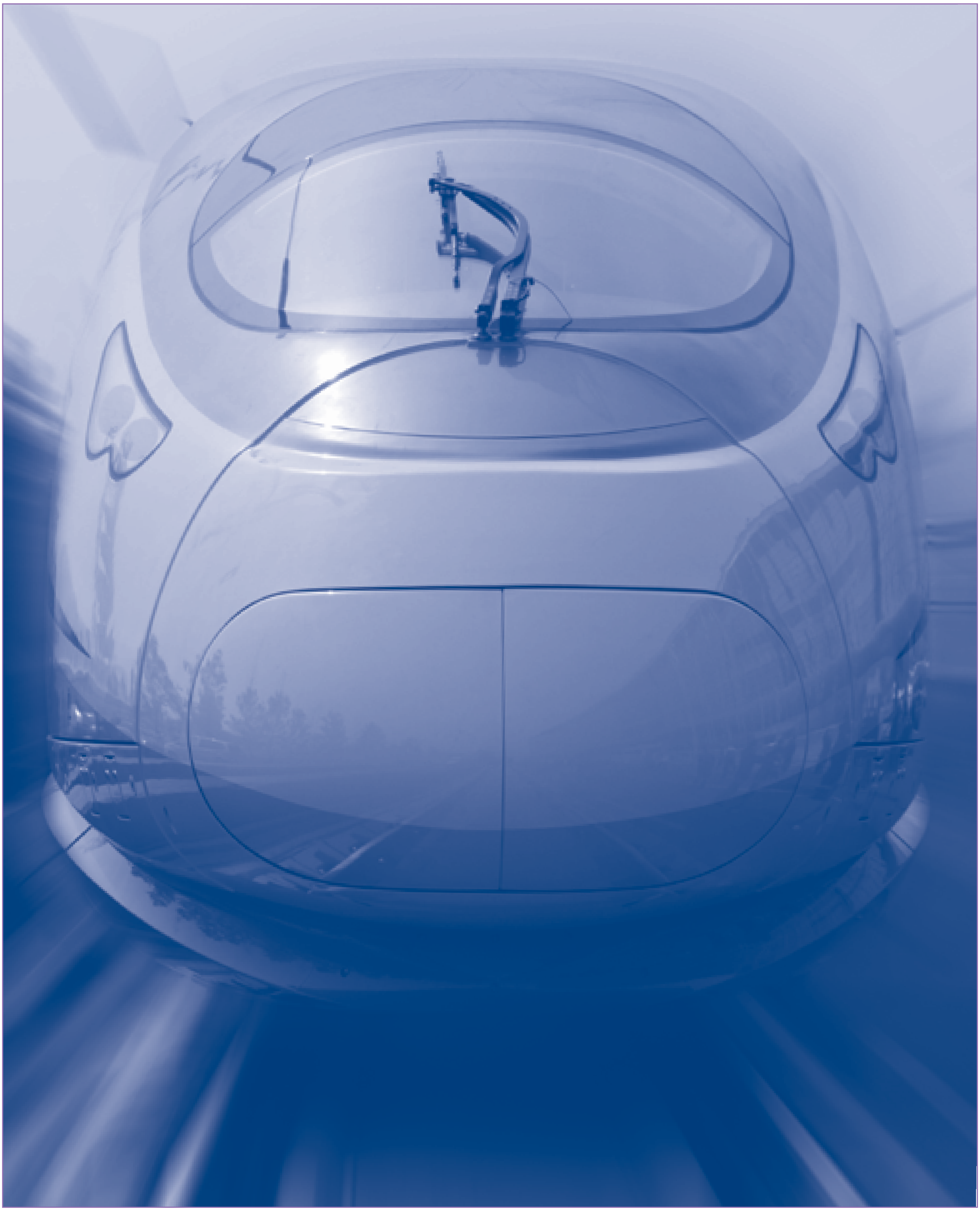
Advance Developing Markets Fund Limited
Annual report 2012



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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").

Performance

For the year ended 31 October 2012	
Net Asset Value ("NAV") per share[1]	-0.3%
Ordinary share price – mid market[2]	-1.9%
MSCI Emerging Markets Net Total Return Index in Sterling terms	+2.4%

As at 31 October 2012	
NAV per share[3]	466.4p
Ordinary share price – mid market	420.3p
Net Assets	£352.0m

[1] Measured against a closing diluted NAV for 31 October 2011 of 467.6p

[2] Measured against an opening mid-market ordinary share price of 428.5p

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

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 2012 the Company's net asset value and share price fell by 0.3% and 1.9% respectively. The benchmark index (MSCI Emerging Markets Net Total Return Index in Sterling terms) rose 2.4%. The Investment Management Report provides an analysis of the Company's performance across the areas of fund selection, asset allocation and discount narrowing. Whilst short term underperformance is disappointing, the Company has delivered a much stronger performance compared to the benchmark index over longer periods such as three years and ten years.

As described in the Investment Manager's Report, global emerging markets had a difficult year, being profoundly influenced by global macroeconomic factors, in particular those relating to the ongoing debt crises in peripheral Eurozone member states and the lacklustre recovery in the economy of the United States of America. Emerging markets themselves also provided some cause for concern, with a weaker growth outlook in China combined with a perceived lack of policy response in the run up to that country's leadership transition doing little to engender confidence.

Continuation vote

At the Company's Annual General Meeting, expected to be held in March 2013, shareholders will be given the opportunity to vote on the continuation of the Company in accordance with the Company's articles of incorporation which provides for a continuation vote every 5 years. In light of the forthcoming vote, the Board undertook a broad shareholder consultation exercise in the fourth quarter of 2012, which covered shareholders owning over 75% of the Company's ordinary shares and appointed an external investment consultant to review the Company's investment management arrangements and performance. As a result of these two exercises the Board has concluded that the continuation of the Company and the continuing appointment of Advance Emerging Capital Limited as its investment manager are in the interests of shareholders as a whole. Accordingly, the Board will be recommending that shareholders vote in favour of the continuation resolution at the Annual General Meeting and at the same time will put forward proposals for a tender offer and further conditional tender offers as outlined below.

The Board believes that the proposals to be put forward at the time of the continuation vote strike a fair balance between those shareholders who wish to realise part of their investment in the Company at close to net asset value and those who wish to maintain their investment in the Company. A circular detailing the proposals and the Notice of Annual General Meeting will be sent to shareholders in February 2013.

Tender offer

In conjunction with the continuation resolution shareholders will also be asked to approve a tender offer for up to 15% of the Company's ordinary shares in issue at a price reflecting a discount of 1% to formula asset value ("FAV"), being the net asset value of the tendered shares less the costs and expenses of the tender offer. The record date for participation in the tender was 21 December 2012.

Further conditional tender offers

The Board also proposes, subject to shareholder approval, to conduct two further conditional tender offers in respect of the six month periods ending 31 October 2013 and 30 April 2014. Such conditional tender offers would be made for up to 10% of the ordinary shares in issue at a 1% discount to FAV if either (i) the Shares trade at an average discount of more than 10% over the period from 1 May 2013 to 31 October 2013 and 1 November 2013 to 30 April 2014 or (ii) the Company's performance over those periods, as measured by its net asset value total return, is less than that of the MSCI Emerging Markets Net Total Return Index in Sterling terms.

Discount management policy and share buybacks

The Company has a stated discount management policy that, in normal market conditions, the Company's ordinary shares should trade at a discount of less than 10 per cent to net asset value. During the year, the discount to net asset value averaged 8.7% and the Company repurchased 475,000 ordinary shares during the year, representing 0.6% of the shares in issue at the time of repurchase. These shares were repurchased at a discount to net asset value of 10.3% and are held in treasury but will not be re-issued at a discount to net asset value. The Board will again seek authority to purchase up to a maximum of 14.99% of the ordinary shares in issue at the Annual General Meeting.

Changes to the Company's Board

The year saw several changes to the composition of the Company's Board of Directors. Peter O'Connor retired as a Director and Chairman of the Company following the Annual General Meeting held on 26 April 2012. During his time in office, Mr O'Connor proved to be an invaluable member of the Board and his insights into markets will be sorely missed. Following Mr O'Connor's departure I assumed the responsibility of Chairman and John Hawkins became Deputy Chairman.

At the 2012 Annual General Meeting the Board was pleased to welcome Mark Hadsley-Chaplin to its ranks as a non-executive Director. Mr Hadsley-Chaplin has over a decade's experience in the asset management industry. I am also pleased to take this opportunity to officially welcome William Collins to the Board. Mr Collins was appointed as a non-executive Director with effect from 14 June 2012 while Richard Hotchkis resigned as a Director of the Company on the same day. Mr Collins has many years of experience in banking and investment. Both Mr Hadsley-Chaplin and Mr Collins are entirely independent and I am sure will prove to be strong and complementary additions to the Board. I would also like to thank Mr Hotchkis for his highly valuable contribution to the Company during his tenure.

Prospects for 2013

While global headwinds will no doubt provide a similar level of distraction for investors next year as they did in the last, your Board remains convinced of the long term case for investing in emerging markets and takes encouragement from the fact that underlying fundamentals remain attractive in the majority of markets in which the Company's assets are ultimately invested.

Finally, I would like to thank the Company's shareholders for their continued support, my fellow directors for their diligence and professionalism and all our advisers for their advice and assistance.

Richard Bonsor
23 January 2013

Investment Manager's report

Performance review

Advance Developing Markets Fund Limited's ("ADMF", the "Fund" or the "Company") net asset value ("NAV") per share fell by 0.3% in Sterling terms during the reporting period, compared with a return of +2.4% for the Company's benchmark index (MSCI Emerging Markets Net Total Return Index in Sterling terms). The share price declined by 1.9%, with the discount to diluted net asset value at which the Company's shares trade closing the period at 9.9%, having commenced it at 8.4%.

An analysis of the Company's performance shows that fund selection, asset allocation and discount narrowing were all negative, the first time this has been the case since at least 2002. The performance of underlying managers was generally good during the year, with many investee funds outperforming. This outperformance was unfortunately offset by particularly weak performance from a small number of holdings focussed on China and the natural resources sector. There was no great differentiation between performances in open or closed end funds during the year in NAV terms, although closed end funds generally saw their discounts to net asset value widen which adversely impacted share price performance. Asset allocation was a small negative contributor with a positive result in Asia offset by poor performance from the Brazilian and Russian markets where overweight positions were maintained throughout the period.

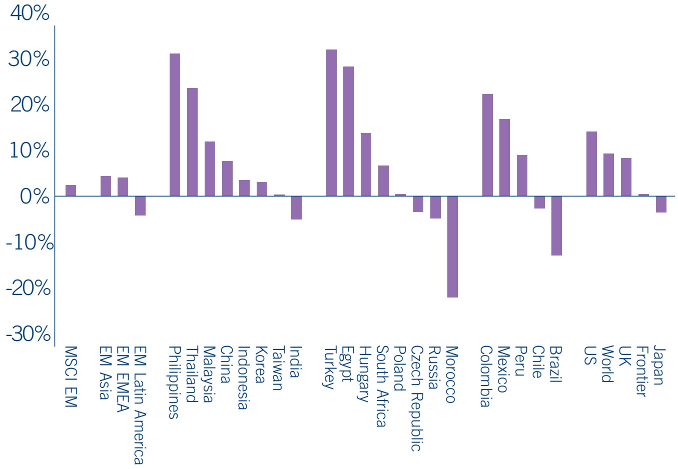
Performance attribution for the 12 months to 31/10/12

Fund selection	**(0.89%)**
Open ended	(0.37%)
Closed ended	(0.47%)
Other	(0.05%)
Asset allocation	**(0.31%)**
Asia	0.30%
EMEA	(0.22%)
Latin America	(0.22%)
Cash (direct and underlying)	(0.16%)
Discount narrowing	**(0.42%)**
Fees and expenses	**(1.09%)**
Relative net asset value performance	**(2.70%)**

Market environment

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 the MSCI World (+9.2%), Frontier (+0.4%), UK (+8.3%), US (+14.0%) and Japan (-3.5%) indices.

Chart 1. Market performances during the financial year to 31 October 2012



Source: Bloomberg. GBP returns for the period from 31 October 2011 to 31 October 2012.

The year witnessed continued volatility with short term market swings driven by variations in the global growth outlook and the responses of the world's central banks, and especially the Federal Reserve. It was noticeable in emerging markets that the BRICs (Brazil, Russia, India and China) continued to fare poorly when compared to many of the smaller markets, largely on account of moderating, or even declining, corporate earnings. In Brazil, an increasingly interventionist approach by the government in the currency market and certain sectors of the economy weighed particularly heavily on returns.

In contrast, the smaller markets of Turkey, Thailand, the Philippines, Egypt and Colombia all experienced gains of 20% – 30%. In most instances this was accompanied by a re-rating of valuations to levels that we now find difficult to justify unless companies can continue to grow earnings at the same rapid rates they achieved in 2012.

Portfolio

It was a busy year for the portfolio with an elevated level of corporate activity, much of which we elaborate on below. The Investment Manager continued to expend considerable energy on proprietary research with numerous country visits helping to formulate a top down view as well as ensuring that ADMF is invested with the "best of breed" managers in each market. Progress continued to be made in reducing the level of management fees paid to the managers of the Company's open ended fund holdings. A concerted effort was made during the year to further concentrate the portfolio into our highest conviction ideas. At the end of the period the Fund held 49 positions with the top 20 accounting for 71.7% of net assets.

The composition of the portfolio by fund structure at 31 October 2012 was similar to the position at the start of the period.

	October 2012	*October 2011*
Closed ended investment funds	55.6%	*53.3%*
Open ended investment funds	40.7%	*42.5%*
Market access products	3.4%	*3.3%*
Cash and other net assets	0.3%	*0.9%*

The average discount to net asset value on the closed end portion of the portfolio was 11.0% at the end of the period, up from 9.4% a year ago. Portfolio turnover for the year was consistent with previous years, at approximately 30%, with the level of corporate activity contributing to this.

The asset allocation at the end of the year is shown on page 5. The most significant change during the year was an increase in the Asian element of the portfolio which rose from 46.3% at the start of the year to 51.7% by year end which was funded by reductions to EMEA, Latin America and cash. Within Asia, China, Korea and Thailand were all added to largely on valuation grounds whereas the weighting to Taiwan was allowed to decline materially on the back of corporate activity in our core holding there. In EMEA we made modest additions to Turkey while in Latin America, Brazil's weight declined as the market lagged emerging markets in general.

Further details on the top 10 investments follow below:

Blackrock Latin American Investment Trust (7.3% of net asset value)
ADMF's holding is composed of both ordinary shares (5.5% of net asset value) and Convertible Unsecured Loan Stock (CULS) (1.8% of net asset value). Net asset value performance over the year was reasonable, with a total return of -5.1% which was in line with the return of the MSCI Latin America Index. Share price performance was impacted by a discount to cum income net asset value that widened from 7.1% to 9.1%. The CULS generated a total return of 1.7%, outperforming both the ordinary shares and regional indices. In March 2012 the trust conducted a tender offer for 5% of its ordinary outstanding shares at a 2% discount to net asset value. The board chose not to conduct a tender offer in September. We have been in regular communication with the board and made suggestions as to how, in our opinion, the capital structure, investment approach, level of discount and performance might be improved.

Henderson Asian Growth Trust (5.3% of net asset value)
The trust's manager, Andrew Beal, is well regarded for his growth biased investment approach but unfortunately, markets proved unsuited to that style during the period. While net asset value rose 5.0%, the benchmark MSCI All Country Asia ex Japan Index gained 6.2%, thus continuing a trend of underperformance over the medium term. In October 2012 the board announced that it was undertaking a strategic review of investment management arrangements. That process resulted in a further announcement in December 2012 that the board had decided to move the management contract to Schroders. In addition, the board proposed the introduction of a 9% discount control target, three yearly continuation votes and, most significantly, a tender offer for up to 50% of shares in issue at a net asset value less costs.

Korea Fund Inc (4.8% of net asset value)
The US listed closed end Korea Fund Inc is managed by the team at RCM Asia Pacific in Hong Kong under the stewardship of Sang Won Kim and Raymond Chan who invest with a fundamental growth mindset. Over the year the share price total return was 3.0% and the net asset value return was 2.1%, broadly in line with the 3.5% gain in the MSCI Korea Index. The fund finished the year on a discount to net asset value of 9.4%.

Atlantis China Fund (4.7% of net asset value)
Performance during ADMF's financial year was disappointing as the net asset value fell by 12.1% compared to an 11.0% rise in the MSCI China Net Total Return Index. The disparity is explained by a flight to quality as moderating Chinese growth and corporate governance concerns relating to a small number of Chinese mid and small sized companies caused that segment of the market to underperform significantly, irrespective of the reality. While disappointed with recent performance, we have been invested with Atlantis long enough to understand their investment style and the logic behind the portfolio's positioning. We have also experienced several previous periods of underperformance that were subsequently more than reversed. The investment team has a strength, depth and stability that few other China teams can match with 30 staff spread across offices in Hong Kong, mainland China and London. During multiple meetings we have detected no signs of style drift and the portfolio retains its usual concentration and focus. We retain confidence in the fund and have maintained our holding at the same level throughout last year on the basis that the fund complements ADMF's other, more large-cap focussed Chinese holdings.

JP Morgan Russian Securities (4.1% of net asset value)
JP Morgan Russian Securities is one of ADMF's longest standing and best performing holdings. Moscow based manager, Oleg Biryulov, produced good relative outperformance during the year with the net asset value down just 2.6% compared to a fall of 4.8% in the MSCI Russia Net Total Return Index. During the period the board conducted a thorough review of the trust's affairs. As a result of the review the management fee was reduced from 1.5% to 1.2% and risk controls were strengthened. In January 2012, the trust successfully passed a continuation vote.

Tarpon All Equities Fund (4.0% of net asset value)
One of ADMF's best performing investments over the long term, the Tarpon team continued to add value on a relative basis this year through their aggressive stock picking approach in Brazil. The fund declined by 5.9% compared with a 12.9% decline in the MSCI Brazil Net Total Return Index. Performance was driven by holdings in the consumer and retail space including Arezzo, previously a private equity investment, which was fully divested in March 2012 locking in an annualised return of over 70% since the initial investment was made in November 2007. Over the last 3 years, the fund has outperformed the MSCI Brazil Net Total Return Index by 68.1%.

Aberdeen Latin America Equities Fund (4.0% of net asset value)
Aberdeen Asset Management's focus on investing in high quality companies trading on reasonable valuations has seen the group perform particularly well in the challenging markets of the last few years. Their Latin America focused closed end fund was no exception with a net asset value total return of 9.7% compared to a 4.2% decline in the MSCI Latin America TR Index. The share price closely tracked the net asset value and the discount finished the period at 9.4%, from where we would expect it to narrow if risk appetite improves and the strong performance continues. The outperformance was driven by Aberdeen's focus on quality businesses in more domestic growth oriented sectors, including consumer staples, and an underweight position in financials.

Neuberger Berman – China Equity Fund (3.9% of net asset value)
Since investing in December 2011 the fund gained 7.1% compared with a return of 11.8% from the MSCI China Index. The key attractions of this fund remain the quality and depth of the investment team, the exacting nature of the investment process and the attractive investment terms that we were able to negotiate. Neuberger's China team is headed by Frank Yao who is one of the most respected and experienced investors in China with a CV that encompasses spells at Goldman Sachs, Berens Capital and Hua An Fund Management amongst others. He is supported by a deputy portfolio manager, a team of seven analysts and two dedicated traders operating out of offices in Hong Kong and Shanghai. The fund is focussed on the large to mid cap segment of the market and is run on a relatively concentrated basis with a distinct value bias.

Coronation Top 20 Fund (3.7% of net asset value)
South Africa focused Coronation continued to manage this high conviction portfolio in a sound manner during the year. The fund outperformed the MSCI South Africa Index by 3.3% during the year. Their portfolio is currently positioned to benefit from a recovery in resources companies and continued strong performance of companies with a Pan African footprint.

Edinburgh Dragon Trust (3.6% of net asset value)
Also managed by Aberdeen Asset Management, Edinburgh Dragon was another holding which contributed to positive performance during the period. The trust's net asset value rose by 13.4% and its share price by 10.7% compared with a gain of 6.2% in the MSCI AC Asia ex Japan Index and just 4.4% in the MSCI Emerging Asia Index.

Holdings outside the top 10 where material change occurred include the following:

China Fund Inc (2.5% of net asset value)
At the end of March, China Fund Inc, a US listed fund of Chinese equities, announced that, subject to approval of shareholders to move the management contract to RCM Asset Management, the fund would buy back shares in the market at discounts in excess of 8%. The fund also announced a one-time tender offer for 25% of outstanding shares at a 1% discount to net asset value. ADMF was able to exit 44.8% of its position with proceeds being received in July.

Taiwan Fund Inc (1.8% of net asset value)
It proved to be an active year on the corporate front for US listed closed end Taiwan Fund Inc. In December 2011 the board appointed Martin Currie and APS Asset Management as investment advisor and sub-advisor respectively which was duly ratified at the fund's annual meeting in February 2012. In addition to adopting a 9% discount management policy the fund also completed a tender offer in June for 50% of its shares in issue at a discount of 1% to the prevailing net asset value. As other shareholders did not take up their full entitlement ADMF was able to exit 59.1% of its holding. At the end of the period shares in Taiwan Fund Inc were trading on a 7.8% discount.

Baring Emerging Europe plc (1.3% of net asset value)
In December 2011, Baring Emerging Europe plc announced that following consultations with certain major shareholders, it planned to conduct a tender offer for 20% of its shares in issue at a discount to net asset value of 3%. The investment represented 2% of ADMF's portfolio before the tender offer was conducted. On a pro rata basis ADMF received cash back in respect of 37.1% of its holding. The discount prevailing at the time was 8.7%. The announcement of the tender offer was accompanied by a tightening of the board's ongoing discount control mechanism which now targets a discount materially lower than 10% on an ongoing basis. There is scope for further tenders if this target is not met.

Prosperity Russia Domestic Fund (0.9% of net asset value)
At the time of last year's report, Prosperity Russia Domestic Fund was a 1.8% holding in the portfolio. During the year the fund undertook to open end and we took the opportunity to redeem from the open ended structure. The first tranche of the redemption took place at the end of September with the remainder being redeemed at the end of December 2012.

Market outlook
2012 turned out to be a good year for global equity markets despite considerable challenges and a general preference for fixed income in most regions, including emerging markets. Emerging market equities finished the calendar year strongly, taking the overall gain to 13.1% in Sterling terms.

The market environment in 2013 may well prove to be similar. Macroeconomic concerns have receded since the middle of last year, with US elections and the Chinese leadership transition completed without incident. The recent postponement, at least, of the US "fiscal cliff" was another hurdle crossed and Chinese data continues to confirm that the country is not heading for a hard landing.

Within emerging markets the BRIC economies now offer the most attractive valuations they have for many years. In contrast, those smaller markets that performed so well in 2012 look expensive, and may come under pressure if companies therein fail to continue achieving the aggressive earnings growth that is now priced into their valuations. Similarly, consumer oriented stocks appear to be priced for perfection in many instances, although we would not wish to bet against them given the continued strength of the emerging consumer. Cyclicals and high beta markets look attractive by comparison and 2013 could be a much better year for the likes of Russia, Brazil and the financial, energy and resources sectors, given the extremely low valuations available to stock pickers in those areas.

As far as the portfolio is concerned our positioning is consistent with this outlook and we are optimistic that discounts on closed end funds will again contribute positively to our relative performance as they have over most periods in the past.

Advance Emerging Capital Limited

23 January 2013

Asset allocation

As at 31 October 2012 Country split	ADMF %	Benchmark %
Asia		
China	14.4	18.4
India	5.3	6.8
Indonesia	3.3	2.8
Korea	15.1	15.2
Malaysia	0.5	3.8
Philippines	0.5	0.9
Taiwan	3.3	10.5
Thailand	4.3	2.2
Hong Kong	2.9	–
Singapore	1.2	–
Other	0.8	–
	51.7	**60.6**
EMEA		
Czech Republic	0.1	0.3
Egypt	0.2	0.4
Hungary	0.2	0.3
Morocco	0.0	0.1
Poland	0.3	1.5
Russia	12.6	5.9
South Africa	4.4	7.7
Turkey	2.4	1.9
Other	3.0	–
	23.2	**17.9**

As at 31 October 2012 Country split	ADMF %	Benchmark %
Latin America		
Brazil	16.4	12.5
Chile	0.8	1.9
Columbia	0.3	1.3
Mexico	3.0	5.1
Peru	1.0	0.7
Other	0.8	–
	22.2	**21.4**
Non-specified	-1.6	–
Indirect cash	3.7	–
Portfolio cash	0.8	–
Total	**100.0**	**100.0**

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

Benchmark: MSCI Emerging Markets Net Total Return Index in Sterling terms.

Investments

At 31 October 2012 Company	Value (£'000)	% of net assets
BlackRock Latin American Investment Trust	25,485	7.3%
Henderson Asian Growth Trust	18,506	5.3%
Korea Fund Inc	16,805	4.8%
Atlantis China Fund	16,621	4.7%
JPMorgan Russian Securities	14,589	4.1%
Tarpon All Equities Fund	14,116	4.0%
Aberdeen Latin America Equity Fund	14,091	4.0%
Neuberger Berman – China Equity Fund	13,803	3.9%
Coronation Top 20 Fund	13,134	3.7%
Edinburgh Dragon Trust	12,631	3.6%
Top ten holdings	**159,781**	**45.4%**
Baring Korea Trust	11,410	3.2%
Lazard Emerging World Fund	11,241	3.2%
Advance Brazil Leblon Equity Fund	11,024	3.1%
Mirae Asset GD – Korea Equity Fund	10,969	3.1%
iShares FTSE BRIC 50	8,979	2.6%
Komodo Fund	8,911	2.5%
China Fund Inc	8,872	2.5%
Ton Poh Emerging Thailand Fund	7,597	2.2%
BlackRock World Mining Trust	7,286	2.1%
Taiwan Fund Inc	6,480	1.8%
Next ten holdings	**92,769**	**26.3%**
Top twenty holdings	**252,550**	**71.7%**

At 31 October 2012 Company	Value (£'000)	% of net assets
Turkish Investment Fund Inc	6,217	1.8%
Templeton Emerging Markets Investment Trust	6,049	1.7%
Kospi Electronics Index	5,669	1.6%
Verno Capital Growth Fund	5,041	1.4%
JPMorgan Indian Investment Trust	4,939	1.4%
Baring Emerging Europe	4,532	1.3%
Eastern European Trust	4,488	1.3%
Baring Vostok Investments Limited	4,387	1.2%
Africa Emerging Markets Fund	4,238	1.2%
Qatar Investment Fund	4,199	1.2%
Impax Asian Environmental Markets	4,194	1.2%
Prosperity Voskhod Fund	4,142	1.2%
Aberdeen New Thai Investment Trust	3,920	1.1%
GSI Asian Capital Growth Fund	3,615	1.0%
New India Investment Trust	3,597	1.0%
Templeton Russia and Eastern European Fund	3,507	1.0%
Templeton Emerging Markets Fund	3,484	1.0%
Prosperity Russian Domestic Fund	3,241	0.9%
iShares MSCI All Peru Capped Index Fund	2,868	0.8%
Victoire Selection Brazil Fund	2,523	0.7%
India Capital Growth Fund	2,389	0.7%
Renaissance Russian Infrastructure Equities	2,291	0.7%
Pallinghurst Resources Limited	2,178	0.6%
JPMorgan Emerging Markets Investment Trust sub shares	2,154	0.6%
Invesco Asia Trust	1,713	0.5%
Aberdeen EM Telecommunications and Infrastructure Fund	1,061	0.3%
Yatra Capital	708	0.2%
iO Adria	557	0.2%
JPMorgan Brazil Investment Trust	536	0.2%
Total holdings	**350,987**	**99.7%**
Cash and other net assets	977	0.3%
Total	**351,964**	**100.0%**

Directors' report

The directors of Advance Developing Markets Fund Limited (the "Company") present their report and financial statements for the year ended 31 October 2012.

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 (Bloomberg ticker: NDUEEGF Index) (the "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.

Results and dividends

The Company's total comprehensive income for the year was a loss of £1,164,000 (2011: loss £38,807,000)

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 £907,000 (2011: £1,611,000). 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.

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 its Benchmark Index.

(b) The Company seeks to achieve a positive absolute 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 Benchmark Index in Sterling terms increased by 2.4% over the year against a decrease of 0.3% in the Company's Net Asset Value ("NAV") per share.

(b) The Company has achieved a NAV return of 307.4% over a ten year period (this figure incorporates the performance of Advance Developing Markets Trust plc to provide a ten year comparison). Dividends amounting to, in aggregate, 4.6p per ordinary share were paid over the ten year period. Shareholders also benefitted from a bonus issue of subscription shares in October 2008. The subscription shares had a subscription price of 291p per ordinary share on a one-for-one basis and the undiluted net asset value per ordinary share immediately prior to the final subscription date of 31 October 2011 was 493.8p per ordinary share.

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 economies 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 its investments within a period which they would otherwise regard as reasonable, 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 present 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 internal risks is described in detail in the corporate governance statement on pages 13 to 16.

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 2012 the Company had an issued share capital of 75,468,954 ordinary shares (excluding the 2,652,050 ordinary shares 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 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.

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 13 September 2012, the Company purchased 475,000 ordinary shares, at a price of 408p 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 at which time a new authority to buy back shares will be sought. 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.

Tender offer
On 20 December 2012, the Company announced that a tender offer would be made available for up to 15% of the ordinary shares in issue (excluding shares held in treasury) to enable shareholders to tender all or part of their ordinary shares for cash at a price which will reflect a 1% discount to formula asset value, being the net asset value of the tendered shares less the costs and expenses of the tender offer ("FAV"). The record date for participation in the tender offer was 21 December 2012. Shares tendered above the basic entitlement of 15% of ordinary shares held as at the record date will only be satisfied (on a pro rata basis) to the extent that other shareholders tender less than their aggregate basic entitlement.

The Board has also proposed, subject to shareholder approval, to conduct two further conditional tender offers in respect of the six month periods ending 31 October 2013 and 30 April 2014. Such conditional tender offers would be made for up to 10% of ordinary shares in issue at a 1% discount to FAV if either (i) the ordinary shares trade at an average discount of more than 10% over the period from 1 May 2013 to 31 October 2013 and 1 November 2013 to 30 April 2014 or (ii) the Company's performance over those periods, as measured by its net asset value total return, is less than that of the MSCI Emerging Markets Net Total Return Index in Sterling terms.

Further details of the tender offer will be provided in a separate circular expected to be published during February 2013.

Further share issues and sale of treasury shares
Unless authorised by shareholders, the Company will not issue further shares or re-sell shares out of treasury for cash at a price below the prevailing net asset value per share unless they are first offered pro rata to existing shareholders.

Significant shareholders
As at 31 October 2012, 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	21,240,943	28.15%
Lazard Asset Management LLC	18,162,314	24.07%

Since 31 October 2012, the notified interest of City of London Investment Management Company Limited has changed to 19,647,358 (26.03%) and Lazard Asset Management LLC has changed to 18,112,314 ordinary shares (23.99%).

Continuation vote
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, a resolution will be proposed that the Company will continue in existence in its current form. 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.

In the final quarter of 2012, the Board consulted with shareholders owning in excess of 75% of the Company's ordinary shares and appointed an external investment consultant to review the investment management arrangements and performance of the Company's investment manager, Advance Emerging Capital Limited. Based on the results of this review and discussions with shareholders the Board has concluded that the continuation of the Company and the continuing appointment of the investment manager are in the interests of shareholders as a whole.

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.

At 31 October 2012, the Company had no borrowing facility in place.

During the period, the Company had a loan facility of £10 million with Investec Bank plc available for 364 days from 15 February 2011. The purpose of the borrowing was to act as a bridging facility, providing short term liquidity to finance investment purchases. The facility was not renewed in February 2012.

The Company is in the process of seeking a short-term liquidity facility with its Custodian.

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.

For the year ended 31 October 2012 the Base NAV per share was 467.58p (2011: 550.01p). 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 (2011: 559.24p). 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.

No performance fee was payable in respect of the year ended 31 October 2012 (2011: £nil).

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") is appointed as Administrator and Secretary to the Company. Legis is appointed under a contract subject to ninety days' written notice and 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 is 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 £113,703 (2011: £110,185) 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 2012.

Settlement of share transactions
Transactions in the Company's ordinary shares 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 13 to 16 forms part of this report.

Going concern
The directors have adopted the going-concern basis in preparing the accounts. The Board formally considered the Company's going concern status at the time of the publication of these accounts and a summary of the assessment is provided below.

Operational resources
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 2012, the Company held £2.9m in cash and £351m in investments. It is estimated that approximately 76% of the investments held at the year end could be realised in one month. The total operating expenses for the year ended 31 October 2012 were £3.8m, which represented approximately 1.1% of average net assets during the year. The Company therefore has substantial operating expense cover. The Company's net assets at 31 December 2012 were £371m.

Continuation vote
The Company will put forward a resolution for its continuation at the Annual General Meeting. The accounts have been prepared on the basis that the continuation vote will be passed by shareholders. As described earlier in this report, 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.

The directors are satisfied that it is appropriate to adopt the going concern basis in preparing the financial statements and, after due consideration, the directors consider that the Company is able to continue in the foreseeable future.

Auditor
KPMG Channel Islands Limited was re-appointed as auditors of the Company at the Annual General Meeting held on 26 April 2012. 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.

Annual General Meeting
The notice of annual general meeting is expected to be sent to shareholders in February 2013, together with the proposals for a tender offer of the Company's ordinary shares.

Statement of directors' responsibilities
The statement of directors' responsibilities on page 12 forms part of this report.

John Hawkins
Director

William Collins
Director

23 January 2013

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.

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

(a) 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; and

(b) the management report (comprising the Chairman's Statement, the Investment Manager's Report and the Directors' 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.

John Hawkins
Director

William Collins
Director

23 January 2013

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 Guernsey Financial Services Commission issued its Code of Corporate Governance (the "Guernsey Code") on 30 September 2011 and it came into effect on 1 January 2012. Companies which report under the AIC Code are deemed to meet the requirements of the Guernsey Code.

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

Mr Bonsor, Mr Hawkins and Mr Mahony were appointed as directors of the Company with effect from its commencement on 16 September 2009. Mr Hadsley-Chaplin was appointed by the Board on 26 April 2012 and Mr Collins was appointed by the Board on 14 June 2012. All the directors hold their office in accordance with the Company's Articles of Incorporation.

The Company's policy is that the Board should have a broad range of skills and diversity. The Board performs an annual review on its performance and these factors form part of that review process.

The Board has given careful consideration to the recommendations of the Davies Report on boardroom diversity. The Board will consider the recommendations of the report when reviewing future Board composition.

Richard Bonsor (Chairman) (aged 65) – 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.

John Hawkins (Deputy Chairman and Senior Independent Director) (aged 70) – 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.

William Collins (aged 63) – Guernsey resident – has many years of experience in banking and investment and since September 2007 he has been employed by Bank Sarasin in Guernsey as Director – Private Clients. Prior to this he was employed by the Barings Group in Guernsey for over 18 years and was appointed a director of Barings (Guernsey) Limited in 1995. In 2003 he was appointed Managing Director of Baring Asset Management (C.I.) Limited, a position he held until his resignation in August 2007. During his time with Barings he was responsible for the management of portfolios for private clients and pension funds and was a director of a number of Baring Asset Management fund companies based in Guernsey and Dublin.

Mark Hadsley-Chaplin (aged 51) – United Kingdom resident – has over a decade of experience in the asset management industry. He is currently Chairman of Cubit Asset Management Pte Ltd. Mark founded RWC Partners Ltd (formerly known as MPC Investors), a London based fund management firm specialising in hedge funds, long only funds and a SICAV UCITS III Strategy, in 2000, was CEO until 2006 and Chairman until 2010. Prior to this he was Vice Chairman of UBS Securities (East Asia) Ltd, based in Singapore and responsible for the management and development of the bank's Asian equity business worldwide.

Terence Mahony (aged 70) – 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.

Peter O'Connor retired as Chairman and a director on 26 April 2012 and Richard Hotchkis resigned as a director on 14 June 2012.

The Chairman is independent, in accordance with principle 1 of the AIC Code. Mr Bonsor has extensive knowledge of the investment management industry and his 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.

Mr Hawkins is currently appointed as Deputy Chairman and Senior Independent Director. Like the Chairman, Mr Hawkins has many years of experience within the asset management sector. Mr Hawkins is available as an alternative point of 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.

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

At 31 October 2012 and at the date of this report the directors had the following shareholdings in the Company.

	Ordinary shares at 31 October 2012 and at the date of this report	*Ordinary shares at 31 October 2011*
AR Bonsor	12,000	*10,000*
WN Collins	6,000	–
M Hadsley-Chaplin	12,000	–
J Hawkins	–	–
TF Mahony	–	–

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 2012 there were four full meetings of the Board. Mr Bonsor and Mr Mahony attended all of those meetings and Mr Hawkins attended three of the meetings. Mr Hadsley-Chaplin and Mr Collins attended the two meetings which they were eligible to attend following their appointment as directors. Mr O'Connor and Mr Hotchkis attended the two meetings prior to their retirement and resignation as directors.

In addition there were two board sub-committee meetings to deal with the formal approval of documents and a share allotment.

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 renewal and termination upon three months' notice.

In accordance with the Company's Articles of Incorporation one third of the directors will put themselves forward for election or re-election on an annual basis. Mr Hadsley-Chaplin and Mr Collins, having been appointed by the Board of directors, will put themselves forward for election and Mr Mahony will retire and put himself forward for re-election at the Annual General Meeting.

The Board has reviewed the contribution made by Mr Mahony, Mr Collins and Mr Hadsley-Chaplin and recommends their continuing appointment as directors of the Company.

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 Mr Hawkins, Mr Mahony and Mr Collins. 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. The Committee is responsible for the development and implementation of a policy on the supply of any non-audit services provided by the auditor. Such services may only be provided to the Company if the provision of such services is at a reasonable and competitive cost and does not constitute a conflict of interest or potential conflict of interest which would prevent the auditor from remaining independent. 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 and their findings in relation to the Company's statutory audit.

In the year ended 31 October 2012 there were three meetings of the Audit Committee. Mr Mahony attended all of the meetings and Mr Hawkins attended two meetings. Mr Collins attended the one meeting following his appointment as a member of the Audit Committee. Mr Hotchkis attended the two meetings prior to his resignation. Mr Bonsor stepped down from the Audit Committee following his appointment as Chairman of the Company. He attended one meeting of the Audit Committee during the financial year.

Management Engagement Committee
The Company has established a management engagement committee, which comprises all the directors. The Management Engagement Committee 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. Mr Mahony is the Chairman of the Management Engagement committee.

In the year ended 31 October 2012, there were two meetings of the Management Engagement Committee. Mr Mahony and Mr Bonsor attended both meetings and Mr Hawkins attended one meeting. Mr Collins and Mr Hadsley-Chaplin attended the one meeting since their appointment as members of the Management Engagement Committee. Mr O'Connor and Mr Hotchkis attended both meetings prior to their retirement and resignation as directors.

Nominations Committee
The Company has established a Nominations Committee, which comprises Mr Bonsor, Mr Collins, Mr Hawkins and Mr Mahony. The Nominations Committee 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 Mahony is Chairman of the Nominations Committee.

During the year, the Nominations Committee met to consider and make recommendations to the Board following the decision by the Chairman to retire as Chairman of the Company. 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 Deputy Chairman and Senior Independent Director.

In the year ended 31 October 2012 there were three meetings of the Nominations Committee. Mr Mahony and Mr Bonsor attended all of the meetings and Mr Hawkins attended two of the meetings. Mr O'Connor and Mr Hotchkis attended the two meetings prior to their retirement and resignation as directors. There have been no meetings since the appointment of Mr Collins to the Nominations Committee.

Remuneration Committee
The Company has established a Remuneration Committee, which comprises Mr Bonsor, Mr Hawkins and Mr Mahony. The Remuneration 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 2012 there were two meetings of the Remuneration Committee. Mr Mahony attended both meetings. Mr Bonsor and Mr Hawkins attended one meeting. Mr O'Connor and Mr Hotchkis attended the one meeting prior to their retirement and resignation as directors.

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 the financial year ended 31 October 2012 demonstrated that the structure of the board and the diverse experience of the directors are appropriate to meet the Company's requirements.

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 the requirement for this balance to be 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 12 and a statement of going concern is on page 11. The report of the independent auditors is on page 18.

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 ongoing basis through the year.

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

The Board has appointed Mr Hawkins as Deputy Chairman and its 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 or Deputy 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. The Stewardship Code has been updated in September 2012. The updated code retains the spirit of the July 2010 code whilst making certain new recommendations and clarifies the respective responsibilities of asset managers and asset owners for stewardship.

Social and environmental policy
The Company is a closed-ended investment company and therefore has no staff, premises, manufacturing or other operations. The Investment Manager takes into account the environmental social and governance policies of potential investee funds as part of its investment process.

Changes to the UK Corporate Governance Code
A revised UK Corporate Governance Code was issued in September 2012 and is applicable to periods commencing 1 October 2012. The Company's response to any resultant changes to the AIC Code will be reported in the next Annual Report of the Company.

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 Incorporation 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 2013 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 2012.

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.

Directors' emoluments for the year
Fees payable were at a rate of £27,500 for the Chairman, £25,000 for the Deputy Chairman and £22,000 for the Audit Committee Chairman. Mr Mahony was paid at the rate of £19,000 per annum and this has been increased to £22,500 with effect from 7 December 2012. Mr Collins and Mr Hadsley-Chaplin have been paid at the rate of £22,500 per annum since their appointment.

The following emoluments in the form of fees were payable in the year ended 31 October 2012 to the directors who served during that year.

	Fees 2012 £'000	*Fees 2011 £'000*
Richard Bonsor (Chairman with effect from 26 April 2012, previously Deputy Chairman)	25.0	*23.5*
John Hawkins (Deputy Chairman with effect from 26 April 2012)	23.5	*22.0*
Terence Mahony	18.5	*18.5*
Mark Hadsley-Chaplin (appointed as a director on 26 April 2012)	12.0	–
William Collins (appointed as a director on 14 June 2012)	8.5	–
Peter O'Connor (retired on 26 April 2012)	13.5	*27.5*
Richard Hotchkis (resigned on 14 June 2012)	11.5	*18.5*
	112.5	***110.0***

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 2012 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 12, 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 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 2012 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. We have nothing to report in respect of this review.

Steven D Stormonth
for and on behalf of

KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors

23 January 2013

The maintenance and integrity of the Advance Emerging Capital Limited website is the responsibility of the Investment Manager; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the website.

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

Statement of comprehensive income

For the year ended 31 October 2012	Note	Revenue £'000	Capital £'000	2012 Total £'000	*Revenue £'000*	*Capital £'000*	*2011 Total £'000*
Losses on investments designated as fair value through profit or loss	12	–	(140)	(140)	*–*	*(37,212)*	*(37,212)*
Capital gains/(losses) on currency movements		–	(117)	(117)	*–*	*16*	*16*
Net investment losses		**–**	**(257)**	**(257)**	***–***	***(37,196)***	***(37,196)***
Investment income	4	3,203	–	3,203	*2,380*	*–*	*2,380*
Total revenue		**3,203**	**(257)**	**2,946**	***2,380***	***(37,196)***	***(34,816)***
Investment management fees	5	(3,190)	–	(3,190)	*(3,099)*	*–*	*(3,099)*
Other expenses	5	(613)	–	(613)	*(525)*	*–*	*(525)*
Operating loss before finance costs and taxation		**(600)**	**(257)**	**(857)**	***(1,244)***	***(37,196)***	***(38,440)***
Finance costs	8	(50)	–	(50)	*(190)*	*–*	*(190)*
Operating loss before taxation		**(650)**	**(257)**	**(907)**	***(1,434)***	***(37,196)***	***(38,630)***
Withholding tax expense		(257)	–	(257)	*(177)*	*–*	*(177)*
Total comprehensive income for the year		**(907)**	**(257)**	**(1,164)**	***(1,611)***	***(37,196)***	***(38,807)***

Earnings per ordinary share	9						
– Basic		(1.20p)	(0.34p)	(1.54p)	*(2.39p)*	*(55.21p)*	*(57.60p)*
– Diluted		(1.20p)	(0.34p)	(1.54p)	*(2.27p)*	*(52.32p)*	*(54.59p)*

The Company does not have any income or expenses that are not included in the loss for the year and therefore “loss for the year” is also the “Total comprehensive income for the year”, as defined in International Accounting Standard 1 (revised).

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.

The notes on pages 23 to 32 form part of these financial statements.

Statement of financial position

At 31 October 2012	Note	2012 £'000	*2011 £'000*
Non-current assets			
Investments designated as fair value through profit or loss	10	350,987	*323,682*
Current assets			
Cash and cash equivalents		2,948	*23,919*
Sales for future settlement		131	*991*
Other receivables		629	*130*
		3,708	***25,040***
Total assets		**354,695**	***348,722***
Current liabilities			
Other payables		355	*459*
Purchases for future settlement		2,376	*11,768*
Bank borrowings	8	–	*10,000*
Performance fee accrual		–	*–*
Total liabilities		**2,731**	***22,227***
Net assets		**351,964**	***326,495***
Equity			
Share capital		306,011	*279,378*
Capital reserve	12	49,810	*50,067*
Revenue reserve		(3,857)	*(2,950)*
Total equity		**351,964**	***326,495***

Net assets per ordinary share	13	466.37p	*493.84p*
Net assets per ordinary share – diluted		466.37p	*467.58p*
Number of ordinary shares in issue (excluding shares held in treasury)		75,468,954	*66,113,801*

Approved by the Board of Directors on 23 January 2013 and signed on their behalf by:

John Hawkins
Director

William Collins
Director

The notes on pages 23 to 32 form part of these financial statements.

Statement of changes in equity

For the year ended 31 October 2012	Share capital account £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Opening equity	**279,378**	**50,067**	**(2,950)**	**326,495**
Issue of shares	28,605	–	–	28,605
Share buy backs	(1,942)	–	–	(1,942)
Share issue expenses	(30)	–	–	(30)
(Decrease) in equity	–	(257)	(907)	(1,164)
Balance at 31 October 2012	**306,011**	**49,810**	**(3,857)**	**351,964**

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***

Statement of cash flow

For the year ended 31 October 2012	Note	2012 £'000	*2011 £'000*
Cash flows from operating activities			
Cash inflow from investment income and bank interest		2,975	*2,375*
Cash outflow from management expenses		(3,794)	*(6,005)*
Cash inflow from disposal of investments		97,420	*121,075*
Cash outflow from purchase of investments		(133,759)	*(100,334)*
Cash outflow from taxation		(257)	*(177)*
Net cash flow (used in)/from operating activities	14	**(37,415)**	***16,934***
Cash flows from financing activities			
(Decrease)/increase in bank borrowings	8	(10,000)	*10,000*
Borrowing commitment fee and interest charges		(68)	*(171)*
Share issues expenses		(30)	*(18)*
Conversion of subscription shares	11	28,605	*6,840*
Share buy backs	11	(1,942)	*(10,285)*
Net cash flow from financing activities		**16,565**	***6,366***
Net (decrease)/increase in cash and cash equivalents		**(20,850)**	***23,300***
Opening balance		23,919	*601*
Cash flow		(20,850)	*23,300*
Effect of foreign exchange transactions		(121)	*18*
Balance at 31 October		**2,948**	***23,919***

The notes on pages 23 to 32 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, registered 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 2012.

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 MSCI Emerging Markets Net Total Return Index in Sterling terms (Bloomberg ticker: NDUEEGF Index) (the "Benchmark").

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 2012.

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 financial statements were approved and authorised for issue by the Board on 23 January 2013.

(b) 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.

Operational resources

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 2012, the Company held £2.9m in cash and £351m in investments. It is estimated that approximately 76% of the investments held at the year end could be realised in one month. The total operating expenses for the year ended 31 October 2012 were £3.8m, which represented approximately 1.1% of average net assets during the year. The Company therefore has substantial operating expense cover. The Company's net assets at 31 December 2012 were £371m.

Continuation vote

The Company will put forward a resolution for its continuation at the Annual General Meeting. The accounts have been prepared on the basis that the continuation vote will be passed by shareholders. 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.

The directors are satisfied that it is appropriate to adopt the going concern basis in preparing the financial statements and, after due consideration, the directors consider that the Company is able to continue in the foreseeable future.

(c) 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.

(d) 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.

(e) 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 below.

Classification and valuation of investments
Investments are designated as fair value through profit or loss on initial recognition and are subsequently valued at fair value. The valuation of such investments requires estimates and assumptions made by the management of the Company depending on the nature of the investments as described in notes 3 (a) and 17 and fair value may not represent actual realisable value for those investments.

Allocation of investments to fair value hierarchy
IFRS 7 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.

Functional currency
The Company's ordinary shares are issued and traded in Sterling and a significant proportion of its investments are quoted in Sterling. For these reasons the Company has adopted Sterling as its functional currency.

3 Significant accounting policies
(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 instrument. 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 other than those in i) above which are dealt on a trading facility in an active market are valued by reference to broker bid price quotations, if available, for those investments;

(iii) 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;

(iv) 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;

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

(vi) any other investments are valued at directors' best estimate of fair 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/(losses) 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 the 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 at fair value through profit or loss are measured initially at fair value, with transaction costs recognised in the Statement of Comprehensive Income.

(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.

Further information on the Company's operating segment is provided in note 18.

(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 right 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, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated statements. None of these is expected to have a significant effect on the financial statements of the Company.

IFRS 9 Financial Instruments (2010), IFRS 9 Financial Instruments (2009)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The adoption of IFRS 9 (2010) is not expected to have a significant impact on the Company's financial assets or financial liabilities.

IFRS 13 Fair Value Measurement (2011)

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. IFRS 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. The adoption of IFRS 13 is not expected to have a significant impact on the Company's financial assets or financial liabilities.

IFRS 10 Consolidated Financial Statements (2012)

IFRS 10 introduces a single control model to determine whether an investee should be consolidated and proposed amendments were issued on 31 October 2012. The conclusion of this project embodies long standing constituents' requests and support for a consolidation exemption for investment funds. IFRS 10 (2012) is effective for annual periods beginning on or after 1 January 2014 with early adoption permitted. The adoption of IFRS 10 is not expected to have a significant impact on the Company's financial statements.

4 Investment income

	2012 £'000	*2011* *£'000*
Income from investments		
Dividends income	2,942	*2,141*
Bond interest income	230	*239*
Other income	31	*–*
	3,203	***2,380***

5 Investment management fees and other expenses

	Revenue £'000	Capital £'000	2012 Total £'000
Investment management fee	3,270	–	3,270
– management fee rebate	(80)	–	(80)
	3,190	**–**	**3,190**
Administration fees	140	–	140
Custodian's fees	43	–	43
Registrar's fees	16	–	16
Directors' fees	113	–	113
Auditors' fees	42	–	42
Marketing fees	50	–	50
Broker fees	40	–	40
Other expenses	169	–	169
Total other expenses	**613**	**–**	**613**
Total expenses	**3,803**	**–**	**3,803**

	Revenue £'000	*Capital £'000*	*2011 Total £'000*
Investment management fee	*3,228*	–	*3,228*
– management fee rebate	*(129)*	–	*(129)*
	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***

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 MSCI Emerging Markets Net Total Return Index in Sterling terms (Bloomberg ticker: NDUEEGF Index) has increased or reduced over the Relevant Period.

For the year ended 31 October 2012 the Base NAV per share was 467.58p (2011: 550.01p). 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 (2011: 559.24p). 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 £113,703 (2011: £110,185) 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, receives a fee comprising an account fee of £2,500 per account per annum, principal/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 ongoing charges for the year ended 31 October 2012, calculated using the Association of Investment Companies methodology were 1.08% (2011: 1.03%).

6 Directors' fees

The fees payable for the year were £112,500 (2011: £110,250). There were no other emoluments. Full details of the fees of each director are given in the Directors' Remuneration Report on page 17.

7 Transaction charges

	2012 £'000	*2011 £'000*
Transaction costs on purchases of investments	297	*168*
Transaction costs on sales of investments	79	*92*
Total transaction costs included in gains/(losses) on investments at fair value through profit or loss	**376**	***260***

8 Finance costs

	2012 £'000	*2011 £'000*
Interest payable	40	*132*
Facility and arrangement fees and other charges	10	*58*
Total finance costs	**50**	***190***

At 31 October 2012, the Company had no borrowing facility in place.

During the period, the Company had a loan facility of £10 million with Investec Bank plc, available for 364 days from 15 February 2011. The purpose of the borrowing was to act as a bridging facility, providing short term liquidity to finance investment purchases. The facility was not renewed in February 2012.

9 Earnings per share

Earnings per share is based on the total comprehensive income for the year ended 31 October 2012 (loss of £1,164,000) (2011: loss of £38,807,000) attributable to the weighted average of 75,693,651 (2011: 67,368,511) ordinary shares in issue (excluding shares held in treasury) in the year ended 31 October 2012.

Earnings per share may be diluted by the impact of the subscription shares in issue during each period.

There was no dilution to earnings per share during the year ended 31 October 2012 as the final subscription of subscription shares for ordinary shares completed in November 2011. The diluted earnings per share for the year ended 31 October 2011 is based on the total comprehensive income on ordinary activities after taxation attributable to the diluted weighted average of 71,094,101 ordinary shares.

Supplementary information is provided as follows: revenue per share is based on the net revenue loss of £907,000 (2011: loss £1,611,000) and capital earnings per share is based on the net capital loss of £257,000 (2011: loss £37,196,000) attributable to the above ordinary shares.

10 Investments

	2012 £'000	*2011 £'000*
Quoted and listed closed end fund investments	288,640	*174,022*
Open ended fund and limited liability partnership investments	62,347	*149,660*
Total fixed asset investments at fair value	**350,987**	***323,682***
Movement during the year:		
Opening balance of investments, at cost	294,228	*287,571*
Additions, at fair value	124,367	*112,102*
Disposals, at book cost	(91,856)	*(105,445)*
Cost of investments at 31 October	**326,739**	***294,228***
Revaluation of investments to fair value		
Opening balance	29,454	*82,024*
Net movement*	(5,206)	*(52,570)*
Balance at 31 October	**24,248**	***29,454***
Fair value of investments at 31 October	**350,987**	***323,682***

Transaction costs on investments are disclosed in note 7.

*See note 12.

11 Share capital

At 31 October 2012	Nominal value £'000	Number of shares
Authorised		
Ordinary shares of 1p nominal value	Not applicable	Unlimited
Allotted, issued and fully paid		
Ordinary shares of 1p nominal value	781	78,121,004*
Subscription share of 1p nominal value	–	–

At 31 October 2011	*Nominal value £'000*	*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 2,652,050 ordinary shares were held in treasury.

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

Share buy backs

On 13 September 2012 the Company purchased 475,000 ordinary shares, to be held in treasury, at a price of 408p per share and an aggregate cost (including brokerage commission) of £1,942,000.

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.

On the final subscription date of 31 October 2011, subscription shareholders exercised their right to subscribe for, in aggregate, 9,087,474 ordinary shares. A total of 742,679 subscription shares were not exercised by subscription shareholders. 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 arising as a result of the exercise of the subscription rights were issued, allotted and listed on the London Stock Exchange on 8 November 2011.

12 Capital reserve

	2012 £'000	*2011 £'000*
Disposal of investments		
Opening balance	20,613	*5,239*
Gains/(losses) from disposal of investments*	5,066	*15,358*
Foreign exchange gains/(losses)	(117)	*16*
Balance at 31 October	**25,562**	***20,613***
Investments held		
Opening balance	29,454	*82,024*
Movement on valuation of investments held*	(5,206)	*(52,570)*
Balance at 31 October	**24,248**	***29,454***
Capital reserve balance at 31 October	**49,810**	***50,067***

*(Loss)/gains on investments designated as fair value through profit or loss = loss £140,000 (2011: loss £37,212,000)

13 Net asset value per ordinary share

Undiluted net assets per ordinary share is based on net assets of £351,964,209 (2011: £326,495,022) divided by 75,468,954 (2011: 66,113,801) ordinary shares (excluding shares held in treasury) in issue at the Statement of Financial Position date.

There was no dilution to net asset value per ordinary share at 31 October 2012 as no subscription shares remained in issue at that date. Dilution in the net asset value per ordinary share at 31 October 2011 was due to the undiluted net asset value per ordinary share being higher than the price at which the subscription shares could subscribe for ordinary shares, being 291p per share. The diluted net assets per ordinary share figure as at 31 October 2011 was based on net assets of £355,101,000 divided by 75,943,954 diluted ordinary shares at the Statement of Financial Position date.

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

	2012 £'000	*2011 £'000*
Operating loss	(857)	*(38,440)*
Less: Tax deducted at source on income from investments	(257)	*(177)*
Add: Realisation of investments at book cost	91,855	*105,445*
Less: Purchase of investments	(124,367)	*(112,102)*
Less: Adjustment for unrealised losses	5,206	*52,570*
Effect of foreign exchange transactions	121	*(18)*
Decrease in debtors	352	*263*
(Decrease)/increase in creditors	(9,468)	*9,393*
Net cash (outflow)/inflow from operating activities	**(37,415)**	***16,934***

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 (2011: £nil).

Advance Brazil Leblon Equities Fund

As at 31 October 2012 the Company held an investment with a valuation of £11,023,971 (2011: £12,030,302) 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 equivalent to £79,969 (2011: £129,390) was payable to the Company in the year ended 31 October 2012.

Details of the directors' contracts and fees are provided in the Directors' Remuneration Report on page 17. Total fees from the directors' in the year ended 31 October 2012 were £112,500 (2011: £110,250). Of this amount £77,000 (2011: £105,500) had been paid at the year end, with an accrual of £35,500 (2011: £4,750) 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. Movements in exchanges are likely to affect directly and indirectly the value of the Company's investments.

Quantitative analysis

The investment portfolio shown on page 6 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:

2012	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	–	216,390	216,390	61.4%
EUR denominated	–	1,266	1,266	0.4%
GBP denominated	–	131,153	131,153	37.3%
ZAR denominated	–	2,178	2,178	0.6%
Cash at bank				
Floating rate – GBP	1,620	–	1,620	0.5%
Floating rate – USD	1,328	–	1,328	0.4%
Short term debtors	–	760	760	0.2%
Bank loan – GBP	–	–	–	–
Short term creditors	–	(2,731)	(2,731)	(0.8%)
	2,948	**349,016**	**351,964**	**100%**

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%*
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%***

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 £2,164,000 (2011: £2,028,000) 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 significant 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.

During the period, the Company had a loan facility of £10 million with Investec Bank plc, available for 364 days from 15 February 2011. The purpose of the borrowing was to act as a bridging facility, providing short term liquidity to finance investment purchases. The commitment fee on the unutilised part of the facility is 1.25% and the interest charge on any amount drawn down was 3 month Sterling LIBOR + 4%. The facility was not renewed in February 2012.

At the year end, the Company held an investment in Blackrock Latin American Investment Trust Convertible Bonds which was valued at £7,018,000. This holding was sold after the year end and had an interest coupon rate of 3.5% per annum.

Movements in interest rates are likely to affect indirectly the value of the Company's investments.

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 to affect indirectly 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 2012 can be seen on page 5.

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 £35,099,000 (2011: £32,368,000) in the investments designated as fair value through profit or loss at the Statement of Financial Position date, equivalent to 10.0% (2011: 10.0%) 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 2012, the Company held 42%, 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. Tarpon All Equities holds side pockets within private equity structures which were valued at £2.3m at 31 October 2012.

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

One month	76%
Three months	93%
One year	98%
Three years	99%
Five years	100%
Greater than five years	100%

The Company had £2,376,000 (2011: £11,769,000) purchase transactions and £131,000 (2011: £991,000) sales transactions awaiting settlement at the year end, There was also accrued dividend income of £287,500 (2011: £55,000) and £27,500 (2011: £33,000) in bond interest income due.

The liquidity of the underlying holdings in the funds in which the Company is invested may have an impact on the ability of the Company to realise its holdings in those funds.

Credit risks
The Company's principle direct credit risk is the risk of default on cash held at the custodian. Cash at bank at 31 October 2012 included £2,558,000 (2011: £23,861,000) 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. The Company also holds a limited amount of cash in an account at Lloyds TSB, an account which is primarily used for the payment of the funds operating expenses.

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	Finch Ratings
Individual rating	–	–	B
Short-term deposit/debt	A-1+	P-1	F1+
Long-term deposit/debt	AA-	Aa3	AA/AA-

The funds in which the Company is invested may be exposed to credit risk.

Capital management
The Company considers that its capital consists of its net assets.

The Company's authorised share capital consists of an unlimited number of ordinary shares of £0.01 par value. At 31 October 2012 there were 75,468,954 (2011: 66,113,801) ordinary shares in issue (excluding shares held in treasury).

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.

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 had no facility in place at 31 October 2012.

Operational risk
Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Company's activities with financial instruments either internally within the Company or externally at the Company's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour.

The Company's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to investors.

The primary responsibility for the development and implementation of controls over operational risk rests with the Board of directors. This responsibility is supported by the development of overall standards for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers, in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risk faced, and the adequacy of controls and procedures to address the risks identified;
- contingency plans;
- ethical business standards;
- insurance; and
- risk mitigation.

The directors' assessment over the adequacy of the controls and processes in place at the service providers with respect to operational risk is carried out via regular discussions with the main service providers to the Company and a review of their internal controls documents prepared under industry recognised guidance, if available.

17 Valuation of financial instruments
IFRS 7 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 through profit or loss as at 31 October 2012 is detailed in the table below:

	2012 £'000	*2011 £'000*
Level 1	273,453	*240,059*
Level 2	75,277	*82,398*
Level 3	2,256	*1,225*
Total	**350,986**	***323,682***

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. The underlying net asset values of the open ended funds included under level 2 are prepared using industry accepted standards and the funds have a history of accepting and redeeming funds on a regular basis at net asset value. The net asset values of regularly traded open ended funds are considered to be reasonable estimates of the fair values of those investments and such investments are therefore classified within level 2 if they do not meet the criteria for inclusion in level 1.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently. The level 3 figure consists of private equity investments held in 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 fair value of this investment has been based on an unadjusted net asset value provided by the administrator of that fund.

The movement on the level 3 classified investments during the year to 31 October 2012 is shown below:

	2012 £'000	*2011 £'000*
Opening balance	**1,225**	***224***
Additions during the year	–	*547*
Disposals during the year	(154)	–
Profit or loss on disposals during the year	(198)	–
Valuation adjustments	1,383	*454*
Closing balance at 31 October	**2,256**	***1,225***
Total gains and losses for the year included in profit or loss relating to assets held at the end of the year	1,185	*454*

18 Operating segments
As described in note 3 (i) the Board is of the view that 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 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 and analyses markets within a framework of quality, value, growth and change. 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 positions are monitored as a whole by the Board in monthly portfolio valuations and at Board meetings. Details of the portfolio's asset allocation can be found on page 5. Any significant change to the Company's investment strategy requires shareholder approval.

The Company has a diversified portfolio of investments and as disclosed on page 6 no single investment accounted for more than 8% of the Company's net assets at the Company's year end. 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 22% of the total income received in the year.

At 31 October 2012 there were two shareholders who each held more than 10% of the issued share capital, from a total shareholder base of 476. Their holdings were 28% (2011: 27%) and 24% (2011: 23%) respectively.

19 Contingent assets
The Company was established to act as a successor vehicle to Advance Developing Markets Trust plc ("ADMT"), a UK registered investment trust, and to pursue a similar investment objective and policy to ADMT.

In November 2009, shareholders of ADMT approved a winding-up and scheme of reconstruction under section 110 of the UK Insolvency Act 1986 and holders of ADMT shares received shares in the Company on a one for one basis and all the assets of ADMT became transferable to the Company. The assets of ADMT were transferred to the Company on 10 November 2009, save for amounts reserved by the liquidator in a liquidation fund to cover expenses and potential tax liabilities. In addition, ADMT entered into litigation to pursue a claim for restitution against HM Revenue & Customs to recover amounts of irrecoverable VAT suffered by ADMT on investment management fees which had not previously been recovered and an element of interest thereon. It is possible that the Company will receive a further final distribution from the liquidation of ADMT once the VAT case has been concluded and its tax affairs closed. The aggregate maximum distribution from the liquidation fund and a successful claim in the VAT case is currently estimated to be £1.7 million. However, there is significant uncertainty at the present time as to the actual amount, if any, and the distribution could be several years away. Therefore, no amount has been recognized in these accounts in respect of this asset as at 31 October 2012.

20 Post balance sheet events
There are no post balance sheet events other than as disclosed in this Annual Report.

Directors, Investment Manager and advisers

Directors
A R Bonsor (Chairman)
W N Collins
M R Hadsley-Chaplin
J A Hawkins
T F Mahony
P E O'Connor (resigned 26 April 2012)
R D N Hotchkis (resigned 14 June 2012)

Secretary and administrator
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Guernsey GY1 2PF

Financial adviser and stockbroker
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Auditor
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