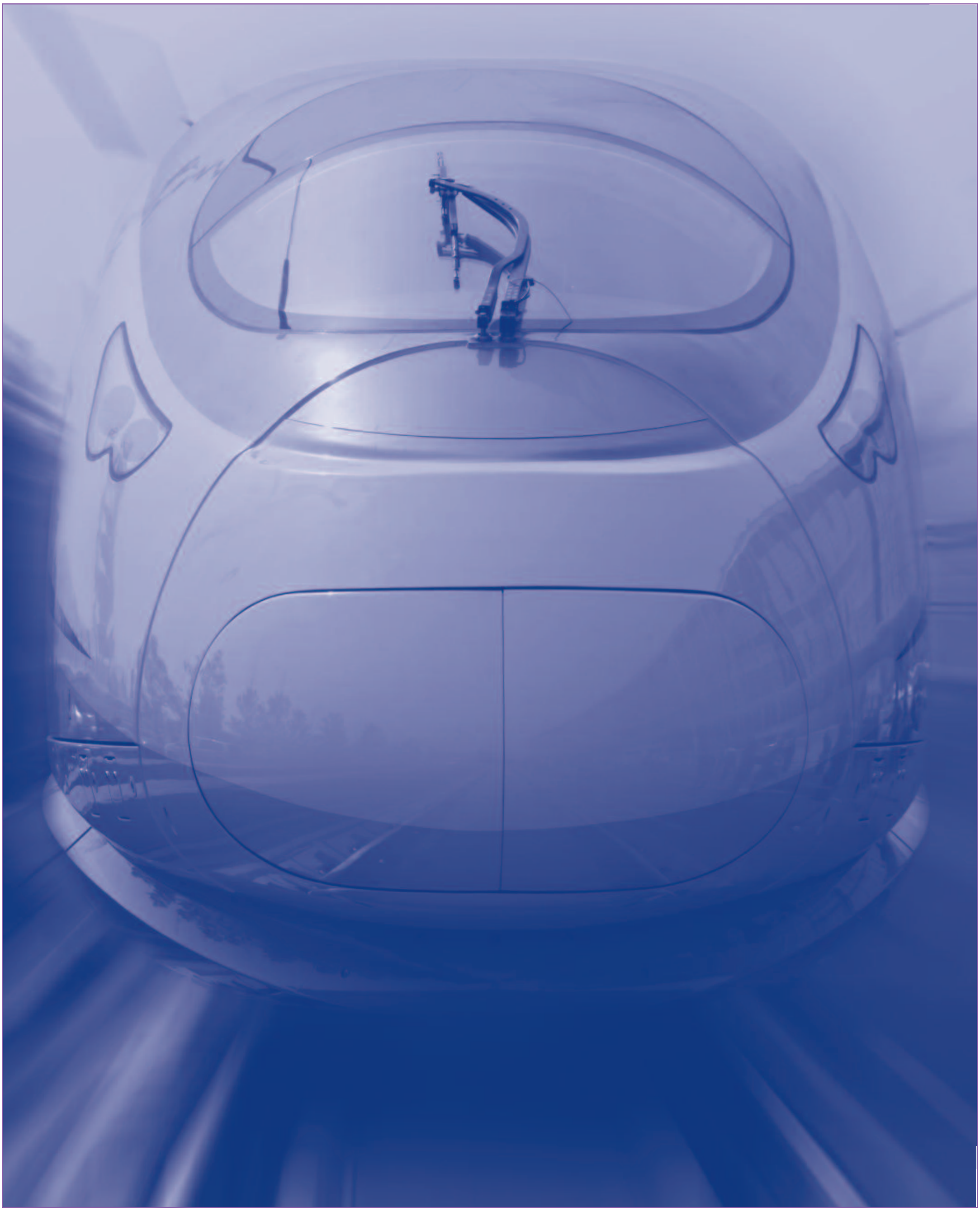
Advance Developing Markets Fund Limited
Annual report 2011



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Directors, investment manager and advisers inside back cover

Investment objective

The Company's investment objective is to achieve consistent returns for Shareholders in excess of the MSCI Emerging Markets Net Total Return Index in Sterling terms (the "Benchmark"). Until 31 October 2011 the Benchmark was the S&P/IFCI Emerging Markets Composite Index.

Performance

For the year ended 31 October 2011	
Net Asset Value ("NAV") per share – undiluted[1]	-11.7%
Net Asset Value ("NAV") per share – diluted[2]	-9.6%
Ordinary share price – mid market[3]	-8.3%
S&P/IFCI Emerging Markets Composite Index in Sterling terms	-10.4%

As at 31 October 2011	
NAV per share[4] – undiluted	493.8p
NAV per share[4] – diluted	467.6p
Ordinary share price – mid market	428.5p
Subscription share price – mid market	140.5p
Net assets	£326.5m

[1] Measured against a closing NAV for 31 October 2010 of 559.2p

[2] Measured against a closing NAV for 31 October 2010 of 517.4p

[3] Measured against an opening mid market ordinary share price of 467.5p

[4] See note 13 in the Notes to the Financial Statements for basis of calculation

Financial calendar

Annual General Meeting	26 April 2012 at 10am 11 New Street St Peter Port Guernsey GY1 2PF

The Annual Report can be downloaded in electronic format from the website of the Investment Manager www.advance-emerging.com

Chairman's statement

Performance

During the financial year to 31 October 2011 the Company's undiluted net asset value and share price fell by 11.7% and 8.3% respectively. On a diluted basis, the NAV fell by 9.6% compared to a decline in the Benchmark of 10.4%. Given the sharp recovery in emerging stock markets, from the lows reached during the global financial crisis in late 2008, it was not too surprising that we experienced a period of consolidation. It is unfortunate that the Company has given back some of the outperformance achieved in the previous period, but it is entirely explained by the conversion of subscription shares. Given the uncertainties that continued to plague global markets during the year, and the volatility this resulted in, the Board is pleased with the Investment Manager's outperformance on a diluted basis in a very challenging environment.

The year was a busy one for the Company in terms of corporate news. The major points are discussed below.

Final exercise of subscription shares

On 8 November 2010 a total of 2,350,604 new ordinary shares in the Company were issued following the conversion of an equivalent number of subscription shares on the 31 October 2010 exercise date. The final exercise date was 31 October 2011 and I am pleased to say that all remaining subscription shares were converted, resulting in the issue of a further 9,830,153 ordinary shares. This final exercise increased the number of ordinary shares in issue by 14.9% which should facilitate greater liquidity in the Company's shares over time.

Change of Benchmark

In October, the Company announced that it would adopt a new Benchmark effective from 1 November 2011. The new Benchmark is the MSCI Emerging Markets Net Total Return Index in Sterling terms. This change aligns the Company's Benchmark with that of the majority of its peers in the global emerging markets equity fund sector.

Discount management policy and share buybacks

The Board also took the opportunity presented by the change of Benchmark to clarify its stance on discount management. The Board considers it desirable that the Company's shares do not trade at a significant discount to net asset value and believes that, in normal market conditions, the shares should trade at a price which on average represents a discount of less than 10 per cent to diluted net asset value. To assist the Board in taking action to deal with a material increase in the discount, it seeks authority from shareholders annually to buy back shares. Shares may be repurchased when, in the opinion of the Board and taking into account factors such as market conditions and the discounts of comparable funds, the Company's discount is higher than desired and shares are available to purchase in the market. The Board is of the view that the principal purpose of share repurchases is to enhance net asset value for remaining shareholders. It may also assist in addressing the imbalance between the supply of and demand for the Company's shares and thereby reduce the scale and volatility of the discount at which the shares trade in relation to the underlying net asset value.

During the year, the discount to diluted net asset value averaged 8.5%, which the Board considers to be broadly consistent with the peer group of emerging market closed end funds, the Company's own discount history and market conditions. Despite this, 2,177,050 shares were repurchased during the year, representing 3.2% of the shares in issue at the time of repurchase. These shares were repurchased at a discount to diluted net asset value of 11.5%. These shares are held in treasury but will not be re-issued at a discount to net asset value.

Changes to the Board

As noted in my interim statement I shall be retiring as Chairman of your Company at the next Annual General Meeting planned for April, 2012. May I take this opportunity to thank my colleagues on the Board, the investment team and you, the shareholders, for the support and advice I have received during my chairmanship. Richard Bonsor has been nominated to succeed me and John Hawkins as the new Deputy Chairman.

Prospects for 2012

2011 proved to be one of the most difficult in the past 30 years for managers investing in global stock markets. Our political masters and policy makers in the developed economies have learned little from the events which took place during, and after, the Asian crisis of 1997/98. The restoration of economic health in Asia was a prolonged and painful process lasting a decade. Countries, corporations, financial institutions and private individuals needed to reduce significantly their borrowings, their expectations and tackle the necessity of rebuilding their balance sheets. The alternative was bankruptcy. They were not locked into a single regional currency; nor were they hampered by low levels of personal savings.

Today, the Eurozone has minimal room for manoeuvre. Despite very low interest rates the deficit countries are locked into a debt spiral and are unable to regain competitiveness through devaluation. The banking system needs further significant re-capitalisation and the public sector, which represents 50% of the Eurozone economy, must contract to allow renewed capital investment from the private sector to nourish sustainable economic growth and reduce the high levels of unemployment. The USA and UK face similar problems: in terms of fiscal constraints and high indebtedness. Further quantitative easing will not solve the serious structural problems, as the crisis in Asia clearly proved. China cannot embark on a repeat of the huge monetary expansion of 2009 without incurring further high inflation and social disruption. In 2012, markets – currency, bond, equity and commodity – will remain volatile and unpredictable.

Conclusion

But, out of crises, opportunities are born. Recovery in the developing economies will be swifter and more sustainable. Many governments and corporations within emerging markets have accrued sufficient financial resources to permit them to weather the storms currently buffeting the USA, UK and Eurozone. Personal savings remain relatively high and the thirst for better education and self-improvement remains strong. This, in turn, fosters a work ethic, often sadly lacking in the West.

The investment team overseeing your assets is an experienced and capable one. Success cannot, nor should not, be measured on weekly performance comparisons against indices or peers. Significant success in securing decent sustainable returns from emerging economies and markets has been, and will continue to be, achieved in the medium and long-term. When compared to the economic mess created by our short-term politicians in the USA and Eurozone, the prospects for emerging nations remain relatively bright.

Thank you for your support in 2011. May I wish you, and your families good health, happiness and prosperity in our New Year and the forthcoming year of the Dragon.

P E O'Connor
23 January 2012

Investment Manager's report

Performance review
The Benchmark S&P/IFCI Emerging Markets Composite Index delivered a return of -10.4% in Sterling terms for the year ended 31 October 2011. Markets were generally unsettled for much of the period. Investor sentiment towards emerging markets was affected by a number of issues including concerns over the financial health of the weaker Eurozone member states, popular uprisings in the Middle East and North Africa, a major earthquake and tsunami in Japan, the sub-par recovery of the US economy and rising inflation in a number of emerging countries.

Advance Developing Markets Fund Limited's ("ADMF" or the "Company") undiluted net asset value per share ("NAV") fell by 11.7% in Sterling terms during the reporting period, compared with the aforementioned decline of 10.4% in the benchmark. The share price declined by 8.3%, with the discount to diluted NAV at which the Company's shares trade closing the period at 8.4%, having commenced it at 9.6%.

The cause of the Company's NAV lagging the benchmark index by 1.3% over the year was the dilution caused by the exercise of subscription shares at the end of October 2010 which resulted in 2,350,604 new ordinary shares being issued at a price of 291p. The issue of these new ordinary shares negatively impacted the NAV by approximately 1.6%. The remaining 9,830,153 subscription shares had a final exercise opportunity at the end of October 2011. All outstanding subscription shares were exercised, resulting in the issuance of the same number of new ordinary shares. The new shares were admitted to the Official List and to trading on the main market of the London Stock Exchange on 8 November 2011.

Without the impact of the exercise of subscription shares, the Company's NAV outperformed its Benchmark. Manager selection was a positive contributor with several of the Company's larger investments delivering good results. In Brazil, our two preferred managers outperformed by significant margins. Tarpon All Equities Fund achieved a gain in its NAV of 11.1% while Advance Brazil Leblon Equities Fund saw its NAV decline by just 6.6%. The S&P/IFCI Brazil Index declined by 15.5% during the period, all in Sterling terms.

Amongst the Russian focussed investments Baring Vostok Investments Limited was a notable contributor with a share price gain of 166% in Sterling terms over the year. This performance was driven by the successful listing of its largest holding at the end of May. Coronation Top 20 Fund in South Africa (NAV -4.4%, S&P/IFCI South Africa -6.8%) and Edinburgh Dragon Trust (share price total return -5.4%, S&P/IFCI Emerging Asia -9.0%) were also positive contributors.

On a less positive note, JP Morgan Russian Securities disappointed as an underweight position in oil and gas stocks proved costly (share price -16.7% vs S&P/IFCI Russia -3.9%). Blackrock Latin American Investment Trust, the Company's second largest holding, also struggled as poor asset allocation and gearing in a falling market combined with a widening discount to net asset value to impinge on shareholder returns. Over the year the share price total return was -18.5% compared with a 13.4% decline in the S&P/IFCI Latin American Index. Blackrock Latin's convertible unsecured loan stock, in which ADMF has a material holding, lagged the Latin index materially towards the end of the year, finishing 11% behind despite the fact that it offers investors the benefit of capital protection and a 3.5% annual coupon.

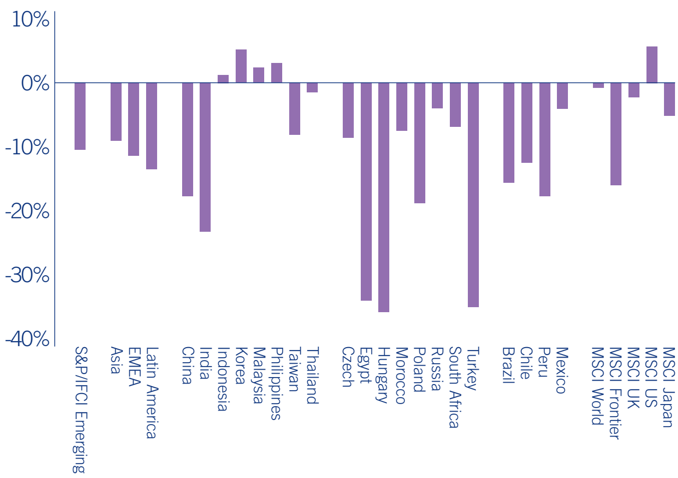
Asset allocation was a small negative contributor to performance, with the benefit of an underweight position in India and an overweight position in Russia being offset by too little in Korea and too much in Turkey.

It is not surprising that discounts did not contribute much to overall performance given the decline in markets and general ambivalence of investors towards anything deemed risky. The stability in the blend of open and closed end funds that the Company's currently holds is representative of our belief that only selected emerging market closed end funds offer good value in discount terms at present.

Market environment
The second half of the financial year saw a noticeable deterioration in global fundamentals as a result of fears that continued to emanate from the Eurozone. Faced with a problem to which the outcome is utterly unpredictable, markets remained anxious and highly volatile.

The performances of the various markets that make up the Benchmark are shown in sterling terms in Chart 1. For comparison, we also include the performances of MSCI World (-0.7%), Frontier (-15.9%), UK (-2.2%), US (+5.7%) and Japan (-5.1%).

Chart 1. Market performances during the financial year to 31 October 2011



Source: Bloomberg. GBP returns for the period from 31 October 2010 to 31 October 2011.

Performance in Asia was the most disparate, with several markets making gains whilst others participated fully in the declines. Korea's performance (+5.2%) was somewhat surprising given the high weighting of cyclical sectors within its market. The economy was boosted during the period by strong exports, as Japanese products were substituted with those from Korea following the Japanese earthquake and tsunami in March. The other major markets in the region displayed no such strength. China (-17.6%) was a major underperformer, with ongoing concerns regarding the health of the economy exacerbated by multiple corporate scandals in US listed Chinese companies which, once more, caused investors to question corporate governance standards. India (-23.1%) was the worst performing of the BRIC economies as persistent inflation prevented the Reserve Bank from reducing interest rates. Corruption scandals and a policy vacuum exacerbated market declines.

The EMEA region (Europe, Middle East and Africa) witnessed the largest declines, with Egypt (-33.8%), Hungary (-35.6%) and Turkey (-34.8%) suffering the most. Egypt's political and social upheaval was the major reason for that market's decline. In Turkey, the dependence on a troubled Eurozone region as its major trading partner weighed particularly heavily on the currency, which weakened by 24.9% over the period, making it one of the weakest currencies globally. Hungary, along with many of the other smaller European economies, saw a continual deterioration in its macroeconomic outlook, not helped by the adoption of questionable monetary policies.

In Latin America, Mexico (-4.0%) benefitted by proxy from an improved outlook for the US. Brazil (-15.5%) continued to suffer from negative sentiment, compounded by rapidly slowing growth. Even Chile (-12.4%), historically a defensive market, suffered as a high profile corporate fraud led local investors to reduce their equity exposure at the same time as copper prices declined. The Russian and South African markets, down by 3.9% and 6.8% respectively, proved more resilient as high oil prices continued to bolster the finances of the former and the latter simply failed to do much wrong.

Portfolio

The portfolio breakdown by investment type was as follows at the end of the period.

	October 2011	*October 2010*
Closed ended investment funds	53.3%	*53.8%*
Open ended investment funds	42.5%	*40.5%*
Market access products	3.3%	*5.8%*
Cash and other net assets	0.9%	*-0.1%*

As can be seen from above, the headline composition of the portfolio changed little during the year, but this is not to say we were not active. The number of holdings in the portfolio declined markedly, from 60 to 50 as a result of a concerted effort to concentrate the portfolio in higher conviction investments. Most of those investments we elected to exit were small and of an uncorrelated nature, being either closed end funds of emerging market property or private equity or frontier market equities. As a result of this exercise, the 20 largest investments now represent over 70% of the net asset value, a level of concentration and high conviction we aim to maintain.

New additions to the portfolio were a mixture of closed end funds trading on attractive discounts to net asset value and best of breed managers offering attractive geographic exposure. New closed end fund holdings included Aberdeen New Thai Investment Trust (Thai equities), JPMorgan Brazil Investment Trust (domestic growth oriented Brazilian equities), Qatar Investment Fund (Qatari equities) and Pallinghurst Resources Limited (African resource focussed listed and private equity). On the open ended side, Mirae Korea Equity Fund (Korean equities), Verno Capital Growth (Russian equities), Komodo Fund (Indonesian Equities) and Coronation Smaller Companies Fund (South African smaller companies) were all added to the portfolio for the first time.

Corporate activity was limited during the year. The Eastern European Trust conducted tender offers in January and July of 2011, both for 7.5% of outstanding shares at a discount to net asset value of 3%. These tenders were conducted as part of ongoing efforts by the Board to reduce the discount at which the shares trade. In the US, we exited Taiwan Greater China Fund as the discount narrowed prior to that fund's open ending.

Towards the end of the year, Prosperity Russia Domestic Fund, a London listed closed end fund, announced proposals including a vote on open ending the fund. The conversion to an open ended structure was recently approved by shareholders and effectively affords investors an exit at NAV, subject to certain liquidity constraints. The fund was trading at a discount of 21.8% at the end of the financial period and has subsequently narrowed in to 10.5%.

The asset allocation at the end of the year is shown on page 4. The major exposures remained consistent over the second half of the year.

Market outlook

In line with the views expressed in ADMF's recent quarterly reports (available at www.advance-emerging.com), we believe emerging markets currently offer an exciting opportunity.

Since the end of 2007, emerging and developed countries have essentially decoupled in economic terms, with the former continuing to grow whilst the latter have struggled. The same pattern has been observed at a corporate level. Whilst recent market declines have been accompanied by slowing economic growth in certain economies and downward revisions to earnings, our sense is that this has been driven more by short term psychology than any change in the long term drivers of the emerging asset class (demographics, education, technology, urbanisation, globalisation etc.). Recent country visits to Brazil, Chile, Russia, India, Taiwan, Hong Kong, China and Indonesia have been supportive of this view.

Turning to valuation, we remain of the view that emerging markets offer exceptional value. The asset class as a whole currently trades on 9.5 times trailing earnings and 8.7 times 2012 forecast earnings (Source: UBS Investment Research). These valuations represent a discount to developed markets, a discount to their own history and, in many people's opinions, a discount to fair value. UBS points out that the asset class has only traded at or below these levels of valuation 7% of the time since the MSCI Emerging Markets Index was launched at the end of 1987.

If there is a silver lining to recent market weakness, it is that we are seeing selected opportunities to build positions in closed end funds at materially wider discounts than were available a year ago. This bodes well for future relative performance and adds to the margin of safety by providing exposure to already cheap assets at discounted prices.

In terms of Investment Manager selection in the open ended sector, we are comfortable with the current selections and confident that a less irrational market environment in 2012 will provide opportunities for active and skilled stock pickers to generate alpha.

In asset allocation terms we will, as always, continue to invest more heavily in those markets that offer the best blend of quality, value and growth. At present, Russia and China stand out in this regard. India, Mexico and Taiwan are likely to remain our major underweight positions, all else remaining the same.

Such an uncertain global economic environment makes investing for the short term very difficult. We will try to look beyond the short term confusion and focus on the long term, over which we believe our approach will generate benchmark outperformance as it has in the past. Whilst we make no forecasts about the solution to or the outcome of the Eurozone crisis, we are optimistic that progress will be made in 2012. We believe that at some stage emerging markets fundamentals will prevail again and investors will begin to assess investment opportunities based on their own merit, rather than with reference to extraneous sentiment driven factors. When this happens, the recovery in emerging markets is likely to be rapid and substantial. Your portfolio is positioned to participate in this eventual recovery.

Advance Emerging Capital Limited

23 January 2012

Asset allocation

As at 31 October 2011 Country split	ADMF %	Benchmark %
Asia		
China	11.3	16.8
India	5.6	8.0
Indonesia	2.8	3.0
Korea	12.2	16.0
Malaysia	0.3	2.8
Philippines	0.1	0.9
Taiwan	6.0	11.6
Thailand	2.1	1.9
Hong Kong	2.2	–
Singapore	1.0	–
Other	2.7	–
	46.3	**61.0**
EMEA		
Czech Republic	0.2	0.3
Egypt	0.2	0.3
Hungary	0.1	0.3
Israel	0.1	–
Morocco	–	0.3
Poland	0.5	1.4
Russia	12.8	6.7
South Africa	5.3	6.7
Turkey	1.8	1.5
Other	2.7	–
	23.7	**17.5**

As at 31 October 2011 Country split	ADMF %	Benchmark %
Latin America		
Brazil	18.4	14.2
Chile	0.7	2.1
Mexico	2.8	4.6
Peru	0.2	0.6
Other	1.1	–
	23.2	**21.5**
Non-specified	2.0	–
Indirect cash	3.8	–
Portfolio cash	1.0	–
Total	**100.0**	**100.0**

The above analysis has been prepared on a portfolio look-through basis.

Benchmark: S&P/IFCI Emerging Markets Composite Index.

Twenty largest investments

At 31 October 2011 Fund Name	Asset Class	Investment Manager	Style	Structure	Investment size £'000	% of net assets
Atlantis China Fund	Chinese equities	Atlantis IM	Value & growth	Irish OEIC	19,528	6.0
BlackRock Latin American	Latin American equities	Blackrock IM	Value & growth	UK Investment trust	18,654	5.7
Taiwan Fund Inc	Taiwanese equities	Martin Currie	GARP/Value	US closed end fund	16,862	5.2
Henderson TR Pacific	Asian equities	Henderson AM	Growth	UK Investment trust	16,078	4.9
JP Morgan Russian	Russian equities	JP Morgan AM	GARP	UK Investment trust	15,526	4.8
Tarpon All Equities Fund	Brazilian small/mid cap and private equities	Tarpon Investimentos	Deep value	Cayman feeder into Delaware LLC	15,349	4.7
Korea Fund Inc	Korean equities	RCM Capital Management	Value & growth	US closed end fund	14,415	4.4
Aberdeen Latin American Equity	Latin American equities	Aberdeen AM	Value & quality	US closed end fund	13,600	4.2
Coronation Top 20 Fund	South African equities	Coronation AM	GARP	Cayman OEIC	12,323	3.8
Mirae Asset Korea Equity Fund	Korean equities	Mirae Asset	Growth	Luxembourg SICAV	12,072	3.7
Advance Brazil Leblon Equity Fund	Brazilian equities	AECL/Leblon Equities	Value	Irish OEIC	12,030	3.7
Baring Korea Trust	Korean equities	Baring AM	Value	UK OEIC	11,442	3.5
Edinburgh Dragon Trust	Asian equities ex Japan	Aberdeen AM	Value & quality	UK Investment trust	11,437	3.5
Lazard Emerging World Fund	General emerging markets fund of funds	Lazard FM	Discount orientated	Irish OEIC	11,200	3.4
Baring Emerging Europe	Eastern European equities	Baring AM	GARP	UK Investment trust	7,980	2.4
Komodo Fund	Indonesian equities	HB Capital Partners	Domestic consumption focus	Cayman OEIC	7,716	2.4
China Fund	Chinese equities	Martin Currie	GARP	US closed end fund	7,583	2.3
India Capital Fund A4	Indian small cap equities	India Capital Management	Value	Mauritius OEIC	6,900	2.1
BlackRock Latin American IT Corporate Bond	Latin American equities	Blackrock IM	Value & growth	Corporate Bond	6,589	2.0
BlackRock World Mining	Natural resources equities	Blackrock IM	Value	UK Investment trust	6,585	2.0
Top twenty holdings					**243,869**	**74.7**
Other holdings					79,813	24.4
Total holdings					**323,682**	**99.1**
Cash and other net assets					2,813	0.9
Net assets					**326,495**	**100.0**

GARP – Growth at a reasonable price

AECL = Advance Emerging Capital Limited

Directors' report

The directors of Advance Developing Markets Fund Limited (the "Company") present their report and financial statements for the year ended 31 October 2011.

Investment policy

Objectives

The Company's investment objective is to achieve consistent returns for shareholders in excess of the MSCI Emerging Markets Net Total Return Index in Sterling terms, its Benchmark. Until 31 October 2011 the Benchmark was the S&P/IFCI Emerging Markets Composite Index.

(i) Asset allocation

The Investment Manager invests in a portfolio of funds and products which give diversified exposure to emerging market economies and those of the Pacific Rim. The Investment Manager does not seek to replicate the Benchmark's geographical distribution. The Company's geographic asset allocation is derived from the Investment Manager's analysis of prospects for regions and countries and of the underlying opportunities for investment.

The Board does not believe that it should impose prescriptive limits on the Investment Manager for the geographic breakdown and distribution by type of fund as this could have a negative impact on the Company's performance and accordingly the Company does not have any prescribed investment limits in this regard.

The Investment Manager has discretion to enter into hedging mechanisms where it believes that this would protect the performance of the Company's investment portfolio in a cost effective manner. To date, the Company has never entered into any such hedging mechanisms.

(ii) Risk diversification

Individual investments are selected for their potential to outperform as a result of one or more of the following: the performance of the region, market or asset class in which they invest; the skill of the underlying fund manager; and, in the case of closed end funds, through the narrowing of discounts at which their shares trade to net asset value.

No holding in the Company in any other company will represent, at the time of the investment, more than 15% by value of the Company's net assets. The diversification within investee funds is taken into account when deciding on the size of each investment so the Company's exposure to any one underlying company should never be excessive.

(iii) Gearing

The Company does not use gearing as a tool to enhance performance but short term borrowing is permitted to assist in the management of liquidity. However the directors reserve the right to borrow up to a maximum of 15% of the Net Asset Value of the Company at the time of drawdown.

Business activities

The Company is a closed-ended investment company incorporated and resident in Guernsey and holds a Premium Listing on the London Stock Exchange. The Premium Listing under the category, Equity Closed Ended Investment Funds, became effective on 6 April 2010 when the new Listing Regime came into force due to changes in the Listing Rules.

Results and dividends

The Company's total comprehensive income for the year was a loss of £38,807,000 (2010: profit £85,924,000).

In accordance with its statement in the Prospectus of the Company, the directors reserve the right but are not required to provide dividend distributions. The directors' intention is for the Company to retain its earnings to finance growth for the foreseeable future. The Company's operating revenue loss after taxation for the year amounted to £1,611,000 (2010: loss £1,339,000) and therefore the Board does not recommend a final dividend.

Investment report and outlook

The Chairman's Statement and Investment Manager's Report incorporate a review of the highlights during the year.

Benchmark

Following a review of the Company's existing benchmark, the S&P/IFCI Emerging Markets Composite Index, the Board agreed that it was appropriate for it to be changed to the MSCI Emerging Markets Net Total Return Index (Bloomberg ticker: NDUEEGF Index) with effect from the financial year commencing 1 November 2011. This change aligns the Company's benchmark with that of the majority of its peers in the global emerging markets equity fund sector.

Key Performance Indicators (KPIs)

The Company's success in attaining its objectives is measured by reference to the following KPIs:

(a) The Company seeks to generate consistent relative returns ahead of those generated by the Benchmark Index.

(b) The Company seeks to achieve a positive absolute capital return over the longer term through its exposure to the emerging market asset class.

Performance

An overview of the Company's performance can be seen in the Chairman's Statement and Investment Manager's Report.

(a) The S&P/IFCI Emerging Markets Composite Index in Sterling terms decreased by 10.4% over the year against a decrease of 9.6% in the Company's diluted Net Asset Value per share*.

*diluted NAV excluding income

(b) The Company's undiluted NAV has achieved a total return of 46.3% over a five year period, against the benchmark's 48.0% (this figure incorporates the performance of Advance Developing Markets Trust plc to provide a five year comparison).

The five year period to October 2011 encompassed a number of corporate events that were of a one off nature and had a detrimental impact on the Company's Net Asset Value per share performance. These detrimental factors included various legal, administrative and tax costs associated with the tender offer conducted by Advance Developing Markets Trust plc in 2008 and the voluntary winding-up of Advance Developing Markets Trust plc and the transfer of its assets to the newly incorporated Advance Developing Markets Fund Limited in 2009. Furthermore, the Company's Net Asset Value per share was negatively impacted by the dilution arising from the exercise of subscription shares in 2009 and 2010. Adjusting solely for the dilution caused by the exercise of subscription shares in 2009 and 2010, the Company's Net Asset Value per share total return over the five year period to October 2011 was 49.3%.

Principal risks and uncertainties

The Board considers that the main risks faced by the Company fall into the following categories.

(i) General market risks associated with the Company's investments

Changes in economic conditions, interest rates, foreign exchange rates and inflationary pressures, industry conditions, competition, political and diplomatic events, tax, environmental and other laws and other factors can substantially and either adversely or favourably affect the value of the securities in which the Company invests and, therefore, the Company's performance and prospects.

The Company's investments are subject to normal market fluctuations and the risks inherent in the purchase, holding or selling of securities, and there can be no assurance that appreciation in the value of those investments will occur. There can be no guarantee that any realisation of an investment will be on a basis which necessarily reflects the Company's valuation of that investment for the purposes of calculating the net asset value.

The Company's investments, although not made into developed economies, are not entirely sheltered from the negative impact of economic slowdown, decreasing consumer demands and credit shortages in such developed economies which, amongst other things, impact the demand for the products and services offered by the companies in which the Company directly or indirectly invests.

A proportion of the Company's portfolio may be held in cash or cash equivalent investments from time to time. Such proportion of the Company's assets will be out of the market and will not benefit from positive stock market movements, but may give some protection against negative stock market movements.

(ii) Developing markets
The funds selected by the Investment Manager invest in developing markets. Investing in developing markets involves certain risks and special considerations not typically associated with investing in other more established economies or securities markets. In particular there may be (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 pounds Sterling; (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 developing markets.

(iii) Other portfolio specific risks

(a) Small cap stocks

The underlying investee funds selected by the Investment 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 effect on the value of the investee funds and, indirectly, on the value of the Company's portfolio.

(b) Liquidity of portfolio

The fact that a share is traded does not guarantee its liquidity and the Company's investments may be less liquid than other listed and publicly traded securities. The Company may invest in securities that are not readily tradable or may accumulate investment positions that represent a significant multiple of the normal trading volumes of an investment, which may make it difficult for the Company to sell its investments and may lead to volatility in the market price of the Shares. Investors should not expect that the Company will necessarily be able to realise, within a period which they would otherwise regard as reasonable, its investments and any such realisations that may be achieved may be at a considerably lower price than prevailing indicative market prices.

(c) Foreign exchange risks

It is not the Company's policy to engage in currency hedging. Accordingly, the movement of exchange rates between Sterling and the other currencies in which the Company's investments are denominated or its borrowings are drawn down may have a material effect, unfavourable or favourable, on the returns otherwise experienced on the investments made by the Company.

Movements in the foreign exchange rate between Sterling and the currency applicable to a particular shareholder may have an impact upon that shareholder's returns in their own currency of account.

(iv) Internal risks
Poor allocation of the Company's assets to both markets and investee funds by the Investment Manager, poor governance, compliance or administration, could potentially result in shareholders not making acceptable returns on their investment in the Company.

The control of risks related to the Company's business areas is described in detail in the corporate governance statement on page 12.

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

Ordinary shares in issue
As at 31 October 2011 the Company had 66,113,801 ordinary shares (excluding the 2,177,050 ordinary shares held in treasury) and 9,830,153 subscription shares in issue. Following the final subscription share exercise and subsequent issue of new ordinary shares on 8 November 2011, the issued share capital consists of 78,121,004 ordinary shares, of which 2,177,050 are held in treasury.

Subscription shares
Following the completion of a tender offer held by Advance Developing Markets Trust plc ("ADMT") in 2008 a bonus issue of subscription shares was made to its shareholders on the basis of one subscription share for every five ordinary shares then held. Subscription shareholders had the right to subscribe for one ordinary share at a price equal to 291p per ordinary share. The final subscription date for the subscription shares was 31 October 2011. In exchange for subscription shares in ADMT, subscription shares in the Company were issued on its launch on a one for one basis.

On the final subscription date, 31 October 2011, 9,087,474 subscription shareholders exercised their right to subscribe for a total of 9,087,474 ordinary shares. A total of 742,679 subscription shares were not exercised. In accordance with the terms and conditions of the subscription shares, the Company appointed a trustee who in the interests of these subscription shareholders exercised their rights and sold 742,679 ordinary shares in the market for the benefit of such holders at a price of 400p per ordinary share. The 9,830,153 new ordinary shares issued and allotted were listed on the London Stock Exchange on 8 November 2011. Following the listing the issued share capital consisted of 78,121,004 ordinary shares of which 2,177,050 are held in treasury.

Discount management policy

The Board considers it desirable that the Company's shares do not trade at a significant discount to net asset value and believes that, in normal market conditions, the shares should trade at a price which on average represents a discount of less than 10 per cent. to the diluted net asset value. To assist the Board in taking action to deal with a material increase in the discount it seeks authority from shareholders annually to buy back shares. Shares may be repurchased when, in the opinion of the Board and taking into account factors such as market conditions and the discounts of comparable funds, the Company's discount is higher than desired and shares are available to purchase in the market. The Board is of the view that the principal purpose of share repurchases is to enhance net asset value for remaining shareholders, although it may also assist in addressing the imbalance between the supply of and demand for the Company's shares and thereby reduce the scale and volatility of the discount at which the shares trade in relation to the underlying net asset value.

Purchases of own shares

On 8 June 2011 the Company purchased 2,177,050 ordinary shares, at a price of 471.75p per share. The shares are held in treasury.

The Company's discount management policy is described above.

The Company's present authority to make market purchases of its own ordinary shares will expire at the conclusion of the Annual General Meeting. The timing of any purchase will be decided by the Board. Any shares bought back by the Company will either be cancelled, or if the directors so determine, held in treasury (and may be re-sold). Purchases of own shares will only be made at a price representing a discount to net asset value per share.

The directors recommend that the Company is granted authority to purchase up to a maximum of 11,383,998 ordinary shares (subject to a maximum of 14.99 % of the ordinary shares in issue (excluding shares held in treasury) 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 5% of the issued share capital immediately following the resolution passed at the Annual General Meeting in March 2011. Unless authorised by shareholders, the Company will not issue further shares or re-sell shares out of treasury, as detailed above, for cash at a price below the prevailing net asset value per share unless they are first offered pro rata to existing shareholders. This authority shall expire on the conclusion of the Annual General Meeting. The directors recommend that a new authority is issued and a resolution to this effect will be put to the Annual General Meeting (item 8 in the Notice of Meeting).

Significant shareholders

As at 31 October 2011, the Company had been notified of the following interests in the ordinary shares (excluding treasury shares) of the Company.

	Holding	%
City of London Investment Management Company Limited	18,142,777	27.44%
Lazard Asset Management LLC	15,074,218	22.80%

Since 31 October 2011, the notified interest of City of London Investment Management Company Limited has changed to 19,791,559 (26.06%) and Legal & General Group Plc have notified an interest in 2,324,599 ordinary shares (3.06%) of the Company.

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 2013, a resolution will be proposed that the Company will continue in existence. If the resolution is not passed, then within 4 months of the vote to continue failing the directors will be required to formulate and put to Shareholders proposals relating to the future of Company, having had regard to, inter alia, prevailing market conditions and the applicable regulations and legislation. If the resolution is passed, the Company will continue its operations and a similar resolution will be put to shareholders every fifth annual general meeting 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 15% of its net assets.

The Company has a loan facility of up to £10 million with Investec Bank plc available for 364 days from 15 February 2011. As at 31 October 2011 the Company had £10 million drawn down. The commitment fee on the unutilised part of the facility is 1.25% and the interest charge on any amount drawn down is 3 month Sterling LIBOR + 4%. A debenture has been issued which gives Investec Bank plc. a floating charge over the Company's assets. An arrangement fee of £60,000 was payable on the facility.

Management

The management of the Company's investments is contracted to Advance Emerging Capital Limited ("AECL" or the "Investment Manager"), which is authorised and regulated by the FSA. AECL is appointed under a contract subject to six months' notice.

Fees payable to the Investment Manager

The Investment Manager is entitled to remuneration comprised of a basic fee and in certain circumstances a performance fee.

The basic fee is payable monthly in arrears (and pro rata for part of any month during which the investment management agreement is in force). This monthly fee is equivalent to one twelfth of one per cent. of the Company's Adjusted Market Capitalisation. The investment management agreement defines the "Company's Adjusted Market Capitalisation" as the aggregate closing mid-market price of the ordinary shares on the last business day of the month or part of a month for which the basic fee is being calculated plus the aggregate amount, if any, paid by the Company in purchasing its own Ordinary Shares at a discount in the twelve month period ending on such business day.

The Investment Manager may receive, in addition to the basic fee, a performance fee in respect of each Relevant Period (each one year period ending on 31 October in each year, and, if less than one year, the final period for which the agreement subsists). It is based on the outperformance of the NAV per share (before deducting the performance fee) over the Benchmark NAV per share. The Benchmark NAV per share is the Base NAV per share for the Relevant Period, increased or reduced by the percentage, if any, by which the S&P/IFCI Emerging Markets Composite Index, in Sterling terms (with effect from 1 November 2011 the Company's existing benchmark has changed to the MSCI Emerging Markets Net Total Return Index in Sterling terms – Bloomberg ticker: NDUEEGF Index), has increased or reduced over the Relevant Period.

The Base NAV per share is the Opening NAV per share, (550.01p at the start of business on 1 November 2010) and for each subsequent Relevant Period the NAV at the commencement of business on the first day of such Relevant Period, adjusted for the number of ordinary shares to be issued during such Relevant Period pursuant to the exercise of subscription shares prior to the commencement of such Relevant Period. The performance fee is 10% of the outperformance of the NAV per share over the Benchmark NAV per share, provided that the NAV per share has increased since the end of the last period in respect a performance fee was payable, i.e. the High Water Mark (559.24p per share at the start of business on 1 November 2010). The performance fee calculation is based on figures from the audited financial statements.

The performance fee in respect of a particular Relevant Period will not exceed 2% of the Company's Net Asset Value, at the close of business on the final Business Day of the Relevant Period to which such fees relate.

No performance fee was payable in respect of the year ended 31 October 2011 (2010: £2,483,844).

Basic fees are charged to revenue and performance fees, if any, are charged to capital as these are payable directly by reference to the capital performance of the Company.

Management engagement
In accordance with the requirements of the Listing Rules of the London Stock Exchange, the directors have reviewed whether to retain Advance Emerging Capital Limited ("AECL") as the Investment Manager of the Company. The directors have agreed that, given the performance of the Company to date and the specialist knowledge of AECL, it is in the best interests of shareholders as a whole to continue with AECL's appointment as Investment Manager to the Company.

Company secretary and administrators
Legis Fund Services Limited ("Legis") was appointed as Administrator and Secretary to the Company on 25 November 2010 as a result of a novation agreement between the Company and Legis Corporate Services Limited. Legis is appointed under a contract subject to 90 days' written notice. 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 was appointed by Legis to act as administration agent in the United Kingdom. Cavendish is appointed under a contract subject to not less than ninety days' notice. The UK Administration Agent receives from the Administrator a monthly fee equal to one twelfth of 0.1% of Net Asset Value subject to a current maximum fee of £110,185 (2010: £104,540) per annum. The maximum fee is increased annually, in November, by the change in the UK Retail Price Index (all items) over the preceding 12 months.

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 to trade creditors at 31 October 2011.

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 year under review.

Corporate governance
The corporate governance statement on pages 11 to 13 forms part of this report.

Going concern
The directors have adopted the going-concern basis in preparing the accounts. The following is a summary of the directors' assessment of the going concern status of the Company.

The directors have a reasonable expectation that the Company has adequate operational resources to continue in operational existence for at least twelve months from the date of approval of this document. In reaching this conclusion, the directors have considered the liquidity of the Company's portfolio of investments as well as its cash position, income and expense flows. As at 31 October 2011, the Company held £23.9m in cash and £323.7m in investments. Borrowings were outstanding of £10m. It is estimated that approximately 75% of the investments held at the year end could be realised in one month. The total operating expenses for the year ended 31 October 2011 were £3.8m, which represented approximately 1.03% of average net assets during the year. At the date of approval of this document, based on the aggregate of investments and cash held, the Company has in excess of 50 years' operating expenses cover. The Company's net assets at 31 December 2011 were £335.4m.

Auditor
KPMG Channel Islands Limited was re-appointed as auditors of the Company at the Annual General Meeting held on 14 March 2011. A resolution for the re-appointment of KPMG Channel Islands Limited as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Statement of directors' responsibilities
The statement of directors' responsibilities on page 10 forms part of this report.

Statement under the Disclosure and Transparency Rules 4.1.12
The Directors confirm that to the best of their knowledge and belief;

(a) This annual report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces; and

(b) The financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company.

John Hawkins
Director

Richard Hotchkis
Director

23 January 2012

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

• select suitable accounting policies and then apply them consistently;

• make judgements and estimates that are reasonable and prudent;

• state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Disclosure of information to auditor
The Directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

John Hawkins
Director

Richard Hotchkis
Director

23 January 2012

Corporate governance

This Corporate Governance statement forms part of the Directors' Report.

The Board of Advance Developing Markets Fund Limited (the "Company") has considered the principles and recommendations of the AIC Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide") as issued in October 2010. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

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

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to:

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

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

The Board

The Board aims to provide effective leadership so the Company has the platform from which it can achieve its investment objective. Its role is to guide the overall business strategy for the benefit of shareholders and stakeholders, ensuring that their interests are its primary consideration. Their intention is to create a supportive working environment which allows the Investment Manager the opportunity to manage the portfolio in accordance with the investment policy, through a framework of effective controls which enable risks to be assessed and managed.

Composition

All the directors were appointed by the Company with effect from its commencement on 16 September 2009 and hold their office in accordance with the Company's Articles of Association.

Peter O'Connor (Chairman) (aged 70) – United Kingdom resident – was a director of GT Management Plc from 1974 until 1990, when he established Peter O'Connor & Associates. He is Chairman of Neo Material Technologies Inc. and a director of other companies operating in the Asia-Pacific region.

Richard Bonsor (Deputy Chairman and Senior Independent Director) (aged 64) – United Kingdom resident – is a director of JO Hambro Investment Management Limited, which he joined in 1995, having been previously a director of SG Warburg Securities between 1986 and 1989 and a managing director of UBS East Asia Securities between 1992 and 1995.

Terence Mahony (aged 69) – Hong Kong resident – is Chairman of Platinum Advisory International. Previously he was Chief Investment Officer for Indochina Capital Vietnam Holdings and prior to that a director of Investment Management Selection Limited. He was until 1999 Managing Director, Emerging Markets Equities, for the Trust Company of the West (TCW) and President of TCW Asia Limited and before this was Chief Investment Officer for Global Emerging Markets, HSBC Asset Management Limited.

John Hawkins (aged 69) – Guernsey resident – is a Fellow of the Institute of Chartered Accountants of England and Wales. He was formerly executive vice president and a member of the corporate office of The Bank of Bermuda Limited. He had been with The Bank of Bermuda for 25 years, of which approximately 15 years were based in Hong Kong. In 1994 he was appointed executive vice president with responsibility for the Asia Pacific region. In 1998 he was appointed executive vice president with responsibility for the global private client and investment business. The Bank of Bermuda was acquired by HSBC Group in February 2004. He is also a director of a range of funds, which include hedge funds, funds of hedge funds and other listed investment companies.

Richard Hotchkis (aged 61) – Guernsey resident – has over 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 investments in both the UK and overseas and also of the externally managed funds industry, including investment trusts and other closed-ended funds, offshore funds and hedge funds. He is a director of a number of funds including fund of hedge funds, private equity funds and others investing in 'alternative assets'.

The Chairman is independent, in accordance with AIC principle 1. Mr O'Connor has an extensive knowledge of the investment management industry and vast experience of investing within emerging markets. This background provides the foundation for his role as Chairman and the basis on which to make judgements as head of the Board, on behalf of shareholders.

The Board has followed the AIC Code guidance and appointed Mr Bonsor as Senior Independent Director. Like the Chairman, Mr Bonsor has a great deal of experience within the industry and this role provides an alternative contact for shareholders. He also acts as an intermediary for fellow board members and is able to lead the annual evaluation of the Chairman.

All directors are entirely independent of the Investment Manager. Richard Hotchkis is a director of Advance Frontier Markets Fund Limited, a closed-ended fund quoted on AIM, a market of the London Stock Exchange, which is also managed by Advance Emerging Capital Limited. The Board has agreed that this does not affect his independence as a director of the Company.

Mr O'Connor will retire as Chairman at the Annual General Meeting to be held on 26 April 2012 and Mr Bonsor will be appointed in his place. Mr Hawkins, if re-elected as a director by shareholders, will be appointed as Deputy Chairman and Senior Independent Director at the same time as the appointment of Mr Bonsor as the Chairman of the Company.

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

At 31 October 2011 and at the date of this report the directors had the following shareholdings in the Company.

	Ordinary shares at 31 October 2011 and at the date of this report	*Ordinary shares at 31 October 2010*
PE O'Connor	–	–
AR Bonsor	10,000	*10,000*
TF Mahony	–	–
J Hawkins	–	–
RD Hotchkis	–	–

A procedure has been adopted for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company. Directors are encouraged to attend industry and other seminars, including courses run by the AIC, covering issues and development relevant to investment companies.

In the year to the 31 October 2011 there were four full meetings of the Board. Mr O'Connor, Mr Hawkins, Mr Hotchkis and Mr Mahony attended all of those meetings. Mr Bonsor attended two meetings. In addition there were six board sub-committee meetings to deal with the formal approval of documents, share issues and share buyback.

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. Each director's appointment is for an initial three year period subject to termination upon three months' notice.

In accordance with the Company's Articles of Incorporation one third of the directors will put themselves forward for re-election on an annual basis. Furthermore, in compliance with the Listing Rules, Richard Hotchkis who is also a director of another investment company or fund managed by the Investment Manager will be subject to annual re-election by the Company's Shareholders. Accordingly John Hawkins and Richard Hotchkis will retire and put themselves forward for re-election at the Annual General Meeting.

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

As described above Mr O'Connor will retire at the Annual General Meeting and not stand for re-election.

Board committees
The Company has established an Audit Committee, a Management Engagement Committee, a Nominations Committee and a Remuneration Committee. 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 directors with the exception of the Company Chairman. The Audit Committee normally meets on a bi-annual 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 the auditor's independence, objectivity, effectiveness and qualifications. Mr Hawkins is the Chairman of the Audit Committee.

The Company's external auditors also attend the Audit Committee meeting 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 year ended 31 October 2011 there were two meetings of the Audit Committee. Mr Hawkins, Mr Hotchkis and Mr Mahony attended both meetings. Mr Bonsor attended one meeting.

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 Investment Manager. The management engagement committee also considers the appointment and remuneration of other suppliers of services to the Company. The management engagement committee comprises all the members of the Board. Mr Bonsor is the Chairman of the Management Engagement committee.

In the year ended 31 October 2011, there was one meeting of the 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 meets as and when it is required. Mr O'Connor is Chairman of the Nominations Committee.

In the year ended 31 October 2011 there was one meeting of the Nominations Committee. This was attended by all the committee members.

Subsequent to the year end, the committee met again to consider and make recommendations to the Board following the decision by the Chairman to retire at the forthcoming AGM. The committee recommended that with his considerable knowledge and experience Mr Bonsor would be the ideal candidate to succeed Mr O'Connor with Mr Hawkins in his role as Audit Committee Chairman the appropriate successor as Senior Independent Director.

Remuneration Committee
All of the directors are members of the Remuneration Committee. The committee meets at least on an annual basis to consider the remuneration of the directors. The committee reviews the remuneration of the directors and chairman against the fees paid to the directors of other investment companies of a similar size and nature, as well as taking into account data published by the AIC. Mr Bonsor is Chairman of the Remuneration Committee.

In the year ended 31 October 2011 there was one meeting of the Remuneration Committee. This was attended by all the committee members.

Performance evaluation
A formal annual performance appraisal process is performed on the Board, the committees, the individual directors and its main service providers. The results of the performance appraisal carried out in 2011 demonstrated that the structure of the board and the diverse experience of the directors are appropriate to fulfil the Company's requirements successfully.

The directors are aware that the Board should have an appropriate balance of skills, experience, independence and knowledge. The annual performance evaluation report raises this issue and the Board understands that future recruitment will have to ensure the balance is maintained.

Internal controls
The AIC 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 and have applied the FRC guidance on internal controls. 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 guidance 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 year and up to the date of this report.

The Board uses an annual Risk Assessment Programme to review the main risks and controls for the Company. Each director is provided a copy of the programme and feeds back comments via the Company Secretary to the Audit Committee Chairman. Once reviewed the programme is updated and signed off. This then forms the framework for key areas to be monitored going forward.

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 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 10 and a Statement of Going Concern is on page 9. The report of the Independent Auditors is on page 15.

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 Company Secretary reports 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 Investment 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 on going 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 Board has appointed Mr Bonsor as deputy chairman and its Senior Independent Director. Once Mr Bonsor has been appointed Chairman of the Company, Mr Hawkins will be appointed Senior Independent Director. 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 is committed to exercise diligently its rights as a shareholder and usually votes on its holdings. The Company and the Investment Manager are opposed to a mechanistic, 'box-ticking' adherence to voting or other corporate governance processes. In making a voting decision all relevant factors are taken into account, including the performance of the investee company, its corporate governance where this bears meaningfully upon the responsiveness of its management to shareholder needs and the readiness of its management to address any areas where improvements might be expected to strengthen its share price or otherwise create real benefit for shareholders. Further information regarding the activities of the Company in pursuing these issues may be found in the Investment Manager's report. The Investment Manager has published on its website its statement in compliance with the principles of best practice of the Stewardship Code issued by the Financial Reporting Council in July 2010.

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

The fund of funds investment approach followed by the Company means that the Board and Investment Manager have limited direct control over environmental, social and governance factors. However, the Board and Investment Manager take their responsibilities in this area seriously and any significant perceived weakness in prospective or existing investee funds relating to these issues is investigated and contributes to the final investment decision.

Directors’ remuneration report

Since all directors are non-executive, a remuneration committee has been formed which includes all the directors. They 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 31 October 2012 and for subsequent years.

The maximum amount currently payable in aggregate to the directors is £150,000 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 year ended 31 October 2011.

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 subject to re-election by shareholders at a maximum interval of three years. Under the Listing Rules, Mr Hotchkis, as a director of another investment company or fund managed by the Investment Manager must seek annual re-election by the Company’s Shareholders.

Directors’ emoluments for the year
Fees payable to the Chairman were at a rate of £27,500, Mr Bonsor (Deputy Chairman) at a rate of £25,000, which was effective from 1 January 2011, Mr Hawkins (Chairman of the audit committee) at a rate of £22,000 per annum and the other directors at a rate of £19,000 per annum, also effective from 1 January 2011. Prior to 1 January 2011 the Deputy Chairman and the other directors were paid at a rate of £16,500 per annum.

The following emoluments in the form of fees were payable in the year ended 31 October 2011 to the directors who served during that year.

	Fees 2011 £’000	*Fees 2010* £’000*
Peter O’Connor	27.5	*30.0*
John Hawkins	22.0	*24.0*
Richard Bonsor	23.5	*18.0*
Richard Hotchkis	18.5	*18.0*
Terence Mahony	18.5	*18.0*
	110.0	***108.0***

*Fees cover period from 30 September 2009 to 31 October 2010.

Independent auditor’s report

To the members of Advance Developing Markets Fund Limited
We have audited the financial statements of Advance Developing Markets Fund Limited (“the Company”) for the year ended 31 October 2011 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as issued by the IASB.

This report is made solely to the Company’s members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company’s members 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Statement of Directors' Responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report accompanying the financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Company’s affairs as at 31 October 2011 and of its loss for the year then ended;
- are in accordance with International Financial Reporting Standards as issued by the IASB; and
- comply with the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Neale D Jehan
for and on behalf of

KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors

23 January 2012

Statement of comprehensive income

For the year ended 31 October 2011	Note	Revenue £'000	Capital £'000	2011 Total £'000	*Revenue £'000*	*Capital £'000*	*2010* Total £'000*
(Losses)/gains on investments designated as fair value through profit or loss	12	–	(37,212)	(37,212)	*–*	*89,779*	*89,779*
Capital gains/(losses) on currency movements		–	16	16	*–*	*(32)*	*(32)*
Net investment (losses)/gains		**–**	**(37,196)**	**(37,196)**	***–***	***89,747***	***89,747***
Investment income	4	2,380	–	2,380	*2,051*	*–*	*2,051*
Total revenue		**2,380**	**(37,196)**	**(34,816)**	***2,051***	***89,747***	***91,798***
Investment management fees	5	(3,099)	–	(3,099)	*(2,698)*	*(2,484)*	*(5,182)*
Other expenses	5	(525)	–	(525)	*(528)*	*–*	*(528)*
Operating (loss)/profit before finance costs and taxation		**(1,244)**	**(37,196)**	**(38,440)**	***(1,175)***	***87,263***	***86,088***
Finance costs	8	(190)	–	(190)	*–*	*–*	*–*
Operating (loss)/profit before taxation		**(1,434)**	**(37,196)**	**(38,630)**	***(1,175)***	***87,263***	***86,088***
Withholding tax expense		(177)	–	(177)	*(164)*	*–*	*(164)*
Total comprehensive (loss)/income for the year		**(1,611)**	**(37,196)**	**(38,807)**	***(1,339)***	***87,263***	***85,924***

Earnings per ordinary share	9						
– Basic		(2.39p)	(55.21p)	(57.60p)	*(2.03p)*	*132.34p*	*130.31p*
– Diluted		(2.27p)	(52.32p)	(54.59p)	*(1.93p)*	*125.57p*	*123.64p*

The total column of this statement represents the Company's Statement of Comprehensive Income, 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 year.

*For the period from 16 September 2009 (date of incorporation) to 31 October 2010.

The notes on pages 20 to 29 form part of these financial statements.

Statement of financial position

At 31 October 2011	Note	2011 £'000	*2010 £'000*
Non-current assets			
Investments designated as fair value through profit or loss	10	323,682	*369,595*
Current assets			
Cash and cash equivalents		23,919	*601*
Sales for future settlement		991	*1,263*
Other receivables		130	*113*
		25,040	***1,977***
Total assets		**348,722**	***371,572***
Current liabilities			
Other payables		459	*323*
Purchases for future settlement		11,768	–
Bank borrowings	8	10,000	–
Performance fee accrual		–	*2,484*
Total liabilities		**22,227**	***2,807***
Net assets		**326,495**	***368,765***
Equity			
Share capital		279,378	*282,841*
Capital reserve	12	50,067	*87,263*
Revenue reserve		(2,950)	*(1,339)*
Total equity		**326,495**	***368,765***
Net assets per ordinary share – undiluted	13	493.84p	*559.24p*
Net assets per ordinary share – diluted		467.58p	*517.42p*
Number of ordinary shares in issue (excluding shares held in treasury)		66,113,801	*65,940,247*

Approved by the Board of Directors on 23 January 2012 and signed on their behalf by:

John Hawkins
Director

Richard Hotchkis
Director

The notes on pages 20 to 29 form part of these financial statements.

Statement of changes in equity

For the year ended 31 October 2011	Share capital account £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Opening equity	**282,841**	**87,263**	**(1,339)**	**368,765**
Issue of shares	6,840	–	–	6,840
Share buy backs	(10,285)	–	–	(10,285)
Share issue expenses	(18)	–	–	(18)
(Decrease) in equity	–	(37,196)	(1,611)	(38,807)
Balance at 31 October 2011	**279,378**	**50,067**	**(2,950)**	**326,495**

For the period from 16 September 2009 (date of incorporation) to 31 October 2010	*Share capital account £'000*	*Capital reserve £'000*	*Revenue reserve £'000*	*Total £'000*
Contributions by shareholders				
Issue of shares	*283,676*	–	–	*283,676*
Share issue expenses	*(835)*	–	–	*(835)*
Increase/(decrease) in equity	–	*87,263*	*(1,339)*	*85,924*
Balance at 31 October 2010	***282,841***	***87,263***	***(1,339)***	***368,765***

Statement of cash flow

For the year ended 31 October 2011	Note	2011 £'000	*For the period from 16 September 2009 (date of incorporation) to 31 October 2010 £'000*
Cash flows from operating activities			
Cash inflow from investment income and bank interest		2,375	*1,968*
Cash outflow from management expenses		(6,005)	*(2,933)*
Cash inflow from disposal of investments		121,075	*63,150*
Cash outflow from purchase of investments		(100,334)	*(63,329)*
Cash inflow/(outflow) from foreign exchange transactions		18	*(32)*
Cash outflow from taxation		(177)	*(164)*
Net cash flow from/(used) in operating activities	14	**16,952**	***(1,340)***
Cash flows from financing activities			
Cash inflow from rollover		–	*2,617*
Increase in bank borrowings	8	10,000	–
Borrowing commitment fee and interest charges		(171)	–
Share issues expenses		(18)	*(676)*
Conversion of subscription shares	11	6,840	–
Share buy backs	11	(10,285)	–
Net cash flow from financing activities		**6,366**	***1,941***
Net increase in cash and cash equivalents		**23,318**	***601***
Opening balance		601	–
Cash flow		23,318	*601*
Balance at 31 October		**23,919**	***601***

The notes on pages 20 to 29 form part of these financial statements.

Notes to the financial statements

1 Reporting entity
Advance Developing Markets Fund Limited (the "Company") is a closed-ended investment company, incorporated in Guernsey on 16 September 2009. The Company's registered office is 11 New Street, St Peter Port, Guernsey GY1 2PF. The Company's ordinary shares hold a premium listing on the London Stock Exchange. The financial statements of the Company are presented for the year ended 31 October 2011.

The Company invests in a portfolio of funds and products which give diversified exposure to emerging market economies and those of the Pacific Rim. The Company's investment objective is to achieve consistent returns for shareholders in excess of the S&P/IFCI Emerging Markets Composite Index in Sterling terms (the "Benchmark"). With effect from 1 November 2011 the Company's existing benchmark changed to the MSCI Emerging Markets Net Total Return Index in Sterling terms (Bloomberg ticker: NDUEEGF Index). The Board believed that it was appropriate to align the Company's benchmark with that of the majority of its peers in the global emerging markets equity fund sector.

The investment activities of the Company are managed by Advance Emerging Capital Limited.

This report will be sent to shareholders and copies will be made available to the public at the registered office of the Company. It will also be available in electronic form on the Investment Manager's website, www.advance-emerging.com

2 Basis of preparation
(a) Statement of compliance
The financial statements which give a true and fair view have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by International Accounting Standards Board ("IASB") and are in compliance with the Companies (Guernsey) Law, 2008. There were no changes in the accounting policies of the Company in the year to 31 October 2011.

Where presentational guidance set out in the Statement of Recommended Practice ("SORP") for Investment Companies issued by the Association of Investment Companies ("AIC") in January 2009 is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

The total column of the Statement of Comprehensive Income is the profit and loss account of the Company. The capital and revenue columns provide supplementary information.

The directors have adopted the going-concern basis in preparing the accounts.

The comparative period in the financial statements is not directly comparable. The first annual report covered the period from 16 September 2009 (date of incorporation) to 31 October 2010.

(b) Basis of measurement
The financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss which are measured at fair value.

(c) Functional and presentation currency
The Company's shares are issued in Sterling and the majority of its investors are UK based, therefore the financial statements are presented in Sterling, which is the Company's functional currency. All financial information presented in Sterling has been rounded to the nearest thousand pounds.

(d) Use of estimates and judgements
The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 3.

3 Significant accounting policies
There were no changes in the accounting policies during the year ended 31 October 2011.

(a) 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. These investments are recognised on the trade date of their acquisition at which the Company becomes a party to the contractual provisions of the instruments. At this time, the best evidence of the fair value of the financial assets is the transaction price. Transaction costs that are directly attributable to the acquisition or issue of the financial assets are charged to the Statement of Comprehensive Income as a capital item. Subsequent to initial recognition, investments designated as fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Comprehensive Income and determined by reference to:

(i) investments quoted or dealt on recognised stock exchanges in an active market are valued by reference to their market bid prices;

(ii) investments in underlying funds, which are not quoted or dealt on a recognised stock exchange or other trading facility or in an active market, are valued at the net asset values provided by such entities or their administrators. These values may be unaudited or may themselves be estimates and may not be produced in a timely manner. If such information is not provided, or is insufficiently timely, the Investment Manager uses appropriate valuation techniques to estimate the value of investments. In determining fair value of such investments, the Investment Manager takes into consideration the relevant issues, which may include the impact of suspension, redemptions, liquidation proceedings and other significant factors. Any such valuations are assessed and approved by the directors. The estimates may differ from actual realisable values;

(iii) investments in open-ended funds are valued at the latest net asset value provided by the open-ended fund for single priced funds or the latest bid price for those funds with a bid-offer spread;

(iv) investments which are in liquidation are valued at the estimate of their remaining realisable value.

Investments are derecognised on the trade date of their disposal, which is the point where the Company transfers substantially all the risks and rewards of the ownership of the financial asset. Gains or losses are recognised in the capital column of the Statement of Comprehensive Income. The Company uses the weighted average cost method to determine realised gains and losses on disposal of investment.

(b) Foreign currency
Transactions in foreign currencies are translated into Sterling at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into Sterling at the spot exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value through profit or loss are retranslated into Sterling at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Sterling using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss and, depending on the nature of the gain or loss, are allocated to the revenue or capital column of the Statement of Comprehensive Income. Foreign currency differences on retranslation of financial instruments designated as fair value through profit or loss are shown in the "Capital gains on currency movements" line.

(c) Income from investments
Dividend income is recognised when the right to receive it is established and is reflected in the Statement of Comprehensive Income as Investment Income in the revenue column. For quoted equity securities this is usually on the basis of ex-dividend dates. For unquoted investments this is usually on the entitlement date confirmed by the relevant holding. Income from bonds is accounted for using the effective interest rate method.

Special dividends and distributions described as capital distributions are assessed on their individual merits and may be credited to the capital reserve if considered to be closely linked to reconstructions of the investee company or other capital transactions. Bank interest receivable is accounted for on a time apportionment basis and is based on the prevailing variable interest rates for the Company's bank accounts.

(d) Treasury shares
Where the Company purchases its own share capital, the consideration paid, which includes any directly attributable costs, is recognised as a deduction from equity shareholders' funds through the Company's reserves. When such shares are subsequently sold or re-issued to the market any consideration received, net of any directly attributable incremental transaction costs, is recognised as an increase in equity shareholders' funds through Share capital account. Shares held in treasury are excluded from calculations when determining NAV per share as detailed in note 13.

(e) Cash and cash equivalents
Cash comprises of cash at hand and demand deposits. Cash equivalents, which include bank overdrafts, are short term, highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risks of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

(f) Investment management fees and finance costs
Investment management fees and finance costs are charged to the Statement of Comprehensive Income as a revenue item and are accrued monthly in arrears. Finance costs include interest payable and direct loan costs. Performance-related fees, if any, are payable directly by reference to the capital performance of the Company and are therefore charged to the Statement of Comprehensive Income as a capital item.

(g) Financial liabilities
Financial liabilities (including bank loans) are classified according to the substance of the contractual arrangements entered into. Financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

(h) Taxation
The Company applied for exempt status under the Income Tax (Exempt Bodies) (Guernsey) Ordinances 1989 and was charged an annual exemption fee of £600.

Dividend and interest income received by the Company may be subject to withholding tax imposed in the country of origin. The tax charges shown in the Statement of Comprehensive Income relate to overseas withholding tax on dividend income.

(i) Operating segments
The Company has adopted IFRS 8, 'Operating segments'. This standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Board, as a whole, has been determined as constituting the chief operating decision maker of the Company. The Board has considered the requirements of the standard and is of the view that the Company is engaged in a single segment of business, which is investing in a portfolio of funds and products which give exposure to the emerging market economies and those of the Pacific Rim. The key measure of performance used by the Board is the Net Asset Value of the Company (which is calculated under IFRS). Therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the financial statements.

The Board of directors is responsible for ensuring that the Company's objective and investment strategy is followed. The day-to-day implementation of the investment strategy has been delegated to the Investment Manager but the Board retains responsibility for the overall direction of the Company. The Board reviews the investment decisions of the Investment Manager at regular Board meetings to ensure compliance with the investment strategy and to assess the achievement of the Company's objective. The Investment Manager has been given full authority to make investment decisions on behalf of the Company in accordance with the investment strategy. Details of the portfolio's asset allocation can be found on page 4. Any significant change to the Company's investment strategy requires shareholder approval.

The Company has a diversified portfolio of investments and as disclosed in the Top Twenty Investments on page 5. No single investment accounts for more than 6.0% of the Company's net assets. The Investment Manager aims to identify funds which it considers are likely to deliver consistent capital growth over the longer term, as such investment income is not a focus of the investment policy and it does not anticipate regular income from its investments. The largest income from an individual investment accounted for 18% of the total income received in the year.

At 31 October 2011 there were two shareholders who each held more than 10% of the issued share capital, from a total shareholder base of 632. Their holdings were 27% and 23% respectively.

(j) Offsetting
Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Company has a legal rights to set off the recognised amounts and it intends to either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs.

(k) Standards and interpretations in issue but not yet effective
At the date of authorisation of these financial statements, a number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these statements. None of these is expected to have a significant effect on the financial statements of the Company. However, IFRS 9 will change the classification of financial assets.

The standard is not expected to have an impact on the measurement basis of the financial assets since the majority of the Company's financial assets are measured at fair value through profit or loss.

IFRS 9 deals with recognition, derecognition, classification and measurement of financial assets and financial liabilities. Its requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: at amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables.

For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

IFRS 9 requires that the effects of changes in credit risk of liabilities designated as at fair value through profit or loss are presented in other comprehensive income unless such treatment would create or enlarge an accounting mismatch in profit or loss, in which case all gains or losses on that liability are presented in profit or loss. Other requirements of IFRS 9 relating to classification and measurement of financial liabilities are unchanged from IAS 39.

The requirements of IFRS 9 relating to derecognition are unchanged from IAS 39.

The standard is effective for annual periods beginning on or after 1 January 2015. Earlier application is permitted. The Company does not plan to adopt this standard early.

4 Investment income

	2011 £'000	*2010 £'000*
Income from investments		
Dividends income	2,141	*1,814*
Bond interest income	239	*237*
	2,380	***2,051***

5 Investment management fees and other expenses

	Revenue £'000	Capital £'000	2011 Total £'000
Investment management fee	3,228	–	3,228
– management fee rebate	(129)	–	(129)
Performance fee	–	–	–
	3,099	**–**	**3,099**
Administration fees	138	–	138
Custodian's fees	39	–	39
Registrar's fees	17	–	17
Directors' fees	111	–	111
Auditors' fees	40	–	40
Marketing fees	46	–	46
Broker fees	32	–	32
Other expenses	102	–	102
Total other expenses	**525**	**–**	**525**
Total expenses	**3,624**	**–**	**3,624**

	Revenue £'000	*Capital £'000*	*2010 Total £'000*
Investment management fee	*2,698*	–	*2,698*
– management fee rebate	–	–	–
Performance fee	–	*2,484*	*2,484*
	2,698	***2,484***	***5,182***
Administration fees	*128*	–	*128*
Custodian's fees	*40*	–	*40*
Registrar's fees	*10*	–	*10*
Directors' fees	*108*	–	*108*
Auditors' fees	*39*	–	*39*
Marketing fees	*48*	–	*48*
Broker fees	*32*	–	*32*
Other expenses	*123*	–	*123*
Total other expenses	***528***	**–**	***528***
Total expenses	***3,226***	***2,484***	***5,710***

Details of the Investment Management fee and agreement are provided below and in the Directors' report.

The investment management agreement is terminable by either party thereto on not less than six months' written notice at any time, subject to earlier termination in certain circumstances including certain breaches or the insolvency of either party.

The Investment Manager is entitled to receive from the Company for its services as Investment Manager a basic fee and, in certain circumstances, a performance fee. The basic fee is payable monthly in arrears (and pro rata for part of any month during which the investment management agreement is in force). This monthly fee is equivalent to one twelfth of one per cent. of the Company's Adjusted Market Capitalisation. The investment management agreement defines the "Company's Adjusted Market Capitalisation" as the aggregate closing mid-market price of the ordinary shares on the last business day of the month or part of a month for which the basic fee is being calculated plus the aggregate amount, if any, paid by the Company in purchasing its own Ordinary Shares at a discount in the twelve month period ending on such business day.

The Investment Manager may receive, in addition to the basic fee, a performance fee in respect of each Relevant Period ending 31 October. It is based on the outperformance of NAV per share (before deducting the performance fee) over the Benchmark NAV per share. The Benchmark NAV per share is the Base NAV per share for the Relevant Period, increased or reduced by the percentage, if any, by which the S&P/IFCI Emerging Markets Composite Index, in Sterling terms*, has increased or reduced over the Relevant Period.

*With effect from 1 November 2011 the Company's existing benchmark changed to the MSCI Emerging Markets Net Total Return Index in Sterling terms (Bloomberg ticker: NDUEEGF Index). The Board believed that it was appropriate to align the Company's benchmark with that of the majority of its peers in the global emerging markets equity fund sector.

For the year ended 31 October 2011 the Base NAV per share was 550.01p (2010: 428.94p at the start of business on 10 November 2009). For each Relevant Period the Base NAV is the NAV at the commencement of business on the first day of such Relevant Period, adjusted for the number of ordinary shares to be issued during such Relevant Period pursuant to the exercise of subscription shares prior to the commencement of such Relevant Period. The performance fee is 10% of the outperformance of the NAV per share over the Benchmark NAV per share, provided that the NAV per ordinary share has increased since the end of the last period in respect a performance fee was payable, i.e. the High Water Mark of 559.24p per share (2010: 505.18p). The performance fee calculation is based on figures taken from the audited financial statements.

The performance fee in respect of a particular Relevant Period will not exceed 2% of the Company's Net Asset Value, at the close of business on the final Business Day of the Relevant Period to which such fees relate.

Legis Fund Services Limited, as Company Secretary and Administrator receives a fee at a rate of £30,000 per annum, as well as the fees payable to the UK Administration Agent, as stated in the next paragraph.

Cavendish Administration Limited, as UK Administration Agent receives from the Administrator a monthly fee equal to one twelfth of 0.1% of Net Asset Value subject to a current maximum fee of £110,185 (2010: £104,540) per annum. The maximum fee is increased annually, in November, by the change in the UK Retail Price Index (all items) over the preceding 12 months.

The Northern Trust Company, as Custodian receive a fee comprising of an account fee of £2,500 per account per annum, principle/income split of £1,250 per account per annum and single line items (unit trust) reporting of £500 per line per annum. They also receive an asset based fee equal to between 1.00 basis points and 40.00 basis points of the value of the assets of the Company. Transaction based fees are also payable of between £10 and £125 per transaction. The variable fees are dependent on the countries in which the individual holdings are registered.

The Company's total expense ratio for the year excluding performance fees (based on average net assets) was 1.03% (2010: 1.02%).

6 Directors' fees

The fees accrued and paid for in the year were £110,250 (2010: £107,679). There were no other emoluments. Full details of the fees of each director are given in the Directors' Remuneration Report on page 14.

7 Transaction charges

	2011 £'000	*2010 £'000*
Transaction costs on purchases of investments	168	*335*
Transaction costs on sales of investments	92	*21*
Total transaction costs included in gains/(losses) on investments at fair value through profit or loss	**260**	***356***

8 Finance costs

	2011 £'000	*2010 £'000*
Interest payable	132	*–*
Facility and arrangement fees and other charges	58	*–*
Total finance costs	**190**	***–***

The Company has a loan facility of £10 million with Investec Bank plc. available for 364 days from 15 February 2011. The purpose of the borrowing is to act as a bridging facility, providing short term liquidity to finance investment purchases. As at 31 October 2011 the Company had £10 million drawn down which was subsequently repaid on 8 November 2011. The commitment fee on the unutilised part of the facility is 1.25% and the interest charge on any amount drawn down is 3 month Sterling LIBOR + 4%. The facility arrangement fee was £60,000.

The facility contains covenants with which the Company must comply. The main covenants are that the net asset value of the Company must be greater than £250 million, the amount of any loans may not be greater than 12.5% of the Company's assets held through Crest and Euroclear, no single investment may be greater than 20% of the net asset value and no more than 25% (by net asset value) originates from any one country. The Company reports to the bank on compliance with the financial covenants on a monthly basis.

9 Earnings per share

Earnings per share is based on the total comprehensive income loss for the year ended of £38,807,000 (2010: gain £85,924,000) attributable to the weighted average of 67,368,511 (2010: 65,940,247) ordinary shares in issue in the year ended 31 October 2011.

Earnings per share may be diluted by the impact of the subscription shares in issue during the course of the year. The diluted earnings per share for the year ended 31 October 2011 is based on the total comprehensive income for the year, as above, attributable to the diluted weighted average of 71,094,101 (2010: 69,492,635) ordinary shares over the year. The average bid price per ordinary share during the year was 468.60p (2010: 410.81p). The subscription price per ordinary share was 291p. For the purposes of the diluted earnings per share figure, 3,725,590 (2010: 3,552,388) ordinary shares were assumed to be issued for no consideration on 1 November 2010; this being the difference between the number of ordinary shares assumed to be issued on subscription and the number of ordinary shares assumed to be bought back at the average bid price of 468.60p from the assumed subscription proceeds.

Supplementary information is provided as follows: revenue per share is based on the net revenue loss of £1,611,000 (2010: £1,339,000) and capital earnings per share is based on the net capital loss of £37,196,000 (2010: gain £87,263,000) attributable to the above ordinary shares.

10 Investments

	2011 £'000	*2010 £'000*
Quoted and listed closed end fund shares and warrants	174,022	*199,714*
Open ended fund and limited liability partnership investments	149,660	*169,881*
Total fixed asset investments at fair value	**323,682**	***369,595***
Movement during the year:		
Opening balance of investments, at cost	287,571	*–*
Additions, at fair value	112,102	*344,229*
Disposals, at book cost	(105,445)	*(56,658)*
Cost of investments at 31 October	**294,228**	***287,571***
Revaluation of investments to fair value		
Opening balance	82,024	*–*
Net movement	(52,570)	*82,024*
Balance at 31 October	**29,454**	***82,024***
Fair value of investments at 31 October	**323,682**	***369,595***

11 Share capital

At 31 October	2011 Nominal value £'000	2011 Number of shares
Authorised		
Ordinary shares of 1p nominal value	Not applicable	Unlimited
Allotted, issued and fully paid		
Ordinary shares of 1p nominal value	683	68,290,851*
Subscription share of 1p nominal value	98	9,830,153

*of which 2,177,050 ordinary shares were held in treasury.

At 31 October	*2010 Nominal value £'000*	*2010 Number of shares*
Authorised		
Ordinary shares of 1p nominal value	*Not applicable*	*Unlimited*
Allotted, issued and fully paid		
Ordinary shares of 1p nominal value	*659*	*65,940,247*
Subscription share of 1p nominal value	*122*	*12,180,757*

Share buy backs

On 8 June 2011 the Company purchased 2,177,050 ordinary shares, to be held in treasury, at a price of 471.75p per share and at an aggregate cost of £10,285,000.

Ordinary shares

Voting rights
Holders of ordinary shares are entitled to attend, speak and vote at general meetings of the Company. Each ordinary share (excluding shares in treasury) carries one vote. Treasury shares do not carry voting rights.

Dividends
The holders of ordinary shares are entitled to such dividend as maybe declared by the Company from time to time. Shares held in treasury do not receive dividends.

Capital entitlement
On a winding up, the ordinary shares (excluding treasury shares) shall rank pari passu for the nominal capital paid up thereon and in respect of any surplus. Shares held in treasury have no capital entitlement on a winding up of the Company.

Subscription shares

Each subscription share conferred the right to subscribe for one ordinary share at a price equal to 291p per ordinary share.

2,350,604 subscription shares were put forward for exercise on 29 October 2010. As a result 2,350,604 ordinary shares were allotted and began trading on the London Stock Exchange on 9 November 2010.

The final subscription date was 31 October 2011. 9,087,474 subscription shareholders exercised their right to subscribe for a total of 9,087,474 ordinary shares. A total of 742,679 subscription shares were not exercised. In accordance with the terms and conditions of the subscription shares, the Company appointed a trustee who in the interests of these subscription shareholders exercised their rights and sold 742,679 ordinary shares in the market for the benefit of such holders at a price of 400p per ordinary share. The 9,830,153 new ordinary shares issued and allotted were listed on the London Stock Exchange on 8 November 2011. Following the listing the issued share capital consisted of 78,121,004 ordinary shares of which 2,177,050 were held in treasury.

12 Capital reserve

	2011 £'000	*2010 £'000*
Disposal of investments		
Opening balance	5,239	–
Transfer from investments held	14,760	–
Gains/(losses) from disposal of investments by reference to revalued book costs*	598	*7,755*
Investment management fees charged to capital	–	*(2,484)*
Foreign exchange gains/(losses)	16	*(32)*
Balance at 31 October	**20,613**	***5,239***
Investments held		
Opening balance	82,024	–
Transfer to disposal of investments	(14,760)	–
Revaluation of investments*	(37,810)	*82,024*
Balance at 31 October	**29,454**	***82,024***
Capital reserve balance at 31 October	**50,067**	***87,263***

*(Loss)/gains on investments designated as fair value through profit or loss = loss £37,212,000 (2010: gain £89,779,000)

13 Net asset value per ordinary share

Undiluted net assets per ordinary share is based on net assets of £326,495,022 (2010: £368,765,901) divided by 66,113,801 (2010: 65,940,247) ordinary shares (excluding shares held in treasury) in issue at the Statement of Financial Position date.

Dilution in the net asset value ("NAV") per ordinary share at the end of the year was due to the NAV being higher than the conversion price of the subscription shares into ordinary shares, being 291p per share. Diluted net assets per ordinary share is based on net assets of £355,100,767 (2010: £404,211,000) divided by 75,943,954 (2010: 78,121,004) diluted ordinary shares at the Statement of Financial Position date.

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

	2011 £'000	*2010 £'000*
Operating (loss)/profit	(38,440)	*86,088*
Less: tax deducted at source on income from investments	(177)	*(164)*
Add: realisation of investments at book cost	105,445	*56,658*
Less: purchase of investments	(112,102)	*(63,329)*
Less: adjustment for unrealised gains	52,570	*(82,024)*
Decrease/(increase) in debtors	263	*(1,376)*
Increase in creditors	9,393	*2,807*
Net cash inflow/(outflow) from operating activities	**16,952**	***(1,340)***

15 Related party disclosures

Investment Manager (the "Manager")

Advance Emerging Capital Limited ("AECL" or the "Investment Manager") has been appointed as the Company's investment manager. Details of its fee and agreement are provided in note 5.

Fees payable to the Investment Manager are shown in the Statement of Comprehensive Income. No performance fee accrual has been included (2010: £2,483,844).

Advance Brazil Leblon Equities Fund

As at 31 October 2011 the Company held an investment with a valuation of £12,030,302 (2010: £12,831,000) in Advance Brazil Leblon Equities Fund ("ABLE"), a fund established by Advance Emerging Capital Limited to invest in domestic growth opportunities within Brazil. Leblon Equities Gestao de Recursos, a locally based investment manager with a highly experienced team, has been appointed as sub investment manager to run the portfolio on a day-to-day basis. The launch of this fund was a means to circumvent the lack of closed end product or appropriately structured open ended vehicles in this highly attractive market. The Company's shareholders benefit from significantly reduced management and performance fees on the investment and no double fees are charged by AECL. A rebate on management fee charged by ABLE of $209,527 (£129,390) was paid to the Company in the year ended 31 October 2011.

Details of the directors' contracts and fees are provided in the Directors' Remuneration Report on page 14. Total fees from the directors' in the year ended 31 October 2011 were £110,250 (2010: £107,680). Of this amount £105,500 (2010: £93,930) had been charged at the year end, with an accrual of £4,750 (2010: £13,750) outstanding.

16 Financial instruments – risk profile

Risk Management Framework

The Company has established procedures to enable it to manage its financial risks. The main financial risks faced from its financial instruments are market risk, liquidity risk and credit risk which are discussed below. Further information on these processes can be found in the internal controls section of the corporate governance report.

Market risks

(i) Risks associated with emerging markets

Investment in certain emerging securities markets and the markets of the Pacific Rim region may involve a greater degree of risk than that associated with investment in more developed securities markets. In particular, in certain countries in which the Company is proposing to invest:

- liquidity and settlement risks may be greater;
- accounting standards may not provide the same degree of shareholder protection as would generally apply internationally;
- national policies may restrict the investment opportunities available to foreign investors, including restrictions on investing in issuers or industries deemed sensitive to relevant national interests;
- the fiscal and monetary systems remain relatively undeveloped and this may affect the stability of the economic and financial markets of these countries:
- substantial limitations may exist with respect to the Company's ability to repatriate investment income, capital or the proceeds of sales of securities by foreign investors; and
- assets may be subject to increased political and/or regulatory risk.

The day to day management of the market risks is the responsibility of the Investment Manager, who analyses markets within a framework of quality, value, growth and change. The Board believes the Investment Manager utilises its proven research and management selection experience to ensure that these risks are minimised, as far as is possible. The investment policy employed by the Investment Manager ensures that diversification within investee funds is taken into account when deciding on the size of each investment so the Company's exposure to any one underlying company should never be excessive. The Company's market positions are monitored by the Board in the monthly portfolio valuations and at Board meetings.

(ii) Currency risks

As stated under (i) above the Company invests in emerging 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 functional currency, Sterling. The Company holds US dollars and occasionally other foreign currencies for brief periods in its account with the custodian, but only at times when it expects soon to invest that currency into portfolio holdings.

It is not the Company's policy to hedge against foreign currency movements, nor does the Company use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

Quantitative analysis
The twenty largest investments are shown on page 5 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 31 October comprised:

2011	Cash flow interest rate risk £'000	No interest rate risk £'000	Total £'000	% of net assets
Non-current asset investments at fair value				
USD denominated	–	202,791	202,791	62.1%
EUR denominated	–	1,375	1,375	0.4%
GBP denominated	–	114,504	114,504	35.1%
SGD denominated	–	–	–	–
ZAR denominated	–	5,012	5,012	1.5%
Cash at bank				
Floating rate – GBP	21,371	–	21,371	6.6%
Floating rate – USD	2,548	–	2,548	0.8%
Short term debtors	–	1,121	1,121	0.3%
Bank loan – GBP	(10,000)	–	(10,000)	(3.1%)
Short term creditors	–	(12,227)	(12,227)	(3.7%)
	13,919	**312,576**	**326,495**	**100%**

2010	*Cash flow interest rate risk £'000*	*No interest rate risk £'000*	*Total £'000*	*% of net assets*
Non-current asset investments at fair value				
USD denominated	–	*227,854*	*227,854*	*61.8%*
EUR denominated	–	*1,978*	*1,978*	*0.5%*
GBP denominated	–	*135,254*	*135,254*	*36.7%*
SGD denominated	–	*4,509*	*4,509*	*1.2%*
ZAR denominated	–	–	–	–
Cash at bank				
Floating rate – GBP	*596*	–	*596*	*0.2%*
Floating rate – USD	*5*	–	*5*	*0.0%*
Short term debtors	–	*1,376*	*1,376*	*0.4%*
Short term creditors	–	*(2,807)*	*(2,807)*	*(0.8%)*
	601	***368,164***	***368,765***	***100%***

Currency price risk sensitivity
The effect of a 1% appreciation/depreciation in the exchange rate of the US Dollar over Sterling would have resulted in an increase/decrease of £2,028,000 (2010: £2,279,000) on the Company's investments designated as fair value through profit or loss at the Statement of Financial Position date. This analysis assumes that all other variables remain constant.

(iii) Interest rate risk

With the exception of cash, no interest rate risks arise in respect of any current asset. The Company, generally, does not hold significant cash balances, with short-term borrowings being used when required. All cash held as a current asset is Sterling or US dollar and is held at the variable interest rates of the custodian.

The Company has a loan facility of £10 million with Investec Bank plc, available for 364 days from 15 February 2011.The commitment fee on the unutilised part of the facility is 1.25% and the interest charge on any amount drawn down is 3 month Sterling LIBOR + 4%.

Interest rate risk sensitivity
Movements in interest rates would not directly affect the net Company's investments, to a material extent, as the majority of the assets are held in equity investments. Movements in interest rates are likely indirectly to affect the value of the Company's investments however, it is not possible to give an accurate assessment of how significant changes in interest rates would affect the prices of equity investments held by the Company.

(iv) Other price risks

The principal price risk for the Company is the price volatility on the investment portfolio. The Investment Manager attempts to diversify the price risk by spreading its investments across a number of geographical regions and economic sectors. The Board meets regularly to review the Investment Manager's performance and the asset allocation. A breakdown of the Company's asset allocation as at 31 October 2011 can be seen on page 4.

Market price risk sensitivity
The effect on the portfolio of a 10% increase or decrease in market prices would have resulted in an increase or decrease of £32,368,000 (2010: £36,960,000) in the investments designated as fair value through profit or loss at the Statement of Financial Position date, equivalent to 10.00% (2010: 10.02%) of the Net assets attributable to equity holders. This analysis assumes that all other variables remain constant.

Liquidity risks

The majority of the Company's investments are in quoted securities. A high percentage of securities are listed on the London or New York Stock Exchanges and are considered to be readily realisable by comparison with most emerging market securities. The Company also holds unquoted investments, which are predominantly in open-ended funds. Some delay may be encountered in obtaining liquidity in respect of these securities if they are in the process of redemption or liquidation; the Company may utilise its borrowing powers on a short-term basis to avoid delays in reinvestment of the proceeds of redemptions. As at 31 October 2011, the Company held 36%, by value, of Advance Umbrella Fund ("AUF") through investing in Advance Brazil Leblon Fund ("ABLE") which is a sub fund of AUF. The Investment Manager does not consider that the size of the Company's holding in AUF or ABLE would result in significant liquidity constraints when realising this investment. Two of the portfolios investments hold side pockets within private equity structures; these are IP Brazil and Tarpon All Equities. As at the 31 October 2011 the value of these holdings was £1,225,210.

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

One month	75.6%
Three months	91.2%
One year	99.0%
Three years	99.8%
Five years	99.8%
Greater than five years	100.0%

The Company has a loan facility of £10 million with Investec Bank plc, available for 364 days from 15 February 2011. The purpose of the borrowing is to act as a bridging facility, providing short term liquidity to finance investment purchases. As at 31 October 2011 the Company had £10 million drawn down. The commitment fee on the unutilised part of the facility is 1.25% and the interest charge on any amount drawn down is 3 month Sterling LIBOR + 4%.

The Company had £11,769,000 purchases (2010: nil) and £991,000 sales (2010: £1,263,000) transactions awaiting settlement at the year end, There was also accrued dividend income of £55,000 (2010: £54,000) and £33,000 (2010: £29,000) in bond interest income due.

Credit risks

The Company's direct credit risk is the risk of default on cash held at the bank. Cash at bank at 31 October 2011 included £23,861,000 (2010: £378,000) held by the custodian, The Northern Trust Company. The Company monitors the credit quality of the custodian. Interest is based on the prevailing money market rates.

Under certain circumstances the Company would be required to repay the bank loan to Investec Bank plc. The Company reports to the bank on compliance with the financial covenants on a monthly basis.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions 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 Investment Manager performs due diligence on those funds before making any investment.

All of the assets of the Company are held by the custodian or through the custodian's nominated sub custodians. Bankruptcy or insolvency of the Company's custodian or its sub custodians may cause the Company's rights with respect to securities held by them to be delayed or limited. The latest credit ratings for the custodian are as follows:

	Standard & Poor's	Moody's	Fitch Ratings	DBRS
Individual rating	–	–	B	–
Short-term deposit/debt	A-1+	P-1	F1+	R-1 (high)
Long-term deposit/debt	AA-	Aa3	AA1	AA

Capital management

The Company considers that its capital consists of its net assets and bank loan.

The Company's authorised share capital consists of an unlimited number of ordinary shares of £0.01 par value. At 31 October 2011 there were 66,113,801 (2010: 65,940,247) ordinary shares in issue, excluding shares held in treasury. The Company had 9,830,153 (2010: 12,180,757) subscription shares in issue.

Following the completion of the Tender Offer held by Advance Developing Markets Trust plc. in 2008 a bonus issue of Subscription Shares was made to shareholders on the basis of one Subscription Share for every five ordinary shares then held. The final subscription date for the subscription shares was 31 October 2011. All the remaining subscription shares were exercised with 9,830,153 new ordinary shares listed on the London Stock Exchange on 8 November 2011. Following the listing the issued share capital consisted of 78,121,004 ordinary shares of which 2,177,050 were held in treasury.

The Investment Manager and the Company's broker monitor the demand for the Company's shares and the directors review the position at Board meetings. Details on the Company's policies for issuing further shares and buying back shares can be found in the Directors' Report.

The Company is permitted to borrow, at the point of drawdown, up to 15 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 has a facility of up to £10m with Investec Bank plc. The facility contains covenants with which the Company must comply. The main covenants are that the net asset value of the Company must be greater than £250 million, the amount of any loans may not be greater than 12.5% of the Company's assets held through Crest and Euroclear, no single investment may be greater than 20% of the net asset value and no more than 25% (by net asset value) originates from any one country. The Company reports to the bank on compliance with the financial covenants on a monthly basis.

17 Valuation of financial instruments
The Company adopted IFRS 7, on commencement. This requires the Company to measure fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements. IFRS 7 establishes a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy under IFRS 7 are as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);

Level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy 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. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Company. The Company considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market.

The classification of the Company's investments held at fair value as at 31 October 2011 is detailed in the table below:

Investments designated as fair value through profit or loss	2011 £'000	*2010 £'000*
Level 1	240,059	*284,023*
Level 2	82,398	*85,348*
Level 3	1,225	*224*
Total	**323,682**	***369,595***

Investments, whose values are based on quoted market prices in active markets, and therefore classified within level 1, include listed equities in active markets. The Company does not adjust the quoted price for these instruments.

Investments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include monthly priced investments funds.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently. The level 3 figure consists private equity investments held by IP Brazil and a side pocket of Tarpon All Equities. These are stated at fair value which is estimated in good faith by the Directors following consultation with the Investment Manager with a view to establishing the probable realisable value of these investments.

The movement on the level 3 classified investments during the year to 31 October 2011 is shown below:

	2011 £'000	*2010 £'000*
Opening balance	224	*–*
Additions during the year	547	*940*
Disposals during the year	–	*(1,784)*
Valuation adjustments	454	*1,068*
Closing balance at 31 October	**1,225**	***224***

No investments were held prior to the Company's listing on 10 November 2009.

18 Post balance sheet events
Subscription Share rights exercised – October 2011
9,087,474 subscription shareholders exercised their right to subscribe for a total of 9,087,474 ordinary shares. A total of 742,679 subscription shares were not exercised. In accordance with the terms and conditions of the subscription shares, the Company appointed a trustee who in the interests of these subscription shareholders exercised their rights and sold 742,679 ordinary shares in the market for the benefit of such holders at a price of 400p per ordinary share. The 9,830,153 new ordinary shares issued and allotted were listed on the London Stock Exchange on 8 November 2011. Following the listing the issued share capital consisted of 78,121,004 ordinary shares, of which 2,177,050 were held in treasury.

Change of benchmark
With effect from 1 November 2011 the Company's existing benchmark, the S&P/IFCI Emerging Markets Composite Index in Sterling terms changed to the MSCI Emerging Markets Net Total Return Index in Sterling terms (Bloomberg ticker: NDUEEGF Index). The Board believed that it was appropriate to align the Company's benchmark with that of the majority of its peers in the global emerging markets equity fund sector.

Notice of meeting

Notice is hereby given that the Annual General Meeting of Advance Developing Markets Fund Limited will be held at 11 New Street, St Peter Port, Guernsey at 10am on 26 April 2012, for the following purposes:

Ordinary resolutions

1 To receive and adopt the financial statements for the year ended 31 October 2011, with the reports of the directors and auditors thereon.

2 To approve the directors' remuneration report included in the annual report for the year ended 31 October 2011.

3 To re-elect John Hawkins as a director of the Company, who retires by rotation.

4 To re-elect Richard Hotchkis as a director of the Company.

5 To re-appoint KPMG Channel Islands Limited as auditors of the Company to hold office until the conclusion of the next general meeting of the Company at which audited accounts are laid before the Company.

6 To authorise the directors to determine KPMG Channel Islands Limited's remuneration as auditors of the Company.

7 THAT the Company acting through its Board of Directors (the "Board") be and is hereby generally and unconditionally authorised from time to time to make market purchases of up to 11,383,998 ordinary shares of 1p each ("Ordinary Shares") (subject to a maximum of 14.99 per cent of the Company's Ordinary Shares at the date of the annual general Meeting). This authority will expire at the earlier of the conclusion of the annual general meeting of the Company to be held in 2013 and the date being 18 months from the date of this resolution. The timing of any purchases will be decided by the Board. Any Ordinary Shares bought back by the Company will either be held in Treasury (for future re-sale) or cancelled.

Purchases will only be made, pursuant to this authority, if:

(i) the minimum price (exclusive of expenses) which may be paid for an Ordinary Share is £0.01; and

(ii) the maximum price to be paid per Ordinary Share shall be the higher of, (a) 105 per cent of the average of the closing market value of the Ordinary Shares for the five Business Days immediately preceding the date of the relevant purchase; (b) the price of the last independent trade; and (c) the highest current independent bid on the trading venues where the purchase is carried out.

The Company may make a contract to purchase Ordinary Shares under this authority 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.

Special resolution

8 The Board of Directors of the Company shall have authority to issue further ordinary shares of 1p each ("Ordinary Shares") from time to time for cash and/or sell ordinary shares held in treasury up to an aggregate nominal amount of £39,060 (subject to a maximum of 5 per cent of the issued Ordinary Share capital at the date of the annual general meeting) without application of the pre-emption rights under Article 6.2 of the Company's articles of incorporation. This authority shall expire at the conclusion of the annual general meeting of the Company to be held in 2013.

Notes

1 A Shareholder entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote instead of him or her. A proxy need not be a member of the Company. A form of proxy accompanies this Notice. Completion and return of the form of proxy will not preclude members from attending or voting at the meeting, if they so wish. A member may appoint more than one proxy in relation to a meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him. A member may appoint more than one proxy provided each proxy is appointed to exercise voting rights in respect of a different share or shares held by him.

2 To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is executed (or a notarially certified copy of such power of attorney) must be deposited at the UK office of the Company's Registrar, Capita Registrars, at PXS, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time for holding the Meeting.

3 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.

4 A holder of Shares must first have his or her name entered on the register of members not later than 10am on 24 April 2012. Changes to entries in that register after that time shall be disregarded in determining the rights of any holders to attend and vote at such meeting.

Form of proxy

I/We ____ of ________________________________ (BLOCK CAPITALS PLEASE)

being (a) member(s) of Advance Developing 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 11 New Street, St Peter Port, Guernsey, on 26 April 2012 at 10am 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 year ended 31 October 2011.	☐	☐	☐
2 To approve the directors' remuneration report.	☐	☐	☐
3 To re-elect John Hawkins as a director.	☐	☐	☐
4 To re-elect Richard Hotchkis as a director.	☐	☐	☐
5 To re-appoint KPMG Channel Islands Limited as auditors to the Company.	☐	☐	☐
6 To authorise the directors to determine the remuneration of KPMG Channel Islands Limited for the forthcoming financial year.	☐	☐	☐
7 To give the Company the authority to purchase its own shares.	☐	☐	☐
8 To give authority to issue new shares.	☐	☐	☐

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 ______________ 2012

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.

Your completed and signed proxy form should be posted, in the enclosed reply paid envelope, to the Company's Registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU, so as to arrive before 10am on 24 April 2012 (48 hours prior to the Annual General Meeting).

Cut along dotted rule

Directors, Investment Manager and advisers

Directors
P E O'Connor (Chairman)
A R Bonsor
J A Hawkins
R D N Hotchkis
T F Mahony

Secretary and administrator
Legis Fund Services Limited
11 New Street
St Peter Port
Guernsey GY1 2PF

Stockbroker
Westhouse Securities Limited
One Angel Court
London EC2R 7HJ

Auditor
KPMG Channel Islands Limited
PO Box 20
20 New Street
St Peter Port
Guernsey GY1 4AN

Registrar
Capita Registrars (Guernsey) Limited
Mont Crevelt House
Bulwer Avenue
St Sampson
Guernsey GY2 4LH

Registered office*
11 New Street
St Peter Port
Guernsey GY1 2PF

Investment Manager
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Advisers as to Guernsey law
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1 Le Marchant Street
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