# AFRICA OPPORTUNITY FUND LIMITED

## CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE PERIOD FROM 1 JANUARY 2012 TO 30 JUNE 2012

Highlights:

- AOF's net asset value per share of US$0.903 as at 30 June 2012 fell by 2.7% from the 31 December 2011 net asset value per share of US$0.933; including dividends.

- As at 30 June 2012, AOF's investment allocation was 74% listed equities, 11% debt and 15% cash.

- Dividends in the amount of $0.0026 per share were paid on 10 April 2012 and 13 July 2012.

- AOF's net asset value per share as at 31 August 2012 was US$0.880.

**Investment Manager's Statement**

**Market Conditions**: AOF's NAV fell during the first half of 2012. The NAV, including dividends, declined by 2.7%, and closed at $0.903 on 30 June 2012. As a reference, in US dollar terms in the first six months of 2012, the S&P rose 9.5%, South Africa gained 6.0%, Egypt gained 25.5%, Kenya rose 20.9%, and Nigeria rose 6.6%.

**Portfolio Highlights**: AOF's portfolio fell broadly in sympathy with declines in African and global bourses during Q2. Natural resources suffered disproportionately as fear of a China slowdown took hold in the minds of investors. As a fund, which has maintained exposure to commodities almost since inception, AOF in particular, and Africa in general, felt those disproportionate losses. There were three identifiable reasons behind AOF's Q2 losses. First, most natural resource commodity companies, whether producers, developers, or explorers, constituting one third of AOF's portfolio, lost approximately 8% of their initial Q2 2012 market capitalization by the end of Q2. Admittedly, in a few of those cases, as is all too common in the mining industry, the primary reasons for market capitalization losses were idiosyncratic cost overruns and scheduling delays in commencing commercial production of a commodity. AOF's losses were somewhat tempered by some hedges which ameliorated the impact of the resource sector decline on our NAV. On a positive note, AOF tendered its shares of Extract Resources, the owner of the Rossing South uranium deposit, estimated to be the fifth largest such deposit in the world, to China Guangdong Nuclear Power Holding Corp for a modest 11% gain. Acquired 4 months before the occurrence of the Fukushima nuclear tragedy, AOF's Extract shares lost 38% of their value in the wake of that disaster. The positive outcome vindicated our conviction that large and shallow mineral development deposits in Africa have a calculable intrinsic value. We also reduced AOF's base metal exposure during Q2. Second, the pattern of the Ghana Cedi depreciating sharply in an election year, contrary to our expectations based on Ghana's new oilfield proceeds, is repeating itself in 2012, an election year. 6.8% of the Company's March 2012 portfolio was invested in equity securities listed on the Ghana Stock Exchange. Their market value fell by 27.7% in Q2. Ghana's financial authorities have attempted to maintain the external value of the Cedi by raising interest rates sharply past the 20% level, despite Ghana's 10% inflation rate. For example, the discount rate for 182-day Ghana Government treasury bills on 30 March 2012 was 12.6% and 2 year fixed rate note bore an interest rate of 13.6%. By 29 June, those rates had risen respectively to 20.4% and 23% while Ghana's inflation rate hovered around 10%. To quote from the IMF's recent 13 July statement on Ghana: "reserve cover has fallen below comfortable levels. Furthermore, spending overruns at the end of 2011, large public wage increases and re-emergence of energy subsidies have created the need for corrective action to achieve fiscal targets." Consequently, interest rate sensitive companies, as a general proposition, suffered declines in market capitalization. In the case of the Enterprise Group, price declines were exacerbated by a poor set of financial results in Q1, as its expenses grew at a rapid rate. Fortunately, Enterprise Group continued to generate underwriting profits. Better still, with a Price/Book ratio of 0.59X, a Price/Embedded Value ratio of 0.42X on 30 June, and the option of investing in risk-free Ghanaian debt at a 10% real margin or yield, its valuation was a sparkling bargain. Finally, the discount between the Lusaka Stock Exchange price of Shoprite, where AOF holds its Shoprite shares, and its Johannesburg Stock Exchange price widened from 28% at the beginning of 2012 to 42% by the end of Q2. As of 30 June, the book value of AOF's financial liabilities at fair value was $5.36 million.

**Portfolio Appraisal Value**: As of 30 June, the Manager's appraisal of the economic value of the portfolio was $1.22. The market price of $0.786 on 30 June represents a 36% discount. Note the Appraisal Value is intended to provide a measure of the Manager's long-term view of the attractiveness of AOF's portfolio. It is a subjective estimate, and does not tell when that value will be realized, nor does it guarantee that any security will reach its Appraisal Value.

**Outlook:** We believe that AOF's portfolio possesses deeply undervalued companies. Given the challenges facing global markets and in particular heavily indebted industrial economies, it is difficult to predict when this value will express itself in AOF's NAV, but we remain excited by the opportunities we are finding for AOF.

**Africa Opportunity Partners**

**AFRICA OPPORTUNITY FUND LIMITED**
**CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE PERIOD 1 JANUARY 2012 THROUGH 30 JUNE 2012**

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**AFRICA OPPORTUNITY FUND LIMITED**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE PERIOD 1 JANUARY 2012 THROUGH 30 JUNE 2012**

| | Note | For the Half Year Ended 30 June 2012 | For the Half Year Ended 30 June 2011 |
|---|---|---|---|
| | | USD | USD |
| **Revenue** | | | |
| Dividend revenue | | 1,885,893 | 813,018 |
| Other income | | 2,119 | 66,345 |
| Interest revenue | | 235,302 | 445,126 |
| Net exchange gains on bank | | 100,690 | 26,096 |
| Profit on financial assets at fair value through profit or loss | 5(a) | - | 2,202,126 |
| | | 2,224,004 | 3,552,711 |
| **Expenses** | | | |
| Losses on financial assets at fair value through profit or loss | | 1,805,228 | - |
| Losses on financial liabilities at fair value through profit or loss | | 442,561 | 181,018 |
| Management fee | | 401,054 | 395,615 |
| Custodian, secretarial and administration fees | | 131,926 | 141,608 |
| Dividend paid | | 114,980 | 22,474 |
| Other operating expenses | | 102,526 | 28,416 |
| Interest charges and other fees | | 98,089 | 27,823 |
| Brokerage fees | | 96,537 | 50,496 |
| Directors' fees | | 40,000 | 40,000 |
| Audit fees | | 31,733 | 17,717 |
| Tax incurred on dividend received | | 52,995 | 53,223 |
| | | 3,317,629 | 958,390 |
| (Loss)/ profit for the period | | (1,093,625) | 2,594,321 |
| Other comprehensive income | | - | - |
| Total comprehensive income for the period | | (1,093,625) | 2,594,321 |
| Attributable to: | | | |
| Equity holders of the Company | | (1,090,783) | 2,574,537 |
| Non-controlling interest | | (2,842) | 19,784 |
| | | (1,093,625) | 2,594,321 |
| Basic (loss)/ gain per share for gain attributable to the equity holders of the Company during the period | 9 | (0.0256) | 0.0604 |

The notes on pages 8 to 23 form an integral part of these financial statements.

**AFRICA OPPORTUNITY FUND LIMITED**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AS AT 30 JUNE 2012**

| | Notes | As at 30 June 2012 USD | As at 30 June 2011 USD |
|---|---|---|---|
| **ASSETS** | | | |
| Financial assets at fair value through profit or loss | 5(a) | 38,216,419 | 44,254,991 |
| Trade and other receivables | 6 | 1,157,142 | 566,819 |
| Cash and cash equivalents | | 4,960,190 | 1,841,054 |
| **Total assets** | | 44,333,751 | 46,662,864 |
| **EQUITY AND LIABILITIES** | | | |
| **Liabilities** | | | |
| Financial liabilities at fair value through profit or loss | 5(b) | 5,358,713 | 3,950,367 |
| Trade and other payables | 8 | 209,931 | 594,469 |
| Total liabilities | | 5,568,644 | 4,544,836 |
| **Equity** | | | |
| Share capital | 7 | 426,303 | 426,303 |
| Share premium | | 38,484,202 | 38,859,349 |
| Retained losses | | (415,563) | 2,552,322 |
| Equity attributable to equity holders of the parent | | 38,494,942 | 41,837,974 |
| Non controlling interest | | 270,165 | 280,054 |
| Total equity | | 38,765,107 | 42,118,028 |
| **Total equity and liabilities** | | 44,333,751 | 46,662,864 |

The notes on pages 8 to 23 form an integral part of these financial statements.

**AFRICA OPPORTUNITY FUND LIMITED**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE PERIOD 1 JANUARY 2012 THROUGH 30 JUNE 2012**

**ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT**

| | Notes | Issued capital USD | Share premium USD | Retained profit/(loss) USD | Total USD | Non controlling interest USD | Total equity USD |
|---|---|---|---|---|---|---|---|
| At 01 January 2011 | | 426,303 | 39,012,818 | (22,215) | 39,416,906 | 260,270 | 39,677,176 |
| Total Comprehensive income for the period | | - | - | 697,435 | 697,435 | 12,737 | 710,172 |
| Other comprehensive income | | - | - | - | - | - | - |
| Dividend | | | (306,938) | - | (306,938) | - | (306,938) |
| At 31 December 2011 | | 426,303 | 38,705,880 | 675,220 | 39,807,403 | 273,007 | 40,080,410 |
| At 01 January 2012 | | 426,303 | 38,705,880 | 675,220 | 39,807,403 | 273,007 | 40,080,410 |
| Total Comprehensive income for the period | | - | - | (1,090,783) | (1,090,783) | (2,842) | (1,093,625) |
| Other comprehensive income | | - | - | - | - | - | - |
| Dividend | | - | (221,678) | - | (221,678) | - | (221,678) |
| At 30 June 2012 | | 426,303 | 38,484,202 | (415,563) | 38,494,942 | 270,165 | 38,765,107 |

The notes on pages 8 to 23 form an integral part of these financial statements.

**AFRICA OPPORTUNITY FUND LIMITED**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE PERIOD 1 JANUARY 2012 THROUGH 30 JUNE 2012**

| | Notes | For the Period Ended 30 June 2012 | For the Period Ended 30 June 2011 |
|---|---|---|---|
| | | USD | USD |
| **Cash flows from operating activities** | | | |
| Comprehensive (loss)/ income for the period | | (1,093,625) | 2,594,321 |
| Adjustment for: | | | |
| Interest income | | (235,302) | (445,126) |
| Dividend income | | (1,885,893) | (759,795) |
| Loss/(gain) on financial assets at fair value through profit or loss | | 1,805,228 | (2,202,126) |
| Loss/(gain) on financial liabilities at fair value through profit or loss | | 442,561 | 181,018 |
| Tender offer pool adjustment | | - | (1,094,591) |
| **Operating losses before working capital changes** | | (967,031) | (1,726,299) |
| Increase in other receivables and prepayments | | (138,256) | - |
| Decrease in other payables and accrued expenses | | (54,673) | (90,486) |
| **Net cash used in operating activities** | | (1,159,960) | (1,816,785) |
| Interest received | | 169,690 | 635,162 |
| Purchase of financial assets at fair value through profit or loss | | (5,093,528) | (5,035,141) |
| Disposal of financial assets at fair value through profit or loss | | 7,521,595 | 4,305,977 |
| Purchase of financial liabilities at fair value through profit or loss | | - | (3,047,258) |
| Disposal of financial liabilities at fair value through profit or loss | | 1,503,412 | 765,206 |
| Dividend received | | 1,456,706 | 695,248 |
| **Net cash generated from/ (used in) investing activities** | | 5,557,875 | (1,680,806) |
| **Cash flows from financing activities** | | | |
| Dividend paid | | (221,678) | (153,469) |
| **Net cash flow used in financing activities** | | (221,678) | (153,469) |
| **Net increase/ (decrease) in cash and cash equivalents** | | 4,176,237 | (3,651,060) |
| **Cash and cash equivalents at the start of the period** | | 783,953 | 5,492,114 |

| | | |
|---|---|---|
| **Cash and cash equivalents at the end of the period** | 4,960,190 | 1,841,054 |

The notes on pages 8 to 23 form an integral part of these financial statements.

| | | | Date of appointment |
|---|---|---|---|
| **CHAIRMAN** | : | Robert Knapp | 25 June 2007 |
| **NON EXECUTIVE DIRECTORS:** | : | Francis Daniels | 21 June 2007 |
| | | Christopher Gradel | 25 June 2007 |
| | | Christopher Agar | 25 June 2007 |
| | | Shingayi Mutasa | 25 June 2007 |
| | | Myma Belo-Osagie | 25 June 2007 |

| | | |
|---|---|---|
| **REGISTERED OFFICE** | : | PO Box 309 GT<br>Ugland House<br>South Church Street<br>George Town<br>Grand Cayman<br>Cayman Islands |
| **REGISTRAR** | : | Anson Registrars Limited<br>Anson Place, Mill Court<br>La Charroterie, St. Peter's Port<br>Guernsey GY1 3 WX<br>Channel Islands |
| **NOMINATED ADVISER** | : | Grant Thornton UK LLP<br>30 Finsbury Square<br>London EC2P 2YU<br>United Kingdom |
| **CORPORATE BROKER** | : | LCF Edmond de Rothschild Securities Limited<br>5 Upper St. Martin's Lane<br>London WC2H 9EA<br>United Kingdom |

| | | |
|---|---|---|
| **ADMINISTRATOR** | : | International Proximity<br>608, St James Court<br>St Denis Street<br>Port Louis<br>Mauritius |
| **INVESTMENT MANAGER** | : | Africa Opportunity Partners Limited<br>PO Box 309 GT<br>Ugland House<br>South Church Street<br>George Town<br>Grand Cayman<br>Cayman Islands |
| **AUDITORS** | : | Ernst & Young<br>9th Floor, NeXTeracom Tower I<br>Cybercity<br>Ebene<br>Mauritius |
| **PRIME BROKER** | : | Credit Suisse Securities (USA) LLC<br>Eleven Madison Avenue<br>3rd Floor<br>New York, NY 10010<br>United States of America |
| **CUSTODIAN** | : | Standard Chartered Bank (Mauritius) Ltd<br>Units 6A and 6B, 6th Floor<br>Raffles Tower, Lot 19<br>Cyber City, Ebène, Mauritius |
| **LEGAL ADVISER**<br>*(as to English Law)* | : | Lawrence Graham LLP<br>4 More London Riverside<br>London SE1 2AU<br>United Kingdom |
| **LEGAL ADVISER**<br>*(as to Cayman Islands Law)* | : | Maples & Calder<br>Princes Court<br>7 Princes Court<br>7 Princes Street<br>London NW1 2 EP<br>United Kingdom |

## 1. GENERAL INFORMATION

Africa Opportunity Fund Limited (the "Company") was launched with a listing on the AIM market of the London Stock Exchange in July 2007.

Africa Opportunity Fund Limited is a closed-ended fund incorporated with limited liability and registered in Cayman Islands under the Companies Law on 21 June 2007 and with registered number MC-188243.

The Company aims to achieve capital growth and income through investment in value, arbitrage, and special situations investments in the continent of Africa. The Company therefore may invest in securities issued by companies domiciled outside Africa which conduct significant business activities within Africa. The Company will have the ability to invest in a wide range of asset classes including real estate interests, equity, quasi-equity or debt instruments and debt issued by African sovereign states and government entities.

The Company's investment activities are managed by Africa Opportunity Partners Limited, a limited liability company incorporated in the Cayman Islands and acting as the investment manager pursuant to an Investment Management Agreement dated 18 July 2007.

To ensure that investments to be made by the Company, and the returns generated on the realisation of investments, are both effected in the most tax efficient manner, the Company has established Africa Opportunity Fund L.P. as an exempted limited partnership in the Cayman Islands. All investments made by the Company will be made through the limited partnership. The limited partners of the limited partnership are the Company and AOF CarryCo Limited. The general partner of the limited partnership is Africa Opportunity Fund (GP) Limited.

*Presentation currency*

The consolidated financial statements are presented in the United States dollars ("USD").

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied from the prior year to the current year for items which are considered material in relation to the consolidated financial statements.

**Statement of compliance**

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention except for the fair valuation of financial assets and financial liabilities at fair value through profit or loss.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Company and its subsidiaries' (referred to as the "Group") accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at 30 June 2012.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control and continued to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the statement of comprehensive income and within equity in the Statement of Changes in Equity from parent shareholders' equity.

### Foreign currency translation

*(a) Functional and presentation currency*

The Group's consolidated financial statements are presented in USD which is the Group's functional currency. That is the currency of the primary economic environment in which the Company operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the entities within the Group is USD. The Group chose USD as the presentation currency.

*(b) Transactions and balances*

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of the exchange ruling at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Financial instruments**

*(i) Classification*

The Group classifies its financial assets and liabilities in accordance with IAS 39.

***Financial assets and liabilities at fair value through profit or loss***

The category of the financial assets and liabilities at fair value through the profit or loss is subdivided into:

*Financial assets and liabilities held for trading*: financial assets are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. This category includes equity securities, investments in managed funds and debts instruments. These assets are acquired principally for the purpose of generating a profit from short term fluctuation in price. All derivatives and liabilities from the short sales of financial instruments are classified as held for trading. The Group policy is not to apply hedge accounting.

*Financial instruments designated as at fair value through profit or loss upon initial recognition*: these include equity securities and debt instruments that are not held for trading. These financial assets are designated on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Group, as set out in the Group's offering document. The financial information about the financial assets is provided internally on that basis to the Investment Manager and to the Board of Directors.

***Options***

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Fund purchases and sells put and call options through regulated exchanges and OTC markets. Options purchased by the Fund provide the Fund with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Fund is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written by the Fund provide the purchaser the opportunity to purchase from or sell to the Fund the underlying asset at an agreed-upon value either on or before the expiration of the option.

Options are generally settled on a net basis.

*Financial instruments designated as at fair value through profit or loss upon initial recognition*: these include equity securities and debt instruments that are not held for trading. These financial assets are designated on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Group, as set out in the Group's offering document. The financial information about the financial assets is provided internally on that basis to the Investment Manager and to the Board of Directors.

The vast majority of the financial assets are expected to be realised within the 12 months of the reporting date.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Loans and receivables***

Loans and receivables are non-derivatives financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position.

***Other financial liabilities***

This category includes all financial liabilities, other than those classified as at fair value through profit or loss. The Group includes in this category amounts relating to other short term payables.

*(ii) Recognition*

The Group recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised directly on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

*(iii) Initial measurement*

Financial assets and liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself classified as held for trading or designated at fair value though profit or loss. Embedded derivatives separated from the host are carried at fair value with changes in fair value recognised in profit or loss.

Loans and receivables and financial liabilities (other than those classified as held for trading) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

*(iv) Subsequent measurement*

After initial measurement, the Group measures financial instruments which are classified as at fair value through profit or loss at fair value. Subsequent changes in the fair value of those financial instruments are recorded in 'Net gain or loss on financial assets and liabilities at fair value through profit or loss'. Interest earned and dividend revenue elements of such instruments are recorded separately in 'Interest revenue' and 'Dividend revenue', respectively. Dividend expenses related to short positions are recognised in 'Dividends on securities sold not yet purchased'.

Loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities, other than those classified as at fair value through profit or loss, are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial assets (Continued)

*(iv) Subsequent measurement (continued)*

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instruments, but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

*v) Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- Either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

The Group derecognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

### Determination of fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations, without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Impairment of financial assets**

The Group assesses at each reporting date whether a financial asset or group of financial assets classified as loans and receivables is impaired. Evidence of impairment may include indications that the debtor, or a group of debtors, is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and, where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

Impaired debts, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a previous write-off is later recovered, the recovery is credited to profit or loss.

Interest revenue on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Net gain or loss on financial assets and liabilities at fair value through profit or loss**

This item includes changes in the fair value of financial assets and liabilities held for trading or designated upon initial recognition as 'at fair value through profit or loss' and excludes interest and dividend income and expenses.

Unrealised gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of prior period's unrealised gains and losses for financial instruments which were realised in the reporting period.

Realised gains and losses on disposals of financial instruments classified as 'at fair value through profit or loss' are calculated using the Average Cost (AVCO) method. They represent the difference between an instrument's initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Due to and due from brokers

Amounts due to brokers are payables for securities purchased (in a regular way transaction) that have been contracted for but not yet delivered on the reporting date. Refer to the accounting policy for 'financial liabilities, other than those classified as at fair value through profit or loss' for recognition and measurement.

Amounts due from brokers include margin accounts and receivables for securities sold (in a regular way transaction) that have been contracted for but not yet delivered on the reporting date. Refer to accounting policy for 'loans and receivables' for recognition and measurement.

Margin accounts represent cash deposits held with brokers as collateral against open futures contracts.

### Interest revenue and expense

Interest revenue and expense are recognised in the statement of comprehensive income for all interest-bearing financial instruments using the effective interest method.

### Dividend revenue and expense

Dividend revenue is recognised when the Group's right to receive the payment is established. Dividend revenue is presented gross of any non-recoverable withholding taxes, which are disclosed separately in the statement of comprehensive income. Dividend expense relating to equity securities sold short is recognised when the shareholders' right to receive the payment is established.

### Stated capital

Ordinary shares are classified as equity.

### Provision

A provision is recognised when and only when there is a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow embodying economic benefits will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

### Cash and cash equivalents

Cash and cash equivalents comprise cash at bank. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

### Related parties

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if they have the ability, directly or indirectly, to control the Group or exercise significant influence over the Group in making financial and operating decisions, or vice versa, or where the Group is subject to common control or common significant influence. Related parties may be individuals or other entities.

## 3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

**New and amended standards and interpretations**

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

- IAS 24 Related Party Disclosures (amendment) effective 1 January 2011
- IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010
- IFRA 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IRFS 7 Disclosures for First-time Adopters effective 1 July 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments effective 1 July 2010
- Improvements to IFRSs (May 2010) effective either 1 July 2010 or 1 January 2011.

The adoption of the standards or interpretations is described below:

***IAS 24 Related Party Transactions (Amendment)***

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect the related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

***IAS 32 Financial Instruments: Presentation (Amendment)***

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Fund because the Fund does not have these types of instruments.

***IFRS 1 First-time Adoption of International Financial Reporting Standards - Limited Exemption from Comparative IFRS 7 Disclosure for First-time Adopters***

The Standard has been amended to allow first-time adopters to utilise the transitional provisions of IFRS 7 Financial Instruments: Disclosures. The amendments provide relief to first-time adopters, by reducing the costs and resources required to provide certain comparative disclosures. The amendments may be applied earlier than the effective date.

***IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)***

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service costs by the entity to be recognised as a pension asset. The amendment has had no effect on the financial position or performance of the Group because the Group does not have employee benefit schemes.

## 3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

**New and amended standards and interpretations (Continued)**

*IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

In November 2009, the IASB issued IFRIC 19 Extinguishing Financial Liabilities with Equity. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In cases that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation had no effect on the financial statements of the Group and will only affect such future transactions.

*Improvements to IFRSs*

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to presentation and disclosure and to accounting policies but had no impact on the financial position or performance of the Group.

IFRS 7 Financial Instruments – Disclosures: The amendment was intended to simplify the disclosures provided, by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in Note 16.

Other amendments resulting from Improvements to IFRSs to the following standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 1 Presentation of Financial Statements (Presentation of an analysis of each component of other comprehensive income)
- IFRS 1 First-time Adoption of International Financial Reporting Standards
- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Statement
- IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits)

**Standards issued but not yet effective**

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Group intends to adopt applicable standards when they become effective.

*IAS 1 Financial Statement Presentation — Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

## 3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

**Standards issued but not yet effective (Continued)**

*IAS 12 Income Taxes (Amendments) - Deferred Taxes: Recovery of Underlying Assets*

The Standard introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognised on a sale basis, unless the entity has a business model that would indicate the investment property will be consumed in the business, in which case, a use basis will be adopted. The amendments also introduce the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment becomes effective for annual periods beginning on or after 1 January 2012. The amendment has no impact on the company's financial position or performance as the Company is not subject to income or any other Cayman Island taxes.

*IAS 19 Employee Benefits (Amendment)*

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

The Group has no employee benefits which would be affected by these amendments.

*IAS 27 Separate Financial Statements (as revised in 2011)*

As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

*IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)*

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. As the Group has no associates or joint venture investments, this amendment has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

*IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*

The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively.

*IFRS 1 First-time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*

The amendment provides that, when an entity's date of transition to IFRS is on, or after, the date its functional currency ceases to be subject to hyperinflation, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date that were subject to severe hyperinflation, at fair value, on the date of transition to IFRS. This fair value may be deemed cost of those assets and liabilities in the opening IFRS statement of financial position.

## 3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

**Standards issued but not yet effective (Continued)**

A further amendment to the Standard is the removal of the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions have also been removed. The standard now has these dates coinciding with the date of transition to IFRS.

The amendments may be applied earlier than the effective date.

*IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

*IFRS 7 Financial Instruments: Disclosures*

Common disclosure requirements were issued that are intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. The new requirements are set out in Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). As part of that project the IASB also clarified aspects of IAS 32 Financial Instruments: Presentation. The amendments address consistencies in current practice when applying the requirements.

*IFRS 9 Financial Instruments*

The Standard covers the classification and measurement of financial assets, as the first part of its project to replace IAS 39. It is effective as from 1 January 2013.

*IFRS 9 Financial Instruments - Classification and measurement of financial assets, Accounting for financial liabilities and derecognition*

The mandatory effective date of IFRS 9 has been deferred to 1 January 2015. The amendments also provide relief from restating comparative information and require disclosures (in IFRS 7) to enable users of financial statements to understand the effect of beginning to apply IFRS 9.

*IFRS 9 Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

## 3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

**Standards issued but not yet effective (Continued)**

*IFRS 10 Consolidated Financial Statements*

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also replaces SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including 'special purpose entities'.

The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013. This amendment will have an impact as the Company prepares consolidated Financial Statements.

*IFRS 11 Joint Arrangements*

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will not impact the financial position and performance of the Group.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

*IFRS 12 Disclosure of Involvement with Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.

A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

*IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

***Going Concern***

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

***Determination of functional currency***

The determination of the functional currency of the Group is critical since recording of transactions and exchange differences arising thereon are dependent on the functional currency selected. As described in Note 2, the directors have considered those factors therein and have determined that the functional currency of the Company is the United States Dollar.

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

***Fair value of financial instruments***

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include considerations of liquidity and model inputs such as credit risk (both own and counterparty's), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments in the statement of financial position and the level where the instruments are disclosed in the fair value hierarchy. The models are calibrated regularly and tested for validity using prices from any observable current market transactions in the same instrument (without modification or repackaging) or based on any available observable market data. IFRS 7 requires disclosures relating to fair value measurements using a three-level fair value hierarchy. The level within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability. To assess the significance of a particular input to the entire measurement, the Group performs sensitivity analysis or stress testing techniques.

## 5(a). FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **30 June 2012** | 30 June 2011 |
|---|---|---|
| | **USD** | USD |
| *Designated at fair value through profit or loss:* | | |
| At start of year | **42,449,714** | 41,323,702 |
| Additions | **5,093,528** | 5,035,140 |
| Disposals | **(7,521,595)** | (4,305,977) |
| Net gain on financial assets at fair value through profit or loss | **(1,805,228)** | 2,202,126 |
| | **38,216,419** | 44,254,991 |
| Analysis of portfolio: | | |
| - Listed equity securities | **33,556,997** | 32,795,193 |
| - Unlisted equity securities | **2,305,499** | 46,469 |
| - Listed debt securities | **2,153,923** | 10,418,386 |
| - Unlisted debt securities | **200,000** | 994,943 |
| | **38,216,419** | 44,254,991 |

## 5(b). FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **30 June 2012** | 30 June 2011 |
|---|---|---|
| | **USD** | USD |
| Written put option | **481,090** | 98,750 |
| Written call option and short position | **-** | 3,851,617 |
| Listed securities sold short | **4,877,623** | - |
| | **5,358,713** | 3,950,367 |

## 6. TRADE AND OTHER RECEIVABLES

| | **30 June 2012** | 30 June 2011 |
|---|---|---|
| | **USD** | USD |
| Interest receivable on bonds | **209,254** | 481,634 |
| Dividend receivable | **631,905** | 85,185 |
| Other receivables | **315,983** | - |
| | **1,157,142** | 566,819 |

The receivables are neither past due nor impaired. Interests receivable on bonds are due within six months.

## 7. SHARE CAPITAL

| | **2012 Number** | **2012 USD** | 2011 Number | 2011 USD |
|---|---|---|---|---|
| *Authorised share capital* | | | | |
| Ordinary shares with a par value of USD 0.01 | **1,000,000,000** | **10,000,000** | 1,000,000,000 | 10,000,000 |
| *Share capital* | | | | |
| At 1 January | **42,630,327** | **426,303** | 42,630,327 | 426,303 |
| At 31 December | **42,630,327** | **426,303** | 42,630,327 | 426,303 |

The directors have the general authority to repurchase the ordinary shares in issue subject to the Company having funds lawfully available for the purpose. However, if the market price of the ordinary shares falls to a discount to the Net Asset Value, the directors will consult with the Investment Manager as to whether it is appropriate to instigate a repurchase of ordinary shares.

## 8. TRADE AND OTHER PAYABLES

| | **30 June 2012 USD** | 30 June 2011 USD |
|---|---|---|
| Accrued expenses | **58,423** | 50,480 |
| Dividend payable | **110,839** | 76,735 |
| Other payables | **40,669** | 467,254 |
| | **209,931** | 594,469 |

Other payables are non-interest bearing and are due on demand.

## 9. GAIN/ (LOSS) PER SHARE

Basic gain/ (loss) per share is calculated by dividing the gain/ (loss) attributable to equity holders by the weighted average number of ordinary shares in issue during the period excluding ordinary shares purchased by the Company (including those repurchased in accordance with the Tender Offer) and held as treasury shares.

The Company's diluted gain/ (loss) per share is the same as basic gain/ (loss) per share, since the Company has not issued any instrument with dilutive potential.

| | | **2012** | 2011 |
|---|---|---|---|
| Gain/(loss) attributable to equity holders of the Company | USD | **(1,090,783)** | 2,574,537 |
| Weighted average number of ordinary share in issue | | **42,630,327** | 42,630,327 |
| Basic (loss)/ gain per share | USD | **(0.0256)** | 0.0604 |

## 10. TAXATION

Under the current laws of Cayman Islands, there is no income, estate, transfer sales or other Cayman Islands taxes payable by the Fund. As a result, no provision for income taxes has been made in the financial statements.

## 11. SEGMENT INFORMATION

For management purposes, the Group is organised in one main operating segment, which invests in equity securities, debt instruments and relative derivatives. All of the Group's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

## 12. PERSONNEL

The Group did not employ any personnel during the half year period ended 30 June 2012 (2011: the same).