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# Advance Frontier Markets Fund Limited Half-yearly Financial Report 2007



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## Investment objective and policy

The objective of the Company is to generate long-term capital growth for its Shareholders. The Investment Manager invests predominantly in a diversified portfolio of funds and other investment products which derive their value from Frontier Markets. The proportion of the portfolio invested in each component of Frontier Markets varies according to where the Investment Manager perceives the most attractive investment opportunities to be. Investee funds may include closed and open-ended funds, exchange traded funds, structured products, limited partnerships and managed accounts.

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## Performance

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Performance for the period\*

Net Asset Value ("NAV") per share** – undiluted	+10.1%
Net Asset Value ("NAV") per share** – diluted	+9.0%
Share Price	+5.0%

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\*From 15 June 2007 when the Company's shares commenced trading on AIM.

\*\*Measured from an initial NAV of \$0.9685 net of share issue expenses

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# Chairman's statement

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On behalf of your Board, I warmly welcome you as a Shareholder and thank you for your support in the launch of Advance Frontier Markets Fund Limited ("AFMF" or "the Fund"). I am pleased to present to you the Half Yearly Report for the reporting period to 31 December 2007.

The Company was incorporated on 25 April 2007 and its shares were admitted to trading on AIM and the Channel Islands Stock Exchange on 15 June 2007. The period subsequent to launch has been exciting on several counts, not least as this vehicle represents the first publicly quoted company that provides access to the frontier markets asset class – an area that is increasingly attracting attention from the investment community, media and 'bulge bracket' investment banks. Index providers have followed suit with MSCI launching a Frontier Index series following interest from its clients; a process to which AFMF's manager contributed. Not to be outdone, Standard & Poor's created an extended Frontier 150 and Frontier 30 Index which is comprised of the largest and most liquid stocks drawn from over 30 markets. Your Board believes that these moves are likely to lead to global investors taking a greater interest in frontier markets. I believe this will be to the long term benefit of shareholders in AFMF, which is now well established as an early mover in a new and growing sector.

Over the period since launch the Manager has actively deployed the funds raised in a steady but risk aware manner and the Fund is now fully invested. In the interim period the Fund's Net Asset Value ("NAV") rose smoothly to a level, on a diluted basis, 9.0% above the Fund's NAV after share issue expenses at launch. This has been achieved with little volatility reflecting the uncorrelated nature of the Fund's investment remit. The share price also increased over the period and stood at \$1.05 on the final day of the interim period. In addition, the bonus warrants which were issued on a one for five basis finished the period at \$0.23, providing an additional source of return for the investors who supported the launch of the Company.

Looking forward, the Board believes that the fund of funds strategy adopted by the Manager and the diversification benefits this gives will stand investors in good stead. Your Manager expands on the future prospects in more detail in its report but suffice to say your Board remains convinced of the case for investing in frontier markets and takes encouragement from the fact that underlying fundamentals remain attractive across most frontier and emerging markets despite global uncertainties.

I look forward to maintaining contact with all of our shareholders as this exciting investment environment continues to develop. As part of this plan may I direct you to our website, [www.frontiermarketsfund.com](http://www.frontiermarketsfund.com) as well as the Manager's website [www.pro-asset.com](http://www.pro-asset.com) on which regular monthly fact sheets and other significant updates will be posted.

Finally, I wish to thank my fellow directors and our many advisors for all their hard work in the run up to the launch and over the last few months as a quoted company.

**Aly El-Tahry**  
8 February 2008

# Manager's report

## Performance review

The period from launch to 31 December was one of solid progress. Advance Frontier Markets Fund's NAV rose by 10.1% from the starting NAV. The diluted NAV gained 9.0% and AFMF's share price rose by 5% from the issue price of \$1.00.

One of the notable features during a testing period for global markets was the lack of volatility in the Fund's NAV which rose at a sure and steady pace as investments were made. The uncorrelated nature of the markets and assets in which we invest was notably evident in the first half of August as the sub-prime crisis engulfed global capital markets. The Fund's NAV barely moved during the crisis and quickly shrugged off any lingering concerns to continue its solid progress.

### Advance Frontier Markets Fund Performance Report

As at 31 December 2007	3 Month	6 Month	Since Inception*
AFM NAV	10.1%	10.2%	10.1%
AFM NAV (Diluted)	9.0%	9.0%	9.0%
AFM Price	2.4%	1.8%	5.0%

\*date of Admission to AIM and CISX (15 June 2007)

Source: PDML, Bloomberg, all figures in USD

Analysis of the portfolio reveals that performance was driven largely by investments in listed equity markets across Africa and the Middle East. In both regions, stock markets powered ahead over the period, driven by petrodollar revenues, the continuing commodity boom and strong portfolio flows into those markets. Eastern Europe was less impressive, particularly those funds focussed on the real estate space, where despite investing with high quality management teams we saw market prices driven down by indiscriminate selling as property investors looked to exit anything that was deemed to be liquid. On revisiting our assumptions we remain convinced of the quality of the funds we have invested in, their management teams and believe they will deliver IRRs in excess of 20% over the coming years. Another slow burning investment has been into private equity and infrastructure funds which rose over the period but where the real upside will come as their investment cycles mature. In Asia we made good returns on our investments exposed to Bangladesh, Indonesia and Thailand. Vietnam and Pakistan were both negative contributors but for different reasons. In Vietnam a combination of high valuations and an IPO backlog curbed investor enthusiasm. Meanwhile in Pakistan politics was largely to blame and although the market remains amongst the cheapest in Asia the uncertain political backdrop is likely to continue to cause volatility. However, our exposure is low at only 2% of NAV.

In summary, AFMF's steady progress over the last six months, combined with the lack of volatility in its NAV should give investors comfort that we are now delivering that which we set out to achieve and enunciated in our pre-launch marketing and the Admission Document.

## Portfolio

The Fund's asset allocation as at the end of the interim period is shown on page 4. In terms of regional exposure the Fund had 27% of NAV invested in Asia, 28% in the Middle East, just over 17% in Africa, 10% in Eastern Europe and 5% in Latin America. The largest single country exposure was UAE (10%), followed by China, and then Egypt. The total number of investments was 31 and although almost evenly split by number between open and closed end structures, open ended dominated as a percentage of invested capital, accounting for 66%. In terms of asset type, listed equities are, and will likely remain, the Fund's core focus and accounted for almost three quarters of invested capital with real estate and private equity making up the remainder.

As the portfolio is now fully invested we anticipate that the future NAV performance will begin to reflect more fully the work we have put in to date in constructing a diversified portfolio of the most attractive frontier market ideas.

## Market outlook

As fears of economic recession in developed markets rise, abetted by concerns over the size of the continuing write offs of sub prime obligations, investors could be forgiven for thinking that frontier markets may be at risk. We firmly believe that this is not the case and that the investment rationale remains intact. These markets, we believe, possess many qualities that will see them continue to outperform developed markets regardless of events therein; strong growth, healthy corporate and sovereign balance sheets, favourable demographics, large natural resource endowments, attractive valuations, low correlation with other asset classes and as yet no signs of mass participation by flighty international investors. With such attractive fundamentals and a diverse spread of top quality managers in each region we believe that the early positive returns made by the fund will continue through 2008 and beyond.

Progressive Developing Markets Limited

8 February 2008

# Top ten holdings

At 31 December 2007	By valuation \$'000	Percentage of Portfolio (%)
EMM Middle East Fund	9,162	10.7
Africa Emerging Markets Fund	7,885	9.2
Arab Gateway Fund	7,096	8.3
Alpha Mena Fund	6,054	7.0
EFG-Hermes MEDA Fund	6,035	7.0
Imara African Opportunities Fund	3,980	4.6
Avaron Balkan Fund	3,753	4.4
Dolphin Capital Investors Limited	3,243	3.8
Jupiter Adria Limited	2,961	3.4
China Real Estate Limited	2,944	3.4
<b>Top ten holdings</b>	<b>53,113</b>	<b>61.8</b>
Other holdings	32,903	38.2
<b>Total holdings</b>	<b>86,016</b>	<b>100.0</b>

# Asset allocation

Country split	Percentage of net assets	Country split	Percentage of net assets
<b>Africa</b>	<b>17.5%</b>	<b>Middle East</b>	<b>27.7%</b>
Botswana	0.9%	Bahrain	2.1%
Egypt	6.8%	Jordan	0.3%
Kenya	0.8%	Kuwait	2.3%
Mauritius	1.5%	Lebanon	0.1%
Morocco	1.0%	Oman	2.2%
Nigeria	2.4%	Qatar	4.7%
Zambia	0.8%	Saudi Arabia	6.4%
Other Africa	3.3%	UAE	9.5%
		Other Middle East	0.1%
<b>Asia</b>	<b>27.0%</b>	<b>Latin America</b>	<b>4.5%</b>
Bangladesh	3.1%	Brazil	3.9%
China	7.0%	Other Latin America	0.6%
India	4.5%	<b>Non specified</b>	<b>3.6%</b>
Indonesia	1.2%	<b>Cash (including cash in underlying funds)</b>	<b>9.5%</b>
Pakistan	2.1%	<b>Total</b>	<b>100.0%</b>
Thailand	2.6%		
Vietnam	3.5%		
Other Asia	3.0%		
<b>Eastern Europe</b>	<b>10.2%</b>		
Bulgaria	2.3%		
Croatia	3.5%		
Cyprus	1.0%		
Greece	1.0%		
Romania	2.0%		
Other Eastern Europe	0.4%		

# Income statement

	Period ended 31 December 2007 Revenue \$'000	Period ended 31 December 2007 Capital \$'000	Period ended 31 December 2007 Total \$'000
<b>Gains on investments</b>			
– realised	–	814	814
– unrealised	–	7,580	7,580
	–	8,394	8,394
<b>Income</b>			
– from investments	332	–	332
– bank interest	449	–	449
Investment management fees	(192)	(390)	(582)
Other expenses	(262)	–	(262)
<b>Return on ordinary activities before taxation</b>	<b>327</b>	<b>8,004</b>	<b>8,331</b>
Taxation	(14)	–	(14)
<b>Return on ordinary activities after taxation</b>	<b>313</b>	<b>8,004</b>	<b>8,317</b>
Return per ordinary share (cents) – undiluted	0.37	9.41	9.78
Return per ordinary share (cents) – diluted	0.37	9.38	9.75

All capital and revenue items in the above statement derive from continuing operations. No operations were acquired or discontinued during the period.

A Statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

The Company was incorporated on 25 April 2007 and its shares were admitted to trading on AIM and CIXS on 15 June 2007.

There are no comparative figures as this is the Company's first year of operations.

# Balance sheet

	At 31 December 2007 \$'000
<b>Fixed assets – investments at fair value</b>	<b>86,016</b>
Current assets	4,933
Creditors: amounts due less than one year	(313)
<b>Net current assets</b>	<b>4,620</b>
<b>Total net assets</b>	<b>90,636</b>
Share purchase reserve	82,319
Realised capital reserve	424
Unrealised capital reserve	7,580
Revenue reserve	313
<b>Equity shareholders' funds</b>	<b>90,636</b>
Net asset value per ordinary share (cents) – undiluted	106.63
Net asset value per ordinary share (cents) – diluted	105.53
Number of ordinary shares in issue	85,000,000
Number of warrants in issue	17,000,000

## Reconciliation of movement in shareholders' funds

	Period ended 31 December 2007 \$'000
Issue of ordinary shares	85,000
Share issue expenses	(2,681)
Profit for the period	8,317
<b>Closing shareholders' funds</b>	<b>90,636</b>

The Company was incorporated on 25 April 2007 and its shares were admitted to trading on AIM and CISX on 15 June 2007.

## Cash flow statement

	Period ended 31 December 2007 \$'000
<b>Operating activities</b>	
Cash inflow from investment income and bank interest	774
Cash outflow from management expenses	(565)
Cash inflow from disposal of investments	137,088
Cash outflow from purchase of investments	(215,894)
Net cash outflow on foreign exchange transactions	(65)
<b>Net cash flow from operating activities</b>	<b>(78,662)</b>
<b>Financing</b>	
Issue of share capital (net of share issue expenses)	82,319
<b>Net cash flow from financing</b>	<b>82,319</b>
<b>Increase in cash</b>	<b>3,657</b>

The Company was incorporated on 25 April 2007 and its shares were admitted to trading on AIM and CISX on 15 June 2007.

# Notes

## Company information

The Company is a closed-ended investment company incorporated and resident in Guernsey. Its ordinary shares and warrants to subscribe for ordinary shares are listed on the Channel Islands Stock Exchange and quoted on AIM.

## Accounting policy

These financial statements have been prepared under International Financial Reporting Standards ("IFRS").

The majority of the Company's investments are priced in US Dollars and this is considered to be the functional currency of the Company. Therefore, it is the Company's policy to present the accounts in US Dollars.

## Income statement

The total column of the income statement is the profit and loss account of the company. The capital and revenue columns provide supplementary information which has been prepared using the presentational format of the Statement of Recommended Practice 'Financial statements of investment trust companies' ("SORP") issued by the Association of Investment Companies.

All capital and revenue items in the income statement derive from continuing operations. No operations were acquired or discontinued during the period.

## Return per share

Undiluted return per ordinary share has been based on the return on ordinary activities after taxation of \$8,317,000 attributable to the weighted average of 85,000,000 ordinary shares in issue in the period from the admission of the Company's shares to trading on AIM and the CISX on 15 June 2007 to 31 December 2007.

Diluted return per ordinary share has been based on the return on ordinary activities after taxation of \$8,317,000 attributable to the diluted weighted average of 85,358,825 ordinary shares in issue in the period from 15 June 2007 to 31 December 2007. Dilution is due to the warrants in issue during the period.

## Taxation

The Company is exempt from Income Tax in Guernsey and does not suffer tax in Guernsey on capital gains. The charge for taxation relates to tax suffered on dividends received from overseas investments.

## Investments

Investments have been classified as "fair value through profit and loss". Securities of companies quoted on regulated stock exchanges are valued by reference to their market bid price at the close of the period. Companies which do not publish a price on a regular basis are valued at an average of the latest broker quotations or valued at cost. Holdings in open ended funds are valued at net asset value.

## Net asset value per share

Undiluted net asset value per ordinary share is based on net assets of \$90,636,000 divided by 85,000,000 ordinary shares in issue at the period end.

Diluted net asset value per ordinary share is based on net assets of \$107,636,000 divided by 102,000,000 diluted ordinary shares in issue at the period end. Dilution is due to the warrants in issue at the period end.

## Dividend

The directors do not recommend an interim dividend. As the Company's investment objective is based on capital appreciation and it expects to re-invest realised returns from investments that are consistent with its investment strategy, the directors do not presently intend to make dividend distributions to shareholders.

## Related party transactions

Fees payable to the Manager are shown in the Income Statement. A performance fee accrual of \$8,160 was made during the period ended 31 December 2007. \$46,110 was payable to the UK administration agent in respect of the period.

At 31 December 2007, Manager's fees of \$182,791 and UK administration agent's fees of \$14,931 were accrued in the balance sheet.

## Status of this report

These financial statements are not the Company's statutory accounts. They are unaudited. This report will be sent to shareholders and copies will be made available to the public at the registered office of the Company. It is also available on the Company's website, [www.frontiermarketsfund.com](http://www.frontiermarketsfund.com).

The half-yearly financial report was approved by the Board of directors on 8 February 2008.

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# Directors, investment manager and advisers

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(James) Grant Wilson  
Richard Hotchkis

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