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# Advance Frontier Markets Fund Limited Annual Report 2008



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## Investment objective and policy

The objective of the Company is to generate long-term capital growth for its Shareholders. The 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 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

Performance for the period ended 30 June 2008\*

Net Asset Value ("NAV") per share** – undiluted	+6.7%
Net Asset Value ("NAV") per share** – diluted	+6.4%
Share price	+9.3%

As at 30 June 2008

NAV per share – undiluted	\$1.0336
NAV per share – diluted	\$1.0306
Share price	\$1.0925
Warrant price	\$0.2100
Total assets	\$175m

\*From 15 June 2007 when the Company's shares commenced trading on AIM and the Channel Islands Stock Exchange.

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

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## Financial Calendar

Annual General Meeting	13 November 2008 at 11 am Valley House Hirzel Street St Peter Port Guernsey GY1 4HP
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The Annual Report can be downloaded in electronic format from [www.frontiermarketsfund.com](http://www.frontiermarketsfund.com)

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# Chairman's statement

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On behalf of your Board, I am pleased to present to you the Report & Accounts for Advance Frontier Markets Fund Limited ("AFMF", "the Fund" or "the Company") for the period to 30 June 2008. The Company was incorporated on 25 April 2007 and its shares were admitted to trading on AIM and listed on the Channel Islands Stock Exchange on 15 June 2007. This is the Company's first full year and this report thus covers a period of just over 12 months.

As Chairman of Advance Frontier Markets Fund, two particular developments strike me as characterising the last year. Firstly, the dramatic pickup in stock market volatility evident in virtually all markets. This made for a challenging backdrop for AFMF's investment programme. The second, and rather more pleasing, theme has been the increased acknowledgement by the investment community at large of frontier markets as a valid investment concept. That recognition has been driven by an acceptance of the previously ignored growth potential of many frontier countries and the search for uncorrelated returns amongst investors.

One illustration of this growing acceptance was the success of AFMF's second fund raising which was completed in early June. I am delighted to say that following the conclusion of this exercise the Fund virtually doubled in size. Support was widespread and the shareholder register is widely diversified and populated by a range of top tier institutions. The Fund is now of a size where further institutional interest is facilitated. The increased coverage, improved liquidity and lower expense ratio will benefit all current holders.

Turning to performance, over the course of the reporting period the Fund's Net Asset Value ("NAV") rose on a reasonably smooth path to a level, on a headline basis, 6.7% above the NAV at launch after share issue expenses. Allowing for warrant dilution the NAV increase was 6.4%. This return was achieved with low volatility, reflecting the uncorrelated nature of the Fund's investment remit. The share price also increased over the year from the launch price of \$1.00 to \$1.09 on the final day of the period. Since the period end the share price and NAV have declined and as at 26 September 2008 were \$0.86 and \$0.85 respectively.

Whilst the global outlook remains clouded, with concerns evident on a number of fronts, it is my opinion 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 the aforementioned global headwinds.

Finally, I wish to thank my fellow directors for their hard work since the Company's inception.

**Aly El-Tahry**

30 September 2008

# Manager's report

## Performance review

The period from launch to 30 June 2008 was one of solid progress. The Fund's NAV rose by 6.7% from its starting figure of \$0.97. The diluted NAV gained 6.4% and AFMF's share price rose by 9.3% from the issue price of \$1.00. This is a creditable result in a challenging global environment, punctuated by stock market volatility and heightened risk aversion. For reference, the MSCI World Index fell by 10.7% over the same period while the MSCI Emerging Markets managed a gain of only 4.6% (total returns in US dollars).

The financial period was marked by several spells of heightened global risk aversion as the ramifications of the unfolding credit crisis affected investor sentiment. The pick-up of inflation in virtually all economies, driven by strong increases in commodity prices, notably food and fuel, posed further problems for policy makers, who, in the US and Europe, were also faced with quite a marked slowdown in economic growth projections. Against this backdrop, AFMF fared reasonably well. However, it was not entirely immune to market declines although the movements in its NAV tended to be fairly muted compared with major developed or emerging market benchmarks thanks to the uncorrelated nature of the markets and assets in which the Fund invests. The NAV per share peaked at almost \$1.08 on 9 May but the closing two months of the financial year saw ground lost. At the end of June the NAV was \$1.03.

Analysis of the portfolio reveals that the positive return was largely driven 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 and the continuing commodity boom which were followed by strong portfolio flows into these markets. Eastern Europe was less impressive, particularly those funds focussed on the real estate sector, 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. Over the year our exposure to property was limited to a maximum of around 15% of net assets. Despite suffering painful corrections in these holdings we remain convinced of the quality of the funds in which we have invested and believe they will deliver IRRs in excess of 20% over the coming years. We have also invested into some private equity and infrastructure funds which were generally stable over the period but where the real upside will come as their investment cycles mature. In Asia, Vietnam and Pakistan were both negative contributors but for different reasons. In Vietnam a combination of rising inflation, high valuations and an IPO backlog curbed investor enthusiasm. The main reason, however, for the market fall was the late knee jerk reaction of the State Bank, which recognised that +50% loan growth was unsustainable and that inflation had to be the main focus of economic policy not the exchange rate. In Pakistan, politics and high oil prices were to blame and although the market remains amongst the cheapest in Asia the uncertain backdrop caused by continuing political in-fighting amongst coalition partners is likely to continue to cause volatility. In both markets our exposure is low.

One of the notable features during a testing period for global markets was the lack of volatility in the Fund's NAV. The uncorrelated nature of the markets and assets in which AFMF is invested was evident throughout the period. From the beginning of October 2007 (when the Fund became fully invested) to the end of June 2008, the correlation of AFMF's NAV against the MSCI Emerging Markets Index was 0.22. Against the S&P500 it was 0.06 and against the FTSE All Share it was 0.18. The volatility of the Fund's NAV as measured by its standard deviation was also much lower than the same indices, at 5.8% compared with 23.1%, 20.4% and 24.4% respectively.

Over the course of the period the share price, on average, traded at a premium of 2.5% to the diluted NAV per share. The maximum premium was 9.2% in mid September and the largest discount was 5.1% in late February as investor risk aversion rose. At the time of writing it is at a small premium to the NAV per share.

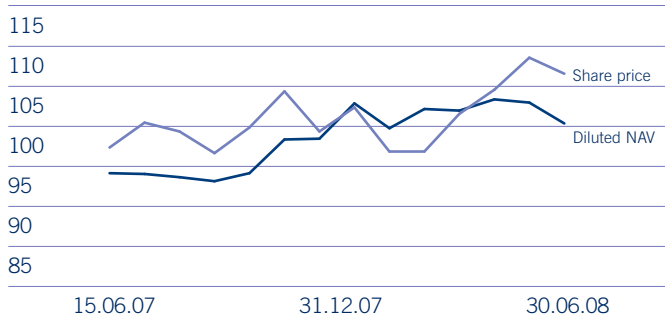
## Advance Frontier Markets Fund performance report

As at 30 June 2008	3 Months	6 Months	12 Months	Since inception*
AFMF NAV	-2.1%	-3.1%	6.8%	6.7%
AFMF NAV (Diluted)	-1.5%	-2.3%	6.5%	6.4%
AFMF Share price	4.8%	4.0%	5.9%	9.3%

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

Source: PDML, Bloomberg, all figures in USD

## Advance Frontier Markets Fund performance chart



## Portfolio

The Fund's asset allocation as at the end of the period is shown on page 3. In terms of regional exposure the Fund had 14% of NAV invested in Asia, 30% in the Middle East, just under 21% in Africa, 6% in Eastern Europe, 2% in Latin America and cash and other net assets accounted for 27% following the recently completed fund raising. The largest single country exposure was the UAE at 11.3%, followed by Saudi Arabia (7.6%) and Egypt (6.4%). The total number of investments was 36 and open ended funds dominated as a percentage of invested capital, accounting for 74% by value. In terms of asset type, funds invested in listed equities are, and will likely remain the Fund's core focus and they accounted for over 80% of invested capital; real estate, private equity and commodities funds made up the remainder.

## Market outlook

Despite fears of negative economic growth in developed markets spilling over to Frontier markets we firmly believe, despite short term set-backs, that this is not the case and that the investment rationale remains intact. Selected frontier markets, we believe, possess many qualities that will see them continue to outperform developed markets, namely; 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 only limited participation by international investors. Such attractive fundamentals and a diverse spread of top quality managers in each region should generate good returns over the coming years.

Progressive Developing Markets Limited

30 September 2008

# Asset allocation

Country split	Percentage of net assets	Country split	Percentage of net assets
<b>Africa</b>	<b>20.5%</b>	<b>Middle East</b>	<b>29.8%</b>
Botswana	0.8%	Bahrain	1.8%
Egypt	6.4%	Jordan	0.2%
Kenya	0.7%	Kuwait	2.1%
Mauritius	1.5%	Lebanon	0.1%
Morocco	1.3%	Oman	1.0%
Nigeria	2.2%	Qatar	5.6%
Zambia	1.0%	Saudi Arabia	7.6%
Other Africa	6.6%	UAE	11.3%
		Other Middle East	0.1%
<b>Asia</b>	<b>14.4%</b>	<b>Latin America</b>	<b>2.5%</b>
Bangladesh	1.6%	Brazil	2.4%
China	4.5%	Other Latin America	0.1%
India	3.1%	<b>Non-specified</b>	<b>3.1%</b>
Indonesia	0.6%	<b>Cash (including cash in underlying funds)</b>	<b>24.0%</b>
Pakistan	0.8%	<b>Total</b>	<b>100.0%</b>
Thailand	1.2%		
Vietnam	1.6%		
Other Asia	1.0%		
<b>Eastern Europe</b>	<b>5.7%</b>		
Bulgaria	1.2%		
Croatia	2.1%		
Cyprus	0.5%		
Greece	0.4%		
Romania	1.2%		
Other Eastern Europe	0.3%		

# Top ten holdings

Company	Holding	Current value \$'000	Percentage of net assets
EMM Middle East	697,260	15,744	9.0
EMM Africa Emerging	247,994	15,669	8.9
EFG Hermes MEDA	395,063	15,573	8.9
Arab Gateway	369,439	15,369	8.8
Alpha MENA	84,223	10,912	6.2
Investec Africa	154,638	4,781	2.7
Africa Opportunity	4,869,518	4,529	2.6
Imara African	193,636	3,652	2.1
Avaron Balkan	399,432	3,533	2.0
Yatra	274,011	3,453	2.0
<b>Top ten holdings</b>		<b>93,215</b>	<b>53.2</b>
Other holdings		46,795	26.7
Cash and other net assets		35,152	20.1
<b>Total net assets</b>		<b>175,162</b>	<b>100.0</b>

# Directors' report

The directors present their report and accounts for the period from incorporation on 25 April 2007 to 30 June 2008. The Company's Shares were admitted to trading on AIM and listed on the Channel Islands Stock Exchange on 15 June 2007 and business operations commenced on that date.

## Investment objective and policy

The objective of the Company is to generate long-term capital growth for its Shareholders. The 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 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.

## Business activities

The Company is a closed-ended investment company incorporated and resident in Guernsey and quoted on the AIM market of the London Stock Exchange and listed on the Channel Islands Stock Exchange.

## Results and dividends

The Company's profit on ordinary activities after taxation for the period was \$4,055,000.

The Company's revenue return on ordinary activities after taxation for the period amounted to \$252,000. In accordance with its statement in the Admission Document of the Company, the directors do not recommend a final dividend.

## Investment report and outlook

The Chairman's Statement and Manager's Report incorporate reviews of the highlights of the period.

## Market information

The net asset value per share is calculated weekly and published through a regulatory information service.

## Issues of shares and warrants

At the Company's period end the Company had 169,460,000 ordinary shares and 16,940,000 warrants in issue.

### (i) Placing of ordinary shares (with warrants) – June 2007

Pursuant to the proposals detailed in the Company's Admission Document dated 12 June 2007, the Company issued 85,000,000 ordinary shares (with warrants attached on a one for five basis) on 15 June 2007, raising gross proceeds of \$85,000,000. The net proceeds of this placing were \$82,319,406.

Warrants were issued on the basis of one warrant for every five shares subscribed in the above Placing. Each warrant entitles its holder to subscribe for one ordinary share at a subscription price of \$1.00 per ordinary share on 15 June in each of the years 2008 to 2010 inclusive.

### (ii) Placing of ordinary shares – June 2008

On 21 May 2008, the Company sent a circular to shareholders detailing proposals to place additional shares in the Company. Pursuant to these proposals, on 9 June 2008 the Company issued 84,400,000 ordinary shares which raised gross proceeds of \$90,443,040. The net proceeds of this placing were \$88,726,791.

### (iii) Exercise of warrants – June 2008

On 16 June 2008 the holders of 60,000 warrants subscribed in cash for ordinary shares on a one warrant for one ordinary share basis and at a subscription price of \$1.00 per ordinary share. As a result 60,000 new ordinary shares were issued. In aggregate, net proceeds of \$60,000 were received for these ordinary shares. The new ordinary shares were admitted to trading on AIM and the CISX on 24 June 2008.

## Purchases of own shares

There were no share re-purchases during the period.

The Company's present authority to make market purchases of its own ordinary shares will expire at the conclusion of the forthcoming Annual General Meeting. As stated in the Company's Admission Document, a renewal of this authority will be sought from shareholders at each annual general meeting of the Company. The timing of any purchase will be decided by the Board. Any shares bought back by the Company will either be held in treasury (and may be re-sold) or cancelled. Purchases will only be made at a price representing a discount to diluted net asset value per share.

The Directors therefore recommend that the Company is granted authority to purchase up to a maximum of 25,402,054 ordinary shares (subject to a maximum of 14.99 per cent of the ordinary shares in issue at the date of the Annual General Meeting). A resolution to this effect will be put to the Annual General Meeting (item 7 in the Notice of Meeting).

## Further share issues

The directors have authority to issue shares on a non pre-emptive basis up to an amount representing 20% of the issued share capital immediately following the completion of the placing of shares in June 2008. Unless authorised by shareholders, the Company will not issue further shares (otherwise than pursuant to the exercise of warrants) or re-sell shares out of treasury for cash at a price below the prevailing net asset value per share unless they are first offered pro rata to existing shareholders.

## Life of the Company

The Company does not have a fixed life but the Directors consider it desirable that shareholders have the opportunity to review the future of the Company at appropriate intervals. At the Annual General Meeting to be held in 2014, a resolution will be proposed that the Company will continue in existence. If the resolution is not passed, the Directors will be required to formulate further proposals to reorganise or reconstruct or wind up the Company. If the resolution is passed, the Company will continue its operations and a similar resolution will be put to shareholders every three years thereafter.

## Custody

Custody of the Company's investments has been contracted to The Northern Trust Company since business operations commenced.

## Borrowings

The Company is permitted to borrow, at the point of drawdown, up to 10 per cent. of its net assets. Any borrowings will not be used to fund investments but may be used to meet working capital requirements or to take advantage of favourable investment opportunities pending the payment of proceeds from the sale or redemption of investments. The Company presently has a \$6 million overdraft facility with Lloyds TSB Bank plc. This facility is available until 30 November 2008.

The above facility was not used during the period ended 30 June 2008.

## Management

The management of the Company's investments is contracted to Progressive Developing Markets Limited, which is authorised and regulated by the FSA.

### *Fees payable to the Manager*

The Manager is appointed under a contract subject to twelve months' notice and is entitled to remuneration comprised of a basic fee and in certain circumstances a performance fee.

The Manager receives a basic management fee payable by the Company monthly in arrears equal to one twelfth of 1.25 per cent of the lower of Market Capitalisation and Net Asset Value.

The Manager may receive, in addition to the basic fee, a performance fee in respect of each Performance Period equal to a percentage (set forth below) of the excess of the Net Asset Value per Share over the Target Net Asset Value per Share. Any such fee is paid annually in arrears out of the assets of the Company. A Performance Period is a period in respect of which the Company produces audited accounts and, if different, the final period for which the management agreement subsists. The first Performance Period was from Admission on 15 June 2007 to 30 June 2008.

The Target Net Asset Value per Share for the first Performance Period was one US Dollar increased by the Hurdle Rate. The Hurdle Rate is 12 per cent per annum, or an increased or reduced pro rata percentage for any Performance Period which is greater than or less than one year.

For each subsequent Performance Period, the Target Net Asset Value per Share means the higher of (i) the High Watermark and (ii) Net Asset Value per Share at the start of the relevant Performance Period as increased by the Hurdle Rate. The High Watermark is the higher of (i) one US Dollar and (ii) the Net Asset Value per ordinary share, after the deduction of the relevant performance fee, as at the end of the latest Performance Period in respect of which the Manager was awarded a performance fee.

The performance fee in respect of a particular Performance Period will be an amount equal to 12 per cent. of the amount (if any) by which the Net Asset Value per Share at the end of that Performance Period, before the deduction of any performance fee, exceeds the Target Net Asset Value per Share multiplied by the weighted average number of Shares in issue during the relevant Performance Period.

The performance fee in respect of a particular Performance Period will not exceed 3 per cent. of the Company's Net Asset Value, before the deduction of any performance fee, at the end of that Performance Period.

No performance fee was payable in respect of the period ended 30 June 2008.

Two thirds of the basic fee and the entirety of any performance fees are allocated to the capital column of the Income Statement.

## Company secretary and administrators

Legis Corporate Services Limited ("Legis") was the secretary of the Company for the entire period under review, and remains so. Legis is also responsible for all administrative matters. Legis receives a fee at a rate of £30,000 per annum, as well as the fees payable to the UK Administration Agent.

Cavendish Administration Limited has been appointed by Legis to act as administration agent in the United Kingdom. Cavendish is appointed under a contract subject to six months notice. The UK Administration Agent receives from the Administrator a monthly fee equal to one twelfth of 0.1 per cent of Net Asset Value. This fee was subject to a maximum administration fee of £100,000 per annum at the time of the Admission of the Company's shares to AIM and the CISX ("Admission"). On each anniversary of Admission, the maximum fee is increased by the change in the UK Retail Price Index (all items) over the preceding 12 months and the current maximum fee is £104,582 per annum.

### Payment of suppliers

It is the Company's payment policy to obtain the best possible terms for all business and therefore there is no consistent policy as to the terms used. The company contracts with its suppliers the terms on which business will take place and abides by such terms; a high proportion of expenses, including management and administration fees, are paid within the month when invoiced. There were no invoices outstanding from trade creditors at 30 June 2008.

### Settlement of share transactions

Share transactions in the Company can be settled by the CREST share settlement system.

### Donations

The Company did not make any donations during the period under review.

### Going concern

After making inquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going-concern basis in preparing the accounts.

### Auditors

In accordance with the Companies (Guernsey) Law 1994, a resolution for the re-appointment of Grant Thornton Limited as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

### Helen Green

**Richard Hotchkis**  
30 September 2008

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# Statement of directors' responsibilities

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The directors are responsible for preparing financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the period and of the profit or loss for the period and are in accordance with The Companies (Guernsey) Law, 1994. In preparing these accounts, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates which are reasonable and prudent;
- State whether applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts have been properly prepared in accordance with The Companies (Guernsey) Law, 1994. 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.

The financial statements are published on the Company's website (website address: [www.frontiermarketsfund.com](http://www.frontiermarketsfund.com)) and on the Manager's website (website address: [www.pro-asset.com](http://www.pro-asset.com)). The maintenance and integrity of the Manager's website, so far as it relates to the Company, is the responsibility of the Manager. The work carried out by the auditors does not involve consideration of the maintenance and integrity of these websites and accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on these websites. Visitors to the websites need to be aware that legislation in Guernsey governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

# Corporate governance

The Company is not required to comply with the provisions of the Combined Code or any Guernsey corporate governance regime. However, the Directors recognise the value of the Combined Code and have taken appropriate measures to ensure that the Company complies, as far as practicable and to the extent appropriate given the Company's assets, liabilities and other relevant information.

## The Board

### Composition

All the directors were appointed by the Company with effect from 25 April 2007 and hold their office in accordance with the Company's Articles of Association.

*Aly El-Tahry, aged 54, is Chairman of the Company.*

Aly El-Tahry is a director and co-founder of Beltone Financial, a regional financial services group operating in the fields of investment banking and asset management, with offices in Cairo, Dubai, Riyadh and Jeddah. In 1991, he co-founded Kidder, Peabody & Co.'s Middle-East regional office in Cairo where he was co manager and was involved primarily in corporate finance activities such as privatisations. Aly co-founded Hermes in 1993, the largest investment bank in the Middle-East and up to the time of his departure as an executive in 1999, he managed, during two different periods, its sales and trading as well as the corporate finance divisions. In 2002, Aly co-founded Beltone Financial, which has assets under management of over 16.8 billion Egyptian pounds. Currently, Aly serves as director of two international investment funds and historically he served on the board of EFG-Hermes and the Cairo Stock Exchange. The October 1997 and September 1998 issues of Global Finance magazine named Aly as one of the 600 'World's Most Powerful People in Finance.' Aly received his MBA from the Krannert Graduate School of Management at Purdue University, West Lafayette, Indiana, USA, in 1987. He also holds Bachelor of Science degrees in both Physics-Engineering and Mechanical Engineering from Washington & Lee University, Lexington, Virginia, USA, and Rensselaer Polytechnic Institute, Troy, New York, USA, respectively.

*Helen Green, aged 45, is a non-executive director of the Company.*

Helen Green is a chartered accountant. She has been employed by Saffery Champness, a UK top 20 firm of chartered accountants since 1984. She qualified as a chartered accountant in 1988 and became a partner in the London office in 1997. Since 2000 she has been based in the Guernsey office where she is client liaison director responsible for trust and company administration. Helen serves on the boards of a number of companies in various jurisdictions and she is currently a non-executive director of Landore Resources Limited, Advance AIM Value Realisation Company Limited, Puma Brandenburg Limited (all of which are traded on AIM) and Trio Finance Limited, Kenmore European Industrial Fund Limited, Acorn Income Fund Limited and Henderson Diversified Income Fund (which are listed on the Official List of the London Stock Exchange).

*(James) Grant Wilson, aged 46, is a non-executive director of the Company.*

Grant is a director of Prudent Wealth Management Limited, an FSA registered fund management company. He is also a partner in Eland Mar LLP, a director of China Development Capital (GP) Limited and a trustee of several charities including the Church of Scotland Investors' Trust. Formerly he was a director of Martin Currie Investment Management Limited, Gartmore Investment Trust Management Limited and worked as a fund manager at Ivory & Sime plc. He is an associate of the Institute of Chartered Secretaries and Administrators, a member of the Chartered Financial Analysts Institute and an associate of the UK Society of Investment Professionals.

*Richard Hotchkis, aged 57, is a non-executive director of the Company.*

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. Richard 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 hedge funds.

All directors are entirely independent of the Manager, Progressive Developing Markets Limited. There were no contracts subsisting during or at the end of the period in which a director was or is materially interested.

A policy of insurance against directors' and officers' liabilities is maintained by the Company.

At 30 June 2008 and at the date of this report the directors had the following shareholdings in the Company.

	Ordinary shares	Warrants
Aly El-Tahry	172,474	Nil
Helen Green	18,664	Nil
(James) Grant Wilson	200,000	Nil
Richard Hotchkis	20,000	Nil

A procedure has been adopted for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

In the period from the Company's listing up to the date of this document there have been five quarterly meetings of the Board. All the directors have attended all of those meetings. There have also been other meetings to deal with matters associated with the issue of new shares.

### Re-election of directors

The services of each of the directors are provided under the terms of letters of appointment between each of them and the Company and appointment is subject to termination upon three months notice.

In accordance with the Company's Articles of Association, all the Company's directors will retire and put themselves forward for re-appointment at the first Annual General Meeting.

The Board has reviewed the contribution made by the directors and in accordance with the performance evaluation detailed below recommends that they should be re-elected.

**Board committees**

The Company has established an Audit Committee, a Management Engagement Committee and a Nominations Committee. Since all the directors are non-executive, the Board has not formed a Remuneration Committee as it is satisfied that any relevant issues can be properly considered by the Board as a whole. Other committees of the Board may be formed from time to time to deal with specific matters.

*Audit Committee*

The Company has established an Audit Committee, which comprises all the members of the Board other than the Chairman. The Audit Committee normally meets on a twice yearly basis and its main functions include, inter alia, reviewing and monitoring internal financial control systems and risk management systems on which the Company is reliant, considering annual and interim accounts and audit reports, making recommendations to the Board in relation to the appointment and remuneration of the Company's auditors and monitoring and reviewing annually their independence, objectivity, effectiveness and qualifications. Helen Green is the Chairman of the Audit Committee.

The Company's external auditors also attend the Audit Committee at its request and report on their work procedures, the quality and effectiveness of the Company's accounting records and their findings in relation to the Company's statutory audit.

In the period from the Company's listing up to the date of this document there have been two meetings of the Audit Committee. All of the committee members attended both meetings.

*Management Engagement Committee*

The Company has established a management engagement committee which meets formally at least on an annual basis to consider the appointment and remuneration of the Manager. The management engagement committee will also consider the appointment and remuneration of other suppliers of services to the Company. The management engagement committee comprises all the members of the Board. Richard Hotchkis is the Chairman of the Management Engagement Committee.

In the period from the Company's listing up to the date of this document there has been one meeting of the Remuneration and Management Engagement Committee. This was attended by all the committee members.

*Nominations Committee*

All of the directors are members of the Nominations Committee. It has been established for the purpose of identifying and putting forward candidates for the office of director of the Company. The Nominations Committee will meet as and when it is required. Mr Wilson is Chairman of the Nominations Committee.

In the period from the Company's listing up to the date of this document there have been no meetings of the Nominations Committee.

**Performance evaluation**

A formal annual performance appraisal process is performed. The Chairman appraises the performance of the individual directors and the Board. The results are discussed so that any necessary action can be considered and undertaken. A separate appraisal of the Chairman is carried out and the results are reported back to the Board and the Chairman.

**Internal controls**

The Combined Code requires the Board to review the effectiveness of the Company's system of internal controls. The Board recognises its ultimate responsibility for the Company's system of internal controls and for monitoring its effectiveness. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can provide only reasonable assurance against material misstatement or loss. The Board has undertaken a review of the aspects covered by the FRC guidance on internal controls and has identified risk management controls in the key areas of business objectives, accounting, compliance, operations and secretarial as being matters of particular importance upon which it requires reports. The Board believes that the existing arrangements, set out below, represent an appropriate framework to meet the internal control requirements. By these procedures the directors have kept under review the effectiveness of the internal control system throughout the period and up to the date of this report.

The Board has contractually delegated to external agencies, including the investment manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the registration services and the accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration of the quality and cost of services offered, including the financial control systems in operation in so far as they relate to the affairs of the Company.

*Financial aspects of internal control*

The directors are responsible for the internal financial control systems of the Company and for reviewing their effectiveness. These aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which business decisions are made and which is used for publication and that the assets of the Company are safeguarded. As stated above, the Board has contractually delegated to external agencies the services the Company requires, but they are fully informed of the internal control framework established by the investment manager, the administrator and the UK administration agent to provide reasonable assurance on the effectiveness of internal financial controls. The Board does not consider that an internal audit function would be appropriate to the nature and circumstances of the Company.

The key procedures include monthly production of management accounts and NAV calculations, monitoring of performance at regular board meetings, review by directors of the valuation of securities, segregation of the administrative function from that of securities and cash custody and of both from investment management, maintenance of appropriate insurance and adherence to physical and computer security procedures. In addition, the Board keeps under its own direct control all material payments out of the Company other than for investment purposes. Payment of management fees is authorised only by directors after they have studied the financial data upon which those fees are based.

The Statement of Directors' Responsibilities in respect of the accounts is on page 7 and a statement of going concern is on page 6. The report of the independent auditors is on page 12.

*Other aspects of internal control*

The Board holds at least four regular meetings each year, plus additional meetings as required. Between these meetings there is regular contact with the investment manager, the administrator and the UK administration agent.

The Manager and the Company Secretary report in writing to the Board on operational and compliance issues prior to each meeting, and otherwise as necessary.

Directors receive and consider regular monthly reports from the UK administration agent, giving full details of all holdings in the portfolio and of all transactions and of all aspects of the financial position of the Company. The administrator and UK administration agent report separately in writing to the Board concerning risks and internal control matters within their purview, including internal financial control procedures and secretarial matters. Additional ad hoc reports are received as required and directors have access at all times to the advice and services of the Corporate Company Secretary, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

This contact with the Manager, administrator and UK administration agent enables the Board to monitor the Company's progress towards its objectives and encompasses an analysis of the risks involved. These matters are assessed on an ongoing basis through the year.

*Shareholder relations*

The Company invites all shareholders to attend the Annual General Meeting and seeks to provide twenty working days' notice of that meeting. The Notice of Meeting sets out the business of the AGM and any item not of an entirely routine nature is explained in the Directors' Report. Separate resolutions are proposed for each substantive issue.

The structure of the Board is such that it is considered unnecessary to identify a senior non-executive director other than the Chairman. All other directors are, however, available to shareholders if they have concerns over issues they feel have not been dealt with through the normal mode of communication with the Chairman.

*Exercise of voting powers*

The Company nearly always exercises its voting powers in respect of general meetings of investee companies. The Company considers shareholder voting to be an important issue in the pursuance of its investment objective. All investee company general meetings are researched by the investment manager and the Company takes action following the completion of this process. The Company is opposed to mechanistic 'box-ticking' approaches to voting at shareholder meetings.

*Social and environmental policy*

The Company is a closed-ended investment company and therefore has no staff, premises, manufacturing or other operations.

# Directors' remuneration report

Since all Directors are non-executive, a remuneration committee has not been formed as the directors are satisfied that any relevant issues can be properly considered by the Board as a whole.

## Policy on directors' fees

The Board's policy is that the remuneration of non-executive directors should be fair and should reflect the experience, work involved, responsibilities and potential liabilities of the Board as a whole. The non-executive directors' fees are determined within the limits set out in the Company's Articles of Association and they are not eligible for bonuses, pension benefits, share benefits, share options, long-term incentive schemes or other benefits. It is intended that this policy will continue for the year ending 30 June 2009 and for subsequent years.

The maximum amount currently payable in aggregate to the directors is \$200,000 per annum and this may only be changed by the passing of an ordinary resolution of the Company.

No services have been provided by, or fees paid to, advisers in respect of remuneration policy during the period ended 30 June 2008.

## Directors' service contracts

The directors do not have service contracts. The directors have appointment letters subject to termination upon three months' notice. The directors are all subject to re-election by shareholders at the first annual general meeting of the Company.

## Directors' emoluments for the period

Fees are payable to the directors at a rate of \$30,000 per annum. Fees have been payable since the Company's Shares were admitted to trading on AIM on 15 June 2007.

The following emoluments in the form of fees were payable in the period ended 30 June 2008 to the directors who served during that period.

	\$
Aly El-Tahry	31,377
Helen Green	31,377
Grant Wilson	31,377
Richard Hotchkis	31,377

# Independent auditor's report

**To the Shareholders of Advance Frontier Markets Fund Limited**

We have audited the financial statements on pages 13 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's Shareholders, as a body, in accordance with section 64 of The Companies (Guernsey) Law, 1994. Our audit work has been undertaken so that we might state to the Company's Shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Directors and auditors**

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable Guernsey law and International Financial Reporting Standards ("IFRS") are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with The Companies (Guernsey) Law 1994.

In addition we report to you if, in our opinion, the Directors' Report is inconsistent with the financial statements, if the Company has not kept proper accounting records, or if we failed to obtain all access, information and explanations we require for our audit.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the Directors' Report, the Investment Objective, the Risk Warning, the Chairman's Statement, the Performance Statistics, Portfolio, and the Directors and Advisers. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS, of the state of the Company's affairs as at 30 June 2008 and of its profit for the period from 25 April 2007 to 30 June 2008; and
- the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law 1994.

Grant Thornton Limited  
Chartered Accountants  
Guernsey

30 September 2008

# Income statement

For the period from 25 April 2007 to 30 June 2008

	Note	Revenue \$'000	Capital \$'000	Total \$'000
<b>Gains/(losses) on investments designated as fair value through profit or loss</b>				
Realised		–	1,454	1,454
Unrealised		–	3,206	3,206
Capital losses on currency movements		–	(62)	(62)
<b>Net investment gains</b>		<b>–</b>	<b>4,598</b>	<b>4,598</b>
Investment income	2	1,212	–	1,212
Total income		1,212	4,598	5,810
Investment management fees	3	(397)	(795)	(1,192)
Other expenses	3	(540)	–	(540)
<b>Profit on ordinary activities before taxation</b>		<b>275</b>	<b>3,803</b>	<b>4,078</b>
Taxation	6	(23)	–	(23)
<b>Profit on ordinary activities after taxation</b>		<b>252</b>	<b>3,803</b>	<b>4,055</b>
<b>Earnings per ordinary share</b>				
– Basic	7	0.28c	4.23c	4.51c
– Diluted		0.28c	4.21c	4.49c

The total column of this statement represents the Company's Income Statement, prepared under IFRS. The revenue and capital columns, including the revenue and capital earnings per share data, are supplementary information prepared under guidance published by the Association of Investment Companies.

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

The Company was incorporated on 25 April 2007 and its shares commenced trading on AIM and the Channel Islands Stock Exchange on 15 June 2007. Therefore there are no comparatives as this is the Company's first annual report.

The notes on pages 16 to 20 form part of these accounts

# Balance sheet

At 30 June 2008	Notes	\$'000
<b>Non-current assets</b>		
Investments designated as fair value through profit or loss	8	140,010
<b>Current assets</b>		
Cash held in escrow pending investment	8	7,500
Other receivables		61
Cash and cash equivalents		27,974
		35,535
<b>Total assets</b>		<b>175,545</b>
<b>Current liabilities</b>		
Other payables		383
		383
<b>Total assets less current liabilities</b>		<b>175,162</b>
<b>Capital and reserves attributable to equity holders</b>		
Share premium account	10	88,788
Share purchase reserve	11	82,319
Realised capital reserve	12	597
Unrealised capital reserve		3,206
Revenue reserve		252
<b>Total equity</b>		<b>175,162</b>
Net assets per Ordinary Share –undiluted	13	103.36c
Net assets per Ordinary Share – diluted		103.06c

There are no comparatives as this is the Company's first annual report.

Approved by the Board of Directors on 30 September 2008 and signed on their behalf by:

**Helen Green**

**Richard Hotchkis**

The notes on pages 16 to 20 form part of these accounts.

# Statement of changes in equity

For the period from 25 April 2007 to 30 June 2008

	Note	Share premium account \$'000	Share purchase reserve \$'000	Realised capital reserve \$'000	Unrealised capital reserve \$'000	Revenue reserve \$'000	Total \$'000
Issue of shares	10	175,503	–	–	–	–	175,503
Share issue expenses		(4,396)	–	–	–	–	(4,396)
Transfer from share premium to share purchase reserve	11	(82,319)	82,319	–	–	–	–
Profit for the period		–	–	597	3,206	252	4,055
Closing equity		88,788	82,319	597	3,206	252	175,162

There are no comparatives as this is the Company's first annual report.

The notes on pages 16 to 20 form part of these accounts.

# Cash flow statement

For the period from 25 April 2007 to 30 June 2008

	Notes	\$'000
<b>Operating activities</b>		
Cash inflow from investment income and bank interest		1,183
Cash outflow from management expenses		(1,497)
Cash inflow from disposal of investments		145,038
Cash outflow from purchase of investments		(287,888)
Cash outflow from foreign exchange costs		(62)
Cash outflow from taxation		(23)
<b>Net cash flow from operating activities</b>	14	<b>(143,249)</b>
<b>Financing activities</b>		
Proceeds of share issues	9,10	175,443
Expenses of share issues		(4,280)
Warrants exercised		60
<b>Net cash flow from financing activities</b>		<b>171,223</b>
<b>Net increase in cash and cash equivalents</b>		<b>27,974</b>
Opening balance		–
Cash inflow		27,974
<b>Balance at 30 June 2008</b>		<b>27,974</b>

There are no comparatives as this is the Company's first annual report.

The notes on pages 16 to 20 form part of these accounts.

# Notes to the financial statements

## 1 Accounting policies

### *Basis of accounting*

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain in effect at the date of this document.

The Company has adopted IFRS 7 "Financial Instruments Disclosures", which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendments to IAS 1 "Presentation of Financial Statements". The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Company's financial instruments and management of capital.

There are new and amended standards that are effective for periods subsequent to June 2008. IAS 1 (Revised 2007) "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 January 2009) is relevant to the Company and the Company will be applying this in its 2010 financial statements. The amendment requires an entity to present all items of income and expense recognised in the period in a single statement of comprehensive income or in two statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognised in profit and loss in the same way as the current version of IAS 1. The statement of comprehensive income shall disclose profit or loss for the period, plus each component of income and expense recognised outside of profit and loss classified by nature. Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g., dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement.

Under IFRS, the Statement of Recommended Practice (SORP) issued by the Association of Investment Companies has no formal status, but the Company has taken the guidance of the SORP into account to the extent that is appropriate and compatible with IFRS and the Company's circumstances.

The particular accounting policies adopted are described below:

### *(a) Accounting convention*

The accounts are prepared under the historical cost convention, except for the measurement at fair value of investments.

### *(b) Investments*

As the Company's business is investing in financial assets with a view to profiting from their total return in the form of increases in fair value, financial assets are designated as fair value through profit or loss on initial recognition in accordance with IAS 39. These investments are recognised on the trade date of their acquisition. At this time, fair value is the consideration given, excluding material transaction or other dealing costs associated with the investment.

After initial recognition such investments are valued at fair value which is determined by reference to:

(i) market bid price for investments quoted on recognised stock exchanges;

(ii) net asset value per individual investee funds' administrators for unquoted open ended funds; and

(iii) by using other valuation techniques to establish fair value for any other unquoted investments.

Investments are derecognised on the trade date of their disposal. Gains or losses are recognised in the capital column of the Income Statement.

### *(c) Income from investments*

Investment income from ordinary shares is accounted for on the basis of ex-dividend dates. Income from fixed interest shares and securities is accounted for on an accruals basis using the effective interest method. Special Dividends are assessed on their individual merits and are credited to the capital column of the Income Statement if the substance of the payment is a return of capital; with this exception all other investment income is taken to the revenue column of the Income Statement. Income from Treasury Bills is accounted for using the effective interest method. Bank interest receivable is accounted for on a time apportionment basis.

### *(d) Capital reserves*

Realised profits and losses on disposals of investments are allocated to the realised capital reserve via the capital column of the Income Statement. Unrealised revaluation movements are allocated to the unrealised capital reserve via the capital column of the Income Statement.

### *(e) Investment management fees*

Two thirds of the basic investment management fee is allocated to the capital column of the Income Statement. The entirety of any performance fee is allocated to the capital column of the Income Statement. Fees allocated to the capital column are taken to the realised capital reserve.

### *(f) Foreign currency*

The Company's shares are issued in US Dollars and 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.

Assets and liabilities held in currencies other than US Dollars are translated into US Dollars at the market rates of exchange prevailing at the balance sheet date. Currency gains and losses arising on retranslating investments are allocated to the capital column of the Income Statement. All other currency gains and losses are allocated to the capital or revenue columns of the Income Statement depending on the nature of the transaction.

### *(g) Cash and cash equivalents*

Cash and Cash Equivalents in the Cash Flow Statement comprise cash held at bank or by the custodian.

## 2 Investment income

	\$'000
<b>Income from investments</b>	
Dividends from investments	575
<b>Other income</b>	
Treasury Bill Income	137
Bank interest receivable	500
	1,212

**3 Investment management fees and other expenses**

	Revenue \$'000	Capital \$'000	Total \$'000
Investment management fees – basic	397	795	1,192
Administration fees	161	–	161
Custodian's fees	33	–	33
Registrar's fees	19	–	19
Directors' fees	126	–	126
Auditors' fees	31	–	31
Nominated Adviser fees	50	–	50
Miscellaneous expenses	120	–	120
<b>Total expenses</b>	<b>937</b>	<b>795</b>	<b>1,732</b>

Further details on the management agreement is provided on page 6 of the directors report.

**4 Directors' fees**

The fees paid or accrued were \$125,508. There were no other emoluments. (The figures shown for directors' fees in note 3 above include employers' National Insurance charges or VAT, as appropriate). Full details of the fees of each director are given in the Directors' Remuneration Report on page 11.

**5 Transaction charges**

	\$'000
Transaction costs on purchases of investments	68
Transaction costs on sales of investments	15
<b>Total transaction costs included in gains on investments at fair value through profit or loss</b>	<b>83</b>

**6 Taxation**

The Company is resident for tax purposes in Guernsey.

With effect from 1 January 2008, Guernsey abolished the exempt company regime. Thereafter, the Company will be taxed at the company standard rate (0%). Prior to that, the Company was exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinances 1989 and 1992 and was charged an annual exemption fee of £600.

During the period, the Company suffered foreign withholding tax on income from investments totalling in aggregate \$22,577.

**7 Earnings per share**

Earnings per share is based on the net profit of \$4,055,000 attributable to the weighted average of 89,861,832 ordinary shares of no par value in issue during the period from the commencement of trading of the Company's shares on 15 June 2007 to 30 June 2008.

Earnings per share may be diluted by the impact of the warrants in issue during the course of the year.

Diluted earnings per share is based on the net profit on ordinary activities after taxation above attributable to the diluted weighted average of 90,287,216 ordinary shares during the period from the commencement of trading of the Company's shares on 15 June 2007 to 30 June 2008.

Supplementary information is provided as follows: revenue earnings per share is based on the net revenue profit of \$252,000 and capital earnings per share is based on the net capital profit of \$3,803,000 attributable to the above ordinary shares.

**8 Investments**

	\$'000
Quoted and listed closed end fund shares and warrants	35,707
Open ended investments	104,303
<b>Total fixed asset investments at fair value</b>	<b>140,010</b>
Movement during the period:	
Additions, at cost	280,388
Disposals, at cost	(143,584)
<b>Cost of investments at 30 June 2008</b>	<b>136,804</b>
<b>Revaluation of investments to fair value</b>	
Unrealised appreciation, taken to the unrealised capital reserve	3,206
<b>Balance at 30 June 2008</b>	<b>3,206</b>
<b>Fair value of investments at 30 June 2008</b>	<b>140,010</b>

At the period end the Company had also made payments for the purchase of the following open-ended investments.

Holding	Commitment (\$'000)	Trade date
Imara Africa Fund	4,500	1 July 2008
Optis Africa	1,000	1 July 2008
Ton Poh	2,000	2 July 2008
Cash held in escrow pending investment at 30 June 2008	7,500	

**9 Share capital and warrants**

	At 30 June 2008 authorised	At 30 June 2008 allotted, issued and fully paid
Ordinary shares of no par value (number)	Unlimited	169,460,000
Warrants to subscribe for ordinary shares (number)	n/a	16,940,000

(i) *Placing of ordinary shares of no par value (with warrants) – June 2007*  
On 15 June 2007, the Company issued 85,000,000 ordinary shares, raising gross proceeds of \$85,000,000. The net proceeds of this placing were \$82,319,406.

In aggregate, 17,000,000 warrants were issued on the basis of one warrant for every five shares subscribed in the above placing. Each warrant entitles its holder to subscribe for one ordinary share at a subscription price of \$1.00 per ordinary on 15 June in each of the years 2008 to 2010 inclusive.

(ii) *Placing of ordinary shares – June 2008*  
On 21 May 2008, the Company sent a circular to shareholders detailing proposals to place additional shares in the Company. Pursuant to these proposals, on 9 June 2008 the Company issued 84,400,000 ordinary shares which raised gross proceeds of \$90,443,040. The net proceeds of this placing were \$88,726,791.

*(iii) Exercise of warrants – June 2008*

On 16 June 2008 the holders of 60,000 warrants subscribed in cash for ordinary shares on a one warrant for one ordinary share basis and at a subscription price of \$1.00 per ordinary share. As a result 60,000 new ordinary shares were issued. In aggregate, net proceeds of \$60,000 were received for these ordinary shares. The new ordinary shares were admitted to trading on AIM and the CISX on 24 June 2008.

**Voting rights**

At General Meetings of the Company every member present in person or proxy shall have one vote for every ordinary share of which they are the registered holder.

**10 Share premium account**

	\$'000
On June 2007 placing of shares	85,000
Share issue costs of June 2007 placing of shares	(2,681)
Transfer to share purchase reserve	(82,319)
On June 2008 placing of shares	90,443
Share issue costs of June 2008 placing of shares	(1,715)
On June 2008 exercise of warrants	60
<b>Balance at 30 June 2008</b>	<b>88,788</b>

The proceeds from the June 2007 issue of shares net of share issue expenses were transferred to the share purchase reserve pursuant to approval from the Royal Court of Guernsey.

**11 Share purchase reserve**

	\$'000
Transfer from share premium account	82,319
<b>Balance at 30 June 2008</b>	<b>82,319</b>

The above reserve is available to be used for the purchase of the Company's own shares. Please refer to the purchase of own shares section in the Director's Report for further information.

**12 Realised capital reserve**

	\$'000
Realised gains in the period on investments designated as fair value through profit or loss	1,454
Investment management fees charged to capital	(795)
Foreign exchange losses	(62)
<b>Balance at 30 June 2008</b>	<b>597</b>

**13 Net assets per ordinary share**

Undiluted net assets per ordinary share is based on net assets of \$175,162,000 divided by 169,460,000 ordinary shares in issue at the Balance Sheet date.

Diluted net assets per ordinary share is based on net assets of \$192,102,000 divided by 186,400,000 diluted ordinary shares at the Balance Sheet date. The diluted figures is based on all warrants being converted in to Ordinary Shares at a price \$1.00 per ordinary share.

**14 Reconciliation of operating profit to net cash flow from operating activities**

	\$'000
Operating profit	4,078
Less: Tax deducted at source on income from investments	(23)
Add: Realisation of investments at book cost	143,584
Less: Purchase of investments	(280,388)
Less: Financial commitments paid	(7,500)
Less: Adjustment for unrealised gains	(3,206)
Increase in debtors	(60)
Increase in creditors	266
<b>Net cash outflow from operating activities</b>	<b>(143,249)</b>

**15 Related party transactions**

Details of the management and UK administration contracts can be found in the Directors' Report on page 6. Fees payable to the Manager are detailed in note 3 on page 17. Other payables include accruals of management fees of \$159,712 and UK administration fees of \$12,777.

**16 Financial instruments – risk profile****Market risks***(i) Risks associated with Frontier Markets*

The Company invests in Frontier Markets. Investing in Frontier Markets involves certain risks and special considerations not typically associated with investing in other more established economies or securities markets. Such risks may include (a) the risk of nationalisation or expropriation of assets or confiscatory taxation; (b) social, economic and political uncertainty including war and revolution; (c) dependence on exports and the corresponding importance of international trade and commodities prices; (d) less liquidity of securities markets; (e) currency exchange rate fluctuations; (f) potentially higher rates of inflation (including hyper-inflation); (g) controls on foreign investment and limitations on repatriation of invested capital and a fund manager's ability to exchange local currencies for US Dollars; (h) a higher degree of governmental involvement and control over the economies; (i) government decisions to discontinue support for economic reform programmes and imposition of centrally planned economies; (j) differences in auditing and financial reporting standards which may result in the unavailability of material information about economics and issuers; (k) less extensive regulatory oversight of securities markets; (l) longer settlement periods for securities transactions; (m) less stringent laws regarding the fiduciary duties of officers and directors and protection of investors; and (n) certain consequences regarding the maintenance of portfolio securities and cash with sub-custodians and securities depositories in Frontier Markets.

*(ii) Currency risk*

As stated under (i) above the Company invests in Frontier Markets. It is therefore exposed to currency risks which affect both the performance of its investee funds and also the value of the Company's holdings against the Company's base currency, the US Dollar. Currency exposures are not hedged by the Company. An analysis of investee funds by reference to the currencies in which the funds are priced is provided at the end of this note.

**(iii) Interest rate risk**

The Company is normally fully invested in funds but holds interest bearing assets from time to time and whilst investing proceeds from share issues and redemptions. The Company's interest bearing assets are typically bank deposits and Treasury Bills.

The funds that the Company invests in may invest in Frontier Market debt securities. These securities may be unrated or rated in lower rating categories by various credit rating agencies. These securities are subject to greater risk of loss of principal and interest than higher rated securities.

**(iv) Other price risk***Investor returns*

Investors contemplating an investment in the ordinary shares and warrants should recognise that their market value can fluctuate and may not always reflect their underlying value. Returns achieved are reliant upon the performance of the funds in which the Company's assets are invested. No guarantee is given, express or implied, that Shareholders will receive back the amount of their investment in the ordinary shares and warrants.

Due to the overall size, concentration in particular markets and maturities of positions held indirectly by the Company (i.e. through funds selected by the Investment Manager), the value at which its investments can be liquidated may differ, sometimes significantly, from the valuations calculated by the Manager. In addition, the timing of liquidations of investments may also affect the values obtained at liquidation. Securities held indirectly by the Company may routinely trade with bid-offer spreads that may be significant.

*Diversification*

Although the Manager seeks to obtain diversification by investing with a number of different funds with different strategies or styles, it is possible that the selected funds may take substantial positions in the same security or group of securities at the same time. This possible lack of diversification may subject the investments of the Company to more rapid change in value than would be the case if the assets of the Company were more widely diversified.

**(v) Management of market risks**

As stated above the Manager seeks to obtain diversification within the Company's portfolio. The Company has imposed a restriction so that no single position in any fund will exceed ten per cent of the Company's net asset value at the time of the investment.

The Manager's strategy consists of three core components: investee manager selection, geographical asset allocation and participation in special situations.

*Investee manager selection*

Using both qualitative and quantitative techniques, the Manager aims to identify funds and Investee Managers which it considers are likely to deliver consistent capital growth over the long term.

*Geographical asset allocation*

The Manager takes a long term view in this area. The Company has an investment restriction which states that exposure to any individual country will be limited to 15 per cent of the Company's net asset value at the time of investment. If, at any time, this limit is exceeded, the Company will seek to rebalance its portfolio of investments so that this restriction is adhered to.

*Special situations*

The Manager seeks to identify pricing anomalies in investment products and use such opportunities to add value to the Company's portfolio. Normally this will involve investing in closed-ended funds that are available for purchase at a discount to their net asset value.

**(vi) Quantitative analysis**

The top ten holdings are shown on page 4 and a breakdown of the pricing denominations of the funds in which the Company is invested is below.

The Company's financial assets and liabilities at 30 June 2008 comprised:

	Cash flow interest rate risk \$'000	No interest rate risk \$'000	Total \$'000
<b>Non-current investments at fair value:</b>			
USD denominated	–	114,800	114,800
EUR denominated	–	12,399	12,399
GBP denominated	–	11,349	11,349
PKR denominated	–	1,462	1,462
<b>Cash at bank:</b>			
Floating rate – \$	27,974	–	27,974
Short term debtors	–	7,561	7,561
Short term creditors	–	(383)	(383)
	27,974	147,188	175,162

**(vii) Sensitivity analysis**

	30 June 2008	15 June 2007	Change
Trade weighted US Dollar Index*	72.5	82.9	(12.5%)
Federal Funds Target Rate	2.00%	5.25%	(3.25%)
Advance Frontier Markets Fund NAV (undiluted)	\$1.03	\$0.97	6.7%
Advance Frontier Markets Share Price	\$1.09	\$1.00	9.3%

\* The US Dollar Index indicates the general international value of the US Dollar. It is calculated by averaging the exchange rates between the US Dollar and 6 major world currencies.

Neither the value of the US Dollar nor the level of domestic interest rates within the United States of America are considered to be primary drivers of returns to investors in Advance Frontier Markets Fund. The returns to investors in the Company are more dependent on the prospects for economic growth, corporate profitability and socio-political developments within the countries in which the Company is ultimately invested.

## Credit risk

### *Frontier Market debt securities*

The funds selected by the Manager may invest in Frontier Market debt securities, including short-term and long-term securities denominated in various currencies. These securities may be unrated or rated in the lower rating categories by the various credit rating agencies. These securities are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. They are also generally subject to greater risk than securities with higher credit ratings in the case of deterioration of general economic conditions. Additionally, evaluating credit risk for Frontier Market debt securities involves great uncertainty because credit rating agencies throughout the world have different standards, making comparisons across countries difficult. Because investors generally perceive that there are greater risks associated with lower-rated securities, the yields or prices of such securities may tend to fluctuate more than those for higher-rated securities. The market for Frontier Market debt securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which securities are sold. In addition, adverse publicity and investor perceptions about emerging market debt securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such securities.

The estimated amount invested in Frontier Market debt securities on a look through basis at the period end was \$3,440,026.

### *Other credit risk*

The Company's direct credit risk is the risk of default on cash held at the bank. Cash at bank at 30 June 2008 included \$27,989,000 held by the Company's custodian, The Northern Trust Company. Interest is based on the prevailing money market rates.

Substantially all of the assets of the fund are held by The Northern Trust Company (the "custodian"). Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed or limited. The Company monitors the credit quality of the custodian.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions with brokers is considered to be low as trading is almost always done on a delivery versus payment basis. When investments are made in open-ended funds, the Manager performs due diligence on those funds before making any investment.

## Liquidity risks

The underlying investee funds selected by the Manager may have significant investments in smaller to medium sized companies of a less seasoned nature whose securities are traded in an "over-the-counter" market. These "secondary" securities often involve significantly greater risks than the securities of larger, better-known companies, due to shorter operating histories, potentially lower credit ratings and, if they are not listed companies, a potential lack of liquidity in their securities. As a result of lower liquidity and greater share price volatility of these "secondary" securities, there may be a disproportionate affect on the value of the investee funds and, indirectly, on the value of the Company's portfolio.

The fact that the Company may invest in funds that are not traded on investment exchanges or do not permit frequent redemptions including funds that may have "lock-up" periods or "gateways", or otherwise do not permit redemptions for significant periods of time, an investment in the Company may be a relatively illiquid investment.

As a result of liquidation or redemption of a holding in a fund, limited partnership or other investment vehicle, or due to the creation of an illiquid investment or receipt of an illiquid asset in lieu of an existing holding, the Company's portfolio may contain illiquid assets.

The Manager reports to the directors on the liquidity of the Company's quoted investments on a monthly basis.

The Manager has estimated the percentages of the portfolio that could be liquidated within various timescales. The results are shown below.

One month	79%
Three months	91%
One year	94%
Three years	99%
Five years	100%

## Capital management

The Company's authorised share capital consists of an unlimited number of ordinary shares of no par value. At 30 June 2008 there were 169,460,000 ordinary shares in issue. At that time, the Company also had 16,940,000 warrants in issue to subscribe for ordinary shares at \$1 on a one for one basis.

The Company is permitted to borrow, at the point of drawdown, up to 10 per cent of its net assets. Any borrowings will not be used to fund investments but may be used to meet working capital requirements or to take advantage of favourable investment opportunities pending the payment of proceeds from the sale or redemption of investments. The Company presently has a \$6 million overdraft facility with Lloyds TSB Bank plc. This facility is available until 30 November 2008.

The Manager and the Company's broker monitor the demand for the Company's shares and the directors review the position at Board meetings. The Company's initial placing of shares was in June 2007 and a further placing of shares took place in June 2008. Further details on these share issues and the Company's policies for issuing further shares can be found in the Directors' Report.

The Company has the following externally imposed capital requirements.

The borrowings under the \$6 million overdraft facility are subject to the condition that the amount due to the bank does not exceed 10 per cent of the Company's investment portfolio after deducting, (a) the amount by which the value of any single investment exceeds 5 per cent. of the total value of the Company's investment portfolio, (b) the amount by which the value in any single fund management group exceeds 15 per cent of the total value of the investment portfolio, and (c) the amount by which the value of investment in any single country exceeds 10% of the total value of the investment portfolio.

The Company complied with the above requirement throughout the period ended 30 June 2008.

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# Directors, manager and advisers

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**Directors**

Aly El-Tahry (Chairman)  
Helen Green  
(James) Grant Wilson  
Richard Hotchkis

**Broker**

Fairfax I.S PLC  
46 Berkeley Square  
London W1J 5AT

**Auditor**

Grant Thornton Limited  
Anson Court, La Route des Camps  
St Martin  
Guernsey GY1 3TF

**Custodian**

The Northern Trust Company  
50 Bank Street  
Canary Wharf  
London E14 5NT

**Advisers as to Guernsey law**

Ozannes  
1 Le Marchant Street  
St Peter Port  
Guernsey GY1 4HP

**Registered office\***

1 Le Marchant Street  
St Peter Port  
Guernsey GY1 4HP

**Manager**

Progressive Developing Markets Limited  
145-157 St John Street  
London EC1V 4RU

**Nominated adviser**

Grant Thornton UK LLP  
30 Finsbury Square  
London EC2P 2YU

**Secretary and administrator**

Legis Corporate Services Limited  
1 Le Marchant Street  
St Peter Port  
Guernsey GY1 4HP

**Registrar**

Capita Registrars (Guernsey) Limited  
Longue Hougue House  
St Sampson  
Guernsey GY1 3US

**Banker**

Lloyds TSB Bank Plc  
34 Moorgate  
London EC2R 6PL

**UK administration agent**

Cavendish Administration Limited  
145-157 St. John Street  
London EC1V 4RU

[www.frontiermarketsfund.com](http://www.frontiermarketsfund.com)

\*Registered in Guernsey No. 46809

# Notice of meeting

Notice is hereby given that the Annual General Meeting of Advance Frontier Markets Fund Limited will be held at Valley House, Hirzel Street, St Peter Port, Guernsey at 11am on 13 November 2008, for the following purposes:

- 1 To receive and adopt the financial statements for the period ended 30 June 2008, with the reports of the directors and auditors thereon.
- 2 To re-elect Aly El-Tahry as a director of the Company.
- 3 To re-elect Helen Green as a director of the Company.
- 4 To re-elect Richard Hotchkis as a director of the Company.
- 5 To re-elect (James) Grant Wilson as a director of the Company.
- 6 To appoint Grant Thornton Limited as auditors to the Company and to authorise the directors to fix their remuneration.

## Special resolution

7 THAT the Company acting through its Board of Directors be and is hereby generally and unconditionally authorised in accordance with The Companies (Purchase of Own Shares) Ordinance 1998 to make market purchases as defined in that Ordinance of its ordinary shares (either for retention as treasury shares for future reissue and resale or transfer, or cancellation), PROVIDED THAT:

(i) the maximum number of ordinary shares hereby authorised to be purchased shall be 25,402,054 (subject to a maximum of 14.99% of the Company's issued share capital at the time of this Annual General Meeting);

(ii) the minimum price (exclusive of expenses) which may be paid for an ordinary share is \$0.01;

(iii) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall be the lower of (a) 5 per cent above the average of the middle market quotation for a Share as derived from the AIM Appendix to the Daily Official List of London Stock Exchange plc for the 5 business days immediately preceding the day on which that ordinary share is purchased and (b) the last published diluted net asset value per ordinary share;

(iv) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2009 or, if earlier, on the anniversary of the passing of this resolution; and

(v) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

## Notes

1 A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead. Such proxy need not be a shareholder of the Company.

2 A form of proxy is enclosed and to be valid must be lodged with the Registrars of the Company not less than forty-eight hours before the time fixed for the meeting. CREST members may utilise the CREST proxy appointment service by following the directions set out on the Form of Proxy. Completion and return of the form of proxy will not prevent a shareholder from subsequently attending the meeting and voting in person if he so wishes.

# Form of proxy

I/We \_\_\_\_\_ of \_\_\_\_\_ (BLOCK CAPITALS PLEASE)

being (a) member(s) of Advance Frontier Markets Fund Limited appoint the chairman of the meeting

or (see note 1) \_\_\_\_\_ of \_\_\_\_\_

as my/our proxy to attend and vote for me/us and on my/our behalf at the annual general meeting of the Company to be held at Valley House, Hirzel Street, St Peter Port, Guernsey, on 13 November 2008 at 11 a.m. and at any adjournment thereof.

Please indicate with an X in the spaces provided how you wish your votes to be cast on the resolutions specified.

Resolution	For	Against	Withheld
1 To receive and adopt the directors' report, the annual accounts and the auditors' report for the period ended 30 June 2008.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 To re-elect Aly El-Tahry as a director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 To re-elect Helen Green as a director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 To re-elect Richard Hotchkis as a director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 To re-elect (James) Grant Wilson as a director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 To appoint Grant Thornton Limited as auditors to the Company and to authorise the directors to fix their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7 To renew authority for the Company to purchase its own shares.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Subject to any voting instructions so given the proxy will vote, or may abstain from voting, on any resolution as he may think fit.

Signature \_\_\_\_\_ Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2008

## Notes

1 If you so desire you may delete the words 'chairman of the meeting' and insert the name of your own choice of proxy, who need not be a member of the Company. Please initial such alteration.

2 The proxy form must be lodged at the Company's registrars, Capita Registrars, not less than 48 hours before the time fixed for the meeting. In default the proxy cannot be treated as valid.

3 Alternatively, in the case of CREST members, voting may be effected by using the CREST electronic proxy appointment service. CREST members who wish to utilise the CREST service may do so by following the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message must be transmitted so as to be received by the Company's agent, Capita Registrars (whose CREST ID is RA10) by the specified latest time for receipt of proxy appointments. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed.

4 A corporation must execute the proxy under its common seal or under the hand of an officer or attorney duly authorised.

5 If this proxy form is executed under a power of attorney or other authority, such power of attorney or other authority or a notarially certified copy thereof must be lodged with the Registrars with the proxy form.

6 In the case of joint holders the vote of the senior shall be accepted to the exclusion of the other joint holders, seniority being determined by the order in which the names stand in the register in respect of the joint holding.

Second fold

Business Reply  
Licence Number  
MB122



Capita Registrars  
Proxy Department  
PO Box 25  
Beckenham  
Kent  
BR3 4BR

Third fold and tuck in

First fold

Cut along dotted rule



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