

# Artemis UK Hedge Fund Limited

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Interim Financial Report (unaudited)  
For the six months ended 30 June 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  
Mary Street, PO Box 908  
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 broker

Morgan Stanley & Co. International Limited  
25 Cabot Square  
Canary Wharf  
London, E14 4QA  
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

### Legal advisors (Cayman Islands law)

Walkers  
48 Gracechurch Street  
London, EC3V 0EJ  
United Kingdom

### Legal advisors (United Kingdom law)

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

# Artemis UK Hedge Fund Limited

Directors and other information *(continued)*

**Auditors**

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

# Artemis UK Hedge Fund Limited

## Investment manager's report

### **Overview**

As a result of a number of redemptions, the Fund has fallen in size to around US\$5 million.

### **Performance**

In the six months to 30 June 2008, the net asset value of the Fund rose by 3%. This compares with cash returns of almost 2.9% and UK equity market returns of -11.2%. The EuroHedge European long-short index was up 4.5%, in sterling terms, over the same period. The Fund's US dollar class was up by 1.5% and the Euro class returned 2.3%.

We have been disappointed by this start to the year. Although there have been no major losses, there have also been few big winners. The Fund is well ahead of the market, but we feel it should have done better in absolute terms. We are sticking firmly to our SmartGARP™ stock-screening process however, as we do not believe there has been a radical change in market conditions. We are convinced our stockpicking will be validated soon. Indeed, we have increased the level of conviction in positions where we believe our process will be best rewarded.

### **Review**

The market fell precipitously in January, and declined somewhat more for the rest of the first quarter. It then rose quite strongly until mid-May before succumbing again to poor economic and trading news and falling steadily until the end of the second quarter.

We had especial success with our shorts. Thirteen of them feature in our top twenty most successful positions. Only two shorts feature in the twenty worst positions over the period under review.

The portfolio continues to have a strong bias towards stocks with above average growth prospects and even more so to those where earnings forecasts are being revised upwards and the balance sheet is sound. The converse is true for short positions. We are net short the Restaurants & Bars and Distillers sectors. We are keen on Pharmaceuticals and (certain) Banks in particular. At the end of June, the Fund had a net exposure of 77%.

### **Outlook**

We are still pressing hard on some of our successful short positions, particularly where high levels of indebtedness imply very difficult times ahead. We will continue to avoid stocks and sectors where valuation does not compensate for a poor outlook. Perversely, we are encouraged by the cries of pain from corners of the market and by signs of fear. A recent Merrill Lynch survey showed that the percentage of fund managers who are overweight equities was the lowest since the survey began in 1998. In selective cases this may signal pockets of value, where babies have been caught up in the proverbial bathwater.

John Wood

*Investment Manager*

*Artemis Investment Management Limited*

# Artemis UK Hedge Fund Limited

## Consolidated balance sheet (unaudited)

At 30 June 2008

	<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</i> <i>30 June 2008</i> <i>£</i>	<i>Consolidated</i> <i>Total</i> <i>31 Dec 2007</i> <i>£</i>
<b>Assets</b>						
Financial assets at fair value through profit or loss	1,486	-	413	860,989	862,063	14,130,746
Investment in Master Fund	136,685	2,178,650	337,333	-	-	-
Cash and cash equivalents	-	-	-	31,654	31,654	72,215
Balances due from brokers	-	-	-	1,940,858	1,940,858	15,168,391
Dividends receivable	-	-	-	2,549	2,549	36,554
Interest receivable	-	-	-	6,726	6,726	75,128
Other assets	-	-	-	58,899	58,899	33,575
<b>Total assets</b>	<b>138,171</b>	<b>2,178,650</b>	<b>337,746</b>	<b>2,901,675</b>	<b>2,902,749</b>	<b>29,516,609</b>
<b>Liabilities</b>						
Financial liabilities at fair value through profit or loss	(2,339)	-	(91)	(287,546)	(288,794)	(4,126,587)
Subscriptions in advance	-	-	-	-	-	(17,000)
Balances due to brokers	-	-	-	(28,432)	(28,432)	-
Management fees payable	-	-	-	(9,416)	(9,416)	(92,294)
Administration fees payable	-	-	-	(3,956)	(3,956)	(9,913)
Audit fees payable	-	-	-	(33,715)	(33,715)	(21,058)
Performance fee payable	(484)	(15,771)	(1,897)	-	(17,516)	(342,872)
Other accrued expenses	-	(42)	-	(24,340)	(24,382)	(89,769)
<b>Total liabilities (excluding net assets attributable to holders of redeemable shares)</b>	<b>(2,823)</b>	<b>(15,813)</b>	<b>(1,988)</b>	<b>(387,405)</b>	<b>(406,211)</b>	<b>(4,699,493)</b>
<b>Net assets attributable to holders of redeemable shares</b>	<b>135,348</b>	<b>2,162,837</b>	<b>335,758</b>	<b>2,514,270</b>	<b>2,496,538</b>	<b>24,817,116</b>
<b>Net Asset Value per redeemable share class</b>	<b>135.35</b>	<b>139.79</b>	<b>131.36</b>			
<b>Number of redeemable shares per class</b>	<b>1,000</b>	<b>15,472</b>	<b>2,556</b>			

See accompanying notes to the consolidated interim financial statements.

# Artemis UK Hedge Fund Limited

## Consolidated income statement (unaudited)

For the six months ended 30 June 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</i> <i>June 2008</i> £	<i>Consolidated</i> <i>Total</i> <i>June 2007</i> £	<i>Consolidated</i> <i>Total</i> <i>December</i> <i>2007</i> £
<b>Investment income</b>							
Interest income	-	-	-	405,969	405,969	205,137	981,488
Dividend income	-	-	-	219,151	219,151	493,454	773,686
Other income	-	-	-	34,323	34,323	23,922	8,820
Net (losses)/gains from financial assets and liabilities at fair value through profit or loss	(357,500)	32,655	(673,965)	(1,041,769)	(1,183,459)	(129,679)	1,808,669
Net foreign exchange (losses)/gains	(172,640)	-	134,982	400,261	420,267	(24,448)	(259,718)
<b>Net investment (expense)/income</b>	<b>(530,140)</b>	<b>32,655</b>	<b>(538,983)</b>	<b>17,935</b>	<b>(103,749)</b>	<b>568,386</b>	<b>3,312,945</b>
<b>Expenses</b>							
Interest expense	-	-	-	(288,262)	(288,262)	-	(156,609)
Dividend expense	-	-	-	(52,658)	(52,658)	(144,802)	(277,142)
Management fees	-	-	-	(81,607)	(81,607)	(169,346)	(321,810)
Administration fees	-	-	-	(23,432)	(23,432)	(28,456)	(31,001)
Performance fees	(484)	(15,771)	(1,897)	-	(17,516)	(14,080)	(341,480)
Audit fees	-	-	-	(11,174)	(11,174)	(9,786)	(22,581)
Directors' fees	-	-	-	(15,607)	(15,607)	(16,066)	(55,258)
Prime broker' fees	-	-	-	(4,322)	(4,322)	(8,623)	(623,433)
Other expenses	-	-	-	(56,341)	(56,340)	(166,202)	(94,812)
<b>Operating expenses</b>	<b>(484)</b>	<b>(15,771)</b>	<b>(1,897)</b>	<b>(533,403)</b>	<b>(550,918)</b>	<b>(557,361)</b>	<b>(1,924,126)</b>
Net (loss)/gain from operations before taxation	(530,624)	16,884	(540,880)	(515,468)	(654,667)	11,025	1,388,819
Withholding tax on dividend income	-	-	-	(23,167)	(23,167)	(28,572)	(39,844)
<b>Change in net assets attributable to holders of redeemable shares resulting from operations</b>	<b>(530,624)</b>	<b>16,884</b>	<b>(540,880)</b>	<b>(538,635)</b>	<b>(677,834)</b>	<b>(17,547)</b>	<b>1,348,975</b>

See accompanying notes to the consolidated interim financial statements.

# Artemis UK Hedge Fund Limited

## Consolidated statement of changes in net assets attributable to holders of redeemable shares (unaudited)

For the six months ended 30 June 2008

	<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</i> <i>June 2008</i> <i>£</i>	<i>Consolidated</i> <i>Total</i> <i>June 2007</i> <i>£</i>
Balance at 1 January 2008	13,402,628	3,298,177	20,066,458	25,105,393	24,817,116	22,242,141
Currency translation	-	-	-	-	1,095,923	(25,823)
Issue of redeemable shares during the period	-	23,500	23,946	1,182,771	42,578	92,051
Redemption of redeemable shares during the period	(12,736,656)	(1,175,682)	(19,213,766)	(23,235,259)	(22,781,203)	-
Change in net assets attributable to holders of redeemable shares resulting from operations	(530,624)	16,884	(540,880)	(538,635)	(677,834)	(17,547)
Equalisation capital	-	(42)	-	-	(42)	17,629
<b>Balance at 30 June 2008</b>	<b>135,348</b>	<b>2,162,837</b>	<b>335,758</b>	<b>2,514,270</b>	<b>2,496,538</b>	<b>22,308,451</b>

See accompanying notes to the consolidated interim financial statements.

# Artemis UK Hedge Fund Limited

## Consolidated statement of cash flows (unaudited)

For the six months ended 30 June 2008

	<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</i> <i>June 2008</i> <i>£</i>	<i>Consolidated</i> <i>Total</i> <i>June 2007</i> <i>£</i>
<b>Operating activities</b>						
Change in net assets attributable to holders of redeemable shares resulting from operations	(530,624)	16,884	(540,880)	(538,635)	(677,834)	(17,547)
Currency translation	-	-	-	-	1,095,923	(25,823)
Adjustment for movement in net losses/(gains) from financial assets and liabilities at fair value through profit or loss	357,500	(32,655)	673,965	1,041,769	1,183,459	129,679
<b>Net operating cash flow before changes in operating assets and liabilities</b>	<b>(173,124)</b>	<b>(15,771)</b>	<b>133,085</b>	<b>503,134</b>	<b>1,601,548</b>	<b>86,309</b>
Net purchases and sales of trading securities	13,113,903	1,204,557	19,309,500	8,334,352	8,247,428	(2,339,411)
Decrease in interest receivable	-	-	-	68,402	68,402	(2,704)
Decrease in other assets	-	-	-	13,236,214	13,236,214	848,474
Decrease in other payables	(204,123)	(36,604)	(252,765)	(113,175)	(438,528)	1,240,434
<b>Net change in operating assets and liabilities</b>	<b>12,909,780</b>	<b>1,167,953</b>	<b>19,056,735</b>	<b>21,525,793</b>	<b>21,113,516</b>	<b>(253,207)</b>
<b>Cash flows from operating activities</b>	<b>12,736,656</b>	<b>1,152,182</b>	<b>19,189,820</b>	<b>22,028,927</b>	<b>22,715,064</b>	<b>(166,898)</b>

# Artemis UK Hedge Fund Limited

## Consolidated statement of cash flows (unaudited) *(continued)*

For the six months ended 30 June 2008

	<i>AUKHFL Dollar Class US \$</i>	<i>AUKHFL Sterling Class £</i>	<i>AUKHFL Euro Class €</i>	<i>AUKHFLP Master £</i>	<i>Consolidated Total June 2008 £</i>	<i>Consolidated Total June 2007 £</i>
<b>Financing activities</b>						
Proceeds from issue of redeemable shares	-	23,500	23,946	1,165,771	25,578	92,051
Payments on redemption of redeemable shares	(12,736,656)	(1,175,682)	(19,213,766)	(23,235,259)	(22,781,203)	-
Increase in equalisation credit	-	-	-	-	-	17,179
Cash flows from financing activities	(12,736,656)	(1,152,182)	(19,189,820)	(22,069,488)	(22,755,625)	109,230
Decrease in cash and cash equivalents during the period	-	-	-	(40,561)	(40,561)	(57,668)
Cash and cash equivalents at beginning of the period	-	-	-	72,215	72,215	65,377
Cash and cash equivalents at end of period	-	-	-	31,654	31,654	7,709
<b>Supplementary information on cash flows from operating activities</b>						
Interest received	-	-	-	474,371	474,371	202,433
Interest paid	-	-	-	(288,262)	(288,262)	-
Dividends received	-	-	-	253,156	253,156	449,055
Dividends paid	-	-	-	(91,568)	(91,568)	142,552
Withholding taxes paid	-	-	-	(23,167)	(23,167)	(28,572)

See accompanying notes to the consolidated interim financial statements

# Artemis UK Hedge Fund Limited

## Notes

*Forming part of the consolidated interim financial statements*

### **1. Significant accounting policies**

These financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations adopted by the International Accounting Standards Board (“IASB”). Specifically these financial statements have been prepared in accordance with IAS (International Accounting Standard) 34: Interim Financial Reporting.

The comparative figures for the Balance Sheet relate to the year ended 31 December 2007, while the comparative figures for the Income Statement relate to the period ended 30 June 2007 and the year ended 31 December 2007. The comparative figures for the Statement of Changes in Net Assets Attributable to Redeemable Shareholders and Statement of Cash Flows relate to the period ended 30 June 2007.

The accounting policies used in the preparation of these financial statements are consistent with those used in the Company’s most recent annual financial statements for the year ended 31 December 2007. There have been no changes to the Company’s accounting policies since the date of the Company’s last annual financial statements, for the year ended 31 December 2007. The format of these financial statements differs in some respects from that of the most recent annual financial statements, in that the notes to the financial statements are presented in summary form.

### **2. Significant matters arising during the period**

There were no significant matters arising during the six months ended 30 June 2008. Further details of the Company’s performance during the period are included in the Investment Manager’s report on page 3.

### **3. Related parties**

#### *Investment Manager*

The Company appointed Artemis Investment Management Limited (the “Investment Manager”), an investment management company incorporated in the United Kingdom, to implement the investment strategy as specified in the prospectus. Morgan Stanley International has been appointed as the Prime Broker 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 the six months ended 30 June 2008 was £81,607 (30 June 2007: £169,346; 31 December 2007: £321,810). Included in liabilities at 30 June 2008 are investment management fees payable of £9,416 (31 December 2007: £92,294).

# Artemis UK Hedge Fund Limited

## Notes

*Forming part of the consolidated interim financial statements (continued)*

### **3. Related parties (continued)**

#### *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 Performance fee for the six months ended 30 June 2008 was £17,516 (30 June 2007: £14,080; 31 December 2007: £341,480). Included in liabilities at 30 June 2008 are performance fees payable of £17,516 (31 December 2007: £342,872).

#### *Prime Brokerage and Custodial Fees*

The Prime Broker Morgan Stanley & Co. International receives Prime Broker fees, which are based upon a combination of transaction charges, interest costs and borrowing fees at normal commercial rates. The Prime Broker fee for the six months ended 30 June 2008 was £4,322 (30 June 2007: £8,623; 31 December 2007: £623,433). Included in liabilities at 30 June 2008 are Prime Broker fees payable of £Nil (31 December 2007: £Nil).

#### *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.

The Administration fee for the six months ended 30 June 2008 was £23,432 (30 June 2007: £28,456; 31 December 2007: £31,001). Included in liabilities at 30 June 2008 are administration fees payable of £3,956 (31 December 2007: £9,913).

#### *Directors’ fees and interests*

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

#### *Shareholdings of related parties*

The Investment Manager held no redeemable shares at 30 June 2008 (31 December 2007: Nil).



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