

To all Artemis VCT plc shareholders

22 October 2009

UK Shareholders Association
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Artemis VCT Plc Revised Management Arrangements ("RMA")

Dear Shareholder,

You will have recently received a letter from Artemis VCT (the "Company") which attempts to justify the original and recently amended RMA. The RMA determines the fees paid to the fund manager. **All the points in the letter that attempt to justify these excessive fees have already been comprehensively challenged by UKSA** and are set out in the pages on the UKSA web site devoted to the Company.

We are writing to you now because there are a number of additional statements in the latest letter which we believe could confuse and mislead shareholders. The following provides some clarification of the points raised by the Company:

- *"UKSA is an unregulated entity"*. This is a statement of fact. UKSA has never claimed or implied that it is a regulated entity. UKSA is a mutual members' association that represents the interests of individual shareholders in quoted companies. It is not regulated because it does not need to be, as it does not provide investment advice.
- *"the Board had communication with someone who purported to represent the UKSA"*. UKSA's members are not generally authorised to speak on behalf of the association and condone or authorise proposals from companies. Only the directors of UKSA can do that. In the Artemis case one of our members was originally in contact with the Company and might have made some comments on the proposals without consulting the UKSA board. Subsequently, other shareholders raised the issue of the RMA with us and upon closer examination we chose to support the views of those shareholders (comprising the committee chaired by Dr Paul Castle).
- UKSA *"correspondence has been sent more than four months after shareholders had approved the merger"* and RMA. This statement fails to mention the fact that for 14 weeks of this four month period the UKSA committee was in dialogue with the chairman of the Company and awaiting a response to the committee's campaign against the RMA. Such response was contained in a letter from the chairman of the Company dated 5 August in which the chairman apologised *"for the time taken in getting to this point"*.

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- The company's letter states that "*to generate a fee of £2 million over the two years ... the rate of growth actually required is 10.62% per annum*" compared to the equivalent rate of growth quoted by UKSA of 5.536% per annum. In arriving at the figure of 5.536% we carefully analysed the description of the basis of calculation of the fee payable to the manager under the amended RMA (see the footnote to this letter for further information). The "simple" example quoted by the Company appears to adopt the basis of calculation of the original RMA rather than that stated in the amended RMA statement. UKSA believes therefore that the correct basis of calculation remains unresolved; but whichever is the case a fee of £2 million for merely presiding over a fully invested fund of £40 million is excessively high.
- Their letter contains the phrase "*an update note, which contains a number of inaccurate statements*". Such purported inaccurate statements are not cited, save for the "simple" example noted above. The Company and its chairman received from the committee's chairman a letter dated 10 August setting out the statements contained in the update note. There has been no response or acknowledgment of this letter. If the Company felt that one or more of the statements in the letter were inaccurate then one would have expected a request for further clarification, but there has been no such request.
- Their letter also says "*in the event that no performance fee is earned in either of the first two performance periods, the base net asset value for the third performance period will not be re-set*". This is a further concession to the RMA that has not previously been disclosed. In the event this seems yet another hollow gesture, in that it is highly unlikely that in two/three years' time the AIM market will be below its level on 31 March 2009.

Our committee is presently in the process of attempting to meet with the chairman of the Company with a view to revoking the RMA and reverting to the original remuneration arrangements for the manager. **We argue that the latest amendments are totally inadequate concessions and that the new fee arrangements are still not acceptable.** To date the chairman has not agreed to meet again with the committee. If the chairman of the Company continues to refuse to meet with the committee or if such a meeting is not productive, then we will write to shareholders again with proposals as to how this campaign should proceed.

Finally we would like to thank shareholders for their outstanding support for our campaign, which for its type is unprecedented in UKSA's history.

If you have not already registered your interest in the campaign, please return the reply slip on the next page for more information.

Yours sincerely

Roger Lawson
Communications Director, UK Shareholders Association

The Revised Management Arrangement

The amended RMA states that "*The Manager will continue to receive a management fee of 1.4% per annum of the average net asset value of the Company. In the event that a performance related fee is earned in respect of that 24 month period, that fee, taken together with the management fees paid over the period, will be restricted to a maximum aggregate amount of £2 million*". Any reasonable interpretation of this statement would conclude that the 1.4% annual fee and the 25% (of the increase in the net asset value over the two year period) performance fee are separate and additive. It can be shown that over the 2 year period an increase in net assets of 5.536% (from £37.1 million to £40.7 million, after deducting the first year's 1.4% fee), gives rise to a 1.4% management fee over 2 years of £1.1 million and a 25% performance fee of £0.9 million, aggregating £2 million. Note that this is totally different to the basis of calculation of the original RMA where "The fee shall be calculated as 25% of the increase in the net asset value ... subject to a maximum amount payable of £2 million ... and a minimum of 1.4% per annum ...".



Artemis VCT Campaign

Yes I am interested in supporting your campaign in respect of Artemis VCT Plc
Please record my interest and send further information.

Name/
Address

***Please amend
name & address
if not correct.***

Telephone (optional): _____

E-mail address (if available): _____
(Please write clearly in capitals. Note that we will send information via email in preference as it costs less).

Return this form to the UK Shareholders Association, 1 Bromley Lane, Chislehurst, BR7 6LH

If you wish to be removed from our mailing list please tick here:

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(ML50)