

Artemis UK Hedge Fund Limited

Directors' Report and Consolidated Financial Statements
For the year ended 31 December 2008



ARTEMIS
The PROFIT Hunter

Artemis UK Hedge Fund Limited

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Artemis UK 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 87 Mary Street, George Town Grand Cayman, KY1-9002 Cayman Islands
Investment manager	Artemis Investment Management Limited Cassini House 57 St. James's Street London, SW1A 1LD United Kingdom 42 Melville Street Edinburgh, EH3 7HA United Kingdom
Prime brokers	Morgan Stanley & Co. International Limited 25 Cabot Square Canary Wharf London, E14 4QA United Kingdom UBS AG (Appointed on 23 October 2008) 1 Finsbury Avenue London EC2M 2PP United Kingdom
Bankers	HSBC Institutional Trust Services (Ireland) Ltd 1 Grand Canal Square Grand Canal Harbour Dublin 2 Ireland
Administrator, registrar, transfer agent and company secretary	HSBC Securities Services (Ireland) Limited 1 Grand Canal Square Grand Canal Harbour Dublin 2 Ireland

Artemis UK Hedge Fund Limited

Directors and other information *(continued)*

Legal advisors
(Cayman Islands law)

Walkers
6 Gracechurch Street
London, EC3V 0AT
United Kingdom

Legal advisors
(United Kingdom law)

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

Auditors

KPMG
Chartered Accountants
Cricket Square
George Town, Grand Cayman
Cayman Islands

Artemis UK Hedge Fund Limited

Directors' report

The Directors present herewith their report and annual consolidated financial statements for the year ended 31 December 2008.

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 US Dollar, Sterling and Euro share classes produced returns of -5.4%, -3.0% and -5.5% (2007: 6.5%, 6.8% and 5.3%) respectively with the net asset values per share standing at \$126.46, £131.87 and €121.51 (2007: \$133.62, £135.90 and €128.56) respectively at 31 December 2008.

For the year ended 31 December 2008 the Company intends to make an application to the United Kingdom's HM Revenue & Customs for its sterling share class 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.

Appointment of additional prime broker

On 23 October 2008 the directors appointed UBS AG as an additional prime broker to the Company.

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. None of the Directors have, nor have had, an interest in any of the Company's share classes.

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 UK Hedge Fund Limited

Directors' report *(continued)*

Auditors

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

On behalf of the board

Thierry de Sépibus
Director

Artemis UK Hedge Fund Limited

Investment manager's report

Overview

This report covers the fourth full year of the Company's existence. We are not happy to report a negative return for 2008 - although our embarrassment is somewhat mitigated when we view how some of our competitors fared in an extraordinary and unhappy year. What we are proud of is that at no stage did Artemis depart from the principle of allowing monthly redemptions by our clients. Largely as a result of a large redemption in the first half of 2008, the size of the Company fell to around US\$3 million.

Performance

So how did we do in our fourth year? In sterling terms the portfolio return was -3.0%, better than the total return of the FTSE All-Share Index at -29.9%. We did reasonably well against the EuroHedge European Long-Short Index which was down -1.0% in sterling terms in 2008. We did much less well when judged against cash, which returned +5.8%.

Over the same period the Company's US dollar class was down -5.4% and the euro class returned -5.5%.

Review

The UK market was fairly steady until around mid-May, but then began a precipitous decline until it reached its low in late October.

The major cause of our poor performance was our belief that the problems in the system would be addressed and resolved more quickly than they were; and too slow a realisation that much of the global economic and financial system would be affected and infected by the problems. As a result, we increased our net exposure too early. Unsurprisingly in such a difficult year, virtually all our successes came from short positions in a very broad spread of sectors. For most of these wins, the common factor was debt, and the concern that there was too much of it.

Our biggest losing positions were almost entirely long positions, but not concentrated in any one sector - although oil related companies and financials were particular culprits.

Currently the portfolio has a bias towards stocks with strong earnings momentum and even greater bias towards those with little or no debt. The opposite is true for our short positions, although we do not have that many shorts: we worry that many shares now represent little more than option value and could easily surge on a hint of less bad news. At the end of the year, the Company had an overall net exposure of 60%, well ahead of end-2007's 46%.

Artemis UK Hedge Fund Limited

Investment manager's report *(continued)*

Outlook

2008 was a year of extremes, mostly negative. Very few investors, except the truly ancient, will have experienced anything like it.

Given the extraordinary and almost unprecedented events of 2008, we are wary of making firm forecasts as we look out into 2009. Our gut-feel, however, is that while the real economy remains a major concern, parts of the financial markets do look attractive. Panic and lack of cash in the system have caused some real bargains to be available. Carefully and gingerly, we will be picking through the potential survivors to find those with good franchises, vigorous cash flows and little debt. We will look to short those shares with the opposite characteristics, especially high levels of debt, as we believe we face the real possibility of deflation, or at least minimal inflation. At times like these, debt is something to be avoided - or even feared.

We do expect turbulence. But we will be alert to trading opportunities which take advantage of this. Although governments have thrown huge amounts of cash at the markets, there will be many demands on governments' and investors' cash in 2009 as the great de-leveraging continues. Investors will almost certainly veer between elation and depression.

John Wood
Investment Manager
Artemis Investment Management Limited



KPMG
P.O. Box 493
Century Yard, Cricket Square
Grand Cayman KY1-1106
CAYMAN ISLANDS

Telephone +1 345 949 4800
Fax +1 345 949 7164
Internet www.kpmg.ky

Independent Auditors' Report to the Shareholders

We have audited the accompanying consolidated financial statements of Artemis UK Hedge Fund Limited ("the Company"), which comprise the consolidated balance sheet and consolidated schedule of investments as at 31 December 2008, 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 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

17 June 2009

Artemis UK Hedge Fund Limited

Consolidated balance sheet

At 31 December 2008

	<i>Note</i>	<i>AUKHFL Dollar Class US\$</i>	<i>AUKHFL Sterling Class £</i>	<i>AUKHFL Euro Class €</i>	<i>AUKHFLP Master £</i>	<i>Consolidated Total 2008 £</i>
Assets						
Financial assets at fair value through profit or loss	6	6,971	-	42,673	1,306,550	1,351,985
Investment in Master Fund		119,698	2,827,931	273,621	-	-
Cash and cash equivalents	7	-	-	-	859,601	859,601
Balances due from brokers	8	-	-	-	1,450,526	1,450,526
Dividends receivable		-	-	-	3,922	3,922
Interest receivable		-	-	-	6,848	6,848
Other assets		-	-	-	60,541	60,541
Total assets		126,669	2,827,931	316,294	3,687,988	3,733,423
Liabilities						
Financial liabilities at fair value through profit or loss	6	(300)	-	(5,856)	(436,528)	(442,318)
Balance due to brokers	8	-	-	-	(12,359)	(12,359)
Performance fee payable	10	-	(172)	-	-	(172)
Management fees	10	-	-	-	(10,790)	(10,790)
Administration fees	10	-	-	-	(9,588)	(9,588)
Audit fees		-	-	-	(27,857)	(27,857)
Other accrued expenses		-	-	-	(20,791)	(20,791)
Total liabilities (excluding net assets attributable to holders of redeemable shares)		(300)	(172)	(5,856)	(517,913)	(523,875)
Net assets attributable to holders of redeemable shares		126,369	2,827,759	310,438	3,170,075	3,209,548
Net asset value per redeemable share		126.37	131.80	121.45		
Number of redeemable shares per class	5	1,000	21,455	2,556		

See accompanying notes to the consolidated financial statements

Artemis UK Hedge Fund Limited

Consolidated balance sheet

At 31 December 2007

	Note	AUKHFL Dollar Class US\$	AUKHFL Sterling Class £	AUKHFL Euro Class €	AUKHFLP Master £	Consolidated Total 2007 £
Assets						
Financial assets at fair value through profit or loss	6	107,683	-	411	14,076,151	14,130,746
Investment in Master Fund		13,499,552	3,350,552	20,320,709	-	-
Cash and cash equivalents	7	-	-	-	72,215	72,215
Balances due from brokers	8	-	-	-	15,168,391	15,168,391
Dividends receivable		-	-	-	36,554	36,554
Interest receivable		-	-	-	75,128	75,128
Other assets		-	-	-	33,575	33,575
Total assets		13,607,235	3,350,552	20,321,120	29,462,014	29,516,609
Liabilities						
Financial liabilities at fair value through profit or loss	6	-	-	-	(4,126,587)	(4,126,587)
Subscriptions in advance		-	-	-	(17,000)	(17,000)
Performance fee payable	10	(204,607)	(52,375)	(254,662)	-	(342,872)
Management fees	10	-	-	-	(92,294)	(92,294)
Administration fees	10	-	-	-	(9,913)	(9,913)
Audit fees		-	-	-	(21,058)	(21,058)
Other accrued expenses		-	-	-	(89,769)	(89,769)
Total liabilities (excluding net assets attributable to holders of redeemable shares)		(204,607)	(52,375)	(254,662)	(4,356,621)	(4,699,493)
Net assets attributable to holders of redeemable shares		13,402,628	3,298,177	20,066,458	25,105,393	24,817,116
Net asset value per redeemable share		133.50	135.77	128.44		
Number of redeemable shares per class	5	100,396	24,293	156,235		

See accompanying notes to the consolidated financial statements

Artemis UK Hedge Fund Limited

Consolidated income statement

For the year ended 31 December 2008

	<i>Note</i>	<i>AUKHFL Dollar Class US\$</i>	<i>AUKHFL Sterling Class £</i>	<i>AUKHFL Euro Class €</i>	<i>AUKHFLP Master £</i>	<i>Consolidated Total 2008 £</i>
Investment income						
Interest income from debt securities designated at fair value through profit or loss					3,572	3,572
Interest income from financial assets that are not at fair value through profit or loss		-	-	-	467,786	467,786
Dividend income from financial assets designated at fair value through profit or loss		-	-	-	260,069	260,069
Net losses from financial assets and liabilities at fair value through profit or loss	4	(366,380)	(96,865)	(699,402)	(1,157,060)	(1,254,822)
Net foreign exchange (losses)/gains		(173,223)	2,840	133,203	373,189	385,078
Net investment expense		(539,603)	(94,025)	(566,199)	(52,444)	(138,317)
Expenses						
Interest expense for financial liabilities that are not at fair value through profit or loss		-	-	-	(344,583)	(344,583)
Dividend expense for financial liabilities designated at fair value through profit or loss		-	-	-	(78,764)	(78,764)
Management fees	10	-	-	-	(101,659)	(101,659)
Performance fees	10	-	(172)	-	-	(172)
Administration fees	10	-	-	-	(48,229)	(48,229)
Audit fees		-	-	-	(22,978)	(22,978)
Directors' fees	10	-	-	-	(26,907)	(26,907)
Prime broker fees	10	-	-	-	(25,975)	(25,975)
Other expenses		-	-	-	30,570	30,570
Operating expenses		-	(172)	-	(618,525)	(618,697)
Net loss from operations before taxation		(539,603)	(94,197)	(566,199)	(670,969)	(757,014)
Withholding tax on dividend income		-	-	-	(27,709)	(27,709)
Change in net assets attributable to holders of redeemable shares resulting from operations		(539,603)	(94,197)	(566,199)	(698,678)	(784,723)

See accompanying notes to the consolidated financial statements

Artemis UK Hedge Fund Limited

Consolidated income statement

For the year ended 31 December 2007

	<i>Note</i>	<i>AUKHFL Dollar Class US \$</i>	<i>AUKHFL Sterling Class £</i>	<i>AUKHFL Euro Class €</i>	<i>AUKHFLP Master £</i>	<i>Consolidated Total 2007 £</i>
<i>Investment income</i>						
Interest income from financial assets that are not at fair value through profit or loss		-	-	-	981,488	981,488
Dividend income from financial assets designated at fair value through profit or loss		-	-	-	773,686	773,686
Other income		-	-	-	8,820	8,820
Net gains from financial assets and liabilities at fair value through profit or loss	4	1,192,350	258,979	1,292,997	1,863,947	1,808,669
Net foreign exchange losses		(184,639)	-	(37,750)	(138,854)	(259,718)
Net investment income		1,007,711	258,979	1,255,247	3,489,087	3,312,945
<i>Expenses</i>						
Interest expense for financial liabilities that are not at fair value through profit or loss		-	-	-	(156,609)	(156,609)
Dividend expense for financial liabilities designated at fair value through profit or loss		-	-	-	(277,142)	(277,142)
Management fees	10	-	-	-	(321,810)	(321,810)
Performance fees	10	(201,841)	(52,376)	(254,662)	-	(341,480)
Administration fees	10	-	-	-	(31,001)	(31,001)
Audit fees		-	-	-	(22,581)	(22,581)
Directors' fees	10	-	-	-	(41,797)	(55,258)
Prime broker fees	10	-	-	-	(623,200)	(623,433)
Other expenses		-	-	-	(108,506)	(94,812)
Operating expenses		(201,841)	(52,376)	(254,662)	(1,582,646)	(1,924,126)
Net gain from operations before taxation		805,870	206,603	1,000,585	1,906,441	1,388,819
Withholding tax on dividend income		-	-	-	(39,844)	(39,844)
Change in net assets attributable to holders of redeemable shares resulting from operations		805,870	206,603	1,000,585	1,866,597	1,348,975

See accompanying notes to the consolidated financial statements

Artemis UK Hedge Fund Limited

Consolidated statement of changes in net assets attributable to holders of redeemable shares
For the year ended 31 December 2008

	<i>AUKHFL</i> <i>Dollar Class</i> US \$	<i>AUKHFL</i> <i>Sterling Class</i> £	<i>AUKHFL</i> <i>Euro Class</i> €	<i>AUKHFLP</i> <i>Master</i> £	<i>Consolidated</i> <i>Total 2008</i> £
Balance at 1 January 2008	13,402,628	3,298,177	20,066,458	25,105,393	24,817,116
Currency translation	-	-	-	-	2,015,211
Issue of redeemable shares during the year	-	823,500	23,946	1,983,244	842,800
Redemption of redeemable shares during the year	(12,736,656)	(1,199,763)	(19,213,767)	(23,219,884)	(23,680,898)
Change in net assets attributable to holders of redeemable shares resulting from operations	(539,603)	(94,197)	(566,199)	(698,678)	(784,723)
Equalisation capital	-	42	-	-	42
Balance at 31 December 2008	126,369	2,827,759	310,438	3,170,075	3,209,548

On behalf of the board,

Thierry de Sépibus

See accompanying notes to the consolidated financial statements

Artemis UK Hedge Fund Limited

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

For the year ended 31 December 2007

	<i>AUKHFL Dollar Class US \$</i>	<i>AUKHFL Sterling Class £</i>	<i>AUKHFL Euro Class €</i>	<i>AUKHFLP Master £</i>	<i>Consolidated Total 2006 £</i>
Balance at 1 January 2007	12,596,758	3,074,533	18,905,633	22,703,791	22,242,141
Currency translation	-	-	-	-	1,091,083
Issue of redeemable shares during the year	-	17,629	160,240	2,202,103	135,505
Redemption of redeemable shares during the year	-	(588)	-	(1,667,098)	(588)
Change in net assets attributable to holders of redeemable shares resulting from operations	805,870	206,603	1,000,585	1,866,597	1,348,975
Balance at 31 December 2007	13,402,628	3,298,177	20,066,458	25,105,393	24,817,116

See accompanying notes to the consolidated financial statements

Artemis UK Hedge Fund Limited

Consolidated statement of cash flows

For the year ended 31 December 2008

	<i>AUKHFL Dollar Class US \$</i>	<i>AUKHFL Sterling Class £</i>	<i>AUKHFL Euro Class €</i>	<i>AUKHFLP Master £</i>	<i>Consolidated Total 2008 £</i>
Operating activities					
Changes in net assets attributable to holders of redeemable shares resulting from operations	(539,603)	(94,197)	(566,199)	(698,678)	(784,723)
Currency translation	-	-	-	-	2,015,211
Adjustment for movement in net gains/(losses) on financial assets and liabilities at fair value through profit or loss	366,380	96,865	699,402	(1,157,060)	1,254,822
Net operating cash flow before changes in operating assets and liabilities	(173,223)	2,668	133,203	(1,855,738)	2,485,310
Net purchases and sales of trading securities	13,114,486	425,756	19,311,280	10,236,602	7,839,670
Decrease in interest receivable	-	-	-	68,280	68,280
Decrease in other assets	-	-	-	13,723,531	13,723,531
Decrease in other payables	(204,607)	(52,203)	(254,662)	(148,649)	(491,349)
Net change in operating assets and liabilities	12,909,879	373,553	19,056,618	23,879,764	21,140,132
Cash flows from operating activities	12,736,656	376,221	19,189,821	22,024,026	23,625,442

Artemis UK Hedge Fund Limited

Consolidated statement of cash flows

For the year ended 31 December 2008 (*continued*)

	<i>AUKHFL Dollar Class US \$</i>	<i>AUKHFL Sterling Class £</i>	<i>AUKHFL Euro Class €</i>	<i>AUKHFLP Master £</i>	<i>Consolidated Total 2008 £</i>
Financing activities					
Proceeds from issue of redeemable shares	-	823,500	23,946	1,983,244	842,800
Payments on redemption of redeemable shares	(12,736,656)	(1,199,763)	(19,213,767)	(23,219,884)	(23,680,898)
Increase in equalisation credit payable	-	42	-	-	42
Cash flows from financing activities	(12,736,656)	(376,221)	(19,189,821)	(21,236,640)	(22,838,056)
Increase in cash and cash equivalents during the year	-	-	-	787,386	787,386
Cash and cash equivalents at beginning of the year	-	-	-	72,215	72,215
Cash and cash equivalents at end of the year	-	-	-	859,601	859,601
Supplementary information on cash flows from operating activities					
Interest received	-	-	-	539,638	539,638
Interest paid	-	-	-	(343,138)	(343,138)
Dividends received	-	-	-	292,701	292,701
Dividends paid	-	-	-	(75,876)	(75,876)
Withholding taxes paid	-	-	-	(27,709)	(27,709)

See accompanying notes to the consolidated financial statements

Artemis UK Hedge Fund Limited

Consolidated statement of cash flows

For the year ended 31 December 2007

	<i>AUKHFL</i> <i>Dollar Class</i> <i>US \$</i>	<i>AUKHFL</i> <i>Sterling Class</i> <i>£</i>	<i>AUKHFL</i> <i>Euro Class</i> <i>€</i>	<i>AUKHFLP</i> <i>Master</i> <i>£</i>	<i>Consolidated</i> <i>Total 2007</i> <i>£</i>
Operating activities					
Changes in net assets attributable to holders of redeemable shares resulting from operations	805,870	206,603	1,000,585	1,866,597	1,348,975
Currency translation	-	-	-	-	1,091,083
Adjustment for movement in net gains on financial assets and liabilities at fair value through profit or loss	(1,192,350)	(258,979)	(1,292,997)	(1,863,947)	(1,808,669)
Net operating cash flow before changes in operating assets and liabilities	(386,480)	(52,376)	(292,412)	2,650	631,389
Net purchases and sales of trading securities	428,258	52,343	318,987	6,149,122	6,070,192
Increase in interest receivable	-	-	-	(22,758)	(22,758)
Decrease/(increase) in other assets	49,382	-	(77,426)	(6,588,763)	(6,615,638)
(Decrease)/increase in other payables	(91,160)	(17,008)	(108,721)	(85,418)	(207,814)
Net change in operating assets and liabilities	386,480	35,335	132,840	(547,817)	(776,018)
Cash flows from operating activities	-	(17,041)	(159,572)	(545,167)	(144,629)

Artemis UK Hedge Fund Limited

Consolidated statement of cash flows

For the year ended 31 December 2007 (*continued*)

	<i>AUKHFL</i> <i>Dollar Class</i> <i>US \$</i>	<i>AUKHFL</i> <i>Sterling Class</i> <i>£</i>	<i>AUKHFL</i> <i>Euro Class</i> <i>€</i>	<i>AUKHFLP</i> <i>Master</i> <i>£</i>	<i>Consolidated</i> <i>Total 2007</i> <i>£</i>
Financing activities					
Proceeds from issue of redeemable shares	-	17,629	160,240	2,202,103	135,505
Payments on redemption of redeemable shares	-	(588)	-	(1,667,098)	(588)
Subscriptions in advance	-	-	-	17,000	17,000
Decrease in equalisation credit payable	-	-	(668)	-	(450)
Cash flows from financing activities	-	17,041	159,572	552,005	151,467
Increase in cash and cash equivalents during the year	-	-	-	6,838	6,838
Cash and cash equivalents at beginning of the year	-	-	-	65,377	65,377
Cash and cash equivalents at end of the year	-	-	-	72,215	72,215
Supplementary information on cash flows from operating activities					
Interest received	-	-	-	958,730	958,730
Interest paid	-	-	-	(156,609)	(156,609)
Dividends received	-	-	-	757,855	757,855
Dividends paid	-	-	-	(277,142)	(277,142)
Withholding taxes paid	-	-	-	(39,844)	(39,844)

See accompanying notes to the consolidated financial statements

Artemis UK Hedge Fund Limited

Consolidated schedule of investments

At 31 December 2008

Security Description	Number of shares	Fair Value £	% of Net Assets
Exchange traded equity instruments – held-for-trading (long)			
888 Holdings Plc	13,541	13,439	0.42
Actelion Pharmaceuticals Ltd	1,894	72,588	2.26
Bodycote International	15,744	19,365	0.60
Booker Group Plc	70,906	15,954	0.50
Delta Plc	40,000	32,800	1.02
Drax Group Plc	4,051	22,726	0.71
E.ON	1,516	40,727	1.27
ETFS Sugar	5,843	46,550	1.45
Gold Bullion Ltd	420	24,307	0.76
H Lundbeck	1,198	16,967	0.53
HMV Group	16,191	17,486	0.54
International Power Plc	26,495	63,654	1.98
Micro Focus International	51,916	146,403	4.56
Novartis	2,453	83,407	2.60
Petrofac Ltd	28,685	99,250	3.09
Raisio Group Plc	15,718	22,153	0.69
Renishaw Plc	6,559	32,401	1.01
Scottish Mortgage Plc	3,726	13,451	0.42
Telefonica	5,421	82,329	2.57
Vivendi	3,589	80,056	2.49
Wood Group (John) Plc	32,004	59,847	1.86
Xchanging Ltd	43,991	103,599	3.23
Zurich Financial Services	162	23,727	0.74
Total exchange traded equity instruments – held-for-trading (long)		1,133,186	35.30
Debt Securities – held-for-trading (long)			
Saphir Finance Plc 6.369% Perpetual	160,000	98,074	3.06
Total debt Securities – held-for-trading (long)		98,074	3.06
Forward contracts (Note 9D (ii))		45,435	1.42
Contracts for differences (Note 9D (ii))		75,290	2.35
Total financial assets at fair value through profit or loss – held-for-trading		1,351,985	42.13

Artemis UK Hedge Fund Limited

Consolidated schedule of investments *(continued)*

At 31 December 2008

Security Description	Number of shares	Fair Value £	% of Net Assets
Exchange traded equity instruments – held-for-trading (short)			
ABB Ltd	(3,454)	(34,720)	(1.08)
Accor	(708)	(23,833)	(0.74)
Assa Abloy (B Shares)	(2,427)	(18,790)	(0.59)
Eurofins Scientific	(440)	(14,955)	(0.47)
L'Oreal	(586)	(35,003)	(1.09)
LVMH Moet Hennessy Louis Vuitton	(1,329)	(60,869)	(1.90)
Sandvik	(17,070)	(73,173)	(2.28)
Siemens	(825)	(41,669)	(1.30)
SKF (B Shares)	(8,114)	(54,835)	(1.71)
Volvo (B Shares)	(15,292)	(57,391)	(1.79)
Total exchange traded equity instruments – held-for-trading (short)		(415,238)	(12.95)
Forward contracts <i>(Note 9D (ii))</i>		(5,790)	(0.18)
Contracts for differences <i>(Note 9D (ii))</i>		(21,290)	(0.66)
Total financial liabilities at fair value through profit or loss - held-for-trading (short)		(442,318)	(13.79)

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements

1. General Information

Artemis UK Hedge Fund Limited (the “Company”) (“AUKHFL”) is an open-ended investment company and was incorporated under the Companies Law of the Cayman Islands on 1 December 2004 as an exempted company with limited liability. The Company registered under the Mutual Funds Law of the Cayman Islands on 10 December 2004. The Company maintains its registered office in the Cayman Islands. As at 31 December 2008 the Company had no employees (2007: nil).

Artemis UK Hedge Fund L.P. (the “Master Fund”), is an exempted limited partnership established in the Cayman Islands on 1 December 2004 by the Company as a sole limited partner. The Master Fund registered under the Mutual Funds Law of the Cayman Islands on 10 December 2004. The sole general partner of the Master Fund is Artemis UK 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 UK equities or derivatives thereof. The Company may also invest in securities of companies listed or traded on or in any European market or on or in any other market worldwide or derivatives thereof and other types of securities including rated and unrated debt securities.

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 Sterling 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 Sterling.

It may be possible under certain circumstances for creditors of one share class to claim against the assets of other funds 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.

The following classes of shares are listed on the Irish Stock Exchange:

- Dollar Class Shares
- Sterling Class Shares
- Euro Class Shares

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (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 Preparations

The consolidated financial statements are presented in Sterling and are rounded to the nearest Pound. 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 segmental reporting is provided in the consolidated financial statements.

(c) Interpretations to existing standards that are not yet effective or early adopted by the Company

The following interpretations are mandatory for the Company's accounting periods beginning on or after 1 January 2009

- IFRS 8, Operating Segments (effective 1 January 2009)
- Amendment to IAS 32 and IAS 1 - Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a prorata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions, including that all financial instruments in the class of instruments that is subordinate to all the other instruments have identical features.

(d) 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 Euro Classes are translated at the period end Sterling exchange rate. Transactions during the year including sales and purchases of securities, income and expenses are translated at the average annual Sterling exchange rates. Intercompany balances and transactions are eliminated in preparing the consolidated financial statements.

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

2. Significant accounting policies *(continued)*

(e) 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 believes 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 judgments 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.

(f) 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 into the reporting currency at the closing exchange rate ruling on 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 on 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 gains/(losses) on financial assets and liabilities at fair value through profit or loss. 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-Sterling value of a specific share class are allocated directly to the relevant share class.

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

2. Significant accounting policies *(continued)*

(g) 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, futures, forward foreign exchange 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, interest receivable, dividends receivable and other assets.

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.

(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 the fair value of the financial assets or financial liabilities are recorded.

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

2. Significant accounting policies *(continued)*

(g) Financial instruments (continued)

(iii) Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in the 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. The difference at 31 December 2008 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 UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

2. Significant accounting policies (continued)

(g) 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 2008 and 31 December 2007 there were no equity 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 financial 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 must be paid to the lender of the securities.

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

2. Significant accounting policies *(continued)*

(g) 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.

Futures and forward foreign exchange contracts

Futures and forward foreign exchange contracts involve an obligation to purchase or sell a specific currency at a future date; at a price set at the time the contract is made. Futures are standardised exchange-traded contracts whereas forwards are individually traded over-the-counter contracts. Initial margin requirements for futures are met in cash or other instruments, and changes in the future contract values are settled daily. Forward foreign exchange 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 foreign exchange contracts are calculated as the difference between the contract rate and this forward price. Unrealised gains or losses on open futures contracts are calculated as the difference between the contract price at trade date and the contracts revaluation price. Any payments made to satisfy initial and variation margin are reflected as due to and due from broker balances on the consolidated balance sheet.

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 foreign exchange contracts, all of which are classified as financial assets or liabilities at fair value through profit or loss. The Company uses forward foreign exchange contracts to hedge subscriptions received in Euros and United States Dollars against deviations in the foreign currency exchange rate. Subscriptions into the Euro and Dollar share classes, once received, are converted to Sterling and this amount (including foreign exchange gains or losses and trading profits or losses attributable to the class) are 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 the hedging of Euro and Dollar share classes are borne solely by those classes.

(h) Interest income and expense

Interest income and expenses are recognised in the consolidated income statement under the effective interest rate method under IFRS.

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

2. Significant accounting policies *(continued)*

(i) 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 dividend income for the amount of the cash dividend alternative with the corresponding debit treated as an additional investment.

(j) Expenses

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

(k) 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 fair value. Included in the profit or loss line item “Net foreign exchange 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.

(l) 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.

(m) 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. The Founder shares are non-redeemable and do not have a residual interest in the net assets of the Company and therefore do not affect the calculation of the Company’s net asset value per share.

(n) 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.

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

2. Significant accounting policies (continued)

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. The high water mark is the greater of:

- (i) the highest net asset value per Share of a Class on the last day of any Performance Period; and
- (ii) the initial issue price of £100 for the Sterling Class Shares, \$100 for the Dollar Class Shares or €100 for the Euro 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 a portion of that shareholder's holding, as has an aggregate net asset value equivalent to the Performance Allocation, for no consideration and to pay the equivalent Performance Allocation at the end of each Performance Period to the General Partner. 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 net 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 UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (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 the Cabinet of the Cayman Islands exempting it from all local income, profits and capital taxes until 2024. 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

	2008 £	2007 £
Held for trading		
Equity investments	(2,376,909)	920,006
Derivative financial instruments	1,122,087	888,663
	<hr/>	<hr/>
Net (losses)/gains from financial assets and liabilities at fair value through profit or loss	<u>(1,254,822)</u>	<u>1,808,669</u>

5. Share capital

The Company has an authorised share capital of US\$50,100 divided into 50 million Redeemable Voting Preference Shares (“Redeemable shares”) of US\$0.001 par value each, which can be issued and classified as Dollar, Sterling or Euro share classes, and 100 Founder Shares with a par value of US\$1.00 each. 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.

31 December 2008

<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	100,396	-	(99,396)	1,000
Sterling Class	24,293	6,326	(9,164)	21,455
Euro Class	156,235	192	(153,871)	2,556

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

5. Share capital (continued)

31 December 2007

<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	100,396	-	-	100,396
Sterling Class	24,159	139	(5)	24,293
Euro Class	154,917	1,318	-	156,235

The rights attaching to the redeemable and Founder shares 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 (the "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.

Founder shares carry no right to receive notice of, attend and vote at any general meeting of the Company, when there are redeemable shares in issue. The holders are not entitled to receive all dividends declared and paid by the Company. Upon winding up, the holders are entitled to a return of capital equal to the nominal amount paid. The General Partner owns the 100 Founder Shares issued.

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

	<i>2008</i>	<i>2007</i>
	<i>£</i>	<i>£</i>
Held-for-trading		
Equity investments	1,133,186	13,093,507
Debt investments	98,074	-
Derivative financial instruments	<u>120,725</u>	<u>1,037,239</u>
Total financial assets at fair value through profit or loss	<u>1,351,985</u>	<u>14,130,746</u>
	<i>2008</i>	<i>2007</i>
	<i>£</i>	<i>£</i>
Held-for-trading		
Securities sold short	415,238	3,374,147
Derivative financial instruments	<u>27,080</u>	<u>752,440</u>
Total financial liabilities at fair value through profit or loss	<u>442,318</u>	<u>4,126,587</u>

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

7. Cash and cash equivalents

	2008	2007
	£	£
Current deposit with banks	859,601	72,215
	<u>859,601</u>	<u>72,215</u>

8. Balances due from/to brokers

	2008	2007
	£	£
Balances due from brokers		
Margin accounts	1,381,027	15,168,391
Sales awaiting settlement	69,499	-
	<u>1,450,526</u>	<u>15,168,391</u>
Balances due to brokers		
Purchases awaiting settlement	12,359	-
	<u>12,359</u>	<u>-</u>

Margin accounts represent cash deposits with brokers and cash transferred as collateral against securities sold short, contracts for difference, futures and forward foreign exchange 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.

9. Financial instruments and associated risks

The Company's investing activities expose it to various types of risk that 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 to, are market risk, credit risk and liquidity risk. Market risk includes other price risk, currency risk and interest rate risk.

The Company maintains 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 objective. Divergence from target asset allocations 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 consolidated balance sheet date and the risk management policies employed by the Company are discussed below.

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

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

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 UK quoted equities but also in non-UK equities, contracts for differences, futures and forward currency contracts. 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.

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).

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 2007.

The Company's financial instruments principally comprise equity investments. At 31 December 2008 the Company had a net long equity exposure of 22.37% (2007: 39.16%) of net assets. A 5% increase in value would have the effect of increasing net assets by £35,897 (2007: £485,968). A 5% decrease would have an equal but opposite effect.

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

9. Financial instruments and associated risks (continued)

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 affect on the value of that portion of the Company's assets or liabilities denominated in currencies other than Sterling. The company has entered into a number of forward foreign exchange contracts for hedging purposes in an attempt to reduce the efforts of foreign currency fluctuations associated with the foreign currency share classes. The gains/losses on forward foreign exchange contracts related to the hedging of foreign currency share classes are only applicable to the net asset value calculation of the 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 2007.

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 Sterling</i>	Monetary net assets/ (liabilities)	Forward foreign exchange contracts	Net exposure
31 December 2008			
Danish Krone	(1,699)	-	(1,699)
Euro	(50,927)	296,081	245,154
Swedish Krona	(57,775)	-	(57,775)
Swiss Franc	101,975	-	101,975
US Dollar	8,369	85,842	94,211
31 December 2007			
Euro	5,429,489	14,638,919	20,068,408
Hong Kong Dollar	(52,375)	-	(52,375)
Swedish Krona	(308,688)	-	(308,688)
Swiss Franc	(607,811)	-	(607,811)
US Dollar	(54,756)	6,630,196	6,575,440

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

9. Financial instruments and associated risks (continued)

Currency risk (continued)

At 31 December 2008, had Sterling 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 2007.

<i>Sensitivity Analysis</i>	2008	2007
	£	£
Danish Krone	(85)	-
Euro	12,258	1,003,420
Hong Kong Dollar	-	(2,619)
Swedish Krona	(2,889)	(15,434)
Swiss Franc	5,099	(30,391)
US Dollar	4,711	328,772
Total	19,094	1,283,748

A 5% strengthening of Sterling against the above currencies would have resulted in an equal but opposite effect on the financial statements, 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 balances due from brokers and cash and cash equivalents that mature or reprice in the short-term (i.e. 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.

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 2008, all financial instruments were listed financial instruments with the exception of forward foreign exchange contracts and contracts for differences.

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

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

B. Credit risk *(continued)*

Substantially all of the cash held by the Company is held by Morgan Stanley, UBS AG and HSBC with credit ratings of AA-, A+ and AA (2007: AA-, AA and AA) respectively. Bankruptcy or insolvency of Morgan Stanley, UBS or HSBC may cause the Company's rights with respect to the cash held at these institutions 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 Morgan Stanley, UBS or HSBC.

All financial instruments are cleared through and held in custody by Morgan Stanley and Co. International Limited and/or UBS AG (the "Prime Brokers"). The Company is subject to credit risk to the extent that these institutions may be unable to fulfil their 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

The Company will be managed so as to observe the following restrictions in respect of the Master Fund's portfolio whilst the Company is listed on the Irish Stock Exchange:

- (a) other than in respect of its exposure to the Prime Brokers and any Principal Broker, not more than twenty percent of the gross assets of the Master Fund will be exposed to the creditworthiness or solvency of a single counterparty;
- (b) not more than twenty percent of the gross assets of the Master Fund will be invested in the securities of or lent to, any one issuer in each case calculated at the time of investment, except where the securities are issued or guaranteed by a government agency of any EU or OECD member state or by any supranational authority of which one or more EU or OECD member states are members and any other state approved for such purpose by the Irish Stock Exchange;
- (c) legal or management control of underlying investments will not be taken; and
- (d) the Master Fund will adhere to the general principle of diversification in respect of all of its assets.

Any Principal Broker appointed by the Master Fund, to whom more than twenty percent of the gross assets of the Master Fund are exposed, will only trade on or be subject to the rules of a Recognised Exchange or with counterparties which have (or whose parent company has) the Specified Credit Rating. Instruments invested in may be listed or unlisted.

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

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

B. Credit risk *(continued)*

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 2007.

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 shareholders 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 may generally be illiquid. As a result, the Company may not be able to quickly liquidate some of its investments in these instruments at an amount close to their fair value in order to respond to its liquidity requirements or to specific events such as deterioration in the creditworthiness of any particular issuer.

The Company's listed securities are considered to be readily realisable as they are all listed on major 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 the procedures from the prior year ended 31 December 2007.

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

9. Financial instruments and associated risks (continued)

C. Liquidity risk (continued)

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

31 December 2008	<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 including derivatives settled net</i>				
Balance due to brokers	(12,359)	-	-	-
Securities sold short	(415,238)	-	-	-
Derivative financial instruments (CFDs and futures)	-	-	-	(21,290)
Performance fees	(172)	-	-	-
Management fees	-	(10,790)	-	-
Administration fees	(9,588)	-	-	-
Accrued expenses and payables	(2,888)	-	-	(45,760)
Net assets attributable to holders	(3,209,548)	-	-	-
<i>Derivative financial liabilities settled gross</i>				
Outflows	-	(382,299)	-	-
Inflows	-	376,509	-	-
Total	(3,649,793)	(16,580)	-	(67,050)
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 including derivatives settled net</i>				
Subscriptions in advance	(17,000)	-	-	-
Securities sold short	(3,374,147)	-	-	-
Derivative financial instruments (CFDs and futures)	-	(8,060)	-	(744,380)
Performance fees	(342,872)	-	-	-
Management fees	-	(92,294)	-	-
Administration fees	(9,913)	-	-	-
Accrued expenses and payables	-	-	-	(110,827)
Net assets attributable to holders of redeemable shares	(24,817,116)	-	-	-
<i>Derivative financial liabilities settled gross</i>				
Outflows	-	-	-	-
Inflows	-	-	-	-
Total	(28,561,048)	(100,354)	-	(855,207)

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

9. Financial instruments and associated risks (continued)

C. Liquidity risk (continued)

The gross nominal inflow/outflows of the derivative financial liabilities settled gross are the contractual, undiscounted cash flows 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 foreign exchange 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 the 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 2008 and 2007, the Company's holdings in derivatives translated into Sterling were as specified in the following tables:

Futures and forward foreign exchange contracts

31 December 2008

Type of contract	Expiration		Bought Amount		Sold Amount	Fair value	Fair value
						assets	(liabilities)
						£	£
Forward	2 January 2009	EUR	290,000	GBP	242,437	35,603	-
Forward	2 January 2009	US\$	117,500	GBP	76,110	4,521	-
Forward	2 January 2009	GBP	283,149	EUR	290,000	5,110	-
Forward	2 February 2009	US\$	125,000	GBP	85,641	201	-
Forward	2 January 2009	GBP	80,428	US\$	117,500	-	(203)
Forward	2 February 2009	EUR	309,000	GBP	301,668	-	(5,587)
						45,435	(5,790)

31 December 2007

Type of contract	Expiration		Bought Amount		Sold Amount	Fair value	Fair value
						assets	(liabilities)
						£	£
Forwards	1 February 2008	US\$	13,150,000	GBP	6,575,903	54,293	-
Forwards	1 February 2008	EUR	19,900,000	GBP	14,638,617	302	-
						54,595	-

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

9. Financial instruments and associated risks (continued)

D. Specific instruments

(ii) Derivatives (continued)

Futures and forward foreign exchange contracts (continued)

31 December 2008

There were no futures contracts held by the Company as at 31 December 2008.

31 December 2007

Type of contract	Expiration	Underlying	Notional bought/(sold)	Fair value assets £	Fair value (liabilities) £
Futures	20 March 2008	FTSE 250 Mid LIF Index	(2)	-	(8,060)
				-	(8,060)

Futures and forward foreign exchange 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. Futures are standardised exchange-traded contracts whereas forwards are individually traded over-the-counter contracts. Initial margin requirements for futures are met in cash or other instruments, and changes in the future contract values are settled daily. Futures contracts have little credit risk because the counterparties are futures exchanges. Forward foreign exchange contracts result in credit exposure to the counterparty.

Futures and forward foreign exchange contracts both result in exposure to market risk as a result of changes in market prices relative to the 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 in a futures or forward trading account. As a result, a relatively small price movement in the underlying of a futures or forward foreign exchange contract may result in substantial losses to the Company. While forward foreign exchange contracts are generally subject to liquidity risk, futures trading may also be illiquid. Certain futures exchanges do not permit trading in particular futures contracts at prices that represent a fluctuation in price during a single day's trading beyond certain set limits. If prices fluctuate during a single day's trading beyond those limits, the Company could be prevented from promptly liquidating unfavourable positions and thus could be subject to substantial losses.

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

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

D. Specific instruments *(continued)*

(ii) Derivatives *(continued)*

Futures and 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 futures, and forward foreign exchange 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 futures and forward foreign exchange 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 ("CFDs") 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 2008 the fair values of the contracts entered into by the Company are as follows:

Underlying	Holding long/(short)	Notional cost	Fair value assets	Fair value (liabilities)
		£	£	£
Aegis Group Plc	22,134	14,110	2,379	-
Aggreko Plc	17,882	79,173	536	-
Ashtead Group Plc	87,371	34,082	3,269	-
AstraZeneca Plc	4,225	107,826	10,728	-
Aviva Plc	8,586	31,960	1,526	-
BAE Systems Plc	11,150	38,021	3,986	-
BHP Billiton Plc	2,574	32,492	815	-
BP Plc	7,574	39,557	282	-
BT Group Plc	(27,956)	(38,495)	699	-
Centrica Plc	29,346	68,670	9,391	-
Close Brothers Group Plc	7,984	39,983	2,252	-
Compass Group Plc	5,205	17,150	755	-
Dana Petroleum Plc	2,969	29,363	89	-
G4S Plc	12,528	24,455	1,228	-
IG Group Holdings Plc	55,657	130,148	12,195	-

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

9. Financial instruments and associated risks (continued)

D. Specific instruments (continued)

(ii) Derivatives (continued)

Contracts for differences (continued)

Underlying	Holding long/(short)	Notional cost £	Fair value assets £	Fair value (liabilities) £
Kier Group Plc	1,084	9,496	287	-
Kingfisher Plc	(24,269)	(33,467)	704	-
Next Plc	1,231	12,593	714	-
Provident Financial Plc	14,220	118,687	3,605	-
Royal & Sun Alliance Insurance Group	7,622	10,236	290	-
Scottish & Southern Energy Plc	6,109	67,504	6,842	-
Standard Chartered Plc	7,987	59,823	10,064	-
TUI Travel Plc	678	1,473	110	-
Vodafone Group Plc	24,345	31,283	2,544	-
Berkeley Group Holdings Plc	2,724	24,447	-	(708)
BG Group Plc	3,424	33,675	-	(924)
British Land Co Plc	(4,500)	(24,278)	-	(517)
Chemring Group Plc	1,177	22,952	-	(106)
De La Rue Plc	(4,430)	(39,693)	-	(443)
Diageo Plc	(6,762)	(62,773)	-	(2,210)
HBOS Plc	73,174	51,734	-	(1,244)
HBOS Plc (Sub Shares)	180,724	-	-	-
Home Retail Group	6,284	14,453	-	(1,163)
HSBC Holdings Plc	4,810	34,824	-	(2,982)
InterContinental Hotels Group Plc	(13,061)	(73,007)	-	(396)
ITV Plc	(36,510)	(13,990)	-	(523)
Kesa Electricals Plc	(16,890)	(14,009)	-	(897)
Man Group Plc	15,230	38,646	-	(2,513)
Premier Foods Plc	(42,984)	(11,749)	-	(1,361)
Rotork Plc	1,421	11,553	-	(306)
SABMiller Plc	(4,450)	(51,256)	-	(497)

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

9. Financial instruments and associated risks (continued)

D. Specific instruments (continued)

(ii) Derivatives (continued)

Contracts for differences (continued)

Underlying	Holding long/(short)	Notional cost £	Fair value assets £	Fair value (liabilities) £
Smith & Nephew Plc	26,183	115,966	-	(1,153)
Tate & Lyle Plc	6,682	26,915	-	(137)
Thomson Reuters Plc	(1,565)	(21,347)	-	(2,285)
William Hill Plc	(7,853)	(16,177)	-	(707)
WH Smith Plc	3,348	12,220	-	(218)
			75,290	(21,290)

31 December 2007

Underlying	Holding long/(short)	Notional cost £	Fair value assets £	Fair value (liabilities) £
BP Plc	120,000	709,063	28,961	-
British Airways Plc	(75,000)	(244,045)	11,733	-
Capita Group Plc	(68,000)	(480,392)	5,752	-
Dana Petroleum Plc	18,500	194,443	63,259	-
DSG International Plc	(50,000)	(51,542)	1,903	-
Electrocomponents Plc	(220,000)	(466,065)	7,365	-
Enterprise Inns Plc	(98,000)	(484,052)	6,792	-
Experian Group Ltd	(60,000)	(251,451)	13,251	-
FirstGroup Plc	33,000	242,084	26,998	-
ICAP Plc	51,000	317,922	52,593	-
Imperial Tobacco Group Plc	19,000	497,050	18,263	-
Informa Plc	58,000	257,314	10,645	-
Inmarsat Ltd	140,000	670,201	90,415	-
InterContinental Hotels Group Plc	(53,000)	(512,008)	43,488	-

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

9. Financial instruments and associated risks (continued)

D. Specific instruments (continued)

(ii) Derivatives (continued)

Contracts for differences (continued)

Underlying	Holding long/(short)	Notional cost £	Fair value assets £	Fair value (liabilities) £
Invensys Plc	(227,000)	(524,196)	8,906	-
Kingfisher Plc	(154,000)	(255,738)	31,514	-
Landbrokes Plc	(80,000)	(290,791)	32,191	-
Man Group Plc	198,250	1,112,024	16,033	-
Misys Plc	(281,000)	(621,000)	101,714	-
Mitchells & Butler Plc	(54,000)	(265,253)	36,293	-
Morrison (WM) Supermarkets	342,000	1,045,868	55,544	-
Old Mutual Plc	147,000	236,639	9,733	-
Premier Farnell Plc	(350,000)	(546,755)	33,130	-
Rexam Plc	(50,000)	(218,438)	9,188	-
Scottish and Southern Energy Plc	32,000	449,378	74,782	-
Shire Plc	22,000	249,025	3,785	-
Signet Group Plc	(364,000)	(282,107)	28,217	-
Standard Chartered Plc	26,000	439,687	39,774	-
Tomkins Plc	(120,000)	(232,720)	20,620	-
Unilever Plc	42,000	746,270	47,530	-
Vedanta Resources Plc	(21,500)	(465,128)	25,238	-
Vodafone Group Plc	620,000	1,137,341	27,034	-
ARM Holdings Plc	(205,000)	(247,144)	-	(7,013)
AstraZeneca Plc	26,500	647,734	-	(74,309)
Bellway Plc	31,000	317,713	-	(59,328)
British Land Co Plc	(55,000)	(500,322)	-	(19,417)
British Sky Broadcasting Plc	(82,000)	(493,854)	-	(13,726)
Bunzl Plc	(70,000)	(467,389)	-	(29,219)
Carnival Plc	(29,500)	(616,734)	-	(37,871)
Cattles Plc	130,290	438,408	-	(55,403)
Cookson Group Plc	18,000	130,236	-	(4,776)
Dairy Crest Group Plc	85,000	500,104	-	(4,578)
Diageo Plc	(69,000)	(727,953)	-	(17,247)
Intermediate Capital Group	27,000	484,410	-	(38,100)

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

9. Financial instruments and associated risks (continued)

D. Specific instruments (continued)

(ii) Derivatives (continued)

Contracts for differences (continued)

Underlying	Holding long/(short)	Notional cost £	Fair value assets Fair value assets £	Fair value (liabilities) £
Intertek Group Plc	(26,500)	(247,337)	-	(15,013)
Johnson Matthey Plc	(7,000)	(113,722)	-	(17,853)
Northgate Information Solutions Plc	(500,000)	(328,335)	-	(132,555)
Premier Foods Plc	(185,000)	(378,011)	-	(777)
Rentokil Initial Plc	(160,000)	(181,568)	-	(11,872)
SIG Plc	32,000	395,548	-	(157,401)
Venture Production Plc	75,000	594,557	-	(560)
William Hill Plc	(73,000)	(356,231)	-	(26,654)
Yell Group Plc	114,000	477,848	-	(20,708)
			982,644	(744,380)

Fair value information

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

For the majority of the Company's financial instruments, quoted market prices are readily available. However, certain financial instruments, including certain over the counter derivatives, are fair valued using valuation techniques which include reference to the current fair values of instruments that are substantially the same or related (subject to appropriate adjustments).

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 (e.g. interest rates, volatility, etc.)

The major methods and assumptions used in estimating the fair values of financial instruments were disclosed in note 2 (d) of the significant accounting policies section.

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

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

Fair value information (continued)

At December 2008, the carrying amounts of equity investments and equity investment sold short were determined directly, in full or in part, by reference to published price quotations.

At December 2008, the carrying amounts of derivative financial assets and derivative financial liabilities were determined directly, in full or in part, by reference to published price quotations.

The primary input in determining the fair value of CFDs is the fair value of the underlying equity. The primary input in determining the fair value of forward foreign exchange contracts is the forward exchange rate.

10. Fees and expenses

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. Morgan Stanley & Co. International and UBS AG have been appointed as Prime Brokers and HSBC Securities Services (Ireland) 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 2008 was £101,659 (2007: £321,810). Included in liabilities at 31 December 2008 are investment management fees payable of £10,790 (2007: £92,294).

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.

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

10. Fees and expenses (continued)

Performance fee (continued)

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 2008 was £172 (2007: £341,480). Included in liabilities at 31 December 2008 are performance fees payable of £172 (2007: £342,872).

Prime brokerage and custodial fees

The Prime Broker Morgan Stanley & Co. 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 2008 was £25,975 (2007: £623,433) which is included in other expenses in the consolidated income statement.

On 23 October 2008, the directors appointed UBS AG (“UBS”) as an additional prime broker to the Company. The Prime Broker agreement allows for such fees as may be agreed from time to time at normal commercial rates

The allocation of assets between Morgan Stanley and UBS will be determined by the nature and type of transaction. During the year no fees were paid to UBS and no fees were included in liabilities at 31 December 2008.

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.

The Administration fee for 2008 was £48,229 (2007: £31,001). Included in liabilities at 31 December 2008 are administration fees payable of £9,588 (2007: £9,913).

Directors’ fees and interests

The Company will pay each Director an annual fee of \$10,000 (£6,775). None of the Directors have, nor have had any interest in any of the Company’s Share Classes.

The US Dollar amounts above have been stated at the year end exchange rate of \$0.6775: £1

Artemis UK Hedge Fund Limited

Notes

Forming part of the consolidated financial statements (continued)

11. Reconciliation of 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 the 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:

The 31 December 2008 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:

	<i>AUKHFL Dollar Class US\$</i>	<i>AUKHFL Sterling Class £</i>	<i>AUKHFL Euro Class €</i>	<i>AUKHFL Master Class £</i>	<i>Consolidated Total 2008 £</i>
Net asset value for share dealing purposes at 31 December 2008	126,435	2,829,261	310,603	3,171,780	3,211,253
Adjustment to bid/offer prices	(66)	(1,502)	(165)	(1,705)	(1,705)
Net asset value per the consolidated financial statements at 31 December 2008	<u>126,369</u>	<u>2,827,759</u>	<u>310,438</u>	<u>3,170,075</u>	<u>3,209,548</u>

The 31 December 2007 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:

	<i>AUKHFL Dollar Class US\$</i>	<i>AUKHFL Sterling Class £</i>	<i>AUKHFL Euro Class €</i>	<i>AUKHFL Master Class £</i>	<i>Consolidated Total 2007 £</i>
Net asset value for share dealing purposes at 31 December 2007	13,415,333	3,301,331	20,085,581	25,129,021	24,840,744
Adjustment to bid/offer prices	(12,705)	(3,154)	(19,123)	(23,628)	(23,628)
Net asset value per the consolidated financial statements at 31 December 2007	<u>13,402,628</u>	<u>3,298,177</u>	<u>20,066,458</u>	<u>25,105,393</u>	<u>24,817,116</u>

12. Approval of the Consolidated Financial Statements

The consolidated financial statements were approved by the Directors on 17 June 2009.



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