

Artemis European Hedge Fund Limited

Directors' Report and Consolidated Financial Statements
For the year ended 31st December 2007



ARTEMIS
The PROFIT Hunter

Artemis European Hedge Fund Limited

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Artemis European Hedge Fund Limited

Directors and other information

Directors	Thierry de Sépibus * Dr Wolfgang Schwartzkopff * Paul Turnbull * Henry Kelly * * Each of the above is a non-executive director and independent of the investment manager
Registered office	Walker House Mary Street, PO Box 908 Grand Cayman KY1-9002 Cayman Islands
Investment manager	Artemis Investment Management Limited 57 St. James's Street London, SW1A 1LD United Kingdom 42 Melville Street Edinburgh, EH3 7HA United Kingdom
Prime broker	Goldman Sachs International Peterborough Court 133 Fleet Street London, EC4A 2BB United Kingdom
Bankers	HSBC Institutional Trust Services (Ireland) Ltd HSBC House Harcourt Street Dublin 2 Ireland
Administrator, registrar, transfer agent and company secretary	<i>from 1 November 2007</i> HSBC Securities Services (Ireland) Limited HSBC House Harcourt Street Dublin 2 Ireland <i>until 31 October 2007</i> Citco Fund Services (Dublin) Limited Custom House Plaza Block 6, IFSC, Dublin 1 Ireland

Artemis European Hedge Fund Limited

Directors and other information

Legal advisors
(*Cayman Islands law*)

Walkers
48 Gracechurch Street
London, EC3V 0EJ
United Kingdom

Legal advisors
(*United Kingdom law*)

Dechert LLP
160 Queen Victoria Street
London, EC4V 4QQ
United Kingdom

Auditors

KPMG
P.O. Box 493
Century Yard
Grand Cayman KY1-1106
Cayman Islands

Artemis European Hedge Fund Limited

Directors' report

The Directors present herewith their report and annual consolidated financial statements for the year ended 31 December 2007.

Review of the development of the business

The consolidated balance sheet and consolidated income statement are set out on pages 8 to 11.

The Directors report that the Company's Euro, Sterling and US Dollar share classes produced returns of 3.8%, 4.7% and 4.4% respectively with the net asset values per share standing at €64.62, £157.90 and \$145.90 respectively at 31 December 2007.

During the year HSBC Securities Services (Ireland) Limited was appointed as administrator, registrar, transfer agent and company secretary, in place of CITCO Fund Services (Dublin) Limited. Further details of this appointment are contained in note 10 of the notes to the financial statements.

For the year ended 31 December 2007 the Company intends to make an application to the United Kingdom's HM Revenue & Customs to be approved as a distributing fund. If such approval is granted, the Directors and Investment Manager consider that this could widen the investment potential of the Company to a broader investor base. Under current regulations, an application for approval as a distributing fund requires to be made on an annual basis and it is intended that the Company will make such application each year.

Segregation of liability

The assets of each of the share classes are not segregated for any claims arising from the creditors of any other share class. The Directors confirm that they are not aware of any such existing or potential liability.

Directors and directors' interests

The Directors who held office during the period are listed on page 1. The Directors interests in the Company at the year end are as follows:

Thierry de Sépibus	243.90 Euro Class Shares (2006: 240.08)
Dr Wolfgang Schwartzkopff	314.00 Euro Class Shares (2006: 309.08)

Statement of Directors' Responsibilities in respect of the Financial Statements

The Directors are required to prepare consolidated financial statements for each financial year which give a fair representation of the state of affairs of the Company and of its financial performance for the year. The financial statements have been prepared using accounting policies appropriate for the Company, in the context of its business as an investment fund, and these have been and will be applied consistently. The financial statements have been prepared in accordance with International Financial Reporting Standards.

The Directors, in discharging their responsibility for keeping proper accounting records, and having appropriate internal controls around these to seek to ensure that the financial statements are free from any misstatement, use the services of a third party administrator, who is appointed under contract. The administrator maintains the accounting records of the Company, from which the financial statements are prepared on behalf of the Directors. In preparing these, accounting estimates may be used, and such estimates will be made in accordance with, and appropriate to, the business of the Company. The administrator provides assurances to the Directors that its systems of control are appropriate and effective, and that they are not aware of any material matters which would require any amendment to the financial statements as presented.

Artemis European Hedge Fund Limited

Directors' report (continued)

Statement of Directors' Responsibilities in respect of the Financial Statements (continued)

The Directors have appointed as administrator, HSBC Securities Services (Ireland) Limited from 1 November 2007 and Citco Fund Services (Dublin) Limited prior to 31 October 2007.

Auditors

KPMG, Chartered Accountants, have expressed their willingness to continue in office.

On behalf of the board

Thierry de Sépibus

Artemis European Hedge Fund Limited

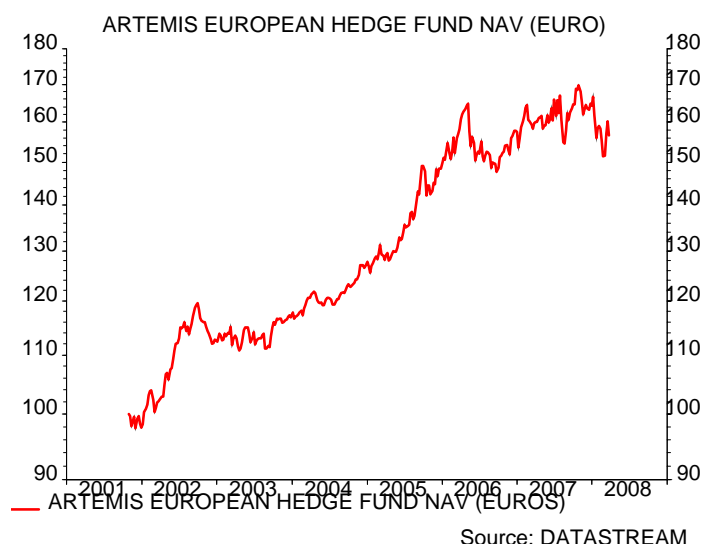
Investment manager's report

Summary

- Fund up 4%.
- Markets focus on big picture.
- Higher Quant input.

Performance

The Fund struggled in the second half of 2007 to leave the Euro share class up 3.8% for the year, with the US\$ share class up 4.4% and 4.7% for the sterling share class. Over the course of the year, European equity markets were pretty much unchanged and our longs fell a bit whilst the share prices of our shorts fell by about 6%. The spread in performance of the longs and shorts accounted for the rise in the NAV. Since inception the Fund has delivered Euro returns of just over 7%. The objective is to achieve returns of over 10%.



Review

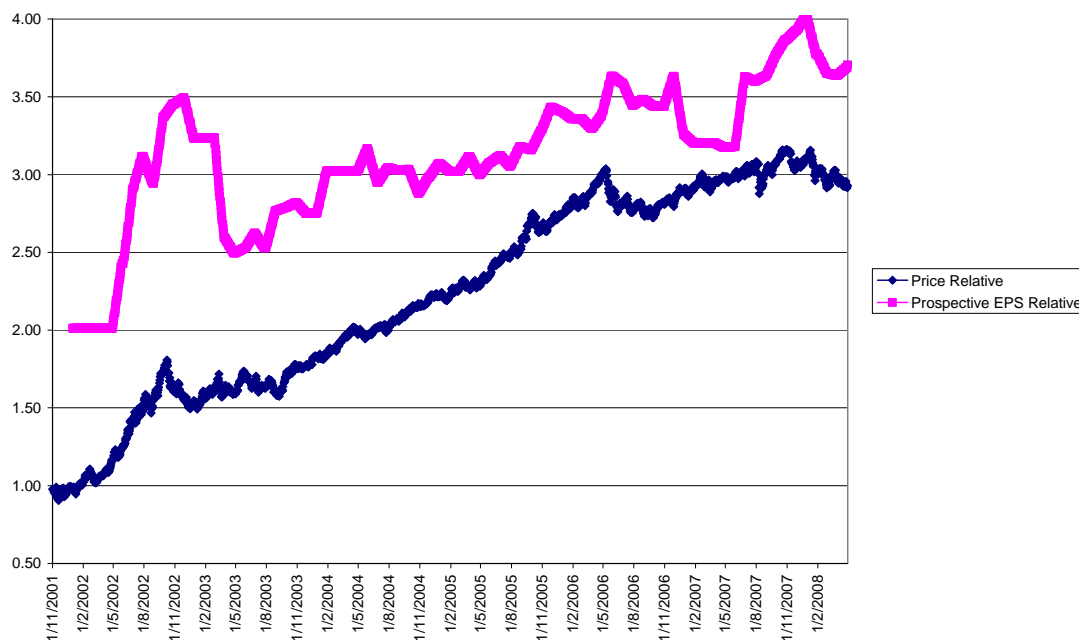
The history of stock markets demonstrates that over time stocks with superior earnings per share (“EPS”) growth typically outperform those with inferior EPS growth. Since an equity market neutral strategy has a set of longs offset by a group of shorts, by implication, the manager expects the former to have better EPS growth than the latter.

In the chart below we illustrate the relative price performance of our longs versus our shorts. We also chart the relative level of forecast EPS. The suggestion is that indeed our longs delivered better EPS growth (pink line is going up). So long as this continues we should expect the price relative to continue in its uptrend and hence for the NAV of the Fund to continue to rise.

Artemis European Hedge Fund Limited

Investment manager's report *(continued)*

European Longs vs Shorts



An invisible piece of elastic links the two lines – mostly they move in tandem, but sometimes the gap widens or narrows as investors' attention to detail fluctuates. With the global credit crunch dominating financial markets for the past nine months or so, markets have tended to focus on big picture themes rather than the day to day details of corporate performance. Whilst this has undoubtedly been a frustrating environment, we see no reason to suppose that our process is broken. Rather, as investor confidence stabilises, we may well see our process regain traction.

Quantitative Overview

This year we have further increased the quantitative role in managing the portfolio. As a guesstimate we might now describe ourselves as being 90% quant (rather than say 75% where we were a few years ago). Our quantitative system, SmartGARP, ranks stocks according to their financial characteristics. Historically we picked a group of stocks that have good SmartGARP characteristics and which seem to us to make sense as an investment. Over the years, we have refined SmartGARP and functions that used to be monitored manually (quality of accounts, reaction of share price to results etc) have over the years been quantified. The output is more akin to the way Peter & I think about stocks but has fewer emotional hang-ups than us. The result is that performance has a similar cycle to that which we have experienced (bad year to date, poor August 2007, good Q4 06), but has generally been systematically better than ourselves. As such we think this refinement makes a good deal of sense.

Artemis European Hedge Fund Limited

Investment manager's report *(continued)*

Current Positions

The main characteristics of the Fund are:

Net Exposure close to zero

Gross Exposure close to 200%

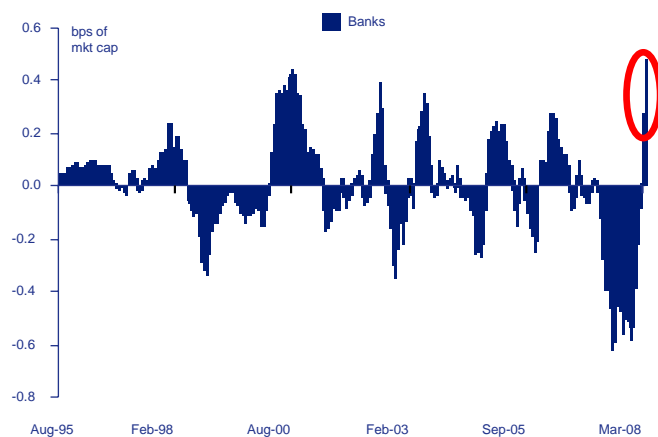
Long large cap/financials/construction/utilities/food/Greece/UK

Short mid cap/technology/travel/oil/France/Norway

Broadly speaking the financials suffer from poor estimate revisions, but good value, improving momentum, helpful macro conditions and are unloved by institutional investors. At the other end of the spectrum, the technology sector suffers from poor value, deteriorating price momentum and downgrades to forecasts.

The chart below illustrates net buying/selling by institutional investors of the banking sector on a global basis. Essentially, large investors are underweight the sector and, having been selling for over a year, have begun to close out their negative bet.

Flows Into European Banks



Philip Wolstencroft
Investment Manager
Artemis Investment Management Limited



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CAYMAN ISLANDS

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Independent Auditors' Report to the Shareholders

We have audited the accompanying consolidated financial statements of Artemis European Hedge Fund Limited ("the Company"), which comprise the consolidated balance sheet and consolidated schedule of investments as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in net assets attributable to holders of redeemable shares and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Director's Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

27 June 2008

Artemis European Hedge Fund Limited

Consolidated balance sheet

At 31 December 2007

		<i>AEHFL</i>	<i>AEHFL</i>	<i>AEHFL</i>	<i>AEHFLP</i>	<i>Consolidated</i>
		<i>Dollar Class</i>	<i>Sterling Class</i>	<i>Euro Class</i>	<i>Master</i>	<i>Total 2007</i>
<i>Assets</i>	<i>Note</i>	<i>US\$</i>	<i>£</i>	<i>€</i>	<i>€</i>	<i>€</i>
Financial assets at fair value through profit or loss	6	933,047	-	-	115,670,626	116,310,137
Investment in Master Fund		156,140,051	6,373,333	4,800,920	-	-
Cash and cash equivalents	7	-	-	-	244,606	244,606
Balances due from brokers	8	-	-	-	112,249,152	112,249,152
Interest receivable		-	-	-	458	458
Total assets		157,073,098	6,373,333	4,800,920	228,164,842	228,804,353
<i>Liabilities</i>						
Financial liabilities at fair value through profit or loss	6	-	(11,882)	-	(105,329,939)	(105,346,091)
Balances due to brokers	8	-	-	-	(1,636,128)	(1,636,128)
Performance fees	10	(1,875,429)	(88,989)	(188,656)	(47,207)	(1,642,254)
Equalisation credit	10	(3,158)	(8,542)	(3,759)	-	(17,536)
Management fees	10	-	-	-	(467,663)	(467,663)
Administration fees	10	-	-	-	(40,439)	(40,439)
Audit fees		-	-	-	(28,626)	(28,626)
Other accrued expenses		-	-	-	(131,533)	(131,533)
Total liabilities (excluding net assets attributable to holders of redeemable shares)		(1,878,587)	(109,413)	(192,415)	(107,681,535)	(109,310,270)
Net assets attributable to holders of redeemable shares		155,194,511	6,263,920	4,608,505	120,483,307	119,494,083
Net Asset Value per redeemable share class		145.38	157.33	164.02		
Number of redeemable shares per class		1,067,504	39,813	28,098		

See accompanying notes to the consolidated financial statements.

Artemis European Hedge Fund Limited

Consolidated balance sheet

At 31 December 2006

		<i>AEHFL</i>	<i>AEHFL</i>	<i>AEHFL</i>	<i>AEHFLP</i>	<i>Consolidated</i>
	<i>Note</i>	<i>Dollar Class</i>	<i>Sterling Class</i>	<i>Euro Class</i>	<i>Master</i>	<i>Total 2006</i>
		<i>US\$</i>	<i>£</i>	<i>€</i>	<i>€</i>	<i>€</i>
Assets						
Financial assets at fair value through profit or loss	6	-	-	-	310,550,253	310,550,253
Investment in Master Fund		215,482,972	8,730,738	25,882,233	-	-
Cash and cash equivalents	7	-	-	-	1,253,455	1,253,455
Balances due from brokers	8	-	-	-	195,206,536	195,206,536
Dividends receivable		-	-	-	14,748	14,748
Other assets and prepaid expenses		-	-	-	25,150	25,150
Interest receivable		-	-	-	97,872	97,872
Receivable for fund shares repurchased		-	-	-	4,521,530	4,521,530
Total assets		215,482,972	8,730,738	25,882,233	511,669,544	511,669,544
Liabilities						
Financial liabilities at fair value through profit or loss	6	(214,300)	(41,399)	-	(306,180,922)	(306,404,729)
Balances due to brokers	8	-	-	-	(1,036,380)	(1,036,380)
Performance fees	10	(2,593,219)	(130,574)	(305,145)	-	(2,461,115)
Equalisation credit	10	(1,706,537)	(51,457)	(120,375)	-	(1,489,679)
Management fees	10	-	-	-	(759,828)	(759,828)
Administration fees	10	-	-	-	(31,936)	(31,936)
Audit fees		-	-	-	(27,288)	(27,288)
Other accrued expenses		-	-	-	(118,163)	(118,163)
Intercompany accounts		1,072,025	48,616	-	(881,819)	-
Contributions received in advance		-	-	-	(535,401)	(535,401)
Total liabilities (excluding net assets attributable to holders of redeemable shares)		(3,442,031)	(174,814)	(425,520)	(309,571,737)	(312,864,519)
Net assets attributable to holders of redeemable shares		212,040,941	8,555,924	25,456,713	202,097,807	198,805,025
Net Asset Value per redeemable share class		139.70	150.84	158.63		
Number of redeemable shares per class		1,517,808	56,721	160,478		

See accompanying notes to the consolidated financial statements.

Artemis European Hedge Fund Limited

Consolidated income statement

For the year ended 31 December 2007

	<i>Note</i>	<i>AEHFL Dollar Class US\$</i>	<i>AEHFL Sterling Class £</i>	<i>AEHFL Euro Class €</i>	<i>AEHFLP Master €</i>	<i>Consolidated Total 2007 €</i>
Investment income						
Interest income		-	-	-	11,815,246	11,815,246
Dividend income		-	-	-	6,759,344	6,759,344
Other income		16,357	-	-	32,004	43,215
Net gains from financial assets and liabilities at fair value through profit or loss	4	11,365,807	464,757	979,431	9,114,429	11,190,542
Net foreign exchange (losses)/gains		(2,251,424)	(18,246)	-	443,653	(1,124,277)
Net investment income		9,130,740	446,511	979,431	28,164,676	28,684,070
Expenses						
Interest expense		-	-	-	(3,884,104)	(3,884,104)
Dividend expense		-	-	-	(9,499,222)	(9,499,222)
Management fees	10	-	-	-	(2,396,469)	(2,396,469)
Guaranteed performance fees		(282,296)	(28,283)	(157,175)	-	(389,111)
Performance fees	10	(1,646,188)	(52,546)	(33,850)	-	(1,233,579)
Administration fees	10	-	-	-	(165,932)	(165,932)
Audit fees		-	-	-	(35,252)	(35,252)
Directors' fees	10	-	-	-	(33,945)	(33,945)
Prime broker fees	10	-	-	-	(3,658,253)	(3,658,253)
Other expenses		-	-	-	(136,486)	(136,486)
Operating expenses		(1,928,484)	(80,829)	(191,025)	(19,809,663)	(21,432,353)
Net gain from operations before taxation		7,202,256	365,682	788,406	8,355,013	7,251,717
Withholding tax on dividend income		-	-	-	(1,029,773)	(1,029,773)
Change in net assets attributable to holders of redeemable shares resulting from operations		7,202,256	365,682	788,406	7,325,240	6,221,944

See accompanying notes to the consolidated financial statements.

Artemis European Hedge Fund Limited

Consolidated income statement

For the year ended 31 December 2006

	<i>Note</i>	<i>AEHFL Dollar Class US\$</i>	<i>AEHFL Sterling Class £</i>	<i>AEHFL Euro Class €</i>	<i>AEHFLP Master €</i>	<i>Consolidated Total 2006 €</i>
<i>Investment income</i>						
Interest income		-	-	-	7,695,544	7,695,544
Dividend income		-	-	-	4,048,280	4,048,280
Net gains from financial assets and liabilities at fair value through profit or loss	4	12,706,130	521,185	1,492,501	14,999,464	17,143,219
Net foreign exchange gains/(losses)		72,046	(30,720)	-	(2,034,342)	(2,025,353)
Net investment income		12,778,176	490,465	1,492,501	24,708,946	26,861,690
<i>Expenses</i>						
Interest expense		-	-	-	(2,135,066)	(2,135,066)
Dividend expense		-	-	-	(6,825,233)	(6,825,233)
Management fees	10	-	-	-	(2,701,807)	(2,701,807)
Guaranteed performance fees		(108,597)	(15,053)	(20,325)	-	(124,947)
Performance fees	10	(2,453,627)	(92,604)	(284,820)	-	(2,281,215)
Administration fees	10	-	-	-	(177,680)	(177,680)
Audit fees		-	-	-	(23,956)	(23,956)
Directors' fees	10	-	-	-	(26,743)	(26,743)
Prime broker fees	10	-	-	-	(2,012,856)	(2,012,856)
Other expenses		-	-	-	(193,817)	(193,817)
Operating expenses		(2,562,224)	(107,657)	(305,145)	(14,097,158)	(16,503,320)
Net gain from operations before taxation		10,215,952	382,808	1,187,356	10,611,788	10,358,370
Withholding tax on dividend income		-	-	-	(862,892)	(862,892)
Change in net assets attributable to holders of redeemable shares resulting from operations		10,215,952	382,808	1,187,356	9,748,896	9,495,478

See accompanying notes to the consolidated financial statements.

Artemis European Hedge Fund Limited

Consolidated statement of changes in net assets attributable to holders of redeemable shares

For the year ended 31 December 2007

	<i>AEHFL</i> <i>Dollar Class</i> US\$	<i>AEHFL</i> <i>Sterling Class</i> £	<i>AEHFL</i> <i>Euro Class</i> €	<i>AEHFLP</i> <i>Master</i> €	<i>Consolidated</i> <i>Total 2007</i> €
Balance at 31 December 2006	212,040,941	8,555,924	25,456,713	202,097,807	198,805,025
Currency translation	-	-	-	-	(16,384,409)
Issue of redeemable shares during the year	3,085,807	1,346,550	1,794,490	12,033,686	5,739,992
Redemption of redeemable shares during the year	(67,127,883)	(3,989,063)	(23,426,571)	(100,973,426)	(74,858,779)
Change in net assets attributable to holders of redeemable shares resulting from operations	7,202,256	365,682	788,406	7,325,240	6,221,944
Equalisation capital	(6,610)	(15,173)	(4,533)	-	(29,690)
Balance at 31 December 2007	155,194,511	6,263,920	4,608,505	120,483,307	119,494,083

See accompanying notes to the consolidated financial statements.

On behalf of the board,

Thierry de Sépibus

Artemis European Hedge Fund Limited

Consolidated statement of changes in net assets attributable to holders of redeemable shares

For the year ended 31 December 2006

	<i>AEHFL</i> <i>Dollar Class</i> US\$	<i>AEHFL</i> <i>Sterling Class</i> £	<i>AEHFL</i> <i>Euro Class</i> €	<i>AEHFLP</i> <i>Master</i> €	<i>Consolidated</i> <i>Total 2006</i> €
Balance at 31 December 2005	86,374,318	3,442,915	16,092,045	97,916,949	94,033,352
Currency translation	-	-	-	-	(7,391,139)
Issue of redeemable shares during the year	138,281,179	6,229,287	12,830,280	144,892,104	126,842,459
Redemption of redeemable shares during the year	(21,123,971)	(1,447,629)	(4,532,593)	(50,460,142)	(22,685,446)
Change in net assets attributable to holders of redeemable shares resulting from operations	10,215,952	382,808	1,187,356	9,748,896	9,495,478
Equalisation capital	(1,706,537)	(51,457)	(120,375)	-	(1,489,679)
Balance at 31 December 2006	212,040,941	8,555,924	25,456,713	202,097,807	198,805,025

See accompanying notes to the consolidated financial statements.

Artemis European Hedge Fund Limited

Consolidated statement of cash flows

For the year ended 31 December 2007

	<i>AEHFL</i> <i>Dollar Class</i> US\$	<i>AEHFL</i> <i>Sterling Class</i> £	<i>AEHFL</i> <i>Euro Class</i> €	<i>AEHFLP</i> <i>Master</i> €	<i>Consolidated</i> <i>Total 2007</i> €
Operating activities					
Change in net assets attributable to holders of redeemable shares resulting from operations	7,202,256	365,682	788,406	7,325,240	6,221,944
Currency translation	-	-	-	-	(16,384,409)
Adjustment for movement in net gains on financial assets and liabilities at fair value through profit or loss	(11,365,807)	(464,757)	(979,431)	(9,114,429)	(11,190,542)
Net operating cash flow before changes in operating assets and liabilities	(4,163,551)	(99,075)	(191,025)	(1,789,189)	(21,353,007)
Net purchases and sales of trading securities	69,561,381	2,792,645	22,060,744	3,143,073	4,372,020
Increase in interest receivable	-	-	-	97,414	97,414
Increase in other assets	1,072,025	48,616	-	87,518,812	87,518,812
Decrease in performance fees and other payables	(717,790)	(41,585)	(116,489)	(1,039,219)	(1,023,468)
Net change in operating assets and liabilities	69,915,616	2,799,676	21,944,255	89,720,080	90,964,778
Cash flows from operating activities	65,752,065	2,700,601	21,753,230	87,930,891	69,611,771

Artemis European Hedge Fund Limited

Consolidated statement of cash flows *(continued)*

For the year ended 31 December 2007

	<i>AEHFL</i> <i>Dollar Class</i> US\$	<i>AEHFL</i> <i>Sterling Class</i> £	<i>AEHFL</i> <i>Euro Class</i> €	<i>AEHFLP</i> <i>Master</i> €	<i>Consolidated</i> <i>Total 2007</i> €
Financing activities					
Proceeds from issue of redeemable shares	3,085,807	1,346,550	1,794,490	12,033,686	5,739,992
Payments on redemption of redeemable shares	(67,127,883)	(3,989,063)	(23,426,571)	(100,973,426)	(74,858,779)
Increase in equalisation credit	(6,610)	(15,173)	(4,533)	-	(29,690)
Decrease in equalisation credit payable	(1,703,379)	(42,915)	(116,616)	-	(1,472,143)
Cash flows from financing activities	<u>(65,752,065)</u>	<u>(2,700,601)</u>	<u>(21,753,230)</u>	<u>(88,939,740)</u>	<u>(70,620,620)</u>
Decrease in cash and cash equivalents during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,008,849)</u>	<u>(1,008,849)</u>
Cash and cash equivalents at beginning of year	-	-	-	1,253,455	1,253,455
Cash and cash equivalents at end of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>244,606</u>	<u>244,606</u>
Supplementary information on cash flows from operating activities					
Interest received	-	-	-	11,912,660	11,912,660
Interest paid	-	-	-	(3,937,855)	(3,937,855)
Dividends received	-	-	-	6,774,092	6,774,092
Dividends paid	-	-	-	(9,483,750)	(9,483,750)
Withholding tax paid	-	-	-	(1,029,773)	(1,029,773)

See accompanying notes to the consolidated financial statements.

Artemis European Hedge Fund Limited

Consolidated statement of cash flows

For the year ended 31 December 2006

	<i>AEHFL</i> <i>Dollar Class</i> US\$	<i>AEHFL</i> <i>Sterling Class</i> £	<i>AEHFL</i> <i>Euro Class</i> €	<i>AEHFLP</i> <i>Master</i> €	<i>Consolidated</i> <i>Total 2006</i> €
Operating activities					
Change in net assets attributable to holders of redeemable shares resulting from operations	10,215,952	382,808	1,187,356	9,748,896	9,495,478
Currency translation	-	-	-	-	(7,391,139)
Adjustment for movement in net gains on financial assets and liabilities at fair value through profit or loss	(12,706,130)	(521,185)	(1,492,501)	(14,999,464)	(17,143,219)
Net operating cash flow before changes in operating assets and liabilities	(2,490,178)	(138,377)	(305,145)	(5,250,568)	(15,038,880)
Net purchases and sales of trading securities	(112,744,186)	(4,559,120)	(7,708,627)	1,680,846	1,671,857
Increase in interest receivable	-	-	-	(75,648)	(75,648)
Increase in other assets	(1,188,128)	(58,152)	-	(91,314,811)	(90,363,395)
Decrease in performance fees and other payables	(134,650)	(38,917)	(51,147)	(6,338,394)	(6,549,320)
Increase/(decrease) in equalisation credit payable	1,106,471	64,365	(112,393)	-	821,439
Net change in operating assets and liabilities	(112,960,493)	(4,591,824)	(7,872,167)	(96,048,007)	(94,495,067)
Cash flows from operating activities	(115,450,671)	(4,730,201)	(8,177,312)	(101,298,575)	(109,533,947)

Artemis European Hedge Fund Limited

Consolidated statement of cash flows *(continued)*

For the year ended 31 December 2006

	<i>AEHFL</i> <i>Dollar Class</i> US\$	<i>AEHFL</i> <i>Sterling Class</i> £	<i>AEHFL</i> <i>Euro Class</i> €	<i>AEHFLP</i> <i>Master</i> €	<i>Consolidated</i> <i>Total 2006</i> €
Financing activities					
Proceeds from issue of redeemable shares	138,281,179	6,229,287	12,830,280	144,892,104	126,842,459
Payments on redemption of redeemable shares	(21,123,971)	(1,447,629)	(4,532,593)	(50,460,142)	(22,685,446)
Increase in equalisation credit	(1,706,537)	(51,457)	(120,375)	-	(1,489,679)
Contributions received in advance	-	-	-	(535,401)	(535,401)
Cash flows from financing activities	<u>115,450,671</u>	<u>4,730,201</u>	<u>8,177,312</u>	<u>93,896,561</u>	<u>102,131,933</u>
Decrease in cash and cash equivalents during the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,402,014)</u>	<u>(7,402,014)</u>
Cash and cash equivalents at beginning of year	-	-	-	8,655,469	8,655,469
Cash and cash equivalents at end of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,253,455</u>	<u>1,253,455</u>
Supplementary information on cash flows from operating activities					
Interest received	-	-	-	7,619,896	7,619,896
Interest paid	-	-	-	2,094,514	2,094,514
Dividends received	-	-	-	4,075,075	4,075,075
Dividends paid	-	-	-	(6,867,652)	(6,867,652)
Withholding tax paid	-	-	-	(862,892)	(862,892)

See accompanying notes to the consolidated financial statements.

Artemis European Hedge Fund Limited

Consolidated schedule of investments

At 31 December 2007

Security Description	Number of shares	Fair Value €	% of Net Assets
Exchange traded equity instruments – held for trading (long)			
ABB Ltd	58,000	1,143,731	0.96
Allianz SE	13,000	1,922,830	1.61
Allied Irish Banks Plc	78,000	1,221,480	1.02
Alpha Bank	18,000	448,200	0.38
Andritz	46,000	1,876,800	1.57
Banco Bilbao Vizcaya Argentaria	86,000	1,440,500	1.21
Banco Santander Central Hispano	150,000	2,217,000	1.86
Bank Of Piraeus	16,000	427,200	0.36
Barclays Plc	170,000	1,163,608	0.97
Benetton Group	11,000	134,420	0.11
BinckBank NV	50,000	502,500	0.42
BNP Paribas	19,000	1,409,420	1.18
Boskalis Westminster	13,000	537,940	0.45
Brembo	46,000	494,960	0.41
Cap Gemini	41,000	1,762,590	1.48
Centrica Plc	380,000	1,851,958	1.55
Coca-Cola Hellenic Bottling	103,000	3,048,800	2.55
Commerzbank	49,000	1,286,740	1.08
D/S Norden	21,000	1,588,946	1.33
Daimler	22,000	1,452,440	1.22
Dairy Crest Group Plc	210,000	1,655,791	1.39
Dana Petroleum Plc	20,000	377,379	0.32
Deutsche Bank	16,000	1,430,400	1.20
Deutsche Boerse	4,000	540,600	0.45
Deutsche Lufthansa	100,000	1,818,000	1.52
DNB NOR	50,000	522,966	0.44
E.ON	4,000	582,040	0.49
East Asiatic Ltd	34,000	1,806,279	1.51
Enel	260,000	2,115,100	1.77
European Aeronautic Defence and Space Company	70,000	1,526,700	1.28
Fiat	100,000	1,769,500	1.48
Firstgroup Plc	190,000	2,094,753	1.75
FLSmidth & Company	20,000	1,397,907	1.17

Artemis European Hedge Fund Limited

Consolidated schedule of investments (*continued*)

At 31 December 2007

Security Description	Number of shares	Fair Value €	% of Net Assets
Exchange traded equity instruments – held for trading (long) (<i>continued</i>)			
France Telecom	73,000	1,797,260	1.50
Fuchs Petrolub	2,685	159,382	0.13
Gas Natural	12,000	480,240	0.40
Getinge Industrier	29,000	531,631	0.44
Gildemeister	96,000	1,776,000	1.49
Golden Ocean Group Ltd	480,000	2,041,459	1.71
Grifols	140,000	2,157,400	1.81
Heineken	50,000	2,207,000	1.85
Hellenic Exchanges	22,000	528,000	0.44
Helphire Plc	74,000	359,387	0.30
HMV Group	620,000	1,002,991	0.84
Hypo Real Estate Holding	58,000	2,090,900	1.75
IAWS Group Plc	36,000	536,760	0.45
ICADE	5,000	510,000	0.43
Icap Plc	55,000	543,196	0.45
IG Group Holdings Plc	71,000	390,423	0.33
Informa Plc	140,000	866,911	0.73
Intermediate Capital Group	15,000	337,072	0.28
Intrum Justitia	46,000	558,122	0.47
KBC Groupe	6,000	577,200	0.48
Koninklijke BAM Groep	120,000	1,930,800	1.62
London Stock Exchange Group	11,000	295,935	0.25
Meda AB	57,000	478,674	0.40
Michael Page International Plc	240,000	939,641	0.79
Millicom International Cellular	6,000	475,575	0.40
Morphosys	3,000	143,820	0.12
Muenchener Rueckversicherungs	10,000	1,326,700	1.11
National Bank of Greece SA	10,000	469,800	0.39
New Star Asset Management	310,000	750,136	0.63
Nokia	67,000	1,776,840	1.49
Nordea Bank AB	12,000	136,950	0.11
Nutreco Holding	12,000	474,720	0.40
OMV	39,000	2,147,340	1.80
Peter Hambro Mining Plc	84,000	1,398,858	1.17
Petroleum Geo-Services	19,000	375,307	0.31
Peugeot	37,000	1,918,450	1.61

Artemis European Hedge Fund Limited

Consolidated schedule of investments *(continued)*

At 31 December 2007

Security Description	Number of shares	Fair Value €	% of Net Assets
Exchange traded equity instruments – held for trading (long) <i>(continued)</i>			
Porsche	1,000	1,379,170	1.15
Portugal Telecom SGPS	16,000	142,560	0.12
Prosieben SAT 1 Media	48,000	780,000	0.65
Public Power Corporation	14,000	488,600	0.41
Recordati	83,000	505,470	0.42
Royal Bank of Scotland Group Plc	230,000	1,387,473	1.16
RWE	22,000	2,112,000	1.77
Schroders Plc	28,000	495,215	0.41
SEB	15,123	1,875,252	1.57
SGL Carbon	26,042	964,075	0.81
Shire Plc	32,000	495,922	0.42
Solarworld	9,000	373,050	0.31
Sos Cuetara	27,000	377,730	0.32
Southern Cross Healthcare Group Plc	330,000	2,346,248	1.96
Standard Chartered Plc	5,000	125,272	0.10
Suedzucker	34,000	548,760	0.46
Svenska Handelsbanken	72,000	1,575,501	1.32
Swiss Life Holding	11,000	1,875,227	1.57
Tele2	35,000	479,363	0.40
Telefonica	120,000	2,665,200	2.23
Telekom Austria	81,000	1,541,430	1.29
TeliaSonera	240,000	1,532,267	1.28
Temenos Group	130,000	2,129,730	1.78
Total	36,000	2,043,000	1.71
TUI	140,000	2,678,200	2.24
Tullett Prebon Plc	80,000	507,341	0.42
Union Fenosa SA	3,000	138,210	0.12
Vivendi	58,000	1,819,460	1.52
Vodafone Group Plc	200,000	510,332	0.43
Voestalpine	1,473	72,840	0.06
Volkswagen	3,000	468,300	0.39
Vossloh	19,000	1,520,570	1.27
Wiener Staedtische Allgemeine Versicherung	10,000	550,000	0.45
Wood Group (John) Plc	68,000	399,347	0.32
Total exchange traded equity instruments – held for trading (long)		114,963,471	96.21

Artemis European Hedge Fund Limited

Consolidated schedule of investments *(continued)*

At 31 December 2007

Security Description	Number of shares	Fair Value €	% of Net Assets
Contracts for differences <i>(Note 9D (ii))</i>		707,155	0.60
Forward foreign exchange contracts <i>(Note 9D (ii))</i>		639,511	0.53
Total financial assets at fair value through profit or loss-held for trading		116,310,137	97.34
Exchange traded equity instruments – held for trading (short)			
Aceryg	(96,000)	(1,466,826)	(1.23)
Alcatel-Lucent	(230,000)	(1,138,500)	(0.95)
Amer Group	(8,816)	(163,008)	(0.14)
Ansaldo STS	(42,000)	(364,770)	(0.31)
Antena 3 Television	(140,000)	(1,468,600)	(1.23)
Aquarius Platinum Ltd	(17,000)	(134,734)	(0.11)
ARM Holdings Plc	(820,000)	(1,390,633)	(1.16)
ASM International	(24,000)	(402,000)	(0.34)
Axfood	(7,187)	(198,391)	(0.17)
Barco	(11,000)	(574,200)	(0.48)
Boliden	(160,000)	(1,381,795)	(1.16)
Brisa Auto-Estradas de Portugal	(53,000)	(532,650)	(0.45)
British Energy Group Plc	(230,000)	(1,716,558)	(1.44)
British Sky Broadcasting Plc	(180,000)	(1,514,682)	(1.27)
Bunzl Plc	(58,000)	(560,209)	(0.47)
Cadbury Schweppes Plc	(230,000)	(1,941,680)	(1.62)
Carrefour	(39,000)	(2,078,310)	(1.74)
Cermaq ASA	(170,000)	(1,617,415)	(1.35)
Ciba Specialty Chemicals	(16,000)	(507,798)	(0.42)
Cintra Concesiones De Infrae	(48,000)	(496,800)	(0.42)
Clariant	(20,000)	(127,312)	(0.11)
Corporate Express	(320,000)	(1,712,000)	(1.43)
Credito Emiliano	(96,000)	(912,000)	(0.76)
CSM CVA	(86,000)	(1,999,500)	(1.67)
Dassault Systemes	(52,000)	(2,110,680)	(1.77)
Davide Campari-Milano	(210,000)	(1,376,550)	(1.15)
Deutsche Telekom	(120,000)	(1,804,800)	(1.51)

Artemis European Hedge Fund Limited

Consolidated schedule of investments *(continued)*

At 31 December 2007

Security Description	Number of shares	Fair Value €	% of Net Assets
Exchange traded equity instruments – held for trading (short) <i>(continued)</i>			
Deutz AG	(130,000)	(907,400)	(0.76)
Diageo Plc	(140,000)	(2,055,465)	(1.72)
DSG International Plc	(240,000)	(326,264)	(0.27)
Eiffage SA	(9,000)	(606,240)	(0.51)
Elekta	(170,000)	(1,941,030)	(1.62)
Ericsson LM	(1,000,000)	(1,608,562)	(1.35)
Euronav	(24,000)	(579,360)	(0.48)
Experian Group Ltd	(220,000)	(1,187,330)	(0.99)
Forth Ports Plc	(22,000)	(580,207)	(0.49)
Fraport - Frankfurt Airport Services Worldwide	(3,000)	(161,700)	(0.14)
Frontline Ltd	(18,000)	(594,291)	(0.50)
Givaudan	(4,000)	(2,642,969)	(2.21)
Grafton Group Plc	(26,000)	(143,000)	(0.12)
Groupe Danone	(24,000)	(1,474,560)	(1.23)
Grupo Ferrovial SA	(28,000)	(1,347,920)	(1.13)
Heidelberger Druckmaschinen	(24,000)	(553,440)	(0.46)
Holmen	(88,000)	(2,237,999)	(1.87)
HSBC Holdings Plc	(130,000)	(1,488,037)	(1.25)
Huhtamaki	(170,000)	(1,382,100)	(1.16)
Infineon Technologies	(18,000)	(145,620)	(0.12)
InterContinental Hotels Group Plc	(100,000)	(1,201,740)	(1.01)
Intertek Group Plc	(30,000)	(403,752)	(0.34)
Invensys Plc	(450,000)	(1,388,662)	(1.16)
Italcementi	(120,000)	(1,755,600)	(1.47)
JM	(11,000)	(155,028)	(0.13)
Kingfisher Plc	(620,000)	(1,227,189)	(1.03)
Kudelski	(11,000)	(150,683)	(0.13)
Ladbrokes Plc	(130,000)	(571,268)	(0.48)
Lighthouse Caledonia	(40,000)	(27,673)	(0.02)
Lonmin Plc	(45,000)	(1,892,129)	(1.58)
Luxottica Group	(58,000)	(1,263,820)	(1.06)
M6-Metropole Television	(96,000)	(1,728,000)	(1.45)
Marine Harvest	(1,900,000)	(840,401)	(0.70)
Milano Assicurazioni	(330,000)	(1,764,510)	(1.48)
Mitchells & Butler Plc	(23,000)	(132,572)	(0.11)

Artemis European Hedge Fund Limited

Consolidated schedule of investments *(continued)*

At 31 December 2007

Security Description	Number of shares	Fair Value €	% of Net Assets
Exchange traded equity instruments – held for trading (short) <i>(continued)</i>			
Mobistar	(35,000)	(2,188,200)	(1.83)
Morgan Crucible Plc	(140,000)	(385,875)	(0.32)
Mota Engil SGPS	(70,000)	(358,400)	(0.30)
M-real	(150,000)	(489,000)	(0.41)
Neopost	(7,000)	(493,430)	(0.41)
Norske Skogindustrier	(110,000)	(626,552)	(0.52)
Novartis	(43,000)	(1,614,255)	(1.35)
Oesterreichische Post	(22,000)	(527,780)	(0.44)
Panalpina Weltransport Holding	(17,000)	(2,024,544)	(1.69)
Philips Electronics	(53,000)	(1,565,620)	(1.31)
Rank Group Plc	(390,000)	(485,114)	(0.41)
Reed Elsevier	(160,000)	(2,184,000)	(1.83)
Rentokil Initial Plc	(900,000)	(1,479,201)	(1.24)
Saab B	(38,000)	(524,478)	(0.44)
Safran	(11,000)	(154,330)	(0.13)
SBM Offshore	(67,000)	(1,447,200)	(1.21)
Securitas AB	(210,000)	(2,002,755)	(1.68)
Securitas Systems AB	(230,000)	(560,559)	(0.47)
SGS REG	(180)	(146,790)	(0.12)
Shanks Group Plc	(120,000)	(373,573)	(0.31)
Signet Group Plc	(2,000,000)	(1,896,411)	(1.59)
Smurfit Kappa Plc	(45,000)	(508,950)	(0.43)
Societe Television Francaise	(88,000)	(1,610,400)	(1.35)
Sodexo Alliance	(45,000)	(1,890,000)	(1.58)
Soitec	(150,000)	(1,252,500)	(1.05)
Synthes Inc	(23,000)	(1,954,903)	(1.64)
Thomson	(160,000)	(1,556,800)	(1.30)
TNT	(19,000)	(536,940)	(0.45)
Tomra Systems	(320,000)	(1,560,582)	(1.31)
Trelleborg	(4,121)	(59,171)	(0.05)
Union Zurich Airport	(2,000)	(556,160)	(0.47)
UPM-Kymmene	(37,000)	(511,340)	(0.43)
Uponor Oyj	(23,000)	(396,290)	(0.33)
Vallourec	(3,000)	(555,450)	(0.46)
Wavin	(42,000)	(383,040)	(0.32)

Artemis European Hedge Fund Limited

Consolidated schedule of investments *(continued)*

At 31 December 2007

Security Description	Number of shares	Fair Value €	% of Net Assets
Exchange traded equity instruments – held for trading (short) <i>(continued)</i>			
Wolfson Microelectronics	(44,122)	(124,760)	(0.10)
Wolseley Plc	(180,000)	(1,819,331)	(1.52)
Zardoya-Otis SA	(7,000)	(135,590)	(0.10)
Zodiac	(51,000)	(2,230,740)	(1.86)
Total exchange traded equity instruments held for trading (short)		(105,329,939)	(88.15)
Forward foreign exchange contracts <i>(Note 9D (ii))</i>		(16,152)	(0.01)
Total financial liabilities at fair value through profit or loss- held for trading		(105,346,091)	(88.16)

Artemis European Hedge Fund Limited

Notes

Forming part of the consolidated financial statements

1. General Information

Artemis European Hedge Fund Limited (the “Company”) (“AEHFL”) is an open-ended investment company and was incorporated under the Companies Law of the Cayman Islands on 4 October 2001 as an exempted company with limited liability. The Company registered under the Mutual Funds Law of the Cayman Islands on 25 January 2002. The Company maintains its registered office in the Cayman Islands. As at 31 December 2007, the Company had no employees (2006: nil).

Artemis European Hedge Fund L.P. (the “Master Fund”), is an exempted limited partnership established in the Cayman Islands on 15 October 2001 by the Company as a sole limited partnership. The Master Fund registered under the Mutual Funds Law of the Cayman Islands on 12 May 2006. The sole general partner of the Master Fund is Artemis European Hedge Fund GP Limited. The Master Fund has unlimited duration.

The Company is structured similar to a master-feeder structure, with the assets of each of the Dollar Class, Sterling Class and Euro Class investing in the Master Fund.

The Company’s primary investment objective is to provide long term capital appreciation, whilst endeavouring to preserve initial capital, principally through an actively managed and diversified portfolio of long and short positions in European equities.

The Company engages in foreign exchange transactions in order to hedge, as far as is practicable, all non base currency exposure back to the base currency of the respective share class. The difference in the performance of the share classes is therefore expected to be substantially a function of the interest rate differential between the currencies of the share classes.

The measurement and reporting currency of the Company is Euro and not the local currency of the Cayman Islands reflecting the fact that the majority of the Company’s assets and liabilities are denominated in Euro.

It may be possible under certain circumstances for creditors of one share class to claim against the assets of other share classes of the Company, thus subjecting individual classes of shareholders to potential risk of loss should all or a portion of the Company’s assets require liquidation in order to satisfy such claims.

Artemis European Hedge Fund Limited

Notes *(continued)*

2. Significant accounting policies

(a) Statement of compliance

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations adopted by the International Accounting Standards Board (“IASB”). The significant accounting policies adopted by the Company are as follows:

(b) Basis of Preparation

The consolidated financial statements are presented in Euro and are rounded to the nearest Euro. They are prepared on a fair value basis for derivative financial instruments and financial assets and financial liabilities at fair value through profit or loss. Other financial assets and liabilities are stated at amortised cost or redemption amount (redeemable shares). These accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

The Company is organised and operated as one segment (both in terms of business and geography). Consequently, no segment reporting is provided in the Company’s consolidated financial statements.

IFRS 7, Financial Instruments: Disclosures, was adopted on 1 January 2007. IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the valuation of the Company’s financial instruments.

(c) Basis of consolidation

The consolidated financial statements include the results of the Company (Dollar Class, Sterling Class, and Euro Class) and the Master Fund. Monetary assets and liabilities of the Dollar and Sterling Classes are translated at the year end Euro exchange rate. Transactions during the year including sales and purchases of securities, income and expenses, are translated at average annual Euro exchange rate. Intercompany balances and transactions are eliminated in preparing the consolidated financial statements.

(d) Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Management believe that the estimates utilised in preparing its consolidated financial statements are reasonable and prudent. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual outcomes could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Artemis European Hedge Fund Limited

Notes *(continued)*

2. Significant accounting policies *(continued)*

(e) Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the reporting currency at the closing exchange rate ruling at the consolidated balance sheet date.

Exchange differences arising on translation and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in the consolidated income statement. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the reporting currency at the exchange rates ruling at the dates that the values were determined. Exchange differences relating to investments at fair value through profit or loss and derivative financial instruments are included in net gain/(loss) on equity and derivative instruments. All other exchange differences relating to monetary items, including cash and cash equivalents are presented separately in the consolidated income statement. Non-monetary assets and liabilities that are stated at amortised cost are translated at the exchange rate ruling at the date of the transaction. Gains or losses arising from forward foreign currency contracts which hedge the non Euro value for a specific share class are allocated directly to the relevant share class.

(f) Financial instruments

(i) Classification

The Company designates its investments into the financial assets at fair value through profit or loss category.

The category of financial assets and liabilities at fair value through profit or loss comprises financial instruments held-for-trading and financial instruments designated at fair value through profit or loss upon initial recognition.

Financial instruments held-for-trading include investments in equity instruments, forward contracts, contracts for differences and liabilities from short sales of financial instruments. All derivatives in a net receivable position (positive fair value) are reported as financial assets held-for-trading. All derivatives in a net payable position (negative fair value) are reported as financial liabilities held-for-trading.

Financial assets that are classified as loans and receivables include balances due from brokers and interest receivable.

Financial liabilities that are not at fair value through profit or loss include balances due to brokers, accounts payable and accrued expenses, and financial liabilities arising on redeemable shares.

The Company does not use the category of financial instruments designated at fair value through profit or loss upon initial recognition to classify any financial assets or financial liabilities.

Artemis European Hedge Fund Limited

Notes *(continued)*

2. Significant accounting policies *(continued)*

(f) Financial instruments (continued)

(ii) Recognition

The Company recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

Purchases and sales of financial assets and financial liabilities are recognised using trade date accounting. From this date any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

(iii) Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortised.

Subsequent to initial recognition, all financial instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the consolidated income statement.

Financial assets classified as loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest method. Financial liabilities arising from the redeemable shares issued by the Company are carried at the redemption amount representing the investors' right to a residual interest in the Company's assets.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the consolidated balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

This policy differs from the valuation policy as set out in the offering documentation of the Company, which states that investments in securities are stated at market value based on the last traded price on each valuation day. At 31 December 2007 the difference between the reported Net Asset Value of the Company as calculated in accordance with the Offering Documents and the Net Asset Value of the Company as calculated in accordance with IFRS is outlined in note 11.

If a quoted market price is not available on a recognised stock exchange or from a broker / dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Artemis European Hedge Fund Limited

Notes *(continued)*

2. Significant accounting policies *(continued)*

(f) Financial instruments (continued)

(iv) Fair value measurement principles (continued)

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the consolidated balance sheet date applicable to an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the consolidated balance sheet date. Fair values for unquoted equity investments are estimated, if possible, using applicable price / earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

As at 31 December 2007, there were no financial instruments held for which a quoted price was not available.

(v) Derecognition

A financial asset is derecognised when the Company no longer has control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished or when the obligation specified in the contract is discharged, cancelled or expired.

Assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Company commits to sell the assets. The Company uses the first in first out method to determine the gain or loss on derecognition.

The Company's obligation for securities sold short is considered closed and the related liability is derecognised when it delivers or replaces the security borrowed under the original transaction. At the time the transaction is closed, the Company realises a gain or loss equal to the difference between the price at which the security was sold and the cost of replacing the borrowed security.

(vi) Specific instruments

Cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Securities sold short

Securities sold short are those positions where the Company has sold a security that it does not own in anticipation of a decline in the market value of the security and are classified as liabilities at fair value through profit or loss. To enter a short sale, the Company may need to borrow the security for delivery to the buyer. On each day the short sale transaction is open, the liability to replace the borrowed security is marked to market and an unrealised gain or loss is recorded in the consolidated income statement. While the transaction is open, the Company will also incur an expense for any dividends or interest which will be paid to the lender of the securities.

Artemis European Hedge Fund Limited

Notes *(continued)*

2. Significant accounting policies *(continued)*

(f) Financial instruments (continued)

(vi) Specific instruments (continued)

Contracts for differences

Contracts for differences (“CFDs”) represent the contractual exchange of the performance of equities based on a notional amount invested in such equity baskets. Open CFDs are carried at the net amount due to/from the counterparty under the terms of the agreement, including unrealised gains and losses from changes in fair value of the notional equities, and are recorded as derivative assets/liabilities at fair value through profit or loss on the consolidated balance sheet. Realised and unrealised gains and losses are recognised in the consolidated income statement.

Forward currency contracts

A forward currency contract involves an obligation to purchase or sell a specific currency at a future date; at a price set at the time the contract is made. Forward currency contracts are valued by reference to the forward price at which a new forward contract of the same size and maturity could be undertaken at the valuation date. Unrealised gains and losses on open forward currency contracts are calculated as the difference between the contract rate and this forward price.

Realised and unrealised gains and losses are recognised in the consolidated income statement. Realised gains or losses include net gains or losses on contracts which have settled or for which offsetting contracts have been entered into.

As part of the Company’s investment strategy, the Company enters into certain forward currency contracts, all of which are classified as financial assets or liabilities at fair value through profit or loss. The Company uses forward currency contracts to hedge subscriptions received in Sterling and US Dollars against deviations in the foreign currency exchange rate. Subscriptions of Sterling and US Dollar share classes, once received are converted to Euro and this amount (including foreign exchange gains or losses and trading profits or losses attributable to the class) is hedged one month forward, consistently on a monthly basis. Whilst all classes of shares participate in the same net asset pool, any gains or losses attributable to hedging of Sterling and US Dollar share classes is borne solely by those classes.

(g) Interest income and expense

Interest income and expenses are recognised in the consolidated income statement on an accruals basis.

Artemis European Hedge Fund Limited

Notes *(continued)*

2. Significant accounting policies *(continued)*

(h) Dividend income and expense

Dividend income and expense relating to exchange-traded equity investments is recognised in the consolidated income statement on the ex-dividend date.

In some cases, the Company may receive or choose to receive dividends in the form of additional shares rather than cash. In such cases the Company recognises the divided income for the amount of the cash dividend alternative with the corresponding debit treated as an additional investment.

(i) Expenses

All expenses are recognised in the consolidated income statement on an accruals basis.

(j) Foreign exchange gains and losses

Foreign exchange gains and losses on financial assets and financial liabilities at fair value through profit or loss are recognised together with other changes in the fair value. Included in the profit or loss line item Net foreign exchange gains/(losses) are net foreign exchange gains and losses on monetary financial assets and financial liabilities other than those classified at fair value through profit or loss.

(k) Redeemable shares

All redeemable shares issued by the Company provide the investors with the right to require redemption for cash at a value proportionate to the investor's share in the Company's net assets at the redemption date. In accordance with IAS 32 such instruments give rise to a financial liability for the present value of the redemption amount.

(l) Net asset value per share

The net asset value per share for each class disclosed on the face of the consolidated balance sheet is calculated by dividing the net assets by the number of redeemable shares outstanding at year end.

(m) Equalisation

The Company uses the industry practice of equalisation by applying an equalisation factor to shares subscribed for during the course of the fiscal year, thereby adjusting the amount paid for the purchase of the shares. This ensures that performance fees are charged only to those shares which have appreciated in value since acquisition, that all shareholders have the same amount per share at risk and that all shares in a share class have the same net asset value.

Deficit Subscriptions

Where an investor subscribes for Shares in a Class at a time when the net asset value per Share of that Class is less than the high water mark for the class then an adjustment is required to reduce inequalities that may otherwise result to the respective subscriber or to the Investment Manager.

Artemis European Hedge Fund Limited

Notes *(continued)*

2. Significant accounting policies *(continued)*

(m) Equalisation (continued)

The high water mark is the greater of:

- (i) the higher of the two net asset values per Share of a Class on the last day of either of the two immediately preceding Performance Periods; and
- (ii) the initial issue price of €100 for the Euro Class Shares, £100 for the Sterling Class Shares or \$100 for the Dollar Class Shares; in each case adjusted to take into account any distributions made.

Where Shares are subscribed at a time when the net asset value per Share is less than the high water mark for that Class, such shareholders will, in effect, be required to pay an equivalent Performance Allocation with respect to any subsequent appreciation in the net asset value per Share of those Shares until the high water mark has been reached. This will be achieved by the Company having the power to redeem at par such number of that shareholder's Shares as have an aggregate net asset value equivalent to the Performance Allocation at the end of each Performance Period. An amount equal to the aggregate net asset value of the Shares so redeemed will be re-allocated promptly thereafter to the Investment Manager as a Performance Allocation. The Company will retain and will not be required to pay to the shareholder the aggregate par value of the redeemed Shares. After the high water mark has been achieved, the Performance Allocation will be calculated and levied in the same manner as for all other Shares. No Performance Allocation will be accrued within the Class for existing shareholders until the high water mark for that Class has been recovered.

Premium Subscriptions

Where Shares ("Premium Shares") are subscribed at a time when the net asset value per Share is greater than the high water mark for that Class (a "Premium Subscription"), the prospective investor is required to pay an additional sum equal to the accrual then in place per Share in respect of the Performance Allocation (an "Equalisation Credit"). The Equalisation Credit is designed to ensure that all shareholders of a Class have the same amount of capital at risk per Share.

The Equalisation Credit will be at risk in the Company and will therefore appreciate or depreciate based on the performance of the Company subsequent to the subscription. In the event of a decline in the net asset value per Share, the Equalisation Credit due to the shareholder will reduce in line with the Performance Allocation accrual for other Shares namely by an amount equal to 20 per cent of the amount of the loss on a per Share basis until the Equalisation Credit is exhausted. Subsequent appreciation in the value of the Premium Shares will result in a recapture of any Equalisation Credit lost due to such reductions, but only to the extent of the previously lost Equalisation Credit up to the amount paid at subscription.

At the end of the Performance Period, an amount equal to the lower of either the Equalisation Credit paid at the time of the Premium Subscription (less any Equalisation Credit previously applied) or 20 per cent. of the excess of the asset value per Premium Share over the high water mark is applied in the subscription for additional Shares for the shareholder. If the shareholder redeems Premium Shares before the last day in any Performance Period, the shareholder will receive additional redemption proceeds equal to any Equalisation Credit then remaining multiplied by a fraction, the numerator of which is the number of Premium Shares being redeemed and the denominator of which is the number of Premium Shares owned by the shareholder immediately prior to the redemption.

Artemis European Hedge Fund Limited

Notes (continued)

3. Taxation

There are no taxes on income or gains in the Cayman Islands and the Company has received an undertaking from the Governor in Cabinet of the Cayman Islands exempting it from all local income, profits and capital taxes until 2021. Accordingly, no provision for income taxes is included in these consolidated financial statements.

Dividend and interest income received by the Company may be subject to withholding tax imposed in the country of origin. Investment income is recorded gross of such taxes.

4. Gains and losses from financial assets and liabilities at fair value through profit or loss

	2007 €	2006 €
Held for trading		
Equity investments	16,151,395	29,752,845
Derivative financial instruments	(4,960,853)	(12,609,626)
Net gain from financial assets and liabilities at fair value through profit or loss	<u>11,190,542</u>	<u>17,143,219</u>

5. Share capital

The Company has an authorised share capital of US\$10,000 divided into 10 million Dollar Class Shares of US\$0.001 each, £10,000 divided into 10 million Sterling Class Shares of £0.001 each and €10,000 divided into 10 million Euro Class Shares of €0.001 each (together the “redeemable shares”). The Company has the power to issue and redeem its Shares at a price based on Net Asset Value. Fractional Shares may be issued up to four decimal places. The Directors may in their absolute discretion refuse to issue any Shares to any subscriber.

The Company does not have any externally imposed capital requirements.

<i>31 December 2007</i>				
<i>Issued and fully paid-up</i>	<i>Shares at beginning of year</i>	<i>Shares issued</i>	<i>Shares redeemed</i>	<i>Shares at end of year</i>
<i>Share class</i>				
Dollar Class	1,517,808	21,908	(472,212)	1,067,504
Sterling Class	56,721	8,708	(25,616)	39,813
Euro Class	160,478	11,148	(143,528)	28,098

Artemis European Hedge Fund Limited

Notes (continued)

5. Share capital (continued)

<i>31 December 2006</i>				
<i>Issued and fully paid-up</i>	<i>Shares at beginning of year</i>	<i>Shares issued</i>	<i>Shares redeemed</i>	<i>Shares at end of year</i>
<i>Share class</i>				
Dollar Class	671,310	1,006,310	(159,812)	1,517,808
Sterling Class	24,756	41,921	(9,956)	56,721
Euro Class	108,341	81,955	(29,818)	160,478

The rights attaching to the redeemable share are as follows:

Redeemable shares may be redeemed on the last business day of each month or such other date or dates as the board of directors shall from time to time determine (Valuation Day). The shareholder must request such redemption at least 10 days prior to the last business day of each month or such other day as the directors may determine.

Redeemable shares carry the right to receive notice of, attend and vote at any general meeting of the Company. The holders are entitled to receive all dividends declared and paid by the Company. Upon winding up, the holders are entitled to a return of capital based on the net asset value per share of the Company.

6. Financial assets and liabilities at fair value through profit or loss

	<i>2007</i>	<i>2006</i>
	€	€
Held for trading		
Equity investments	114,963,471	310,550,253
Derivative financial instruments	1,346,666	-
Total financial assets at fair value through profit or loss	<u>116,310,137</u>	<u>310,550,253</u>

Artemis European Hedge Fund Limited

Notes (continued)

6. Financial assets and liabilities at fair value through profit or loss (continued)

	2007 €	2006 €
Held for trading		
Securities sold short	105,329,939	306,180,922
Derivative financial instruments	16,152	223,807
Total financial liabilities at fair value through profit or loss	<u>105,346,091</u>	<u>306,404,729</u>

7. Cash and cash equivalents

	2007 €	2006 €
Current deposits with banks	244,606	1,253,455
	<u>244,606</u>	<u>1,253,455</u>

8. Balances due from/to brokers

	2007 €	2006 €
Balances due from brokers		
Margin accounts	112,067,458	194,224,878
Sales awaiting settlement	181,694	981,658
	<u>112,249,152</u>	<u>195,206,536</u>
Balances due to brokers		
Purchases awaiting settlement	1,636,128	1,036,380
	<u>1,636,128</u>	<u>1,036,380</u>

Margin accounts represent cash deposits with brokers and cash transferred as collateral against securities sold short and forward contracts.

In accordance with the Company's policy of trade date accounting for sale and purchase transactions, sales/purchases awaiting settlement represent amounts receivable/payable for securities sold/purchased, but not yet settled.

Artemis European Hedge Fund Limited

Notes *(continued)*

9. Financial instruments and associated risks

The Company's investing activities expose it to various types of risk which are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Company is exposed are market risk, credit risk and liquidity risk. Market risk includes other price risk, currency risk and interest rate risk.

The Company maintains active trading positions in a variety of derivative and non-derivative financial instruments as dictated by its investment management strategy.

Asset allocation is determined by the Company's Investment Manager who manages the distribution of the assets to achieve the investment objectives. Divergence from target asset allocation and the composition of the portfolio is monitored by the Company's Investment Manager.

The nature and extent of the financial instruments outstanding at the date of the consolidated balance sheet and the risk management policies employed by the Company are discussed below.

A. Market risk

Market risk is the risk that changes in interest rates, foreign exchange rates or equity and commodity prices will make a financial instrument less valuable or more onerous. All investment portfolio financial instruments are measured at fair value, and all changes in market conditions directly affect net investment income.

The Company's market risk is managed on a daily basis by the Investment Manager within a rigorous risk management framework through diversification of the investment portfolio across countries and industries. The Company invests primarily in European quoted equities, including UK equities, forward currency contracts and contracts for differences. The Company aims to take advantage of both rising and falling share prices by applying a diversified range of quantitative strategies engineered to identify both undervalued and overvalued equities.

By constructing a portfolio which consists of long positions in equities which are calculated to be undervalued and short positions in equities which are estimated to be overvalued, the Company seeks to generate absolute returns for investors. The Company seeks to generate additional returns and limit downside volatility by the use of timing and hedging techniques. The Company's overall market positions are also reviewed on a quarterly basis by the Board of Directors and the Investment Manager.

Details of the Company's investment portfolio at the consolidated balance sheet date are disclosed in the consolidated schedule of investments. Details of the nature and terms of derivative financial instruments outstanding at the consolidated balance sheet date are set out in note 9(D).

Artemis European Hedge Fund Limited

Notes *(continued)*

9. Financial instruments and associated risks *(continued)*

Other price risk

Other price risk is the risk that the fair values of equities or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk).

In accordance with the Company's policies and procedures in place, the Investment Manager monitors the Company's overall other price risk on a daily basis, and the Board of Directors reviews it on a quarterly basis. There were no changes in the other price risk management policies and procedures from the prior year ended 31 December 2006.

The Company's financial instruments principally comprise equity investments. At 31 December 2007 the Company had a net long equity exposure of 8.06% (2006: 2.16%). A 5% increase in value would have the effect of increasing net assets by €481,677 (2006: €218,467). A 5% decrease would have an equal but opposite effect.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency. Consequently, the Company is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Company's assets or liabilities denominated in currencies other than the Euro. The company has entered into a number of forward contracts for hedging purposes in an attempt to reduce the effects of foreign currency fluctuations associated with the foreign currency share classes. The gain/losses on forward contracts related to hedging of foreign currency share classes are only applicable to the net asset calculation of relevant classes.

In accordance with the Company's policies and procedures in place, the Investment Manager monitors the Company's overall currency risk on a daily basis, and the Board of Directors reviews it on a quarterly basis. There were no changes in the currency risk management policies and procedures from the prior year ended 31 December 2006.

Artemis European Hedge Fund Limited

Notes (continued)

9. Financial instruments and associated risks (continued)

Currency risk (continued)

The Company's total net exposure to fluctuations in foreign currency exchange rates at the consolidated balance sheet date was as follows:

<i>All amounts stated in Euro</i>	Monetary Net Assets/ (Liabilities)	Forward FX Contracts	Net Exposure
31 December 2007			
Pound Sterling	(7,120,435)	8,700,096	1,579,661
Hungarian Forint	(4,691,112)	-	(4,691,112)
Norwegian Krone	(6,067,476)	-	(6,067,476)
Swiss Franc	(6,433,032)	-	(6,433,032)
Swedish Krona	(14,073,858)	-	(14,073,858)
Danish Krone	5,235,024	-	5,235,024
Turkish Lira	3,285,864	-	3,285,864
Czech Koruna	1,723,518	-	1,723,518
US Dollar	(1,239,971)	60,520,905	59,280,933
31 December 2006			
Pound Sterling	(16,502,184)	12,912,899	(3,589,285)
Hungarian Forint	528,601	-	528,601
Norwegian Krone	16,049,292	-	16,049,292
Swiss Franc	(31,845)	-	(31,845)
Swedish Krona	(112,084)	-	(112,084)
Danish Krone	(11,308,047)	-	(11,308,047)
Turkish Lira	2,628,964	-	2,628,964
Czech Koruna	685,711	-	685,711
US Dollar	4,319,199	149,705,072	154,024,271

At 31 December 2007, had the Euro weakened by 5% in relation to all currencies, with all other variables held constant, net assets attributable to holders of redeemable shares and the change in net assets attributable to holders of redeemable shares per the consolidated income statement would have increased or decreased by the amounts shown in the next table. The analysis is performed on the same basis for 2006.

Artemis European Hedge Fund Limited

Notes (continued)

9. Financial instruments and associated risks (continued)

Currency risk (continued)

<i>Sensitivity Analysis</i>	2007 €	2006 €
Pound Sterling	78,983	(825,109)
Hungarian Forint	(234,556)	26,430
Norwegian Krone	(303,374)	802,465
Swiss Franc	(321,652)	(1,592)
Swedish Krona	(703,693)	(5,604)
Danish Krone	261,751	(565,402)
Turkish Lira	164,293	131,448
Czech Koruna	86,176	34,286
US Dollar	2,964,047	215,960
Total	<u>(1,991,976)</u>	<u>(187,120)</u>

A 5% strengthening of the Euro against the above currencies would have resulted in an equal but opposite effect on the above financial statements amounts to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The majority of the Company's financial assets and liabilities are non-interest-bearing. The Company's interest-bearing financial assets being balance due from brokers and cash and cash equivalents receivable on demand, mature or reprice in the short-term, no longer than one month. As a result, the Company is subject to limited exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

As described above, the company has limited exposure to interest rate risk and has not presented a table of exposure to interest rates or an interest rate sensitivity analysis.

Artemis European Hedge Fund Limited

Notes *(continued)*

9. Financial instruments and associated risks *(continued)*

B. Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for non-exchange traded financial instruments is not backed by an exchange clearing house.

Credit risk associated with investing activities is managed by the Investment Manager as part of the overall investment process. The Company's credit risk concentration is spread between listed equity securities and derivative financial instruments as presented on the consolidated balance sheet. At 31 December 2007, all financial instruments were listed financial instruments with the exception of forward currency contracts and contracts for differences.

Substantially all of the cash held by the Company is held by Goldman Sachs and HSBC with credit rating of AA- and AA respectively. Bankruptcy or insolvency by Goldman Sachs or HSBC may cause the Company's rights with respect to the cash held by Goldman Sachs or HSBC to be delayed or limited. Cash not held as collateral may be held in a segregated client money account not forming part of the assets of Goldmans Sachs or HSBC.

All financial instruments are cleared through and held in custody by Goldman Sachs International (the "Prime Broker"). The Company is subject to credit risk to the extent that this institution may be unable to fulfil its obligations either to return the Company's securities or repay amounts owed. Management does not anticipate any losses as a result of this concentration.

The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Company deals with counterparties of good credit standing.

Investment Restrictions

Investment of the Company's assets and those of the Master Fund is subject to certain restrictions determined from time to time by the Directors. In order to minimise investment risk through the diversification of assets, the Directors have adopted the following initial restrictions, providing that the Company and the Master Fund will in aggregate:

- (a) not invest more than 20 per cent of the net assets of the Master Fund in the securities of any one issuer (including the issuer's subsidiaries or affiliates) or be so exposed to the credit worthiness or solvency of any one counterparty (including that counterparty's subsidiary or affiliates);
- (b) not take legal or management control of the issuer of any of its underlying investments; and

Artemis European Hedge Fund Limited

Notes *(continued)*

9. Financial instruments and associated risks *(continued)*

B. Credit risk *(continued)*

Investment Restrictions (continued)

(c) only invest the Master Fund assets on or subject to the rules of an exchange recognised by the Irish Stock Exchange or with counterparties which have (or whose parent company has) a minimum credit rating of “A” for long term debt from the credit agency of Moody’s or Standard & Poor’s and a minimum of “P-2” or “A-1”, respectively, for short term debt from those same agencies and then subject to a limit of 10 per cent of the Master Fund’s net assets with any one such counterparty (other than the Prime Broker). This restriction does not apply to transactions effected with any counterparty which advanced full and appropriate collateral to the Company or the Master Fund in respect of such transactions;

Restriction (a) above does not apply to investments in securities issued or guaranteed by a government, government agency or instrumentality of any EU or OECD member state or by any supra national authority of which one or more EU or OECD member states are members, and any other state approved for these purposes by the Irish Stock Exchange. Whilst the Shares are listed on the Irish Stock Exchange, restrictions (a), (b), and (c) above may not be relaxed.

In accordance with the Company’s policies and procedures in place, the Investment Manager monitors the Company’s overall credit risk on a daily basis as part of the overall investment process and reports to the Board of Directors on a quarterly basis. This is consistent with the procedures from the prior year ended 31 December 2006.

The amount of credit exposure is represented by the carrying amounts of the assets on the consolidated balance sheet.

C. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities and commitments. The Company’s constitution provides for the monthly creation and cancellation of shares and it is therefore exposed to the liquidity risk of meeting shareholder redemptions at any time.

The Company’s financial instruments may include investments in derivative contracts traded over-the-counter, which are not traded in an organised public market and which generally may be illiquid. As a result, the Company may not be able to liquidate quickly some of its investments in these instruments at an amount close to its fair value in order to meet its liquidity requirements, or to respond to specific events such as a deterioration in the credit worthiness of any particular issuer.

Artemis European Hedge Fund Limited

Notes (continued)

9. Financial instruments and associated risks (continued)

C. Liquidity risk (continued)

The Company's listed securities are considered to be readily realisable as they are all listed on major European stock exchanges. The Company's redemption policy only allows for redemptions on the first business day of each month based on the valuation of the immediately preceding business day and shareholders must provide 10 business days notice. The Company's investment portfolio is leveraged and needs to maintain liquidity sufficient to sustain significant losses without having to liquidate the portfolio, to meet demands from counterparties for additional collateral and to satisfy shareholder redemption requests.

In accordance with the Company's policies and procedures in place, the Investment Manager monitors the Company's overall liquidity risk on a daily basis as part of the overall investment process and reports to the Board of Directors on a quarterly basis. This is consistent with and the procedures from the prior year ended 31 December 2006.

The following table shows the contractual, undiscounted cash flows of the Company's financial liabilities.

31 December 2007	<i>Less than 1 month</i> €	<i>1 to 3 months</i> €	<i>3 months to 1 year</i> €	<i>No stated maturity</i> €
<i>Financial liabilities</i>				
Balances due to brokers	(1,636,128)	-	-	-
Securities sold short	-	-	-	(105,329,939)
Performance fees	(1,642,254)	-	-	-
Equalisation credit	-	-	(17,536)	-
Management fees	-	(467,663)	-	-
Administration fees	(40,439)	-	-	-
Accrued expenses and payables	-	-	(160,159)	-
Net assets attributable to holders of redeemable shares	(119,494,083)	-	-	-
<i>Derivative financial liabilities settled gross</i>				
Outflows	-	(8,716,248)	-	-
Inflows	-	8,700,096	-	-
Total	(122,812,904)	(483,815)	(177,695)	(105,329,939)

Artemis European Hedge Fund Limited

Notes (continued)

9. Financial instruments and associated risks (continued)

C. Liquidity risk (continued)

31 December 2006	<i>Less than 1 month</i> €	<i>1 to 3 months</i> €	<i>3 months to 1 year</i> €	<i>No stated maturity</i> €
<i>Financial liabilities</i>				
Balances due to brokers	(1,036,380)	-	-	-
Securities sold short	-	-	-	(306,180,922)
Performance fees	(2,461,115)	-	-	-
Equalisation credit	-	-	(1,489,679)	-
Management fees	-	(759,828)	-	-
Administration fees	(31,936)	-	-	-
Accrued expenses and payables	-	-	(145,451)	-
Contributions received in advance	(535,401)	-	-	-
Net assets attributable to holders of redeemable shares	(198,805,025)	-	-	-
<i>Derivative financial liabilities settled gross</i>				
Outflows	-	(175,816,123)	-	-
Inflows	-	175,592,316	-	-
Total	<u>(202,869,857)</u>	<u>(983,635)</u>	<u>(1,635,130)</u>	<u>(306,180,922)</u>

The gross nominal inflow/outflow disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability or commitment. The disclosure for derivatives shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneous gross settlement. Derivatives settled gross include forward currency contracts.

D. Specific instruments

(i) Equity Instruments sold short and associated securities borrowing

When the Company sells securities which it does not possess it has to cover this short position by acquiring the securities at a later date and is therefore exposed to price risk of those securities sold short. The sales agreement is usually settled by delivering borrowed securities. However, the Company is required to return those borrowed securities at a later date.

(ii) Derivatives

At 31 December 2007 and 2006, the Company's holdings in derivatives translated into Euro were as specified in the following tables:

Artemis European Hedge Fund Limited

Notes (continued)

9. Financial instruments and associated risks (continued)

D. Specific instruments (continued)

(ii) Derivatives (continued)

Forward contracts

31 December 2007

Type of contract	Expiration		Bought Amount		Sold Amount	Fair value	Fair value
						assets	(liabilities)
						€	€
Forwards	01 February 2008	GBP	6,400,000	EUR	8,703,575	-	(16,152)
Forwards	01 February 2008	USD	88,300,000	EUR	59,847,163	639,511	-
						<u>639,511</u>	<u>(16,152)</u>

31 December 2006

Type of contract	Expiration		Bought Amount		Sold Amount	Fair value	Fair value
						assets	(liabilities)
						€	€
Forwards	31 January 2007	GBP	8,700,000	USD	17,070,270	-	(61,446)
Forwards	31 January 2007	USD	215,000,000	EUR	162,841,778	-	(162,361)
						<u>-</u>	<u>(223,807)</u>

Forward contracts are commitments either to purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Forwards are individually traded over-the-counter contracts.

Forward contracts result in exposure to market risk based on changes in market prices relative to contracted amounts. Market risks arise due to the possible movement in foreign currency exchange rates, indices, and securities' values underlying these instruments. In addition, because of the low margin deposits normally required in relation to notional contract sizes, a high degree of leverage may be typical of a forward trading account. As a result, a relatively small price movement in an underlying forward contract may result in substantial losses to the Company. Forward contracts are generally traded over-the-counter and therefore are subject to greater liquidity risk.

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Notes (continued)

9. Financial instruments and associated risks (continued)

D. Specific instruments (continued)

(ii) Derivatives (continued)

Forward contracts (continued)

Notional amounts are the underlying reference amounts to stock exchange indices, equities and foreign currencies upon which the fair value of the forward contracts traded by the Company are based. While notional amounts do not represent the current fair value and are not necessarily indicative of the future cash flows of the Company's forward contracts, the underlying price changes in relation to the variables specified by the notional amounts affect the fair value of these derivative financial instruments.

Contracts for differences

Contracts for differences ("CFD's") result in exposure to market risk based on changes in market prices relative to contracted amounts of reference securities. Market risks arise due to possible movement in securities values underlying these instruments. In addition, a high degree of leverage may be typical. As a result, a relatively small price movement in a contract may result in substantial losses to the Company.

At 31 December 2007 the fair values of the contracts entered into by the Company were as follows:

Underlying	Holding long/(short)	Notional cost/(proceeds)	Fair value assets	Fair value (liabilities)
		€	€	€
Zentiva	(43,000)	(2,278,965)	707,155	-

Fair value information

For certain of the Company's financial instruments including cash and cash equivalents, amounts due to/from brokers, interest receivable, accounts payable and accrued expenses, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Artemis European Hedge Fund Limited

Notes (continued)

10. Related parties

Investment Manager

The Company appointed Artemis Investment Management Limited (the “Investment Manager”), an investment management company incorporated in the United Kingdom, to implement the investment strategy as specified in the prospectus. Goldman Sachs International has been appointed as Prime Broker and HSBC Securities Services (Ireland) Limited (previously CITCO Fund Services (Dublin) Limited) has been appointed as Administrator.

Management Fee

Under the Investment Management Agreement, the Master Fund will pay a fee to the Investment Manager at the annual rate of 1.5 per cent of the Net Asset Value of the Master Fund (the ‘Management Fee’), accrued monthly on each Dealing Day and payable quarterly in arrears. The Management Fee for 2007 was €2,396,469 (2006: €2,701,807). Included in liabilities at 31 December 2007 are investment management fees payable of €467,663 (2006: €759,828).

Performance Fee

The Investment Manager is also entitled to a performance fee which is payable in arrears in respect of each fiscal year. The performance fee is equal to 20 per cent of the increase in the net asset value per Share after adding back any distributions of the applicable share class outstanding in respect of each Performance Period subject to a high water mark.

The use of a high water mark, as described in note 2(m), ensures that investors are not subject to a performance fee until any previous losses are recovered. The performance fee is accrued and taken into account in the calculation of the net asset value per Share of the applicable share class on each Valuation Day. In the event that a shareholder redeems Shares, prior to the end of a Performance Period, an amount equal to any accrued but unallocated performance fee in respect of such Shares are deducted from the redemption proceeds and such accrued performance fee is re-allocated to the Investment Manager promptly thereafter. The performance fee in respect of each Performance Period is calculated by reference to the net asset value before the deduction of any accrued performance fee.

The Investment Management Agreement provides that the Investment Manager will be paid the performance fee within 14 days after the end of each fiscal year. The Performance Fee for 2007 was €1,233,579 (2006: €2,281,215). Included in liabilities at 31 December 2007 are performance fees payable of €1,642,254 (2006: €2,461,115).

Artemis European Hedge Fund Limited

Notes (continued)

10. Related parties (continued)

Prime Brokerage and Custodial Fees

The Prime Broker Goldman Sachs International receives Prime Broker fees, which are based upon a combination of transaction charges, interest costs and borrowing fees at normal commercial rates. The Prime Broker Fee for 2007 was €3,658,253 (2006: €2,012,856).

Administration fee

HSBC Securities Services (Ireland) Limited (the “Administrator”) is entitled to a monthly fee, which is calculated and paid by the Master Fund to the Administrator.

From 1 November 2007, the Administrator’s fee is calculated on a sliding scale basis commencing at 0.15 per cent per annum of the Master Fund’s Net Asset Value on the first €100 million, reducing to 0.12 per cent for the next €150 million, reducing to 0.10 per cent for the next €250 million and further reducing to 0.08 per cent for assets over €500 million. The fee is subject to a minimum monthly fee of €5,000. The Administrator shall be reimbursed all properly incurred and reasonable out-of-pocket expenses. In addition, the Administrator is entitled to a further €6,500 for providing corporate secretarial services and to a minimum fee of €2,500 for the preparation of each set of consolidated interim and annual financial statements.

Prior to 1 November 2007, CITCO Fund Services Dublin Limited, the previous administrator, was entitled to a monthly fee which was calculated and paid by the Master Fund to the administrator. The Administrator’s fee accrued at the rate of 12 basis points per annum on the Master Fund’s Net Asset value (NAV) up to US\$100m (€73.56m), of 8 basis points per annum on the NAV greater than US\$100m, subject to a minimum of US\$48,000 (€36,310) per annum. The Administrator received a further \$750 (€552) for providing company secretarial services for the company.

The Administration fee for the year was €165,932 (2006: €177,680). Included in liabilities at 31 December 2007 are administration fees payable of €40,439 (2006: €31,936).

Shareholdings of related parties

Parties related to the Investment Manager held no redeemable shares at 31 December 2007 (2006:Nil).

Directors’ fees and interests

The Company will pay each Director an annual fee of US\$10,000 (€7,356). The Directors interests in the Company at the year end are as follows:

Thierry de Sépibus	243.90 Euro Class Shares (2006: 240.08)
Dr Wolfgang Schwartzkopff	314.00 Euro Class Shares (2006: 309.08)

The US Dollar amounts above have been stated at the year end FX rate of \$1.3594.

Artemis European Hedge Fund Limited

Notes (continued)

11. Net Asset Value

The Net Asset Value of the Company for subscriptions and redemptions is based on investments valued at last traded prices. As IFRS requires financial instruments at fair value through profit or loss to be valued at bid or offer prices, the Net Asset Value reported in these consolidated financial statements differs to the Net Asset Value calculated for share dealing purposes. The difference is as follows:

	AEHFL Dollar Class US\$	AEHFL Sterling Class £	AEHFL Euro Class €	AEHFL Master €	Consolidated €
Net Asset Value for share dealing purposes at 31 December 2007	155,747,821	6,286,501	4,625,497	120,910,234	119,921,010
Adjustment to bid prices	(553,310)	(22,581)	(16,992)	(426,927)	(426,927)
Net Asset Value per the consolidated financial statements at 31 December 2007	<u>155,194,511</u>	<u>6,263,920</u>	<u>4,608,505</u>	<u>120,483,307</u>	<u>119,494,083</u>

At 31 December 2006, there was no material difference between the Net Asset Value as calculated with the Offering Documents and the Net Asset Value as calculated in accordance with IFRS.

12. Approval of the Consolidated Financial Statements

The consolidated financial statements were approved by the Directors on 27 June 2008.



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