FRM CREDIT ALPHA LIMITED

(Incorporated in Guernsey)

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2011

TABLE OF CONTENTS **PAGE**

DIRECTORS AND OTHER INFORMATION

DIRECTORS	Peter Atkinson (Chairman)* Richard Hotchkis* Dr. Damian Johnson** Andrew Duquemin* * independent non-executive **non-independent non-executive
REGISTERED OFFICE	PO Box 173 Royal Chambers St. Julian's Avenue St. Peter Port Guernsey, GY1 4HG Channel Islands
MANAGER	FRM Investment Management Limited PO Box 173 Royal Chambers St. Julian's Avenue St. Peter Port Guernsey, GY1 4HG Channel Islands
INVESTMENT ADVISER	Financial Risk Management Limited 1-11 John Adam Street London, WC2N 6HT United Kingdom
SOLICITORS *(As to English Law)*	Herbert Smith LLP Exchange House Primrose Street London, EC2A 2HS United Kingdom
ADVOCATES *(As to Guernsey Law)*	Carey Olsen PO Box 98 Carey House Les Banques St. Peter Port Guernsey, GY1 4BZ Channel Islands
REGISTRAR/TRANSFER AGENT	Capita Registrars (Guernsey) Limited Longue Hougue House St. Sampson Guernsey, GY2 4JN Channel Islands
INDEPENDENT AUDITORS	PricewaterhouseCoopers CI LLP Royal Bank Place PO Box 321 First Floor 1 Glategny Esplanade St. Peters Port Guernsey, GY1 4ND Channel Islands

DIRECTORS AND OTHER INFORMATION (continued)

ADMINISTRATOR	J.P. Morgan Hedge Fund Services (Ireland) Limited Newenham House Northern Cross Malahide Road Dublin 17 Ireland
CUSTODIAN	J.P.Morgan Chase Bank, National Association (London Branch) 125 London Wall London, EC2Y 5AJ United Kingdom
FINANCIAL ADVISER AND CORPORATE BROKER/ LISTING SPONSOR	Winterflood Securities Limited Cannon Bridge House 25 Dowgate Hill London, EC4R 2GA United Kingdom
COUNTERPARTY FOR FORWARD CONTRACTS *(Until 30 December 2010)*	Citibank, N.A. 390 Greenwich Street 4th Floor New York, NY 10013 United States of America

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011

The Directors present their report together with the annual financial report of FRM Credit Alpha Limited (the "Company") for the year ended 30 June 2011.

Company Background

The Company, a closed-ended investment company, was incorporated on 1 March 2007 under the laws of Guernsey with registered number 46497. The Company began trading on 27 March 2007 with a listing on the Irish Stock Exchange (the "ISE"). On 4 September 2008, the Company was de-listed from the ISE and since then the Sterling Shares have been listed on the Main Market of the London Stock Exchange.

Principal Activities

The Company was launched with the objective of delivering better risk-adjusted returns than those achieved by making passive investments in corporate debt securities, when measured over a complete market cycle. The Company sought to achieve its objective by investing in a portfolio of underlying investee funds pursuing a variety of different credit and credit-related trading strategies. The Company is currently subject to a managed wind-down further details of which are given below under the heading "Managed Wind-Down".

Results

The results for the period are shown in the Statement of Comprehensive Income on page 16.

Directors

The Directors of the Company are set out on page 3.

Directors' Interests

For details of Directors' fees paid during the year, see note 3(d). As at 30 June 2011 Richard Hotchkis held 14,124 Sterling Shares (30 June 2010: 30,000 Sterling Shares) in the Company. No other Director holds shares in the Company.

Corporate Governance

Introduction

The Company is a member of the Association of Investment Companies (the "AIC") and the Board has carefully considered the principles and recommendations of the AIC Code of Corporate Governance (the "AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to Shareholders.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code.

The UK Corporate Governance Code includes provisions relating to:

- the role of the chief executive
- executive Directors' remuneration
- the need for an internal audit function

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011 (continued)

Corporate Governance (continued)

Introduction (continued)

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

The Company has delegated responsibility for voting in relation to its underlying investee funds to the Investment Manager.

The Board

The Board currently consists of four non-executive Directors of which Mr Atkinson, Mr Duquemin and Mr Hotchkis are considered to be independent and Dr Johnson non-independent due to his previously held position as a Director of the Investment Manager. Mr Atkinson, Mr Hotchkis and Dr Johnson have been members of the Board since the Company's incorporation on 13 March 2007 and Mr Duquemin has been a member of the Board since 11 September 2007. None of the Directors are on the boards of any other funds managed by the Investment Manager. Both Mr Atkinson and Mr Duquemin are Directors of Blue Diamond Limited, a private trading company unrelated to the Company and Investment Manager.

Peter Atkinson, Chairman, is an Advocate of the Royal Court of Guernsey and an English Solicitor. Admitted to the Guernsey Bar in 1980, he was the Senior Partner of Collas Day Advocates for 14 years from 1991 to 2005 and also acted as a Consultant in the course of a career with the firm spanning 25 years from 1981 to 2006. He specialised in corporate and fiduciary work and has been and continues to act as a non-executive Director of companies within the financial services sector including companies listed on the London and Channel Islands Stock Exchanges including Invista Foundation Property Trust Limited, Japan Residential Investment Company Limited and Harewood Structured Investment PCC Limited. He is a former Chairman of the Guernsey Bar and resides in Guernsey.

Andrew Duquemin is Chairman of Elysium Fund Management Limited, a company providing fund management and corporate finance services to a range of funds and trading companies. Elysium Fund Management Limited was formed in October 2006 to complete the management buyout of the business of Collins Stewart Fund Management Limited, a Guernsey registered company and wholly owned subsidiary of Collins Stewart Tullett plc, where Andrew was Managing Director. Andrew has extensive experience in providing corporate finance and management consultancy services to companies listed on both the London and the Channel Islands Stock Exchanges. He is also a Director of Corporate Consultants Limited; a Guernsey based consultancy business which has provided corporate finance and management consultancy services since 1991. Andrew sits on the boards of several Guernsey trading companies, has a degree in Accounting and Finance and qualified as a Chartered Accountant in 1983. He is also a Chartered Fellow of the Securities Institute and holds the advanced diploma in Corporate Finance. Mr Duquemin resides in Guernsey.

Richard Hotchkis has 30 years' investment experience. Until October 2006 he was an investment manager at the Co-operative Insurance Society, where he started his career in 1976. Mr Hotchkis has wide experience of equity investment in both the UK and overseas and also of the externally managed funds industry, including investment trust and other closed-ended funds, offshore funds and underlying investee funds. Mr Hotchkis sits on the board of a number of Guernsey-based funds including companies listed on the London and Channel Islands Stock Exchanges including Ashmore Global Opportunities, Alternative Investment Strategies, Advance Developing Markets Fund, Advance Frontier Markets Fund (Aim) and he is a Guernsey resident.

Dr. Damian Johnson studied for his PhD in Physics at the European Centre for Particle Physics (CERN) in Geneva and spent four further years in academia before beginning a career in investment management in 1996. He was initially a Research Analyst for Atlas Capital in London before being made the Head of Research there and he subsequently moved on to the Head of Research role at FRM, also in London, in 1999. He remained with FRM until May 2009 at which time he was a Director of FRM Investment Management Limited ("FRMIM"), the Head Portfolio Manager and the Head of the Portfolio Management Team. He is an experienced Board Director having held both executive and non-executive roles on some 20 boards (both trading and investment companies) over the years and resides in England.

The Company's Articles of Incorporation ("Articles") provide that at least one third of the Directors retire by rotation at each annual general meeting. A Director who retires at an annual general meeting may, if willing to act, be re-appointed. The Directors are not subject to automatic re-appointment. In addition, any Director who is not independent must retire at each annual general meeting. Peter Atkinson and Dr Damian Johnson will retire and Peter Atkinson will put himself up for re-election at the forthcoming AGM. Dr Damian Johnson will not be standing. It is not anticipated that any Director will serve for more than nine years.

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011 (continued)

Corporate Governance (continued)

The Board (continued)
Attendance at the quarterly Board meetings, Audit Committee and other ad hoc meetings during the year was as follows:

Date	Number of meetings held	Peter Atkinson	Andrew Duquemin	Richard Hotchkis	Damian Johnson
Quarterly Board Meetings	4	4	3	4	4
Audit Committee Meetings	2	2	1	2	-
AdHoc Board Meetings	2	2	2	2	-

The Directors are kept fully informed of investment and financial controls and other matters that are relevant to the business of the Company and which should be brought to the attention of the Directors. The Directors also have access to the Company Secretary and, where necessary in the furtherance of their duties, to independent professional advice at the expense of the Company.

The Board has a breadth of experience relevant to the Company and the Directors believe that any changes to the Board's composition can be managed without undue disruption. Given that the Company is now in a managed wind-down phase it is not anticipated that any new Directors will be appointed to the Board.

The Board has undertaken an internal review of its performance which concluded that the Board is operating effectively and that Directors have the breadth of skills required to fulfil their role. In order to review their effectiveness the Board carried out a process of formal self-appraisal. The Board considered how they function as a whole and also reviewed the performance of individual members. This process was conducted by the Chairman reviewing the Directors' performance, contribution and commitment to the Company.

Audit Committee
An Audit Committee has been established consisting of Mr Duquemin (chairman), Mr Atkinson and Mr Hotchkis. The Audit Committee examines the effectiveness of the Company's internal control systems, the annual financial report, the half-yearly unaudited financial report, the auditors' remuneration and engagement, as well as the auditors' independence and the non-audit services provided by them. The Audit Committee receives information from the Company Secretary and the external auditors.

Appointment and Remuneration Committee
An Appointment and Remuneration Committee has been established consisting of Mr Hotchkis (chairman), Mr Atkinson and Mr Duquemin. The Appointment and Remuneration Committee makes recommendations to the Board in respect of the appointment and remuneration of all non-executive Directors and the Chairman. The Appointment and Remuneration Committee has adopted terms of reference which are in accordance with the matters usually to be considered by such a committee. The Appointment and Remuneration Committee do not envisage appointing any new Directors to the Board given that the Company is in a managed wind-down.

Management Engagement Committee
A Management Engagement Committee has been established consisting of Mr Hotchkis (chairman), Mr Atkinson and Mr Duquemin. The Management Engagement Committee monitors the performance of the Company's service providers in the management of the Company's assets. The Management Engagement Committee receives a report from the Investment Manager on a quarterly basis.

Internal Controls
The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by the Company. This process has been in place for the period under review and is reviewed by the Board. The UK Corporate Governance Code requires Directors to conduct, at least annually, a review of the Company's system of internal control, covering all controls including financial, operational, compliance and risk management.

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011 (continued)

Corporate Governance (continued)

Internal Controls (continued)
The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating significant risks affecting the Company and the policies by which these risks are managed.

The internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed. Accordingly, the internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against misstatement and loss.

The Board has addressed the issue of the safeguarding of Shareholders' investments by ensuring that all of the Company's assets are held by the Custodian, J.P. Morgan Chase Bank, N.A. (London Branch).

Investment Manager
The Company entered into an agreement with the Investment Manager, FRM Investment Management Limited on 16 March 2007. This sets out the Investment Manager's key responsibilities which include proposing an investment strategy to the Board and, within certain authority limits, selecting investments for acquisition and disposal and arranging appropriate borrowing facilities. As at 30 June 2011 the Company does not have any borrowings. The Investment Manager is also responsible for all issues pertaining to asset management. The independent Directors review the performance of the Investment Manager and the fees and terms of the Investment Management Agreement on an annual basis. During the current financial year the Investment Management fee has been reviewed and amended as detailed in note 3 on page 22.

It is the view of the Directors that it is in the best interests of the Shareholders to continue with the current appointment of the Investment Manager under the terms agreed.

Relations with Shareholders
The Investment Adviser maintains a regular dialogue with institutional Shareholders, the feedback from which is reported to the Board. The Chairman has also met with certain Shareholders over the accounting period in question. In addition, Board members will be available to respond to Shareholders' questions at the annual general meeting.

Performance reports and Net Asset Value statements are published on the Company's website on a monthly basis and, as noted below in the section headed "Management Report", further details of performance throughout the year are available in the Investment Adviser's Report on page 12.

Going Concern
Since it has been proposed that the Company will enter into a managed wind-down phase, the Directors are satisfied that it is appropriate to prepare the year-end financial report on a break-up basis of accounting and in accordance with International Financial Reporting Standards (IFRS).

Conversion between Classes
The Company's Articles incorporate provisions to enable Shareholders of any one class of Shares to convert all or part of their holding into any other class of Shares in issue on a twice-yearly basis in accordance with the detailed provisions of the Articles. However, the Company currently only has Sterling denominated Ordinary Shares in issue.

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011 (continued)

Managed Wind-Down

On 4 February 2011 a circular recommending proposals for a managed wind-down of the Company and giving notice of an Extraordinary General Meeting to be held on 17 March 2011 was sent to Shareholders. At the Extraordinary General Meeting held on 17 March 2011 the special resolution that the Company modify its investment policy in order to effect a managed wind-down was approved by 100% of voting members. Subsequent to that date the necessary steps have been put in place to begin the managed wind-down of the Company. On 11 May 2011 the Company resolved to return £31,000,000 by way of a compulsory partial redemption of shares at a price of 88.6 pence per share, the Company's NAV per share as at 31 March 2011. On 14 July 2011 the Company resolved to return £8,003,806 by way of a further compulsory partial redemption of shares at a price of 88.9 pence per share, the Company's NAV per share as at 30 June 2011.The remainder of the net assets attributable to holders of shares will be returned in line with the Company's modified investment policy of realising the Company's existing investments in an orderly and timely manner, with a view to distributing cash to Shareholders (in accordance with their rights to distributions on a winding-up as set out in the Articles) at appropriate times as sufficient investments are realised. The Company will not make any new investments other than in cash or cash equivalents pending distribution of cash to Shareholders.

Independent Auditors

The Company's Independent Auditors, PricewaterhouseCoopers CI LLP, have indicated their willingness to continue in office, and a resolution reappointing them and authorising the Directors to agree their remuneration will be proposed at the Annual General Meeting.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the financial report for each financial period which gives a true and fair view, in accordance with applicable Guernsey law and International Financial Reporting Standards, of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing this year-end financial report, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the annual financial report; and
- prepare the financial report on the going concern basis unless it is inappropriate to presume that the Company will continue in business. Given the proposal for winding down the Company, this financial report was prepared on a break up basis of accounting.

The Directors confirm that they have complied with the above requirements in preparing the year-end financial report.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the year-end financial report complies with The Companies (Guernsey) Law, 2008 and the Prospectus. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in Guernsey governing the preparation and dissemination of financial statement may differ from legislation in other jurisdictions.

As required under the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority, the Directors confirm, to the best of their knowledge:

- The financial report has been prepared in accordance with International Financial Reporting Standards (IFRS) and gives a true and fair view of the assets, liabilities, financial position and profit of the Company;

- The Management Report which follows includes;

  - A fair view of the development, performance and position of the Company during the period; and

  - A statement of the principal risks and uncertainties the Company faces.

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2011 (continued)

MANAGEMENT REPORT

Review of performance, development and position

The Company has operated during the period in accordance with the objectives outlined in the Prospectus. A review of the Company's performance during the period is included in the Investment Adviser's Report on page 12. A review of the business and future developments, results for the period and events since the period end have been described in the body of this Directors' Report and in the Chairman's Statement on page 11.

Principal risks and uncertainties

The principal risks and uncertainties are outlined in the Company's Prospectus and also in note 6, Risks Associated With Financial Instruments, on page 26.

On behalf of the Board of Directors:

Director **Director**

Date: 12 October 2011

CHAIRMAN'S STATEMENT

Proposals for the managed wind down of the Company were considered and approved at the Extraordinary General Meeting held on 17 March 2011.

Since that date the Investment Manager has been liquidating positions in order to enable the Company to return funds to its Shareholders.

In May 2011, the Company returned the sum of £31,000,000 by way of a compulsory partial redemption of Sterling Shares being 52.92% of the issued share capital as at the date of redemption.

On 22 July 2011, a further £8,003,806 was returned to Shareholders representing 28.92% of the Company's then issued share capital.

The Investment Manager is continuing to liquidate the portfolio and it is anticipated that a further distribution will be made towards the end of 2011. This will as always be dependent upon the liquidity of the underlying investee funds. It is not possible at the time of this Statement to give any indication of the date of any possible distribution in 2012.

As the liquidation of the portfolio proceeds and capital is distributed to Shareholders, the portfolio becomes progressively more concentrated in a small number of illiquid investments. Substantially all of the assets now remaining have a liquidity profile of more than six months. Whilst the Directors have not had cause to adjust the valuations attributed to the value of these assets as detailed in the annual financial report, the Board draws attention to the fact that the reduction in the number and liquidity of the remaining assets increases the risk of variation in or changes to the valuations as redemptions take place.

Dr Damian Johnson has indicated that he will not be standing for re-election at the forthcoming AGM and the Board of Directors wishes to express its thanks to him for his services to the Company since incorporation.

Peter Atkinson
Chairman
Date: 12 October 2011

INVESTMENT ADVISER'S REPORT FOR THE YEAR ENDED 30 JUNE 2011

The second half of 2010 was generally accommodative for hedge funds. Investment flows were strongly positive and many of the illiquid positions arising from the 2008 crisis were resolved. The operational health of the industry, in terms of investment execution and relationships with financing counterparties, almost returned to pre-crisis levels. Investment banking groups continued to dismantle their proprietary trading activities in light of new regulation, removing much of the competition for many hedge fund strategies. As a result, performance was positive across most strategies during the year but with technical strategies clearly outperforming fundamental. Hedge funds can typically be described as either 'technical' where strategies are focused on price behaviour or 'fundamental' where strategies are focused on using fundamental data to calculate fair value and ascertain whether securities are over or under-priced. Capital markets have been very technical in nature, characterised by short term trends and dominated by macroeconomic policy as investors remained nervous over the growing fiscal problems in Europe and the risk of deflation in the US. As a result, strategies such as systematic trading (which focuses on long-term trend following) and statistical arbitrage (which focuses on short-term price moves) enjoyed a very profitable year. However fundamental strategies, such as credit value or long-short credit, found the period more challenging given the lack of divergence between "good" and "bad" companies. Clearly these factors had a significant impact on the Credit Alpha portfolio which consists almost entirely of fundamental strategies.

The first half of 2011 saw the hedge fund universe produce mixed results. The political unrest in the Middle East and North Africa region, the earthquake in Japan and the continued concern over sovereign debt in southern Europe contributed to strong moves in capital markets. As in 2010 macro factors continued to dominate asset pricing and the risk-on, risk-off nature of investor activity continued to present a challenging environment for credit strategies creating losses for both momentum and value strategies. Evidence of improved risk management disciplines employed by hedge funds over the period has been encouraging. Arguably market instability has created a headwind for certain types of primary market activity hindering managers from realising the more esoteric of their illiquid investments despite the uptick in issuance we enjoyed over the past 12 months.

As at the 30 June 2011 £27.6m of total assets in the fund were made up of £24.1m financial assets and £3.5m Sterling cash. The financial assets consisted of US Dollar based hedge funds and receivables held within the portfolio hereon referred to as "USD core". The value of this USD core portfolio in Sterling terms is therefore a reflection of both the fluctuation in asset value of the underlying hedge funds and the variation in the US Dollar exchange rate. As the US dollar appreciates in value so the Sterling value of the financial assets also increases and vice versa.

Over the year the company's share price rose by +4.53% while the net asset value decreased by -4.00%. The USD core portfolio rose by +1.42%.

Liquidation:
As anticipated the uptick in issuance of both credit and equity instruments since the 2009/2010 period led to further distributions of cash by underlying managers helping to reduce our exposure to Harbinger, Plainfield, Cerberus and Bluebay. Although the timing of future flows remain uncertain we are pleased to report that cash for an £8m distribution was made available during July bringing the total return of capital to just over £39m or 67% of the March 2011 NAV.

Financial Risk Management Limited
Date: August 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FRM CREDIT ALPHA LIMITED

Report on the Annual Financial Report
We have audited the accompanying annual financial report of FRM Credit Alpha Limited (the "Company") which comprises the statement of financial position as of 30 June 2011 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Annual Financial Report
The Directors are responsible for the preparation of annual financial reports that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of Guernsey law. The Directors are also responsible for such internal controls as they determine is necessary to enable the preparation of an annual financial report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on this annual financial report based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether or not the annual financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial report. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement in the annual financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the annual financial report 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 policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the annual financial report.

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

Opinion
In our opinion, the annual financial report gives a true and fair view of the financial position of the Company as of 30 June 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and has been properly prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008 and the prospectus.

Report on other Legal and Regulatory Requirements
We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the annual financial report. The other information comprises only the Directors' report, the Chairman's Statement, the Investment Adviser's report and the Portfolio Statement.

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In our opinion the information given in the Directors' report, the Chairman's Statement, the Investment Adviser's Report and the Portfolio Statement is consistent with the annual financial report.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 262 of The Companies (Guernsey) Law, 2008 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters which we are required to review under the Listing Rules:

- the Directors' statements set out on pages 8 and 9 in relation to going concern;

- certain elements of the report to Shareholders by the Board on Directors' remuneration.

Simon Perry
For and on behalf of PricewaterhouseCoopers CI LLP
Chartered Accountants and Recognised Auditor
Guernsey, Channel Islands
12 October 2011

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Notes	30 June 2011 US$	30 June 2010 US$
Assets			
Non-current assets			
Financial assets at fair value through profit or loss	2(c), 4	19,697,200	38,178,816
Sales awaiting settlement		3,649,862	-
Current assets			
Financial assets at fair value through profit or loss	2(c), 4	5,586,432	41,386,510
Sales awaiting settlement	2(h)	9,965,856	6,016,570
Interest receivable		60	-
Prepaid expenses		10,088	13,478
Cash and cash equivalents	2(d)	5,622,127	6,357,459
Total assets		**44,531,625**	**91,952,833**
Liabilities			
Current liabilities			
Management fees payable	3(a)	52,322	151,560
Administration & custodian fees payable	3(c)	10,257	14,620
Audit fees payable		40,653	30,665
Other payables		14,805	42,951
Total liabilities		**118,037**	**239,796**
Total net assets		**44,413,588**	**91,713,037**
Represented by:			
Shareholders' premium and accumulated deficit			
Share premium	8	100,196,180	149,934,699
Accumulated deficit	9	(55,782,592)	(58,221,662)
Total Shareholders' funds		**44,413,588**	**91,713,037**
Number of Shares	8	31,135,739	66,133,577
Net Asset Value per Sterling Share		GBP0.889	GBP0.926

Approved for issuance on behalf of the Board of Directors of FRM Credit Alpha Limited:

Director **Director**

Date: 12 October 2011

The accompanying notes are an integral part of this annual financial report

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	Notes	Year ended 30 June 2011 US$	Year ended 30 June 2010 US$
Income			
Interest income	2(g)	1,381	978
Other income		63	-
Net foreign currency gains		1,995,332	674,560
Other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss	5	1,861,620	(6,404,782)
Total net income/(loss)		**3,858,396**	**(5,729,244)**
Expenses			
Management fees	3(a)	(802,636)	(971,645)
Administration & custodian fees	3(c)	(77,907)	(84,322)
Legal fees		(221,372)	(66,819)
Audit fees		(47,471)	(41,708)
Directors fees	3(d)	(135,276)	(134,601)
Printing and postage		-	41,531
Other operating expenses		(134,664)	(198,184)
Total operating expenses		**(1,419,326)**	**(1,455,748)**
Operating profit/(loss)		**2,439,070**	**(7,184,992)**
Profit/(loss) for the year from operations	2(j)	**2,439,070**	**(7,184,992)**
Basic and diluted earnings per Sterling Share		GBP0.027	GBP(0.069)

Items in the above statement are derived from continuing operations.

There were no other elements of comprehensive income in the year (30 June 2010: Nil).

The accompanying notes are an integral part of this annual financial report

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

	Year ended 30 June 2011 US$	Year ended 30 June 2010 US$
Net assets at start of the year	91,713,037	123,633,764
Redemptions of Shares	(49,738,519)	(24,735,735)
Net decrease from Share transactions	**(49,738,519)**	**(24,735,735)**
Profit/(loss) for the year from operations	2,439,070	(7,184,992)
Net assets at end of the year	**44,413,588**	**91,713,037**

Refer to notes 8 and 9 for the movement in Share Capital, Share Premium and Reserves for the year.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

	Note	Year ended 30 June 2011 US$	Year ended 30 June 2010 US$
Cash flows from operating activities			
Profit/(loss) for the year from operations		**2,439,070**	**(7,184,992)**
Adjusted for:			
Interest income		(1,381)	(978)
		2,437,689	(7,185,970)
Operating activities:			
Net decrease in prepaid expenses		3,390	177,283
Net (increase)/decrease in sales awaiting settlement		(7,599,148)	10,866,678
Net decrease in liabilities and accrued expenses		(121,759)	(186,014)
Net decrease/(increase) in financial assets at fair value through profit or loss		54,281,694	(8,565,133)
Net decrease in financial liabilities at fair value through profit or loss		-	(127,506)
Cash provided by/(used in) operating activities		49,001,866	(5,020,662)
Interest received		1,321	978
Net cash provided by/(used in) operating activities		49,003,187	(5,019,684)
Cash flows used in financing activities			
Redemption of Shares		(49,738,519)	(24,735,735)
Net cash used in financing activities		(49,738,519)	(24,735,735)
Net decrease in cash and cash equivalents		(735,332)	(29,755,419)
Cash and cash equivalents at the start of the year		6,357,459	36,112,878
Cash and cash equivalents at the end of the year	2(d)	**5,622,127**	**6,357,459**

The accompanying notes are an integral part of this annual financial report

NOTES TO THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011

1. GENERAL INFORMATION

FRM Credit Alpha Limited, a closed ended Investment Company, was incorporated in Guernsey on 1 March 2007 under the laws of Guernsey, with registered number 46497. The Company has three share classes that are authorised for issue; Euro Shares, Sterling Shares and US Dollar Shares. At 30 June 2011 only Sterling Shares were in issue.

The Company was launched with the objective of seeking to generate significant returns over cash, with low volatility and beta to global credit markets, when measured over a market cycle. By investing in a combination of investee funds managed by managers who adopt research-based value/event driven or long-short approaches, the Company believed that volatility and peak-to-trough drawdowns would be lower than those typically delivered by long-only approaches. The Company sought to achieve its objective by investing in a portfolio of underlying investee funds pursuing a variety of different credit and credit-related trading strategies. In addition, the Company could invest in a wide variety of financial instruments. The Company has entered into a managed wind-down phase following the approval of proposals that were put to Shareholders at an EGM of the Company held on 17 March 2011, and the objective was modified to focus on realising the underlying assets whilst at the same time maximising the level of capital being returned to investors.

The Sterling Shares are listed on the Main Market of the London Stock Exchange.

The Company has no employees (30 June 2010: none).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies applied in the preparation of this annual financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. As detailed in notes 1 and 15, the Company has now entered into a managed wind-down phase and so these accounting policies and the notes that follow should be read in the context of the Company being in managed wind-down and of the Company's objective now being to focus on realising the underlying assets whilst at the same time maximising the level of capital being returned to investors.

(a) Basis of preparation

The annual financial report has been prepared in accordance with International Financial Reporting Standards ("IFRS") and the Disclosure and Transparency rules of the Financial Services Authority. The annual financial report has been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The preparation of the annual financial report in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the annual financial report are disclosed in note 2(k). This annual financial report is prepared on a break-up basis since the Company has entered into a managed wind-down phase.

Standards, amendments and interpretations that are not yet effective but relevant to the Company's operations:

IFRS 9 "Financial Instruments" is effective for periods beginning on or after 1 January 2013. IFRS 9 specifies how an entity should classify and measure financial assets, including some hybrid contracts. It requires all financial assets to be:

- Classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.
- Initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transactions costs.
- Subsequently measured at amortised cost or fair value.

NOTES TO THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of IAS 39. They apply a consistent approach to classifying financial assets and replace the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. They also result in one impairment method, replacing the numerous impairment methods in IAS 39 that arise from the different classification categories.

The Company is currently in the process of evaluating the potential effect of this standard. The standard is not expected to have a significant impact on the annual financial report since the majority of the financial assets of the Company are at fair value through profit or loss.

All references to net assets throughout this document refer to the net assets attributable to holders of Sterling Shares unless otherwise stated.

(b) Foreign currency translation

(i) *Functional and presentation currency*
The annual financial report is prepared in US dollars ("US$"), this being the Company's functional and presentational currency. Management has chosen US$ as the functional and presentation currency for the Company to reflect the fact that most of the Company's investments are denominated in US$.

(ii) *Transactions and balances*
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income. Foreign exchange gains and losses relating to cash and cash equivalents are presented in the Statement of Comprehensive Income within "net foreign currency gains". Foreign exchange gains and losses relating to the financial assets and liabilities carried at fair value through profit or loss are presented in the Statement of Comprehensive Income within "other net changes in fair value in financial assets and liabilities at fair value through profit or loss".

(c) Financial instruments

(i) *Classification*
In accordance with IAS 39, the Company classifies its investments as financial assets and liabilities at fair value through profit or loss. These financial assets and liabilities are classified as held for trading or designated by the Board of Directors at fair value through profit or loss at inception. Financial assets or financial liabilities held for trading are those acquired or incurred principally for the purposes of selling or repurchasing in the near term or derivatives. The Company does not classify any derivatives as hedges in a hedging relationship. All underlying investee funds held by the Company have been designated by the Board of Directors as held at fair value through profit or loss.

(ii) Recognition/de-recognition
The Company recognises financial assets and financial liabilities at fair value through profit or loss on the trade date - the date it commits to purchase or sell short the instruments. From this date any gains and losses arising from changes in fair value of the assets or liabilities are recognised. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

(iii) Valuation of investments
Investments in underlying investee funds are valued at fair value, as determined by each underlying investee fund's independent administrator or investment manager. In determining fair value, the administrator or investment manager utilises the valuations of the underlying investee funds to determine the fair value of its fund interests. The underlying investee funds in which the Company is invested value securities and other financial investments on a mark-to-market or fair value basis of accounting. The estimated fair values of certain of the investments of the underlying investee funds may include private placements and other securities for which prices are not readily available.

NOTES TO THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

(iii) Valuation of investments (continued)

These estimated fair values are determined by the administrators or investment managers of the respective underlying investee funds and may not reflect amounts that could be realised upon immediate sale, or amounts that ultimately may be realised.

Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments and the differences could be material. A number of underlying investee funds changed their redemption terms so as to restrict investor redemptions by gating redemptions, suspending redemptions or creating side pockets, extending notice periods, delaying redemption payments and introducing or extending lock periods.

It is the view of the Board of Directors that despite these redemption restrictions the Net Asset Value ("NAV") provided by the underlying investee fund managers or their administrators represents the most appropriate basis for fair value of these assets. As such no adjustments have been made to the value of the assets in these in the annual financial report.

Forward foreign exchange contracts are valued at the forward rate at the closing date throughout the life of the residual period of the contract. Realised and unrealised gains or losses resulting from foreign exchange contracts are recognised in the Statement of Comprehensive Income within "other net changes in fair value on financial assets or financial liabilities at fair value through profit or loss".

(d) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and short-term investments in an active market with original maturities of three months or less.

(e) Expenses

Expenses are accounted for on an accruals basis and are charged to the Statement of Comprehensive Income in the year in which they are incurred.

(f) Redemption of shares

Subject to the Directors exercising their discretion to operate the Redemption Facility on any given occasion, Shareholders may request to have some or all of their Sterling Shares redeemed for cash in a Redemption Offer. Depending on the liquidity within the Company's portfolio, the Directors may elect to pay redemption proceeds either: (i) at a value equal to the prevailing Net Asset Value per Share as at the relevant Redemption Facility Date less costs of redemption; or (ii) at a value equal to the prevailing Net Asset Value per Share as at 31 March of the following year less the costs of redemption (each a "Redemption Facility Calculation Date").

(g) Interest income and expense

Interest income and expense is recognised in the Statement of Comprehensive Income on an accruals basis using the effective interest method.

(h) Sales awaiting settlement

Sales awaiting settlement represent receivables that have been contracted for but not yet settled on the Statement of Financial Position date. These amounts are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due from the relevant counterparty. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation and default in payments are considered indicators that the amount is impaired.

NOTES TO THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Taxation

The Company has applied for and has been granted exempt status for Guernsey tax purposes. A company that has exempt status for Guernsey tax purposes is exempt from Guernsey income tax under the provisions of the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and is charged an annual exemption fee of £600.

From 1 January 2008, the Income Tax Authority in Guernsey abolished the exempt regime for some entities. At the same time the standard rate of income tax was reduced from 20% to 0%. Therefore some entities previously exempt from tax under the Income Tax (Exempt Bodies) (Guernsey) ordinance, 1989 are now taxed at 0%. However the Income Tax Authority has confirmed that collective investment schemes such as the Company can continue to apply for exempt status.

(j) Profit/(loss) for the year from operations

Income not distributed is included in profit/(loss) for the year from operations.

(k) Critical accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of further events that are believed to be reasonable under the current circumstances.

(l) Statement of cash flows

The cash amount shown on the Statement of Cash Flows is the net amount reported in the Statement of Financial Position as cash and cash equivalents. The indirect method has been applied in the preparation of the Statement of Cash Flows.

(m) Operating Segments

Operating Segments are reported in a manner consistent with the internal reporting used by the Chief Operating Decision-Maker (“CODM”). The CODM, who is responsible for allocation of resources and assessing the performance of the Operating Segment, has been identified as the Board of Directors. The Board of Directors makes the strategic resource allocations on behalf of the Company. The Company is managed as one Operating Segment.

3. FEES AND EXPENSES

(a) Management Fee

The Company pays the Manager a management fee together with reimbursement of reasonable out of pocket expenses incurred by it in the performance of its duties. Until 3 May 2011 the management fee in respect of the Sterling Shares was charged at the rate of 1% per annum of the Company’s net assets attributable to the Sterling Shares (before deduction of accruals in respect of the management fee for the current month and any performance fee) as at the first Business Day of each calendar month payable monthly in arrears. With effect from 3 May 2011 the management fee in respect of the Sterling Shares was changed to 1% per annum of the Company’s net assets, attributable to the invested assets of the Company only. The management fee for the year was US$802,636 (30 June 2010: US$971,645) and the amount outstanding at the year end was US$52,322 (30 June 2010: US$151,560).

(b) Performance Fee

Until 3 May 2011 the Company paid the Manager a performance fee if the NAV of a Share at the end of a performance period (a) exceeded its NAV at the start of the performance period by more than the performance hurdle and (b) exceeded the highest previously recorded Net Asset Value per Share as at the end of a performance period in respect of which a performance fee was last paid.

NOTES TO THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011 (continued)

3. FEES AND EXPENSES (continued)

(b) Performance Fee (continued)

The performance hurdle applicable in respect of a performance period was one month LIBOR of the currency of the corresponding Share class compounded monthly and was pro-rated where the performance period was greater or shorter than one period. The performance period was each 12 month year ending on 30 June in each year.

If the performance hurdle and high water mark for a performance period were met then a performance fee was calculated and payable to the Manager equal to 10% of the total increase in Net Asset Value per Share at the end of the relevant performance period over the performance hurdle multiplied by the weighted average number of Sterling Shares in issue at the end of the relevant performance period. There were no performance fees charged during the year (30 June 2010: US$Nil).

On 3 May 2011, the Manager waived its right to charge a performance fee to the Company.

(c) Administration and Custodian Fee

The Administrator and Custodian are entitled to receive from the Company an aggregate annual fee equivalent to 7 basis points of the Company's NAV, such fee to be payable generally pro-rata monthly in arrears, plus other transaction costs and out of pocket expenses. The Company's administration fee for the year was US$77,907 (30 June 2010: US$84,322) and US$10,257 (30 June 2010: US$14,620) remained outstanding at the year end. Custodian fees are included in administration fees.

(d) Directors' fees

Each Director (other than the Chairman) is entitled to receive a fee from the Company at such rate as may be determined in accordance with the Articles. The current fees are GBP20,000 per annum for each Director and GBP25,000 for the Chairman. All of the Directors are entitled to be paid all reasonable expenses properly incurred by them in attending general meetings, board or committee meetings or otherwise in connection with the performance of their duties. Directors earned US$135,276 (30 June 2010: US$134,601) during the year and the amount outstanding at the year end was US$Nil (30 June 2010: US$Nil).

4. FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2011 US$	**30 June 2010 US$**
Non-current assets	19,697,200	38,178,816
Current assets	5,586,432	41,386,510
Total financial assets at fair value through profit or loss	**25,283,632**	**79,565,326**

Financial assets and financial liabilities at fair value through profit or loss are classified as non-current assets if it is expected that they cannot liquidate within 12 months of the relevant year end.

As at the 30 June 2011 the portfolio of financial assets and financial liabilities at fair value through profit or loss comprised long positions in other investment companies. The underlying investee funds operate a variety of different credit and credit related strategies as follows:

Underlying Investee Funds by Trading Strategy	**Fair Value 30 June 2011 US$**	**% of Net Asset Value**
Relative Value Trading Strategy Funds	2,686,223	6.05%
Specialist Credit Strategy Funds	22,597,409	50.88%
Total financial assets at fair value through profit or loss	**25,283,632**	**56.93%**

NOTES TO THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011 (continued)

4. FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Geographical Exposure	Fair Value 30 June 2011 US$	% of Net Asset Value
Global Regions*	22,587,793	50.86%
Europe	2,074,279	4.67%
North America	621,560	1.40%
Total	**25,283,632**	**56.93%**

The Trading Strategies and Geographical exposure of the Underlying Investee Funds at 30 June 2010 were as follows:

Underlying Investee Funds by Trading Strategy	Fair Value 30 June 2010 US$	% of Net Asset Value
Relative Value Trading Strategy Funds	7,407,570	8.08%
Specialist Credit Strategy Funds	62,010,010	67.61%
Multi Process Strategy Funds	9,623,255	10.49%
Total underlying investee funds by trading strategy	**79,040,835**	**86.18%**

The following forward currency contracts were unsettled at the 30 June 2010**:**

Maturity Date	Counterparty	Amount Bought	Amount Sold	Unrealised Gain US$	% of Net Asset Value
29/07/10	Citibank N.A.	US$(6,019,540)	GBP4,000,000	29,266	0.03%
29/07/10	Citibank N.A.	GBP(55,683,922)	US$82,895,263	495,225	0.54%
Total unrealised gains on forward currency contracts				524,491	0.57%
Total financial assets at fair value through profit or loss				**79,565,326**	**86.75%**

Geographical Exposure	Fair Value 30 June 2010 US$	% of Net Asset Value
Global Regions*	59,572,700	64.95%
Europe	13,535,870	14.76%
North America	5,932,265	6.47%
Total	**79,040,835**	**86.18%**

*Global Regions includes any underlying investee fund that is not directly exposed to Europe or North America, or is exposed to multiple regions or even globally, such that it is not possible to provide details of specific regional exposure.

The portfolio of financial assets at fair value through profit or loss includes positions in other FRM investment funds with a total fair value of US$1,403,582 (30 June 2010: US$2,457,594).

A number of underlying investee funds in which the Company invests have undertaken various levels of restructuring which have generally altered the original liquidity terms per their offering documents. These changes have included restructuring, implementing redemption gates, suspending redemptions, creating side pockets, extending notice periods, delaying redemption payments and introducing or extending lock periods.

NOTES TO THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011 (continued)

4. FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Relative Value Trading Strategy

Relative Value is a non-directional market neutral investment strategy that seeks to exploit pricing discrepancies between related securities. The strategy revolves around identifying a pair of related securities where the pricing of the securities does not reflect this relationship. The manager then buys the undervalued security and sells short the overvalued security, locking in a spread. The relative value strategies all involve locking in a spread of some sort and can be identified by the use of the term arbitrage.

The opportunities being exploited typically have relatively low risk and commensurately low return, so many managers use leverage to amplify the returns to attractive levels. As a general rule, the closer the relationship between the two securities, the lower the basis risk and the tighter the spread will be. An approach is Relative Value if the position in the portfolio attempts to isolate and capitalise upon a feature of an asset or combination of assets which is mispriced according to theoretical fair value (a position may be made up of several assets but is designed to capture a single pricing element), and all pricing factors other than the identified element are fully hedged or managed, first within the position and then also within the portfolio overall.

Specialist Credit Strategy

Specialist Credit could also be described as “fundamental credit investing”. Trades are based around credit analysis of the issuer and security, and may incorporate credit market views. The manager assumes credit risk either as a core part of the investment strategy, but interest rate risk is not a significant exposure, being either explicitly hedged or simply far less significant than credit risk.

Specialist Credit seeks to buy companies fixed obligation financing (i.e. debt) or 2nd derivatives of that debt (i.e. synthetic credit structures). However, while credit managers will focus predominantly on debt instruments, in certain market environments equities may become a material component in their portfolios e.g. post-reorganisation equity. The investment edge comes from the manager’s ability to perform a high level of micro due diligence on specific issuers and issues and to take advantage of what the manager discerns to be relatively inexpensive securities (cheap). The securities may be inexpensive due to regulatory anomalies or other constraints on traditional lenders (e.g., speed of decision-making process, disclosure rules, etc.).

Returns are primarily generated from credit-sensitive investments through capital appreciation (increase in market price), positive carry (yield), or both.

Multi Process Strategy

Multi-Process Group comprises funds that practice a strategy whereby a single investment process does not account for more than 80% of their risk capital.

5. OTHER NET CHANGES IN FAIR VALUE ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 30 June 2011 US$	Year ended 30 June 2010 US$
Gains/(losses) recognised in relation to financial assets and financial liabilities through profit or loss:		
Realised gain/(loss) on financial assets and financial liabilities at fair value through profit or loss	5,336,431	(18,641,664)
Unrealised (loss)/gain on financial assets and financial liabilities at fair value through profit or loss	(3,474,811)	12,236,882
Net realised and unrealised gain/(loss) on financial assets and liabilities at fair value through profit or loss	**1,861,620**	**(6,404,782)**

The total gains/(losses) recognised in relation to other FRM investment companies are in total: realised (US$365,888) (30 June 2010: (US$10,767,191)) and unrealised US$181,243 (30 June 2010: US$11,118,965).

6. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Board of Directors are ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. The Board of Directors have established an ongoing process for identifying, evaluating and managing significant risks faced by the Company which involves the Directors conducting, at least annually, a review of the Company's system of internal control, covering all controls including financial, operational, compliance and risk management.

The Board of Directors has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating significant risks affecting the Company and the policies by which these risks are managed. The internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed.

Accordingly, the internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against misstatement and loss.

The Company is exposed to a number of risks as a result of the financial instruments it holds. The Company's investment activities expose it to various types of risk taken by the Company and the managers of the underlying investee funds, which are associated with the financial instruments and markets in which they invest. The following summary is not intended to be a comprehensive list of all risks and investors should refer to the Prospectus for a more detailed discussion of the risks inherent to investing in the Company.

Market risk

The Company can be exposed to market risks by virtue of the underlying investee funds that the Company invests in. Those underlying investee funds may take exposure to a wide range of market factors including equity, credit, foreign exchange, interest rate, emerging and commodity markets. Additionally they may make use of complex derivative instruments to take and manage these exposures. FRM analysts monitor the underlying investee fund managers on a continuing basis on behalf of the Company to ensure that managers have the correct operational controls, systems and skills to manage these risks. Additionally, FRM has an automated fund performance exception reporting process to identify funds that are performing out of line with expectations (which will measure relative analysis to their historic track record and their peer group). Exceptions are discussed at a monthly meeting with the Chief Investment Officer and recorded by the risk team.

Market risks at the underlying investee funds portfolio level are controlled via the use of diversification across a wide range of underlying investee fund styles and holdings. This diversification is monitored and controlled via the use of a Value at Risk ("VaR") system.

The broad characteristics of the methodology used to calculate the VaR are as follows:

Using return data for the underlying investee funds in each portfolio a return distribution for each fund is estimated. This distribution captures the pertinent features of each of the underlying investee fund's returns, including return, volatility and any downside risk inherent in the Company. In particular it captures any "fat" tailed effects that a fund may possess. A maximum of five years data is used in this calculation. For funds with short histories, statistical methods are used to backfill the data to a period of sixty months.

Statistical methods are then used to simulate a range of possible outcomes for the entire portfolio. These methods not only take into account the correlation between funds (as measured by a covariance matrix), but also the likelihood of tail events happening together. Using this distribution of portfolio returns the overall VaR of the portfolio can then be estimated.

These estimates are produced on a monthly basis by FRM's risk management team and compared against a set of limits. If the actual values exceed these limits then deviation is discussed with the relevant portfolio manager to agree a relevant course of action. Courses of action may include reducing certain positions, hedging certain factor exposures or changing the limit. Limits are reviewed and signed off by the Chief Investment Officer on a quarterly basis. Currently these expected maximums are set at a value of -2% (30 June 2010: -2%), which means that 95% of the time the maximum monthly loss suffered by the portfolio is not expected to be worse than -2% (30 June 2010: -2%). Since inception, the actual values for the portfolio have ranged from -1% to -6.1% (30 June 2010: -1% to -6.1%).

NOTES TO THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011 (continued)

6. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

Market Risk (continued)

As at 30 June 2011 the VaR estimate for the Company was -2.55% (30 June 2010: -2.7%).

Limitations of the VaR methodology include the following:

- The measure is a point-in-time calculation, reflecting positions as recorded at that date, which do not necessarily reflect the risk positions held at any other time;
- That VaR is a statistical estimation and therefore it is possible that there could be, in any period, a greater number of days in which losses could exceed the calculated VaR than implied by the confidence level; and
- That although losses are not expected to exceed the calculated VaR on, say 95% of occasions, on the other 5% of occasions, losses will be greater and might be substantially greater than the calculated VaR.

Currency Risk

The Company can be directly exposed to foreign exchange risks by virtue of investments in share classes of funds that are not denominated in its functional currency. Similarly, Shareholders in the Company can be directly exposed to foreign exchange risks when investing in share classes of the Company that are not denominated in the Company's functional currency. In order to mitigate the foreign exchange risk arising from either of these types of exposures, the Manager had a policy until 30 December 2010 of hedging the capital value of such exposures using a rolling program of currency forwards initiated on a monthly basis. In addition there was a secondary policy to adjust the hedge, where possible, for material movements in the intra-month profit and loss of the underlying investee funds and/or the Company.

Where intra-month performance data was available, and the estimated NAV movement of the investments and/or Company exceeded 0.9% of the NAV of the Company, additional non-deliverable forwards that mature at the expiry of the relevant swap were executed to hedge these movements. This was done by the Manager's investment administration team. They compared the NAV at the time that the initial forward was placed (e.g. 25 May for settlement end June) against any estimates that were generated for May month end and the May month end final NAV and then if at any point there had been a movement of more than 0.9% since the NAV at the time the initial forward was placed they instructed additional forwards to expire at June month end.

In accordance with the Company's policy, the Manager monitored the Company's currency exposure twice a month.

With effect from 30 December 2010, the Company announced that its currency hedging programme had ceased with immediate effect. It is possible that the underlying investee funds within the portfolio will incur foreign currency risk as an intentional or unintentional part of their investment strategies.

Interest Rate Risk

The Company, by virtue of its credit facility as detailed in note 10 on page 34, could have been directly exposed to interest rate risks when this credit facility was in use. The credit facility for the Company was a floating rate facility referenced to US Dollar LIBOR and as such any movement in the LIBOR rate will have impacted on the gross returns of the portfolio. However, any impact was not significant given the nature of the credit facility in place.

In practice the returns of the Company's underlying investee funds are, for the most part likely to be positively correlated with LIBOR and as such it is likely that the increase in the returns of the investments will have more than offset any increased borrowing costs over the long term, thereby neutralising any long term interest rate risk. It is, however, possible that underlying investee funds within the portfolio will incur interest rate risk as an intentional or unintentional part of their investment strategies.

The interest rate risk profile of the Company’s financial assets and liabilities as at 30 June 2011 and 30 June 2010 was:

	30 June 2011	**30 June 2010**
	US$	**US$**
Financial assets not carrying interest	38,909,498	85,595,374
Financial liabilities not carrying interest	118,037	239,796
Financial assets carrying interest	5,622,127	6,357,459

NOTES TO THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011 (continued)

6. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

Credit risk

Credit risk relates to the extent to which failures by counterparties to discharge their obligations could reduce the amount of future cash flows from financial assets on hand as at the Statement of Financial Position date. The Company minimises its exposure to credit risk by only dealing with counterparties with high credit ratings and the Manager monitors credit concentrations to reduce associated risk. At the Statement of Financial Position date the Company had all of its cash and cash equivalents held with its Custodian, although from time to time the Company may additionally place cash deposits with banks, limited to those rated AA or higher.

Assets held by the Company which potentially expose the Company to credit risk comprise cash balances and receivables in respect of redeemed investments in underlying investee funds.

The Company is also exposed indirectly at underlying investee fund level and seeks to actively manage this exposure by performing due diligence checks on each of the underlying investee fund managers.

The Company's Custodian is J.P.Morgan Chase Bank, National Association (London Branch). Underlying investee fund holdings are registered in J.P.Morgan nominee accounts which specifically relate to the Company. In respect of cash held by the Custodian, the Company may rank as an unsecured creditor in the event of the Custodian’s insolvency and any such cash balances may not be recoverable. Client money is segregated and stored in designated client money accounts within J.P.Morgan Chase Bank, National Association (London Branch).

In the event of a default by the Custodian, whether or not the Company could continue would be dependent upon the level of cash lost. Generally cash balances within the Company are kept at a minimum level necessary to meet operational requirements so as to keep the Company fully invested in underlying investee fund assets. On this basis, it would be expected that the Company would be able to continue in operation.

The current ratings of J.P.Morgan Chase Bank, N.A. are: S&P AA+/A-1+; Moody’s Aa1 / P-1; and Fitch AA- /F1+.

The Manager also keeps track of any sizeable cash balances that build up in the Company and then places these in money market funds or on deposit with other banks to ensure that the exposure to any one financial institution is minimised.

All underlying investee fund redemption proceeds are actively monitored by both the Investment Adviser and the Custodian. When underlying investee fund redemptions are placed, the Custodian will follow up with the underlying investee fund administrator to ensure that the redemption request has been received and actioned. They will also ascertain when redemption proceeds are due and will follow up with the administrator if redemption proceeds are not received by this date.

Additionally, the Investment Adviser will follow up with the underlying investee fund administrator and/or manager if redemption proceeds are not received by the dates specified in the underlying investee funds’ offering documentation. All outstanding receivables are tracked and monitored on a regular basis and escalated where necessary.

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as and when they fall due.

The Company invests in alternative investment products, which can be highly illiquid. With some underlying investee funds, the Company can only sell their units at certain dates, which may occur monthly, quarterly, annually or less frequently. A lack of liquidity may also result from limited trading opportunities in alternative investment products.

The Company may, from time to time, invest in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid.

NOTES TO THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011 (continued)

6. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

As a result, the Company may not be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events.

In accordance with the Company's policy, the Manager monitors the Company's liquidity position on a regular basis with regard to maintaining a reasonable level of liquidity. Significant variation from reasonable levels will result in notification to the Board of Directors. The Company is closed ended and therefore, save for the operation of the Redemption Facility or a distribution being declared by the Directors as part of the managed wind down process, the Shareholders cannot redeem their holdings. Liquidity risk is therefore mitigated as the Board of Directors and Investment Manager are able to manage liquidity risk with respect to the liquidity of the underlying assets held.

The Portfolio Management team is responsible for constructing portfolios with appropriate liquidity profiles, which may be specified directly by clients or by third party credit providers. The liquidity impact of any given trade or corporate action is considered by the portfolio managers who will seek advice from the respective sector analyst when making trading decisions. When trades are requested by the Portfolio Management team, the Investment Administration team review the proposed trade to ensure that it complies with any specified liquidity constraints. Trades which do not comply with portfolio liquidity constraints are not executed, and referred back to the respective portfolio manager.

As at 30 June 2011 a number of underlying investee funds in which the Company invests had restructured so as to restrict investor redemptions. Restructured funds are defined as those underlying investee funds that have undertaken various levels of restructuring which have generally altered the original liquidity terms per their offering documents. These changes have included creating new share classes (such as continuing and/or liquidating share classes), implementing redemption gates, suspending redemptions, creating side pockets, extending notice periods, delaying redemption payments and introducing or extending lock periods. There have been no changes in respect of these underlying investee funds subsequent to the year end.

Having factored in these redemption restrictions and taking into account redemption requests already submitted to underlying investee fund managers prior to the year end it is estimated that as at 30 June 2011 and 30 June 2010 the liquidity profile of the Company was as follows:

	30 June 2011 % of Total Assets	30 June 2010 % of Total Assets
Up to one month liquidity	29.20%	25.05%
One to three months liquidity	6.82%	23.59%
Three to six months liquidity	1.91%	9.84%
Up to annual liquidity	9.64%	7.94%
Liquidity of more than one year	52.43%	33.58%
Total	**100.00%**	**100.00%**

The Company entered a managed wind-down phase with effect from 17 March 2011. The portfolio manager is liquidating the portfolio under the supervision of the Board with a view to maximising the capital returned to Shareholders. On 11 May 2011, the Company resolved to make an initial distribution of £31,000,000. On 14 July 2011, the Company resolved to make a second distribution of approximately £8,000,000. As the liquidation of the portfolio progresses and capital is distributed to Shareholders the portfolio will become progressively more concentrated in a small number of illiquid investments. This is reflected by the fact that approximately 78% of the portfolio as at 30 June 2011 is invested in assets with a liquidity profile of greater than six months.

It is the view of the Directors that despite these redemption restrictions the NAV provided by the underlying investee fund managers or their administrators represents the most appropriate basis for fair value of these assets. As such no adjustments have been made to the value of these assets in the annual financial report.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining year at the financial reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

NOTES TO THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011 (continued)

6. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

There follows a table to split the liabilities into periods of up to 1 month, 1 to 3 months and 3 to 6 months:

30 June 2011 (US$)

	Up to 1 Month	1 to 3 Months	3 to 6 Months	Total
Accrued expenses and other liabilities payable	62,579	55,458	-	118,037
Total Liabilities	**62,579**	**55,458**	**-**	**118,037**

30 June 2010 (US$)

	Up to 1 Month	1 to 3 Months	3 to 6 Months	Total
Accrued expenses and other liabilities payable	29,611	210,185	-	239,796
Total Liabilities	**29,611**	**210,185**	**-**	**239,796**

7. FAIR VALUE ESTIMATION

IFRS 7, (Amendment), Financial Instruments: Disclosures, requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The fair value hierarchy has the following levels:

- Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk.

The Manager generally uses the NAV reported by the underlying investee fund manager as the primary input to its valuation; however adjustments to the reported NAV may be made based on various factors, including, but not limited to, the attributes of the interest held, including the rights and obligations, and any restrictions or illiquidity on such interests, and the fair value of the such underlying investee fund's investment portfolio or other assets and liabilities. As at 30 June 2011 no such adjustments have been made.

The level in the fair value hierarchy within which the fair value measurement is categorised is based on the lowest level input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgement by the Manager. The Manager considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by multiple, independent sources that are actively involved in the relevant market. The categorisation of an underlying investee fund within the hierarchy is based upon the pricing transparency of that underlying investee fund and does not necessarily correspond to the Manager's perceived risk of that underlying investee fund.

All of the Company's investments in underlying investee funds have been classified as level 3 or level 2, and the Company generally does not hold any investments that could be classified as level 1, as observable prices are typically not available.

7. FAIR VALUE ESTIMATION (continued)

The Manager uses the "market approach" valuation technique to value its investments in underlying investee funds, as described further below:

Underlying investee funds are generally open-end funds as they typically offer subscription and redemption options to investors. The frequency of such subscriptions or redemptions is dictated by such underlying investee fund's governing documents. The amount of liquidity provided to investors in a particular underlying investee fund is generally consistent with the liquidity and risk associated with the underlying investee fund portfolio (i.e., the more liquid the investments in the portfolio, the greater the liquidity provided to the investors). Liquidity of individual underlying investee funds vary based on various factors and may include "gates", "holdbacks" and "side pockets" imposed by the manager of the underlying investee fund, as well as redemption fees which may also apply.

Depending on the redemption options available, it may be possible that the reported NAV represents fair value based on observable data such as ongoing redemption and/or subscription activity. In these cases, the NAV is considered as a level 2 input. However, certain underlying investee funds may provide the Manager with the ability to suspend or postpone redemption (a "gate") or "hold back" from the payment of redemption proceeds a portion of the redemption (e.g. 10%) until the annual annual financial report are distributed. In the case of the imposition of a gate, the Manager's ability to validate or verify the NAV through redeeming is impaired and the interest is generally classified as level 3.

In the cases of a holdback, the Manager considers the significance of the holdback, its impact on the overall valuation and the associated risk that the holdback amount will not be fully realised based on a prior history of adjustments to the initially reported NAV. If the holdback is significant, then the interest is generally classified as level 3.

If the interest in any "side pocket" (that is, a portion of the underlying investee fund portfolio segregated from other investments of such portfolio for the purposes of allocating gains and losses) is divisible from the interest in the underlying investee fund (e.g. a separate class of Share), which may be the case if the underlying investee fund is a unitised corporation, the Manager considers the attributes and characteristics of the side pocket, which typically has a limited if any redemption rights, separately from those of the underlying investee fund in determining the proper valuation and the level within the valuation hierarchy. Generally, side pockets are illiquid with no active market. Accordingly, side pocket interests are generally valued using unobservable (i.e. level 3) inputs. When the underlying investee fund and side pocket interests are not divisible, the Manager considers the significance of the unobservable value of the side pocket on the total investment in the underlying investee fund in determining the classification of the interest in the underlying investee fund within the hierarchy. If the side pocket exposure is deemed to be significant to the interest as a whole, and that side pocket investment was derived using unobservable inputs, the entire investment in the underlying investee fund is classified as level 3.

Assumptions used by the Manager due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Company's results of operations.

The following table analyses within the fair value hierarchy the Company’s financial assets and liabilities measured at fair value at 30 June 2011:

Assets	**Level 1 US$**	**Level 2 US$**	**Level 3 US$**	**Total US$**
Financial assets at fair value through profit or loss				
Investments at fair value	-	2,189,010	23,094,622	25,283,632
Total assets	**-**	**2,189,010**	**23,094,622**	**25,283,632**

NOTES TO THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011 (continued)

7. FAIR VALUE ESTIMATION (continued)

The following table presents the transfers between levels for the year ended 30 June 2011:

	Level 1 US$	Level 2 US$	Level 3 US$
Transfers between levels 2 and 3:			
Investments at fair value	-	(1,502,259)	1,502,259

The transfer from level 2 to level 3 occurred as the valuation for the underlying asset became unobservable at 30 June 2011.

The following table presents the movement in level 3 instruments for the year ended 30 June 2011:

	Investment Funds US$
Opening balance	50,098,488
Purchases/transfers in	13,116,799
Sales/transfers out	(39,858,890)
Transfers from level 2	1,502,259
Gains/losses recognised in profit and loss	(1,764,034)
Closing balance	**23,094,622**

Total unrealised losses included in the Statement of Comprehensive Income for level 3 investments held at 30 June 2011 were (US$1,250,553).

The following table analyses within the fair value hierarchy the Company's financial assets and liabilities measured at fair value at 30 June 2010:

Assets	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Financial assets at fair value through profit or loss				
Investments at fair value	-	29,466,838	50,098,488	79,565,326
Total assets	**-**	**29,466,838**	**50,098,488**	**79,565,326**

There were no transfers between the levels during the year.

The following table presents the movement in level 3 instruments for the year ended 30 June 2010:

	Investment Funds US$
Opening balance	62,013,632
Purchases/transfers in	33,327,605
Sales/transfers out	(55,806,987)
Gains/losses recognised in profit and loss	10,564,238
Closing balance	**50,098,488**

Total unrealised gains included in the Statement of Comprehensive Income for level 3 investments held at 30 June 2010 were US$10,210,319.

NOTES TO THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011 (continued)

8. SHARE CAPITAL

The Company has an authorised share capital of a minimum of two Shares and up to an unlimited number of Shares of no par value. The Company has three share classes that are authorised for issue: Euro Shares, Sterling Shares and US Dollar Shares. At 30 June 2011 only Sterling Shares were in issue.

The issue of Nominal Shares means that share capital of the Company does not reduce on the redemption of Shares. A subsequent subscription of Shares will be satisfied firstly by the re-issue of Nominal Shares as Shares.

	30 June 2011	30 June 2010
Number of Sterling Shares as at start of year	66,133,577	82,666,926
Subscriptions	-	-
Redemptions	(34,997,838)	(16,533,349)
Number of Sterling Shares as at end of year	**31,135,739**	**66,133,577**
Number of nominal Shares as at start of year	16,656,494	123,145
Subscriptions	34,997,838	16,533,349
Redemptions	-	-
Number of nominal Shares as at end of year	**51,654,332**	**16,656,494**
Total	**82,790,071**	**82,790,071**

Share Premium

	30 June 2011 US$	30 June 2010 US$
Balance as at start of year	149,934,699	174,670,434
Subscriptions	-	-
Redemptions	(49,738,519)	(24,735,735)
Balance as at end of year	**100,196,180**	**149,934,699**

All Sterling Shares Shareholders have the right to receive, in proportion to their holdings, all the profits and losses of the Company (including accumulated net income plus the net of accumulated realised and unrealised capital gains and accumulated realised and unrealised capital losses).

Shareholders have the right to receive notice of and to attend and vote at annual and extraordinary general meetings of the Company and each holder of Sterling Shares being present in person or represented by a duly authorised representative (if a corporation) at a meeting shall upon a show of hands have one vote.

Under IAS 1 “Presentation of Financial Statements”, the Company's Sterling Shares are classified as Equity in the Statement of Financial Position, because the Company is a closed ended investment company and the Sterling Shares are not redeemable at the Shareholders option.

No distribution was declared for the year ended 30 June 2011 (30 June 2010: None).

9. (ACCUMULATED DEFICIT)/RESERVES

	30 June 2011 US$	30 June 2010 US$
Opening balance at start of year	(58,221,662)	(51,036,670)
Net realised gain/(loss) on investments at fair value through profit or loss	5,336,431	(18,641,664)
Unrealised (loss)/gain on investments at fair value through profit or loss	(3,474,811)	12,236,882
Realised (loss)/gain on foreign currency transactions	(646,735)	6,184,625
Unrealised gain/(loss) on foreign currency transactions	2,642,067	(5,510,065)
Net expenses for the year	(1,417,882)	(1,454,770)
Closing balance at end of year	**(55,782,592)**	**(58,221,662)**

NOTES TO THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011 (continued)

10. CREDIT FACILITY

As and when required for operational reasons, including, without limitation, for managing cash flow, settling foreign exchange transactions, funding conversions and taking advantage of short-term investment opportunities, the Company may borrow money, provide leverage and give guarantees, and mortgage, pledge or charge all or part of its property or assets as security for any liability or obligation. Any leverage which arises in the Company is not intended to be permanent and will be repaid over a short time frame. Such borrowing is subject always to the availability of a credit line facility on such terms as the Directors deem acceptable in their sole and absolute discretion. In aggregate the total borrowings of the Company will not exceed 35% of the NAV at the point of drawdown. Up until 30 December 2010 the Company had an uncommitted credit facility from Citibank N.A. secured on the assets of the Company. The credit facility was solely for the purpose of foreign exchange hedging. Any borrowings for this purpose were limited to 15% of collateral value. The credit facility was terminated on 30 December 2010 following a decision taken by the Board of Directors to cease the Company's currency hedging programme. The Company had no other borrowings as at 30 June 2011 (30 June 2010: none).

11. EXCHANGE RATES

The following exchange rates were used as at 30 June 2011 and 30 June 2010 versus US Dollar:

30 June 2011

British Pound	0.6229

30 June 2010

British Pound	0.6677

12. RELATED PARTY TRANSACTIONS

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Company is managed by FRM Investment Management Limited, an Investment Management Company incorporated in Guernsey, Channel Islands, under the terms of the Investment Management agreement.

The Manager and Investment Adviser are regarded as related parties. Details of fees paid to the Manager are disclosed in note 3(a).

As at 30 June 2011, Richard Hotchkis, a Director of the Company, held 14,124.02 Sterling Shares (30 June 2010: 30,000) in the Company. Details of Directors fees are disclosed in note 3(d).

The Company invested in the following funds, which have the same Manager as the Company at 30 June 2011:

Fund	30 June 2011 Value US$
FRM Conduit Fund SPC – Harbinger Segregated Portfolio	1,403,582
Total	1,403,582

Fund	30 June 2010 Value US$
FRM Conduit Fund SPC - Harbinger Segregated Portfolio	2,457,594
Total	2,457,594

All transactions with related parties were at arm's length.

NOTES TO THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011 (continued)

13. DISTRIBUTIONS

Shareholders are entitled to elect to participate in the Distribution Facility which provides an annual distribution by way of redemption of Sterling Shares, subject to certain limitations and the Directors exercising their discretion to operate the facility on any relevant occasion. Redemption of Sterling Shares on any Distribution Date will be restricted to a specific percentage of the number of Sterling Shares held by a Shareholder. This percentage will be determined by the Directors in their discretion when they declare the annual distribution, but it is their intention to distribute up to two thirds of Total Returns, capped at 3.5 per cent of year end NAV. There was no distribution made during the year ended 30 June 2011 (30 June 2010: US$Nil).

14. SEGMENTAL REPORTING

Analysis between activities is not presented as the Company’s operations comprise a simple class of business and is not focused on specific geographical regions. IFRS 8 requires disclosure in respect of the Chief Operating Decision Maker (“CODM”) and certain disclosures in respect of the country of origin of income, which may consist of interest and dividends. Management have determined that the CODM is the Board of Directors.

The Company trades in a portfolio of underlying investee funds with the objective of pursuing a variety of different credit and credit-related trading strategies.

The internal reporting provided to the Board of Directors for the Company’s assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition of IFRS. Generally underlying investees do not declare dividends. The Company earned no dividend income from any of its underlying investee funds investments during the year (2010: Nil).

There were no changes in the reportable segments during the year.

The Company is domiciled in Guernsey. Refer to note 4 for details of strategy and geographical exposures.

The Company’s Portfolio Statement is shown on pages 37 to 39.

15. SIGNIFICANT EVENTS DURING THE YEAR

Managed Wind-Down

At the Company's annual general meeting held on 24 November 2010 a resolution that the Company continue in existence was not approved by Shareholders.

On 4 February 2011 a circular recommending proposals for a managed wind-down of the Company and giving notice of an Extraordinary General Meeting to be held on 17 March 2011 was sent to Shareholders. At the Extraordinary General Meeting held on 17 March 2011 the special resolution that the Company modify its investment policy in order to effect a managed wind-down was approved by 100% of voting members. Subsequent to that date the necessary steps have been put in place to begin the managed wind-down of the Company. On 11 May 2011 the Company resolved to return £31,000,000 by way of a compulsory partial redemption of shares at a price of 88.6 pence per share, the Company’s NAV per share as at 31 March 2011. On 14 July 2011 the Company resolved to make a further compulsory partial redemption of shares as detailed in note 16 below. The remainder of the net assets attributable to holders of shares will be returned in line with the Company’s modified investment policy of realising the Company’s existing investments in an orderly and timely manner, with a view to distributing cash to Shareholders at appropriate times as sufficient investments are realised. The Company will not make any new investments other than in cash or cash equivalents pending distribution of cash to Shareholders.

NOTES TO THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011 (continued)

15. SIGNIFICANT EVENTS DURING THE YEAR (continued)

Highland Crusader Receivable

As at 30 June 2011, the Company has recorded a receivable of US$5,886,874 due in respect of a sale of Highland Crusader Fund II Ltd ("Highland") made on 30 June 2008. On 15 November 2008, the Manager of Highland advised that Highland's directors had made a decision to compulsorily redeem all remaining Shares in Highland and that from that time all creditors of Highland including investors who had submitted redemption requests for 30 June 2008 ("prior redeemers") would be treated in the same way and be subject to market movements on Highland's assets and liabilities. The Company is classed as a prior redeemer given that it had submitted its redemption request on 30 June 2008. As a result of the action taken by Highland, the Directors, based on recommendations made by FRM Investment Management Limited, agreed to adjust the receivable in each monthly valuation to take into account what they believe, on a best information basis, to be the fair value of the receivable. The June 2008 redemption value was US$6,485,931. Since 15 November 2008, market movements have increased the fair value of the receivable to US$7,807,548 as at 30 June 2011.

During the financial year ended 30 June 2010, a mediation process was agreed. The mediation involved groups representing prior redeemers and those Shareholders who had been compulsorily redeemed ("compulsory redeemers"). As the outcome of this mediation process was unclear during the year, the Directors agreed, with a recommendation from FRM Investment Management Limited, that a provision against the receivable should be included in the monthly valuations. The Directors of the Company consider the appropriateness of the provision at each valuation point. The provision included in the valuation as at 31 May 2011 was US$2,674,320.

Subsequent to the year end, on 7 July 2011 a Scheme of Arrangement was approved by the prior redeemers and the compulsory redeemers and also approved by the Bermuda court. This approval was received prior to the release of the 30 June 2011 Net Asset Value calculation and in light of this the Directors of the Company decided that an adjustment to the provision was appropriate. As a result the provision as at 30 June 2011 was reduced to US$1,920,674.

The receivable net of the provision is US$5,886,874 which is 9% less than the June 2008 redemption value and represents the best estimate of the value which management believes it will receive from Highland as at 30 June 2011, however this receivable is subject to market movements and as such is subject to change on a monthly basis.

16. SIGNIFICANT EVENTS SINCE THE YEAR END

On 14 July 2011 the Company resolved to return approximately £8,000,000 by way of a further compulsory partial redemption of shares at a price of 88.9 pence per share, the Company's NAV per share as at 30 June 2011.

As noted above, on 7 July 2011, the Manager of Highland issued a Scheme of Arrangement which set out the treatment of prior and compulsory redeemers and included a plan of distribution in respect of Highland's assets. The first distribution totalling US$817,218 was paid in early October 2011. This represented approximately 14% of the receivable net of the provision as at 30 June 2011.

There have been no other significant events since the year end that impact the Company and require disclosure in the annual financial report.

17. APPROVAL OF ANNUAL FINANCIAL REPORT

The annual financial report for the year ended 30 June 2011 was approved by the Board of Directors on 12 October 2011.

PORTFOLIO STATEMENT AS AT 30 JUNE 2011

	Quantity	Fair Value US$	% of Net Assets
Underlying Investee Fund Trading Strategy -Relative Value Trading Strategy*			
BlueBay Value Recovery Fund	30,123	2,064,663	4.65%
Claren Road Class L International Series	1	621,560	1.40%
Underlying Investee Fund Trading Strategy -Specialist Credit Strategy*			
Cerberus International SPV Ltd	5,752	7,049,023	15.87%
FRM Conduit Fund SPC Harbinger	20,565	1,403,582	3.16%
Golden Tree Offshore Fund II	988	1,175,001	2.65%
Golden Tree Special Holdings IV Sidepockets	1,227	63,029	0.14%
Harbinger Capital Partners Special Situation Offshore	1	3,348,433	7.54%
Harbinger Capital Partners Special Situation Offshore Special Investment SP	1	654,136	1.47%
King Street Capital Ltd Class A Post 1 Feb 06 Series 2	7,388	3,676,236	8.28%
King Street Capital Ltd Class A Post 1 Feb 06 Series 4	740	98,678	0.22%
King Street Capital Ltd Class A Series 2	30	7,794	0.02%
King Street Capital Ltd Class S Series 1	278	27,946	0.06%
King Street Capital Ltd Class S Series 4	15	156	0.00%
King Street Capital Ltd Class S Series 5	15	1,013	0.00%
King Street Capital Ltd Class S Series 7	1	52	0.00%
King Street Capital Ltd Class S Series 9	1	76	0.00%
\King Street Capital Ltd Class S Series 13	258	16,957	0.04%
King Street Capital Ltd Class S Series 14	724	88,916	0.20%
King Street Capital Ltd Class S Series 16	109	17,048	0.04%
King Street Capital Ltd Class S Series 18	153	15,327	0.03%
King Street Capital Ltd Class S Series 20	172	18,307	0.04%
King Street Capital Ltd Class S Series 24	337	37,633	0.08%
King Street Capital Ltd Class S Series 28	123	13,075	0.03%
King Street Capital Ltd Class S Series 30	8	803	0.00%
King Street Capital Ltd Class S Series 32	135	13,221	0.03%
King Street Capital Ltd Class S Series 34	78	7,765	0.02%
King Street Capital Ltd Class S Series 36	80	7,816	0.02%
King Street Capital Ltd Class S Series 38	52	5,056	0.01%
King Street Capital Ltd Class S Series 40	378	37,497	0.08%
Oak Hill Credit Alpha Fund Ltd Class B	1,195	2,189,010	4.93%
Plainfield Liquidation L1 Series 4 0109	19,182	964,115	2.17%
Plainfield Liquidation R Series 1 0609	34,200	1,650,092	3.72%
TRF Liquidating SPV D/1	284	9,616	0.02%
Total Investments		25,283,632	56.92%
Other assets		19,129,956	43.08%
Total net assets		**44,413,588**	**100.00%**

*The strategies above are explained on page 25.

PORTFOLIO STATEMENT AS AT 30 JUNE 2010

	Quantity	Fair Value US$	% of Net Assets
Underlying Investee Fund Trading Strategy -Relative Value Trading Strategy			
BlueBay Value Recovery Fund	60,318	6,689,816	7.29%
Claren Road Class L International. Series	1	717,754	0.78%
Underlying Investee Fund Trading Strategy -Specialist Credit Strategy			
Blue Mountain Credit Alternative Class A1 Series 03/08	10,000	1,324,244	1.44%
Blue Mountain Credit Alternative Class A Series 11/08	9,666	1,818,601	1.99%
Brownstone Partners Cat Class B Initial Series 07	1,461	2,071,666	2.26%
Cerberus International SPV Ltd	7,210	7,707,562	8.40%
FRM Conduit Fund SPC Harbinger	32,778	2,457,594	2.68%
Golden Tree Special Holdings IV Sidepockets	1,444	72,182	0.08%
Golden Tree Offshore Fund II	1,806	2,052,039	2.24%
Gracie International Credit Opportunity Class B Series 2	2,090	4,170,324	4.55%
Green T G2 Fund Ltd Inv Class	40,939	7,474,507	8.15%
JCAM Global Fund Ltd Class F	6,429	7,601,483	8.29%
Harbinger Capital Partners Special Situation Offshore Special Investment SP	1	668,260	0.73%
Harbinger Capital Partners Special Situation Offshore	1	5,518,437	6.02%
King Street Capital Ltd Class S Series 1	252	25,736	0.03%
King Street Capital Ltd Class S Series 4	15	416	0.00%
King Street Capital Ltd Class S Series 5	14	945	0.00%
King Street Capital Ltd Class S Series 7	1	53	0.00%
King Street Capital Ltd Class A Series 2	47	7,189	0.01%
King Street Capital Ltd Class S Series 13	258	16,455	0.02%
King Street Capital Ltd Class S Series 14	724	85,079	0.09%
King Street Capital Ltd Class S Series 9	19	2,040	0.00%
King Street Capital Ltd Class S Series 16	438	54,002	0.06%
King Street Capital Ltd Class S Series 18	188	18,929	0.02%
King Street Capital Ltd Class S Series 20	250	24,898	0.03%
King Street Capital Ltd Class S Series 22	30	2,992	0.00%
King Street Capital Ltd Class S Series 24	781	75,130	0.08%
King Street Capital Ltd Class A Post 1 Feb 06 Series 2	9,969	4,647,645	5.07%
King Street Capital Ltd Class A Post 1 Feb 06 Series 4	17	2,156	0.00%
Plainfield Liquidation L1 Series 4 0109	32,752	2,605,376	2.84%
Plainfield Liquidation R Series 1 0609	58,947	4,658,016	5.08%
Trafalgar Recovery Class C Restricted Series 12	33,432	3,845,503	4.19%
Trafalgar Recovery Class D Restricted Series 1	14,701	670,686	0.73%
Trafalgar Recovery - Fund – US	5,641	1,299,000	1.42%
Trafalgar Recovery - Fund – US	7,100	834,091	0.91%
Trafalgar Recovery Class C Restricted Series S SP	3,937	196,774	0.21%
Underlying Investee Fund Trading Strategy -Multi-Process Strategy			
JPM Sterling Gilt Liquidity Fund Class C	638	9,623,255	10.49%
Total Investments		79,040,835	86.18%

PORTFOLIO STATEMENT AS AT 30 JUNE 2010 (continued)

Forward Currency Contracts

Counterparty	Maturity Date	Amount Bought	Amount Sold	Unrealised Gain US$	% of Net Assets
Citibank N.A.	29/07/10	US$6,019,540	GBP4,000,000	29,266	0.03%
Citibank N.A.	29/07/10	GBP55,683,922	US$82,895,263	495,225	0.54%
Total unrealised gain on forward currency contracts				524,491	0.57%
Other assets				12,147,711	13.25%
Total net assets				**91,713,037**	**100.00%**