

**Investment Objective:** To earn consistent capital growth and income through value, arbitrage, and special situation investments in the continent of Africa. Portfolio investments will include equity, debt, and other interests in both listed and unlisted assets.

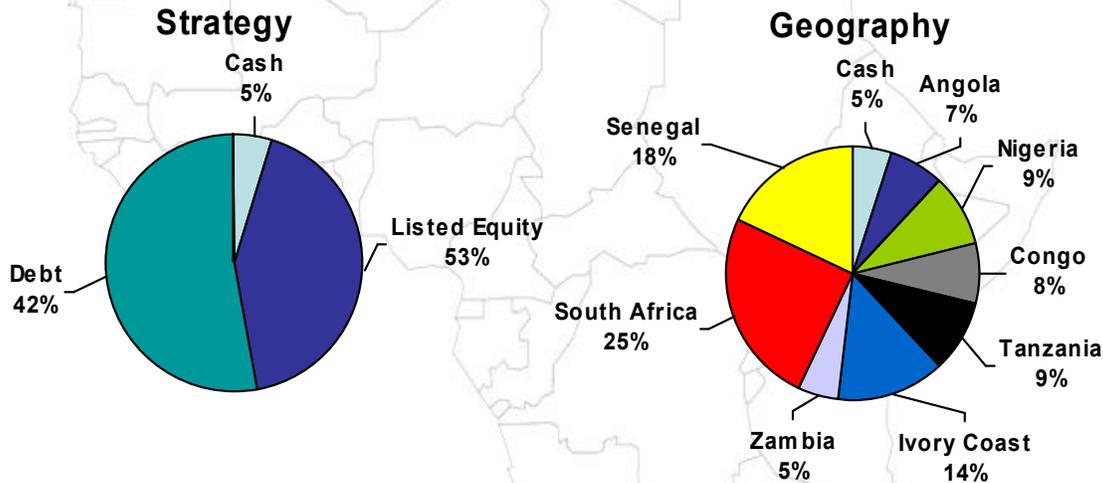
**Listing:** AOF is traded on the AIM market of the London Stock Exchange. It also has a primary listing on the Channel Islands Stock Exchange and is therefore a "qualifying investment" within a UK ISA, PEP or SIPP.

**Dividend policy:** The Fund will pay a quarterly dividend that in sum will equal 1 year Libor on an annual basis.

**Fund Performance (as of 31 December 2008)**

NAV per share:	US\$0.52	Total Net Assets:	US\$59.9 m
Share price as at 31 Dec. 08:	US\$0.28	Market Capitalisation:	US\$32.3 m
Premium/Discount to NAV:	-46.0%	Shares outstanding:	115.5 m
Current Quarterly Dividend:	\$0.0026		

US\$ NAV Return % (Incl Dividends)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FY
2008	-0.7%	1.9%	1.4%	1.0%	0.1%	-0.6%	-3.8%	-8.2%	-9.8%	-23.8%	-10.2%	-4.1%	-42.5%



Top Ten Holdings	Description	% of NAV
Sonatel	Fast growing mobile phone provider in Senegal and neighboring countries	17.9%
African Bank Investments Limited	South African consumer finance and microlending company	9.3%
Ivory Coast Govt 10% 28/01/11	Ivory Coast securitized domestic bonds denominated in Euros	8.4%
AFDB 13.75% TZS 5/9/09	African Development Bank AAA rated Tanzanian shilling bond	8.3%
Gold Fields Ltd	Fourth largest world gold producer mining primarily in South Africa	8.3%
Katanga Mining 14% 11/30/13	Bond financing the restart of the Kamoto copper and cobalt mine in the Democratic Republic of Congo	5.8%
Diamondcorp 12% 2011	Secured loan to South African diamond producer with amortizing repayment	5.5%
Addax Petroleum Corp.	Oil and gas production company with operations focused in West Africa	4.9%
SAPH	Ivory Coast rubber plantation operator and processor	4.6%
Africa Offshore LIB+600 6/29/12	Floating rate US\$ 1st priority mortgage bonds on oilfield construction vessels	3.5%
<b>TOTAL</b>		<b>76.5%</b>

## Manager's Comment

**Market Conditions:** AOF's NAV fell 34% during the fourth quarter of 2008, from \$0.79 to \$0.52, bringing the year to date 2008 return to -42.5%, completing one of the most difficult years in investing history. To provide perspective, in US Dollars, in 2008 the S&P 500 declined 39%, Russia declined 73%, Brazil declined 55%, China declined 60%, and India declined 62%. Africa experienced similar declines. The S&P South Africa 40 Index declined 50%, South Africa declined 46%, Nigeria declined 54%, Kenya declined 47%, and Egypt declined 56%.

**NAV Performance and Portfolio Highlights:** A key disappointment in 2008 was the inability of the fixed income portfolio to preserve capital value during the market declines. The fourth quarter brought steep price declines in this portfolio. We believe the current prices represent an extreme level of pessimism. To illustrate by way of example, our Katanga Mining bonds have a YTM of 37%, our Africa Offshore bonds have a YTM of 60%, and our Ivory Coast bonds have a YTM of 85%. The African Offshore bonds are particularly compelling, priced at 22% of par even though we were repaid 20% of the principal value of the bonds early at 108% of par value in September.

Overall, the fixed income portfolio represents 42% of net assets and the equity portfolio represents 53% of net assets. The fixed income portfolio is valued at a 50% discount to par value and has a 21% current yield. The equity portfolio is comprised primarily of companies with a single digit PE and double digit dividend yield. The portfolio overall is generating approximately a 16% cash yield.

**Portfolio Appraisal Value:** The Manager has instituted a policy of sharing our appraisal of the portfolio's intrinsic value on a quarterly basis in these newsletters. The objective is to provide the Manager's long-term view of the attractiveness of AOF's potential opportunity. It does not tell when that opportunity will be realized, nor does it guarantee that any particular security will reach its appraisal value. As of 31st December the Manager's appraisal of the intrinsic economic value of the portfolio was \$0.75 per share, implying that the shares, priced at \$0.28 as of quarter end, in our view represent a discount of 63% to intrinsic economic value.

**Strategy:** We are focused on investing in companies with minimal debt and little need to access the capital markets, with a particular emphasis on goods and services in short supply in Africa. Market leading, cash generative businesses are trading at historically low valuations, and where we can find companies offering a single digit PE, significant free cash flow, and a secure market position, we will look to deploy capital.

**Discount:** The shares of AOF ended the year valued at a 46% discount to NAV. In the Manager's view this is a startling figure. The share price discount implicitly values the fixed income portfolio at 27% of par and provides an overall cash yield of nearly 30%. When the Manager launched AOF, it stated clearly that a large and sustained discount would not be tolerated. The Manager will take meaningful steps in 2009 in an effort to substantially eliminate the discount, and further communication on this subject is forthcoming.

## Fund Details

<i>Bloomberg:</i>	AOF LN	<i>Portfolio Managers:</i>	Francis Daniels Robert Knapp
<i>Reuters:</i>	AOF.L	<i>Investment Manager:</i>	Africa Opportunity Partners
<i>Website:</i>	<a href="http://www.africaopportunityfund.com">www.africaopportunityfund.com</a>	<i>Email Address:</i>	<a href="mailto:funds@lcf.co.uk">funds@lcf.co.uk</a>
<i>Listing:</i>	Channel Islands Stock Exchange AIM / London Stock Exchange	<i>Broker:</i>	LCF Edmond de Rothschild Securities Tel: +44 20 7845 5960 Fax: +44 20 7845 5961 <a href="http://www.countryfunds.co.uk">www.countryfunds.co.uk</a>
<i>Structure:</i>	Closed-end	<i>Nominated Adviser:</i>	Grant Thornton UK LLP Tel: +44 20 7383 5100
<i>ISIN:</i>	KYG012921048 Euroclear/Clearstream	<i>Auditor:</i>	Ernst & Young
<i>Inception:</i>	26 July 2007		
<i>Domicile:</i>	Cayman Islands		

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