assets
Ten largest investments	7,744	14,740	56.0

† Non qualifying investment for VCT purposes.
†† Investment comprises both a qualifying and non-qualifying element for VCT purposes.

Investment Portfolio continued

As at 30 September 2008

Company	Market	Description of business	Cost £'000	Valuation £'000	% of net assets
iQur	Unquoted	Speciality pharmaceutical company developing products for the detection, treatment and monitoring of Hepatitis C and other liver diseases	750	740	2.8
Ffastfill	AIM	Risk management software	650	719	2.7
TMO Renewables	Unquoted	Producer of ethanol from biomass and biowaste	550	604	2.3
Neuropharm Group	AIM	Speciality pharmaceutical company developing products for central nervous system disorders	500	579	2.2
Cohort	AIM	Technical services for defence and security markets	450	540	2.1
Brookwell †	AIM	Closed ended investment company	824	503	1.9
Infrared Integrated Systems	Unquoted	Develops and manufactures thermal detection solutions	500	500	1.9
Mama Group	AIM	UK music and media business	495	470	1.8
Datong Electronics ††	AIM	Advanced surveillance equipment	750	469	1.8
Vienco Group *	Unquoted	Independent UK oil services company	785	414	1.6
Top twenty investments			**13,998**	**20,278**	**77.1**
Advanced Computer Software	AIM	Healthcare software provider	500	412	1.6
Medicsight	AIM	Medical imaging software provider	500	410	1.6
IS Pharma	AIM	Specialist hospital medicines group	464	392	1.5
Proximagen Neuroscience	AIM	Drug development for neurodegenerative disorders	500	389	1.5
Bango	AIM	Provider of mobile phone content	938	378	1.4
Oxford Nanopore Technologies	Unquoted	Nanobiotechnology diagnostic company	350	350	1.3
AssetCo	AIM	Emergency & homeland security services	565	344	1.3
Pressure Technologies	AIM	Manufacture of high pressure cylinders	190	329	1.3
Pelikon	Unquoted	Design and manufacture of keypads and displays	880	322	1.2
Imaginatik	AIM	Management improvement technology	600	300	1.1
Top thirty investments			**19,485**	**23,904**	**90.9**
Croma Group *	AIM	High performance surveillance equipment	575	300	1.1
Judges Capital	AIM	Design and production of scientific instruments	250	235	0.9
I-Design Group	AIM	ATM advertising solutions	400	221	0.8
Quercus Publishing	PLUS	Book publishing business	248	220	0.8
SPI Lasers	AIM	Advanced laser technologies	795	211	0.8
Software Radio Technology	AIM	Advanced wireless digital technology	625	211	0.8
Alterian	AIM	Design and development of software tools for marketing and customer insight	283	198	0.7
Strategic Thought	AIM	Technology and services company	280	187	0.7
Richoux Group	AIM	Pub & restaurant operator	500	167	0.6
Western & Oriental	AIM	Independent holiday companies operator	500	154	0.6
Top forty investments			**23,941**	**26,008**	**98.7**

† Non qualifying investment for VCT Purposes

†† Investment comprises both a qualifying and non-qualifying element for VCT purposes.

* Includes fixed interest element.

Investment Portfolio continued

As at 30 September 2008

Company	Market	Description of business	Cost £'000	Valuation £'000	% of net assets
Vianet Group	AIM	Remote monitoring equipment	700	140	0.5
Proactis Holdings	AIM	Cost control software	401	140	0.5
Kiotech	AIM	Pheromone-based technologies in aquaculture and commercial fishing	450	102	0.4
Neutrahealth	AIM	Neutrahealth operates several companies in the nutraceutical market. Nutraceuticals are food based products that may provide health benefits and promote well being.	451	86	0.3
Angle	AIM	Specialist management consultancy	400	61	0.2
Optimisa	AIM	Marketing consultants	429	59	0.2
Visual Defence †	AIM	Security-oriented communications systems	425	50	0.2
Vividas	AIM	Broadcast-quality video streamed over the internet & networks	600	36	0.1
Cyan Holdings	AIM	UK based fabless semiconductor company	640	32	0.1
@UK	AIM	Online trading technology	400	16	0.1
Top fifty investments			**28,837**	**26,730**	**101.3**
Accuma Group	AIM	Debt consolidation and advice	500	9	–
Vimio †	AIM	Provider of media distribution and content solutions for mobile phone markets	500	5	–
Elevation Events	AIM	Event management	800	–	–
Charterhouse Food Group	Unquoted	Meat wholesaler	750	–	–
mForm *	Unquoted	Online mortgage applications	733	–	–
Aquilo	AIM	Insurance claim management services	485	–	–
Sovereign Oilfield Group	AIM	Drilling and fabrication services for oil and gas sectors	432	–	–
Connectus Direct Solutions †	Unquoted	Online marketing technologies and services	272	–	–
Total investments (58)			**33,309**	**26,744**	**101.3**
Net current liabilities			(338)	(338)	(1.3)
Net assets			**32,971**	**26,406**	**100.0**

† Non qualifying investment for VCT Purposes
†† Investment comprises both a qualifying and non-qualifying element for VCT purposes.
* Includes fixed interest element.

Sector Analysis of Investments

As at 30 September 2008

	30 September 2008 % of Portfolio	30 September 2007 % of Portfolio
Software & Computer Services	23.4	21.2
Pharmaceuticals & Biotechnology	19.4	15.3
General Industrials	12.1	13.3
Support Services	10.3	17.0
Electricity	8.8	2.8
Electronic & Electrical Equipment	5.7	7.2
Oil & Gas Producers	3.7	1.7
Equity Investment Instruments	3.4	–
Aerospace & Defence	3.1	0.9
Travel & Leisure	3.0	4.0
Industrial Engineering	2.1	1.5
Media & Entertainment	1.8	5.4
Oil Equipment, Services & Distribution	1.5	1.9
Technology Hardware & Equipment	1.4	3.1
Food & Drug Retailers	0.3	–
General Financial	–	3.2
Food Producers	–	1.5
	100.0	100.0

Sectors are those used by the FTSE AIM Index.

Market Analysis of Investments

As at 30 September 2008

	30 September 2008 % of net assets	30 September 2007 % of net assets
AIM	76.9	72.3
Unquoted	23.6	16.9
Unit trusts	–	9.2
PLUS	0.8	1.5
Net current (liabilities)/assets	(1.3)	0.1
	100.0	100.0

Directors' Report

The Directors have pleasure in presenting their report and audited accounts for the year ended 30 September 2008.

Business Review

Operating environment

The Company operates as a venture capital trust ("VCT"). The Company was an investment company within the meaning of Section 833 of the Companies Act 2006 until 5 March 2008, when it revoked its investment company status in order to permit the distribution of realised capital gains. As a VCT, the Company has to satisfy the requirements of Section 274 of the Income Tax Act 2007 ("S274") (summarised on page 2). HM Revenue & Customs has confirmed in writing that the Company has been approved as a VCT for the year ended 30 September 2007. The Directors have managed, and continue to manage, the business in order to comply with the legislation applicable to VCTs. VCT status is monitored through regular reports from the Investment Manager and Administrator. The Company does not have any employees and delegates most of its operational functions to service providers, details of which are set out below.

Investment Objective and Policy

The Company's objective is to achieve long-term capital and income growth and to generate tax free capital distributions.

The Company's policy is to invest in a diversified portfolio of growth orientated companies across a broad range of industries, with a particular emphasis on companies whose shares are traded on AIM. It is anticipated that the portfolio will comprise around 50 investments of which approximately 80 per cent will be in qualifying holdings, through a mixture of AIM, PLUS and unquoted companies. The remaining 20 per cent will be invested in a portfolio which may comprise cash, fixed interest securities, selected unit trusts managed by Artemis and investments in companies listed on the Official List maintained by the UK Listing Authority without regard to the market capitalisation of such companies. The Investment Manager will exercise its discretion to vary the composition of this portfolio, taking into account market conditions.

The portfolio is managed in order to meet the investment requirements of S274, that, *inter alia*, require at least 70 per cent of the investments to be qualifying holdings, of which 30 per cent must be in eligible shares. Investments are selected on their individual merits, including their ability to meet the investment test criteria above. The Company will not invest more than 15 per cent of its assets in any company. As a result of the portfolio having to meet certain investment tests, the universe of investable companies is reduced and therefore it is unlikely that the performance of the Company will track that of any particular benchmark indices.

The Company achieves an appropriate spread of risk through investing in a diversified portfolio of companies, across a broad range of industrial sectors.

Information on the Company's investment exposures are set out in the Investment Portfolio, on pages 8 to 12, and on the Sector Analysis and Market Analysis of Investments on page 13.

Directors' Report continued

Performance

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

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

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

In addition to the aforementioned KPIs, the Board monitors the activity in the Company's shares and the discount to the net asset value at which they trade. As the secondary market for VCT shares remains underdeveloped, any significant sales may have an adverse effect on the Company's share price and therefore the discount. The Company has bought back its own shares and may continue to do so from time to time within guidelines established by the Board for this purpose, subject to having the necessary authority from shareholders and sufficient funds available for this purpose.

Principal Risks and Uncertainties

As a VCT the main risks relate to the nature of the individual investments and the investment activities generally, and include market price risk, interest rate risk and liquidity risk.

As the Company has a focus on AIM traded companies, as well as general market price risk, liquidity in such companies can often be restricted and it may not always be possible to realise investments at prices which the Investment Manager considers to be representative of their fair value.

The nature of the investable universe of companies, being younger and growth oriented, carries a higher degree of risk than investment in companies that are larger and have mature businesses. Changes in economic conditions and changes in interest rates can impact the valuation of investments held. The Board considers that short-term volatility should not detract from the Company's objective of achieving capital and income growth over the long-term. Further details of the risks faced by the Company and how they are managed are set out in note 17 of the notes to the financial statements on pages 43 to 45.

The Company, and consequently its shareholders, can benefit from certain tax reliefs extended to VCTs. The tax regulatory environment is complex and any breaches of these regulations could result in a loss of tax benefits for shareholders. In addition, failure by the Company to meet the requirements of S274 could result in the Company becoming liable for capital gains tax on the net gains it generates from the sale of investments. The Board receives regular updates from the Investment Manager in order to monitor compliance with the applicable tax regulations.

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 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.

Directors' Report continued

Current and Future Developments

A summary of the Company's developments during the year ended 30 September 2008, together with its prospects for the future, are set out in the Chairman's Statement on pages 3 and 4 and Investment Manager's Review on pages 6 and 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 and the effectiveness of communication with shareholders.

Other Matters

Share Capital

The Company's authorised share capital consists of 80,500,000 ordinary shares of 10p each. At 30 September 2008 there were 35,928,504 ordinary shares of 10p each (2007: 39,857,004) 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 Company 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. 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 the restriction on the transfer of shares or of the voting rights.

During the year ended 30 September 2008, the Company purchased for cancellation a total of 3,928,500 (2007: nil) of its own ordinary shares, representing 9.9 per cent of those shares in issue as at 30 September 2007, at a cost of £3,042,000, including stamp duty.

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

Further information on the share capital of the Company is detailed in note 12 of the notes to the financial statements on page 41.

Life of the Company

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

Results and Dividends

The loss on ordinary activities after tax for the year ended 30 September 2008 was £7,525,000 (2007: profit of £2,528,000). Further details can be found in the Income Statement on page 30.

The Directors are recommending the payment of a final capital dividend of 2.20 pence per ordinary share to shareholders on the register as at 6 March 2009, which, if approved at the AGM will be payable on 31 March 2009.

Directors' Report continued

Management and Administration Agreements

The Company's investments are managed by Artemis Investment Management Limited ("Artemis") under a management agreement dated 7 October 2004. The principal terms of this agreement, including the management fee, are set out in note 3 of the notes to the financial statements. This agreement may be terminated by either party on 12 months' notice in writing.

Lindsay Whitelaw acts as lead manager, supported by Andy Gray and Artemis also acts as Company Secretary. Artemis is authorised and regulated by the Financial Services Authority and as at 30 September 2008 had a total of £13.0 billion of assets under management.

BNP Paribas Securities Services 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 7 October 2004. The fees for these services are set at £63,000 (exclusive of VAT) per annum. In addition, this fee may be increased annually by the percentage increase in the average earnings index. This agreement may be terminated by either party on six months' written notice.

With effect from 1 December 2008, BNP Paribas Fund Services UK Limited became BNP Paribas Securities Services. The Administration and Company Secretarial Services Agreement has been novated to reflect this. No other changes to the agreement have been made.

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, remains 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 AIM 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 biographies are set out on page 5. Each of these Directors held office throughout the year under review. None of the Directors has a contract of service with the Company.

In accordance with the Company's Articles, Edward Murray and Fiona Wollocombe are to retire by rotation as Directors and being eligible, will be seeking re-election at the forthcoming Annual General Meeting. The Nomination Committee, having reviewed their individual performance as Directors and their contribution to the operation of the Company, concluded that the Company benefited from their services. Accordingly, the Committee recommended to the Board that a resolution be put to shareholders for their re-election as Directors. The Board concurred with the conclusions of the Nomination Committee and recommend that shareholders vote in favour of their re-election.

Directors' Interests

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

Director	30 September 2008	1 October 2007
Peter Arthur	51,500	51,500
Robin Field	41,200	41,200
Edward Murray	30,900	30,900
Fiona Wollocombe	20,600	20,600

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

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

Directors' Report continued

VCT status monitoring

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

Additional Shareholder Information

The rules concerning the appointment and replacement of Directors, amendment of the Articles and powers to issue or buy back the Company's shares are contained in the Articles 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 30 September 2008 there were no amounts owed to suppliers in respect of invoices received but unpaid (30 September 2007: none).

Going Concern

The Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future and therefore the Directors are of the opinion that it is appropriate to continue to adopt the going concern basis in the preparation of the financial statements.

Authority to Buy Back and Allot Shares

The Company's existing authority to make market purchases of up to 14.99 per cent of the issued share capital, along with the authority to allot shares without first offering them to existing shareholders, will expire at the forthcoming AGM. The Directors consider that the Company should continue to have such authorities and resolutions for the renewal of such authorities will be included within the documentation to be sent to shareholders in relation to the proposed merger of the Company with Artemis AiM VCT plc.

Resolution 7 - Adoption of new Articles of Association

Company law and best practice has undergone a number of changes since the current Articles of the Company were adopted in September 2004, 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 brought about by the proposed adoption of the New Articles is set out in the Appendix to the Notice of Annual General Meeting on pages 48 to 50 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 considered necessary in the next year as a result of the staged implementation of the 2006 Act. The Company intends to conduct a further review of the New Articles over the next year in order to identify any additional amendments that might be beneficial following the full implementation of the 2006 Act by October 2009. It is the Board's intention that any further amendments which are required following the full implementation of the 2006 Act will be put to shareholders at the 2010 AGM.

Directors' Report continued

A copy of the New Articles will be available for inspection from the date of this document until the conclusion of the Annual General Meeting during normal business hours on any weekday at the registered office of the Company and at the offices of Artemis Investment Management Limited, Cassini House, 57 St James's Street, London SW1A 1LD. The New Articles will also be available for inspection at any time until the conclusion of the Annual General Meeting on the Investment Manager's website at www.artemisonline.co.uk and shall be available at the venue of the Annual General Meeting from 15 minutes prior to and until the conclusion of the meeting.

Independent Auditors

Following a review of audit services during the year, Ernst & Young LLP resigned as auditors and KPMG Audit Plc were appointed by the Directors to fill the casual vacancy pursuant to sections 489(3) and 526 of the 2006 Act. Accordingly, a resolution to appoint KPMG Audit Plc as auditors of the Company to hold office until the conclusion of the next general meeting at which financial statements are laid before the Company and that their remuneration be fixed by the Directors will be proposed at the forthcoming AGM. 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 appointment of the external Auditors. After careful consideration of the services provided to the Company during the year and a review of their effectiveness, the Audit Committee recommended to the Board that KPMG Audit Plc should be appointed as Auditors. At the time of resignation, Ernst & Young LLP confirmed in writing to the Board that there were no circumstances connected with their ceasing to hold office that ought to be brought to the attention of the Company's shareholders or creditors in accordance with section 519 of the 2006 Act. 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 aware 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 2009 AGM are set out in the Chairman's Statement on page 4 and the Notice of Meeting on pages 46 and 47.

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.

By order of the Board

Artemis Investment Management Limited
Company Secretary

28 January 2009

Corporate Governance

Compliance

The Company is committed to high standards of corporate governance and has applied the principles of the Combined Code on Corporate Governance (the "Combined Code"), as issued by the Financial Reporting Council in July 2003 and updated in June 2006. The Board considers that in the course of the year and up to the date of this Report the Company has complied with the Combined Code. Set out below is how the Company has applied the principles of the Combined Code.

As a VCT, all Directors on the Board of the Company are non-executive and the Company's day-to-day responsibilities are delegated to third 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, the key performance indicators and all other important issues to ensure that the Company's affairs are operated within a framework of prudent and effective controls. Whilst certain responsibilities are delegated, a schedule of matters specifically reserved for its decision has been adopted by the Board.

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

The Board sets the parameters within which the Investment Manager operates which are set out in the Investment Management Agreement ("IMA"). The Board also determines what information it requires from the Investment Manager in order to ensure that it has a clear understanding of the Company's financial position. 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 four Directors, all of whom are non-executive. Mr Field is a non-executive Director of Artemis AiM VCT plc, which is also managed by the Investment Manager. There is no chief executive position within the Company. The names of the Directors, together with their biographical details, are set out on page 5 of this Report.

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

A Senior Independent Director has not been appointed as the Board considers that each of the Directors has individual areas of expertise which would enable them to lead on any issues that arise. This matter is reviewed annually.

Corporate Governance continued

Appointment of Directors and Performance Evaluation

Directors are appointed subject to the provisions of the 2006 Act and the Company's Articles. 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 and taking account of the ongoing requirements of the Combined Code.

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 the 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, reviewed its performance and that of its Committees, the Chairman and individual Directors. This review was based on a process of appraisal by questionnaire and interview, with the evaluation of the performance of the Chairman being undertaken by the other Directors, led by Fiona Wollocombe. 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, four Board Committees, each with written terms of reference, have been established. Committee membership is set out on page 5 of this Report. Attendance at the meetings of any of the Committees is restricted to members and persons expressly invited to attend. Copies of the terms of reference for the Board Committees are available from the Company Secretary. The Chairman of the Board acts as Chairman for each of the Committees, with the exception of the Audit Committee and the Remuneration Committee, which are chaired by Edward Murray and Fiona Wollocombe respectively. 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 Company's financial statements and the appropriateness of its accounting policies; reviewing the internal control systems and the risks to which the Company is exposed. It is also responsible for 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 also provides a forum through which the Company's external 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 financial services and other industries. Edward Murray, the Chairman of the Audit Committee, is a chartered accountant.

As the Company has no employees there is no dedicated resource to the Audit Committee. Representatives from BNP Paribas, which produces certain financial information for the Company, may be 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 the Company. Both of these parties report, 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, reviews the performance of the Company's third party service providers, including the Investment Manager but excluding the auditors, whose performance is reviewed by the Audit Committee. The Committee reviews the terms of appointment, making recommendations to the Board for improvement or change as appropriate. It meets at least annually.

Nomination Committee

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

Remuneration Committee

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

Board and Committee Meetings

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

	Board Meetings		Audit Committee Meetings		Management Engagement Committee Meetings		Nomination Committee Meetings		Remuneration Committee Meetings	
Director	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Peter Arthur	5	5	3	3	1	1	1	1	1	1
Robin Field	5	5	3	3	1	1	1	1	1	1
Edward Murray	5	5	3	3	1	1	1	1	1	1
Fiona Wollocombe	5	5	3	3	1	1	1	1	1	1

Board Succession Planning

The Board has not formally set a timetable for succession, however, a policy on the tenure of the Directors' appointments has been agreed and that is, to coincide with the Company's continuation vote in 2011, the Directors should serve for a fixed term up to the time of the AGM in 2011. The Directors carry out an annual evaluation of their performance and each of the Directors will be required to stand for re-election in accordance with the Company's Articles.

Relations with Shareholders

The Board aims to ensure that shareholders are kept fully informed of developments in the Company's business through its published Annual and Half-Yearly Reports. The Company prepares Interim Management Statements during the six months between the annual and half-yearly reporting periods and these are announced to the London Stock Exchange, as well as being available on the Investment Manager's website.

Corporate Governance continued

The Investment Manager produces a monthly factsheet that contains a short commentary, in addition to certain portfolio and financial information. This can be found on the Investment Manager's website at www.artemisonline.co.uk. 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.

All shareholders are encouraged to attend and vote at the AGM, during which the Board and the Investment Manager will be available to discuss issues affecting the Company. Details of proxy voting are declared immediately following each resolution at each AGM. All Directors intend to attend this year's AGM, details of which are set out in the Notice of Meeting on pages 46 and 47 of this Report.

Voting Policy

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

Internal Controls and Management of Risk

The Board recognises its responsibility for the implementation, review and maintenance of effective systems of internal control to manage the risks to which the Company is exposed. As the majority of the Company's systems are maintained on behalf of the Company by third party providers under contract, the Board fulfils its obligations by requiring these service providers to report and provide assurances as to their systems of internal control, which are designed to manage rather than eliminate risks. In light of the Board's reliance on these systems and the reports thereon, the Board can only provide reasonable and not absolute assurance 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 will be kept under ongoing, and at least an annual, review.
- Investment management, accounting and custody of assets are segregated. The procedures of the individual parties are designed to complement each other.
- Investment management and company secretarial services are provided by Artemis. The Board is responsible for setting the overall investment policy and monitoring the actions of the Investment Manager. The Board reviews information produced by the Investment Manager in detail on a regular basis.
- Administration services are provided by BNP Paribas. BNP Paribas reports to the Board on a quarterly basis and *ad hoc* basis as appropriate. In addition, the Board reviews BNP Paribas' annual report on internal controls.
- The Board is aware of the whistleblowing procedures of Artemis and BNP Paribas, which are considered satisfactory.
- Safekeeping of the Company's assets is undertaken by HSBC Global Investor Services.

Corporate Governance continued

- The Directors of the Company clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts. The appointment of agents and advisers is conducted by the Board after consideration of the quality of parties involved; the Board monitors their ongoing performance and contractual arrangements to ensure that they remain effective.
- Mandates for authorisation of investment transactions and expense payments are set by the Board.

By the procedures set out above, and in accordance with the Combined Code, 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 30 September 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 28 and 29.

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, industry 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 the additional work carried out in this role. The Board annually reviews the level of the Directors' fees taking into account fees payable to the Directors of venture capital trusts 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 has agreed that fees for the year to 30 September 2009 should be as follows: Chairman's fee of £20,000 and other Directors fees of £14,500. Edward Murray, in recognition of the additional work in carrying out his role as Chairman of the Audit Committee, will receive an additional £1,500 over his basic fee. The Company's Articles limit the fees payable to Directors to £100,000 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 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 Remuneration Committee considers, at least annually, the level of the Directors' fees and makes recommendations to the Board on its conclusions.

As at 30 September 2008 the Board was comprised entirely of independent non-executive Directors. The Company's current Articles 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.

	Date of last re-election	Due date for re-election
Edward Murray	12 January 2006	AGM 2009
Fiona Wollocombe	12 January 2006	AGM 2009
Peter Arthur	11 January 2007	AGM 2010
Robin Field	28 February 2008	AGM 2011

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 renewed annually.

Directors' Remuneration Report continued

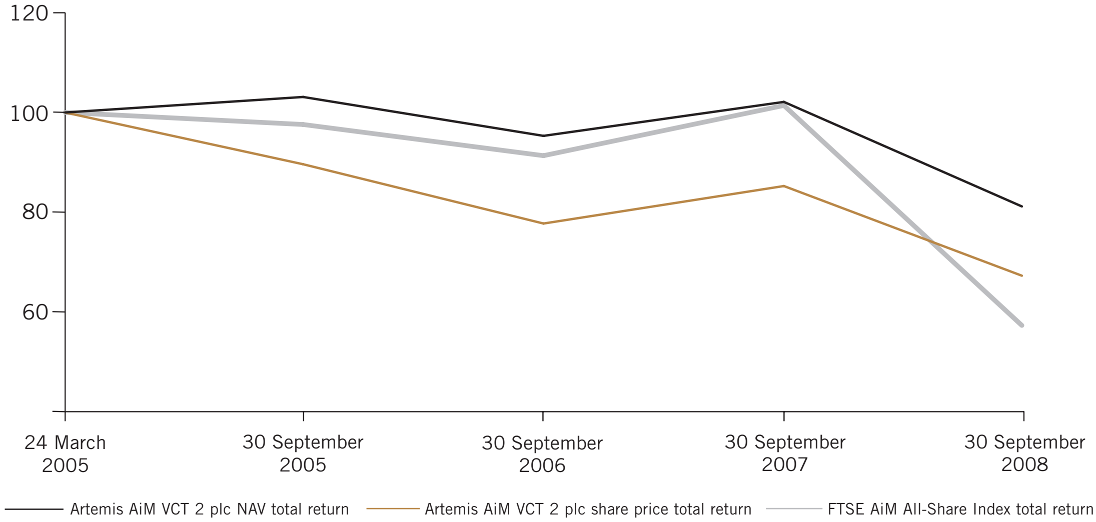
Directors' Fees (audited)

The information in this section has been subject to audit.

The Directors who served during the year to 30 September 2008 and 30 September 2007 received the following emoluments:

Director	Year ended 30 September 2008	Year ended 30 September 2007
Peter Arthur	£20,000	£17,500
Robin Field	£14,500	£12,500
Edward Murray	£16,000	£13,500
Fiona Wollocombe	£14,500	£12,500

Performance Graph



Source: Artemis Investment Management/Datastream.

The performance chart above sets out the Company's share price total return (assuming reinvestment of dividends) to ordinary shareholders from 24 March 2005, being the date on which the Company announced its Offers for Subscription were fully subscribed, to 30 September 2008, compared to the total return of a notional investment in the FTSE AIM All-Share Index. This index was chosen for comparison purposes, as it represents a comparable broad equity market index. However, as not all the constituents of this index are suitable investments for the Company, due to the investment parameters set out in the VCT regulations, there is likely to be a divergence between the performance of each.

By order of the Board

Artemis Investment Management Limited
Company Secretary

28 January 2009

Statement of Directors' Responsibilities

in respect of the Financial Statements

Company law in the United Kingdom requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the net result of the Company for the year. In preparing these 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 applicable accounting standards have been followed.

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

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

The Directors are responsible for ensuring that the Directors' Report, Directors' Remuneration Report and other information included in the annual report are prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Services Authority.

The financial statements are published on a website, 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 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 have been prepared on a going concern basis using appropriate accounting standards which have been consistently applied; have been prepared in accordance with applicable accounting standards; and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company.
- The Directors' Report includes a fair review of the development and performance of the Company and the principal risks faced by the Company.

On behalf of the Board

Peter Arthur

Chairman

28 January 2009

Independent Auditors' Report

to the members of Artemis AiM VCT 2 plc

We have audited the Company's financial statements (the "Financial Statements") of Artemis AiM VCT 2 plc for the year ended 30 September 2008 which comprise the Income Statement, Balance Sheet, Cash Flow Statement, Reconciliation of Movements in Shareholders' Funds 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and Accounts, the Directors' Remuneration Report and the financial statements in accordance with applicable UK law and Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 27.

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. We also report to you whether, in our opinion, the information given in the Directors' Report (including the Business Review) is consistent with the financial statements. The information given in the Directors' Report (including the Business Review) includes that specific information presented in the Financial Highlights, Investment Portfolio, Sector Analysis and Market Analysis of Investments, the Investment Manager's Review and Chairman's Statement that is cross referenced from the Business Review. 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 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

Independent Auditors' Report continued

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice of the state of the Company's affairs as at 30 September 2008 and of its loss for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Financial Statements.

KPMG Audit Plc

Registered Auditor
Chartered Accountants
Edinburgh

28 January 2009

Income Statement

For the year ended 30 September 2008

	Note	Year ended 30 September 2008 Revenue £'000	Capital £'000	Total £'000	Year ended 30 September 2007 Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments	8	–	(6,943)	(6,943)	–	2,970	2,970
Investment income	2	162	–	162	312	–	312
Other income	2	53	–	53	57	–	57
Investment management fee	3	(141)	(423)	(564)	(151)	(452)	(603)
Currency gains		–	–	–	–	1	1
Other expenses	4	(231)	–	(231)	(209)	–	(209)
(Loss)/return on ordinary activities before interest and taxation		(157)	(7,366)	(7,523)	9	2,519	2,528
Interest payable		(2)	–	(2)	–	–	–
(Loss)/return on ordinary activities before taxation		(159)	(7,366)	(7,525)	9	2,519	2,528
Taxation on ordinary activities	5	–	–	–	–	–	–
(Loss)/return on ordinary activities after taxation	7	(159)	(7,366)	(7,525)	9	2,519	2,528
(Loss)/return per ordinary share (pence)	7	(0.41)	(19.21)	(19.62)	0.02	6.32	6.34

The total column of this statement represents the profit and loss account of the Company. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies.

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

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

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

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

Balance Sheet

As at 30 September 2008

	Note	As at 30 September 2008 £'000	As at 30 September 2007 £'000
Non-current assets			
Investments	8	26,744	37,794
Current assets			
Debtors	10	20	14
Cash at bank	15	–	261
		20	275
Total assets		26,764	38,069
Current liabilities	11	(358)	(227)
Net assets		26,406	37,842
Equity attributable to equity holders			
Share capital	12	3,593	3,986
Share premium		110	110
Special reserve		29,775	33,686
Capital reserve – realised		(798)	(154)
Capital reserve – unrealised		(6,565)	157
Capital redemption reserve		419	26
Revenue reserve		(128)	31
Total equity		26,406	37,842
Net asset value per ordinary share (pence)	13	73.49	94.94

These financial statements were approved by the Board of Directors and signed on its behalf on 28 January 2009:

Peter Arthur
Chairman

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

Cash Flow Statement

For the year ended 30 September 2008

	Note	Year ended 30 September 2008 £'000	Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000	Year ended 30 September 2007 £'000
Operating activities					
Investment income received		134		793	
Deposit and similar interest received		53		60	
Investment management fees paid		(606)		(630)	
Administrator's fees paid		(74)		(56)	
Other cash payments		(165)		(135)	
Net cash (outflow)/inflow from operating activities before interest and tax	14		(658)		32
Taxation					
Corporation tax paid			–		–
Financial investment					
Purchases of investments		(2,735)		(29,957)	
Sales of investments		6,874		30,345	
Net cash inflow from financial investment			4,139		388
Equity dividends paid			(869)		(319)
Net cash inflow before financing			2,612		101
Financing					
Repurchase of own shares		(3,042)		(214)	
Net cash outflow from financing			(3,042)		(214)
Decrease in cash	15		(430)		(113)

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

Reconciliation of Movements in Shareholders' Funds

For the year ended 30 September 2008

	Year ended 30 September 2008							
	Share capital £'000	Share premium £'000	Special reserve* £'000	Capital reserve – realised* £'000	Capital reserve – unrealised £'000	Capital redemption reserve £'000	Revenue reserve* £'000	Total £'000
At 30 September 2007	3,986	110	33,686	(154)	157	26	31	37,842
Repurchase of shares	(393)	–	(3,042)	–	–	393	–	(3,042)
Loss on ordinary activities after taxation	–	–	–	(589)	(6,777)	–	(159)	(7,525)
Transfer on disposal of investments	–	–	–	(55)	55	–	–	–
Dividend paid	–	–	(869)	–	–	–	–	(869)
At 30 September 2008	3,593	110	29,775	(798)	(6,565)	419	(128)	26,406

	Year ended 30 September 2007							
	Share capital £'000	Share premium £'000	Special reserve* £'000	Capital reserve – realised* £'000	Capital reserve – unrealised £'000	Capital redemption reserve £'000	Revenue reserve* £'000	Total £'000
At 30 September 2007	3,986	110	33,686	(604)	(1,912)	26	341	35,633
Return on ordinary activities after taxation	–	–	–	249	2,270	–	9	2,528
Transfer on disposal of investments	–	–	–	201	(201)	–	–	–
Dividend paid	–	–	–	–	–	–	(319)	(319)
At 30 September 2007	3,986	110	33,686	(154)	157	26	31	37,842

* The aggregate of these reserves, being £28,849,000 represents the distributable reserves of the Company at 30 September 2008 (30 September 2007: £33,563,000).

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

Notes to the Financial Statements

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"). The principal accounting policies adopted by the Company are set out below.

The Company is no longer an investment company within the meaning of Section 833 of the Companies Act 2006, having revoked investment company status on 5 March 2008 in order to permit the distribution of realised capital gains. The financial statements are presented in accordance with Schedule 4 of the Companies Act 1985 ("Companies Act"), and the requirements of the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" (the "SORP"), where the requirements of the SORP are consistent with the Companies Act.

(b) Investments

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.

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. Unquoted 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 Income Statement as gains/(losses) on investments. Also included within this caption are transaction costs in relation to the purchase or sale of investments.

(c) Income

Dividends receivable on listed and AIM/PLUS traded equity shares are brought into account on the ex-dividend date. Dividends receivable on unquoted equity shares are brought into account when the Company's right to receive payment is established and there is no reasonable doubt that payment will be received. Interest from fixed interest securities is recognised on an effective interest rate basis. Bank and deposit interest is recognised on an accruals basis.

(d) Expenses

All expenses (inclusive of VAT) are accounted for on an accruals basis through the Income Statement.

Expenses are charged wholly to revenue, with the exception of:

- Expenses which are incidental to the acquisition or disposal of an investment which are charged to capital.
- Management fees payable to Artemis which are charged 75 per cent to capital reserve – realised and 25 per cent to revenue based on the Director's estimated long-term split of revenue and capital returns.

(e) Deferred Taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the Balance Sheet date.

(f) Exchange Rates

Transactions involving foreign currencies are converted at the rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currency are translated into Sterling at the rate of exchange at the Balance Sheet date. Differences arising from translation are treated as capital or revenue depending on the nature of the gain or loss.

(g) Capital reserves

Capital reserve – realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments and changes in the fair value of investments which are readily convertible to cash: 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 the fair value of investments that are not readily convertible to cash and amounts by which other assets and liabilities valued at market value differ from their book value. The Company does not deem unquoted or AIM listed investments to be readily convertible to cash and has therefore included all unrealised gains/(losses) within Capital reserve – unrealised.

2. Income

	Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000
Investment income*		
– UK dividend income	124	89
– Overseas dividend income	10	–
– UK investment income	28	223
Total investment income	162	312
Other income**		
– Bank interest	53	57
Total income	215	369

* 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.

** Income on financial assets not designated as fair value through profit or loss.

Notes to the Financial Statements continued

3. Investment management fee

	Year ended 30 September 2008			Year ended 30 September 2007		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	122	367	489	129	385	514
Irrecoverable VAT thereon	19	56	75	22	67	89
	141	423	564	151	452	603

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

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

The Investment Manager may also become entitled to receive a performance fee from the Company equal to 20 per cent of any distributions of income or capital profits (other than certain distributions by way of the purchase of the Company's own shares) made by the Company in any accounting period, provided that at the end of the relevant accounting period, the increase in the Company's net asset value, after adding back any earlier distributions made by the Company and the amount of any performance fees paid in respect of prior accounting periods, exceeds a hurdle amount equal to simple interest at a rate of 8 per cent per annum on the amount paid up on each ordinary share in issue at the end of the relevant accounting period calculated from the date of admission of that share to trading.

No performance fee was due at 30 September 2008 (2007: nil).

The Investment Management Agreement may be terminated by giving one year's notice. If less than one year's notice is given to terminate, then a termination fee is payable to the Investment Manager. This is calculated at 1.75 per cent of the average market capitalisation at that date and adjusted pro rata for any notice period given.

The appointment may also be terminated in circumstances of material breach by either party.

Investment management fees paid after 1 October 2008 will not be subject to VAT following the announcement from the UK Government in March 2008 that such fees will be exempt from VAT. Further information on VAT on investment management fees is set out in note 18 on page 45.

Notes to the Financial Statements continued

4. Other expenses

		Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000
Directors' remuneration (excluding VAT and NIC)		65	56
Administrator's fees		74	74
Auditor's remuneration:			
Fees for the audit of the company's annual accounts –			
	– Ernst & Young (excluding VAT)	–	16
	– KPMG (excluding VAT)	16	–
Other services supplied relating to taxation	– Ernst & Young (excluding VAT)	2	7
	– KPMG (excluding VAT)	6	–
Other expenses		68	56
		231	209

The Company has no employees (2007: none).

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

5. Taxation on ordinary activities

	Year ended 30 September 2008 Revenue £'000	Year ended 30 September 2008 Capital £'000	Year ended 30 September 2008 Total £'000	Year ended 30 September 2007 Revenue £'000	Year ended 30 September 2007 Capital £'000	Year ended 30 September 2007 Total £'000
Corporation tax	–	–	–	–	–	–

The tax charge for the year is lower than the standard rate of corporation tax in the UK of 29 per cent. The differences are explained below:

	Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000
Revenue (loss)/return on ordinary activities before taxation	(159)	9
Revenue (loss)/return on ordinary activities multiplied by the applicable rate of corporation tax of 29% (2007: 30%)	(46)	3
Effects of:		
UK dividends	(36)	(37)
Income taxable in different periods	(3)	–
Expenses charged to capital in different periods	(123)	(136)
Unutilised management expenses	208	170
	–	–

Capital returns are not included as VCTs are exempt from tax on realised capital gains.

The Company has not recognised a deferred tax asset of £422,000 (2007: £214,000) arising as a result of unutilised management expenses. These expenses will only be utilised if the tax treatment of capitalised gains made by VCTs changes or the Company's taxable investment income increases significantly.

Notes to the Financial Statements continued

6. Dividends paid and proposed

	Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000
Final dividend for year ended 30 September 2007: 2.2p (2006: 0.8p)	869	319

Under Financial Reporting Standard ("FRS") 21 "Events after the balance sheet date", dividends are recognised in the accounting period in which they are authorised for payment and are shown in the Reconciliation of Movements in Shareholders' Funds.

Set out below are the total dividends paid and proposed in respect of each financial year.

	Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000
Final dividend of 2.2p per ordinary share (2007: 2.2p)	790	869

7. Return per ordinary share

	Year ended 30 September 2008			Year ended 30 September 2007		
	Revenue	Capital	Total	Revenue	Capital	Total
(Loss)/return per ordinary share (pence)	(0.41)	(19.21)	(19.62)	0.02	6.32	6.34

Revenue (loss)/return per ordinary share is based on the loss attributable to ordinary shareholders of £159,000 and on 38,352,452 shares, being the weighted average number of ordinary shares in issue during the year (2007: return of £9,000 and on 39,857,004 ordinary shares).

Capital (loss)/return per ordinary share is based on net capital losses attributable to shareholders of £7,366,000 and on 38,352,452 ordinary shares, being the weighted average number of ordinary shares in issue during the year (2007: return of £2,519,000 and on 39,857,004 ordinary shares).

Total (loss)/return per ordinary share is based on the loss attributable to ordinary shareholders of £7,525,000 and on 38,352,452 shares, being the weighted average number of shares in issue during the year (2007: return of £2,528,000 and on 39,857,004 ordinary shares).

Notes to the Financial Statements continued

8. Investments

All investments are designated as fair value through profit or loss at initial recognition and therefore all gains and losses arise on investments designated as fair value through profit or loss. In view of the nature of the Company's investments, the fair value gains and losses recognised in these financial statements are treated as unrealised as the investments are not considered to be readily convertible to cash in full at the balance sheet date.

	As at 30 September 2008 £'000	As at 30 September 2007 £'000
AIM traded	20,305	27,393
PLUS & unquoted	6,439	6,927
Unit trusts	–	3,474
	26,744	37,794
Equity shares	26,511	37,107
Interest bearing securities	233	137
Preference shares	–	550
	26,744	37,794

Movements in investments during the year are summarised as follows:

	AIM £'000	PLUS & Unquoted £'000	Unit Trusts £'000	Total £'000
Opening book cost	27,138	7,010	3,489	37,637
Unrealised gains/(losses) at 30 September 2007	255	(83)	(15)	157
Valuation at 30 September 2007	27,393	6,927	3,474	37,794
Purchases at cost	2,957	602	–	3,559
Disposals – proceeds	(4,239)	–	(3,459)	(7,698)
– realised losses	(191)	–	(30)	(221)
Amortisation of book cost	–	32	–	32
(Decrease)/increase in unrealised gains/(losses)	(5,615)	(1,122)	15	(6,722)
Valuation as at 30 September 2008	20,305	6,439	–	26,744
Book cost at 30 September 2008	25,665	7,644	–	33,309
Unrealised losses	(5,360)	(1,205)	–	(6,565)
Valuation as at 30 September 2008	20,305	6,439	–	26,744
Unrealised (losses)/gains on disposal	(191)	–	(30)	(221)
Net gains thereon already recognised in earlier periods	55	–	–	55
Unrealised (losses)/gains in current year	(136)	–	(30)	(166)
Movement in unrealised (losses)/gains	(5,670)	(1,122)	15	(6,777)
Losses on investments	(5,806)	(1,122)	(15)	(6,943)

The cost and value of investments held as at 30 September 2008 are given on pages 8 to 12.

During the year, the Company incurred transactions costs on purchases of £1,000 (2007: £15,000) and on sales of £3,000 (2007: £6,000) which are included in losses on investments.

Notes to the Financial Statements continued

9. Significant interests

At 30 September 2008 the Company held shares amounting to 3 per cent or more of the nominal value of any class of share in the following investee companies:

Company	Class Held	Investment at Cost £'000	Percentage of Class Held %
Aquilo	Ordinary	485	10.0
Pelikon	Ordinary	880	8.1
Eclipse Energy	Ordinary	976	7.2
Judges Capital	Ordinary	250	6.2
Imaginatik	Ordinary	600	6.1
Vianet Group	Ordinary	700	5.7
Croma Group	Ordinary	500	5.6
mForm	Ordinary	183	5.4
Vienco Group	Ordinary	650	5.1
Earthport	Ordinary	1,213	4.9
Quercus Publishing	Ordinary	248	4.7
Datong Electronics	Ordinary	750	4.2
I-Design Group	Ordinary	400	4.2
iQur	Ordinary	750	4.2
Kiotech	Ordinary	450	4.1
Ilika Technologies	Ordinary	850	3.8
Richoux Group	Ordinary	500	3.3
Brookwell	Preference	824	3.2
Proactis Holdings	Ordinary	401	3.0
Brulines	Ordinary	1,033	3.0
TMO Renewables	Ordinary	550	3.0

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

10. Debtors

	As at 30 September 2008 £'000	As at 30 September 2007 £'000
Other debtors	10	–
Prepayments	6	6
Accrued income	4	8
	20	14

Notes to the Financial Statements continued

11. Current liabilities

	As at 30 September 2008 £'000	As at 30 September 2007 £'000
Accrued expenses	189	227
Bank overdraft	169	–
	358	227

Since 30 September 2008 the bank overdraft has been repaid in full.

12. Share capital

	As at 30 September 2008 £'000	As at 30 September 2007 £'000
Authorised:		
80,500,000 ordinary shares of 10p each (2007: 80,500,000)	8,050	8,050
Allotted, called-up and fully paid:		
35,928,504 ordinary shares of 10p each (2007: 39,857,004)	3,593	3,986

	Shares	£'000
Movements in share capital during the year		
In issue at 1 October 2007	39,857,004	3,986
Purchased for cancellation on 17 January 2008	(369,000)	(37)
Purchased for cancellation on 12 March 2008	(350,000)	(35)
Purchased for cancellation on 13 March 2008	(75,000)	(8)
Purchased for cancellation on 3 June 2008	(2,100,000)	(210)
Purchased for cancellation on 18 June 2008	(390,000)	(39)
Purchased for cancellation on 14 July 2008	(482,500)	(48)
Purchased for cancellation on 17 September 2008	(162,000)	(16)
	35,928,504	3,593

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.

Notes to the Financial Statements continued

13. Net asset value per share

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

	As at 30 September 2008	As at 30 September 2007
Net asset value per ordinary share (pence)	73.49	94.94

Net asset value per ordinary share is based on net assets of £26,406,000 on 35,928,504 ordinary shares, being the number of ordinary shares in issue at 30 September 2008 (2007: net assets of £37,842,000 and 39,857,004 ordinary shares in issue).

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

	Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000
(Loss)/return before taxation	(7,525)	2,528
Losses/(gains) on investments	6,943	(2,970)
Currency gains	–	(1)
(Increase)/decrease in debtors	(6)	525
Decrease in creditors and accruals	(38)	(6)
Effective interest rate adjustment	(32)	(24)
Unit trust accumulation	–	(20)
Net cash (outflow)/inflow from operating activities	(658)	32

15. Analysis of changes in net funds

	Cash £'000
At 30 September 2007	261
Cash flows for the year	(430)
At 30 September 2008	(169)
At 30 September 2006	374
Cash flows for the year	(113)
At 30 September 2007	261

A statement reconciling the movements in net funds to the net cash flow has not been presented as there are no differences from the above analysis (2007: none).

16. Financial commitments

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

Notes to the Financial Statements continued

17. Financial instruments

The Company's financial instruments comprise equity and fixed interest investments, cash balances and liquid resources which include debtors and creditors. The Company holds such financial assets in accordance with its investment policy which is to invest mainly in a portfolio of AIM traded companies.

Non-current assets are valued at fair value. The basis for determining fair value for these investments is detailed in note 1(b) on page 34.

The Company is exposed to a number of risks that are associated with the financial instruments and markets in which it invests. The most significant risks to which the Company is exposed to are market risk, credit risk and liquidity risk.

Market risk

Market risk, which includes interest rate risk 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 or 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 by the Company to manage market risk. The Board monitors the Company's overall market positions on a regular basis.

Details of the Company's investments at the balance sheet date are disclosed in the Investment Portfolio set out on pages 8 to 12.

Interest rate risk

As the majority of the Company's financial assets are non-interest bearing, the Company is only subject to limited exposure to fair value interest rate risk, due to fluctuations in levels of market interest rates.

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

Fixed rate

	As at 30 September 2008			As at 30 September 2007		
	Fixed rate investments £000	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Fixed rate investments £000	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Financial assets	233	15.94	2.40	687	7.78	5.47

The Company retains its cash balances in interest bearing accounts. The benchmark rate which determines the interest payments on these cash balances is the bank base rate which was 5.0 per cent at 30 September 2008 (2007: 5.75 per cent). The Company has an overdraft facility on which interest was charged at 6.0 per cent on 30 September 2008 (2007: 6.75 per cent).

Notes to the Financial Statements continued

17. Financial instruments (continued)

Floating rate

	As at 30 September 2008 £000	As at 30 September 2007 £000
(Bank overdraft)/cash	(169)	261

There was no interest rate risk associated with other short-term creditors at 30 September 2008 or 30 September 2007.

Other price risk

Other price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices (other than those relating to interest rate and credit risk), whether caused by factors specific to an investment or wider issues affecting the market generally.

The portfolio is invested across a number of sectors as detailed on page 13. Additionally, the portfolio is predominantly invested in securities domiciled in the UK. Despite this, due to the underlying activities of some of the securities held, the Company may be exposed to the economic movements of countries other than the UK.

76.9 per cent of the Company's financial instruments are equity securities (2007: 72.3 per cent). A 5 per cent increase in their value, with all other variables held constant, would have the effect of increasing net assets by £1,028,000 and reducing the loss for the year by the same amount (2007: increasing net assets by £1,366,000 and increasing the return for the year by the same amount). A 5 per cent decrease would have an equal and opposite effect.

Credit risk

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation or commitment that it has entered into with 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, the Company's custodian and banker, who holds the Company's investments and maintains the bank accounts. Bankruptcy or insolvency of HSBC may cause the Company's rights with respect to securities and cash held by the Custodian to be delayed or limited. The Board receives and reviews the Custodian's annual report on its internal controls.

The Company is also exposed to counterparty risk through holding specific financial instruments. At the reporting date, the Company's financial assets exposed to this risk amounted to the following:

	As at 30 September 2008 £000	As at 30 September 2007 £000
Investment in fixed interest instruments	233	687
Cash and cash equivalents	–	261
Interest, dividends and other receivables	4	8
	237	956

There were no significant concentrations of credit risk to counterparties other than to the custodian bank, HSBC, at 30 September 2008 or 30 September 2007. At the balance sheet date, there was no significant exposure of the net assets attributable to the Company's shareholders to credit risk (2008: nil per cent; 2007: 0.69 per cent).

Notes to the Financial Statements continued

17. Financial instruments (continued)

Liquidity risk

A substantial proportion of the Company's financial instruments include companies that are traded on AIM and a number of unquoted investments which may not always be readily realisable. As a result, the Company may not be able to realise some of its investments quickly at their fair value to meet any further liquidity requirements, or to respond to specific events such as deterioration in the creditworthiness of any particular issuer.

In order to manage liquidity requirements, the Company seeks to maintain sufficient cash to pay accounts payable and accrued expenses. The Company's overall liquidity risk is managed by the Investment Manager in accordance with policies agreed with the Board. The Company's overall liquidity risks are managed on a quarterly basis by the Board.

At 30 September 2008 the Company had no cash balances (2007: £261,000). The Company has a borrowing facility, representing the lower of £5 million or 10% of total net assets, with HSBC, that can be drawn on immediate notice. It is the intention of the Company to use this facility for short term borrowing only.

There is no difference between the fair value of the financial liabilities and their carrying value.

18. Contingent asset

Further to the announcement in March 2008 from the UK government that the June 2007 European Court of Justice ruling on VAT on management fees suffered by investment trusts would be extended to venture capital trusts, HM Revenue & Customs announced that it would meet back claims for VAT on management fees paid by venture capital trusts. Management fees paid after 1 October 2008 will not be 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.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Artemis AiM VCT 2 plc will be held at the offices of Artemis Investment Management Limited, 42 Melville Street, Edinburgh EH3 7HA on Friday, 20 March 2009 at 11.00 am for the purpose of transacting the following business:

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

Resolution 1. To receive the Report of the Directors and audited Financial Statements for the year ended 30 September 2008.

Resolution 2. To approve the Directors' Remuneration Report for the year ended 30 September 2008.

Resolution 3. To approve a final dividend of 2.20 pence per ordinary share.

Resolution 4. To re-elect Mr Edward Murray as a Director of the Company.

Resolution 5. To re-elect Mrs Fiona Wollocombe as a Director of the Company.

Resolution 6. To appoint KPMG Audit Plc as Auditors of the Company and to authorise the Directors to determine the remuneration of KPMG Audit Plc.

Special Business

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

Resolution 7. 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.

By order of the Board

Artemis Investment Management Limited
Company Secretary
42 Melville Street
Edinburgh
EH3 7HA

28 January 2009

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 18 March 2009 shall be entitled to attend and/or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6.00 pm on 18 March 2009 shall be disregarded in determining the rights of any person to attend or 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. 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 completed and deposited at the office of the Company's Registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6ZR, 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, to have someone else appointed, as a proxy for this meeting. If they have such a right or 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 Members (and any proxies or corporate representatives appointed) agree, by attending the Annual General Meeting, that they are expressly requesting and that they are willing to receive any communications relating to the Company's securities made at the Annual General Meeting.

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 the other corporate representatives for that shareholder at the meeting, then on a poll these corporate representatives will give voting directions to the Chairman. 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 - for further details of this procedure. The guidance includes a sample form of representative letter if the Chairman is being appointed as described in (i) above.

4 The following documents will be available for inspection at the registered office of the Company during usual business hours on any weekday (expect Public Holidays) until the date of the meeting and at the place of the meeting for a period of 15 minutes prior to and during the meeting:

(a) A statement of all transactions of each Director and of their family interests in the share capital of the Company;

(b) The Memorandum and Articles of Association; and

(c) Terms and conditions of appointment of non-executive Directors.

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

5. In accordance with Disclosure and Transparency Rule 6.1.12(2) as at 28 January 2009 (being the latest business day prior to publication of this Notice), the Company's issued share capital consisted of 35,928,504 ordinary shares of 10p each, carrying one vote each.

Appendix to the 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.

Redeemable preference shares

The references in the current Articles to redeemable preference shares have been deleted as these shares have been cancelled.

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, at 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

Listed companies that buy back shares out of distributable profits are 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.

Appendix to the Notice of Annual General Meeting continued

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 and the New Articles reflect these changes. 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.

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.

Votes of members

Under the New Articles, which take advantage of changes in 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 in the New Articles as a result of 2006 Act changes which provide that weekends and bank holidays do not need to be counted in determining the time limit 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 no later than at every third annual general meeting following the meeting at which they were elected or last re-elected. The New Articles reflect this position in substitution for the provisions on retirement by rotation.

Conflicts of interest

The New Articles retain the provisions of the existing Articles in relation to directors' conflicts of interest subject to certain amendments required to reflect new provisions of the 2006 Act.

The 2006 Act sets out directors' general duties which largely codified the previous law but with some changes from 1 October 2008. Under the 2006 Act, 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. The 2006 Act also allows articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. Firstly, 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.

The New Articles 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. The New Articles also 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.

Borrowing Powers

The authority of the Board to exercise the power of the Company to borrow remains subject to a borrowings cap of 15 per cent of "adjusted capital and reserves", as shown in the latest audited balance sheet, without further shareholder approval. The New Articles have introduced an authority to the auditors to make adjustments that they consider appropriate when determining the adjusted capital and reserves in order to provide some flexibility.

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 a company that is a trustee of an occupational pension scheme can now indemnify a director against any liability incurred in connection with the company's activities as trustee of the 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 by authorising the Company to indemnify a director, secretary or other officer in such circumstances. This authority does not extend to the indemnification of the auditors. The Board believes that the power of the Company to indemnify its directors and other officers in the manner described above is fair and reasonable and introduces a more appropriate balance of risk and reward.

General Information

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

Investment Manager and Secretary
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Solicitors
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16 Charlotte Square
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Reporting Calendar

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

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

Registered in Scotland Number: SC270952.

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