
Advance Developing Markets Fund Limited

Half-yearly report 2014



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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 six months ended 30 April 2014

| | |
|---|--------|
| Net asset value ("NAV") per ordinary share ¹ | -7.7% |
| Ordinary share price – mid market ² | -10.6% |
| MSCI Emerging Markets Net Total Return Index in Sterling terms | -7.8% |

As at 30 April 2014

| | |
|-----------------------------------|---------|
| NAV per ordinary share | 456.5p |
| Ordinary share price – mid market | 404.8p |
| Net assets | £263.4m |

¹ Measured against a closing NAV at 31 October 2013 of 494.7p

² Measured against a closing mid-market ordinary share price at 31 October 2013 of 452.5p

Chairman's statement

On behalf of the Board, I am pleased to present the half-yearly financial report of Advance Developing Markets Fund Limited ("ADMF", the "Company" or the "Fund") for the period ended 30 April 2014.

Performance

The first six months of the Company's financial year saw continued weakness in emerging market equities. The Company's net asset value per ordinary share ("Share") fell by 7.7% marginally outperforming its benchmark (MSCI Emerging Markets Net Total Return Index) which fell by 7.8%. The Fund's Share price fell 10.6%.

Tender offers and share repurchases

As reported in the Company's Annual Report, a total of 6,412,758 Shares were repurchased by the Company on 11 December 2013 via a tender offer, equating to 10% of the Company's Shares in issue at that time (excluding shares held in treasury). The Shares were purchased for cancellation at a 1% discount to formula asset value ("FAV"), being the net asset value of the tendered Shares less the costs of the tender offer.

In the six month measurement period ended 30 April 2014, the Company's Shares traded at an average discount of 11.0%. Consequently, on 18 June 2014 the Company conducted a tender offer for 10% of the Shares in issue priced at a 1% discount to the FAV on 13 June 2014. A total of 5,769,467 Shares were repurchased by the Company under the tender offer and cancelled, equating to 10% of the Company's Shares in issue as at the record date of 7 May 2014. Following the completion of the tender offer the Company has 51,926,229 Shares in issue (excluding 2,692,278 Shares held in treasury).

In the six months ended 30 April 2014, 20,000 Shares were repurchased by the Company at a discount to net asset value of approximately 11%. These Shares are held in treasury and can only be resold at a price that represents a premium to the prevailing net asset value per Share.

It is not currently planned to put in place further tender proposals although the Board intends to continue to focus on management of the discount, through its stated discount control policy, and a regular review of the Company's performance at each Board meeting.

Alternative Investment Fund Managers ("AIFM") Directive

The Investment Manager's application for authorisation as an alternative investment fund manager is currently being processed as planned and we expect to appoint Northern Trust (Guernsey) Limited as depositary of the Company in the near future. We will provide a further update in the Company's forthcoming Annual Report by which time the Investment Manager is expected to have received its authorisation from the Financial Conduct Authority (FCA).

Changes at Investment Manager

I am pleased to note the recent announcement of senior management changes at Advance Emerging Capital. Andrew Lister and Bernard Moody will be appointed as co-chief investment officers with effect from 1 July 2014, when they will assume full responsibility for the management of our Fund. I consider this to be a very positive development.

Outlook

Slowing economic growth has translated into slower earnings growth and the undesirable socio-political ructions and closely contested elections that are now being experienced in a number of emerging markets. Historically, such circumstances have presented attractive entry points for investors in emerging markets.

Your Investment Manager has worked hard over the last year to concentrate the Company's portfolio into its very best ideas and we are confident that the consistently employed investment approach can continue to generate relative outperformance, hopefully as the asset class itself re-rates.

Richard Bonsor

20 June 2014

Investment Manager's report

During the period under review the Fund's net asset value per Share and Share price fell by 7.7% and 10.6% respectively. The benchmark MSCI Emerging Markets Net Total Return Index in Sterling terms fell by 7.8%.

Positive contributions to performance came from fund selection and discount narrowing. Fund selection was particularly strong in the portfolio's core holdings in Korea and India. The discount contribution came from a combination of general discount narrowing and corporate activity, which is discussed in more depth in the Portfolio section of this report. Asset allocation detracted from relative performance largely as a result of the Fund's overweight position in Russia during the period, with the political upheaval surrounding the annexation of Crimea having a predictable knock on effect on the Russian market.

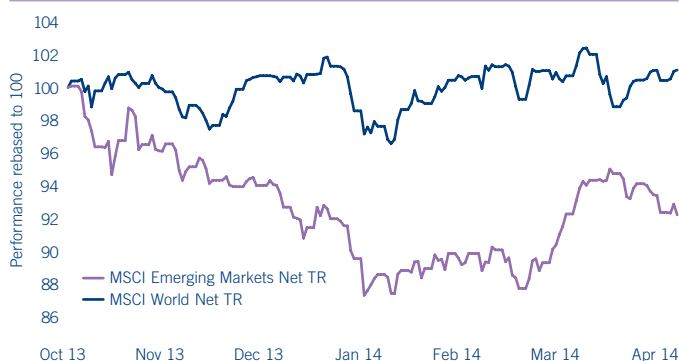
Performance attribution for the 6 months ended 30 April 2014

| | |
|---|--------------|
| Fund selection | 1.3% |
| Open ended | 0.4% |
| Closed ended | 0.9% |
| Other | 0.0% |
| Asset allocation | -1.2% |
| Asia | -0.2% |
| EMEA | -1.2% |
| Latin America | 0.0% |
| Cash (direct and underlying) | 0.2% |
| Discount narrowing | 0.5% |
| Fees and expenses | -0.6% |
| Relative net asset value performance | 0.1% |

Market environment

As can be seen in the chart below, the weakness in emerging markets was in stark contrast to developed equity markets which remained relatively stable. The first four months of the period in particular resulted in sharp relative underperformance. This was driven by fears over the outlook for China's economy and financial system and Russia's annexation of the Crimea. This short term underperformance is discussed in more detail in the Market Outlook section.

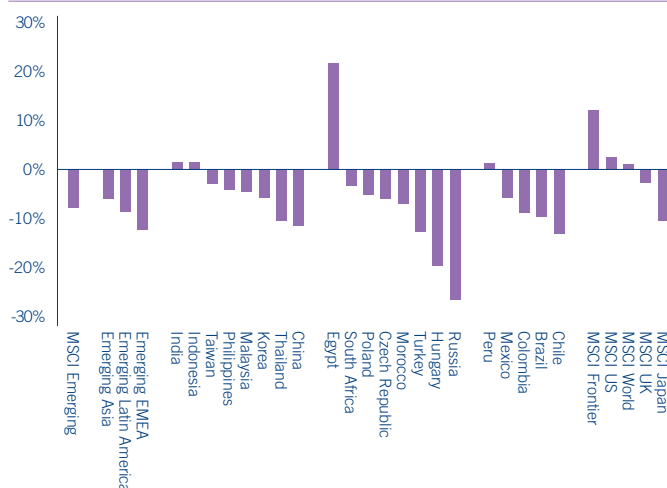
Emerging and developed market performance during the half year to 30 April 2014



Source: Bloomberg. GBP returns for the period from 31 October 2013 to 30 April 2014

Most emerging stock markets experienced declines during the period. The Eastern European countries of Russia (-26.7%), Hungary (-19.6%) and Turkey (-12.8%) suffered the most due to tension in the region which was driven by the escalation of a local political issue in Ukraine into a full-fledged geopolitical standoff between Russia and the West. Although the situation has not been resolved as yet, we believe all sides are now working to de-escalate tensions and will find a mutually acceptable solution going forward. Elsewhere Egypt stood out amongst its peers with a gain of 21.8% as expectations of a positive election result and its first IPO since 2010 (which was 18.5 times oversubscribed) boosted investor sentiment. Election results were also pivotal in India where expectations of a victory for the Bharatiya Janata Party ("BJP"), led by Narendra Modi, helped eliminate earlier declines to leave the market up 1.5% for the period. At the time of writing, the BJP's absolute majority victory in the recent general election has pushed the market even higher.

Market performances during the half year to 30 April 2014



Source: Bloomberg. GBP returns for the period from 31 October 2013 to 30 April 2014

Portfolio

At the end of the period the portfolio was comprised of 38 positions with the top 20 accounting for over three quarters of net assets. The composition of the portfolio by fund structure as at 30 April 2014 was as follows:

| | April 2014 | October 2013 |
|-------------------------------|------------|--------------|
| Closed ended investment funds | 53.0% | 58.9% |
| Open ended investment funds | 35.8% | 32.5% |
| Market access products | 6.5% | 6.2% |
| Cash and other net assets | 4.7% | 2.4% |

The Fund's geographic allocation is shown on page 5. Major changes during the period included a reduction in exposure to Russia, Turkey and Brazil. In Russia, we were already trimming exposure before the Ukraine crisis began through sales of Baring Emerging Europe plc, JPMorgan Russian Securities and Templeton Russia and Eastern European Fund.

There was a meaningful reduction in exposure to Brazil, a move we felt was justified based on the continued challenges facing that country. Slowing economic growth, a retrenching consumer and a currency that remains on the expensive side (despite the currency depreciating by more than 35% relative to Sterling from its 2011 peak) are some of the medium term issues facing the country. The upcoming Presidential election in October 2014 looks set to be close, with a loss for Dilma Rousseff now being touted as the preferred outcome for equity investors. Our exposure fell as a result of selling half our position in BlackRock Latin American Investment Trust with the capital being rotated into Mexico.

For a number of years ADMF has been underweight Mexico primarily due to the high valuation of its equity market. However, the country offers strong fundamentals and economic policies have generally been sound. Central bank independence, a flexible exchange rate, budget discipline and stable leverage differentiate Mexico from many other emerging markets and there are a number of reforms (energy, tax, education) that could serve as potential catalysts in the short, medium and long term. Our exposure to the market was increased through the acquisition of a stake in GBM Mexico Fund, an open ended fund managed by GBM Asset Management, one of the leading independent local investment managers based in Mexico.

Whilst our Indian exposure remained unchanged, the holding in India Fund Inc. was increased in the run-up to a 15% tender offer, which expired on 3 April. ADMF was able to exit approximately 34% of its holding at a 2% discount to the fund's net asset value as at 4 April. At the time of the tender, the fund's shares were trading on a discount of 9.8% and ADMF's purchases of India Fund Inc. in 2013 were at discounts as wide as 16%. The additions to India Fund Inc. were financed by exiting our position in JPMorgan Indian Investment Trust where performance remains average and there is little scope for uplift through corporate activity.

Prosperity Voskhod's managed wind down continued with cash representing 26% of the fund's asset value being returned to investors in January. In February the board of Prosperity Voskhod announced that it would consult with shareholders regarding the possible de-listing of the fund's shares. Shortly thereafter it was announced that the manager had sold 60% of the fund's largest holding, Bashneft, realising proceeds of approximately USD28.2m, equivalent to almost 14% of net assets. The proceeds of this sale will likely result in a further payment to shareholders before this summer.

In early January we received the proceeds from a 15% tender offer in Yatra Capital. We participated in full and were scaled up to 18.1%. The tender was priced at EUR3.50 which represented a 9.4% premium to the price on the record date of 21 December. Yatra has subsequently announced three additional exits within its portfolio as its asset realisation programme progresses. Turkish Investment Fund conducted a 10% tender offer at a discount to net asset value of 1.5%. ADMF was scaled up to 20.6% with cash received in late November 2013 at a time when the fund was trading on a discount of 10.6%.

Market outlook

The major concerns of 2013 (tapering and its effects on the "Fragile Five" of Brazil, India, Indonesia, South Africa and Turkey) have now given way to the fallout from Russia's annexation of Crimea. The immediate reaction has been reasonable considering the potential gravity of the situation, no doubt helped by the already high risk premium applied to Russian equities. Our sense is that, irrespective of the strength of Russia's position, its ambitions are neither as hostile nor as expansive as the Western media has portrayed. Even if we are right, there is scope for further bouts of volatility. Outside of Eastern Europe, there remains a busy schedule of elections over the rest of the year (Brazil, Indonesia and Turkey are still to hold elections before November), which is likely to restrain investor enthusiasm until such events have passed without incident.

Looking at emerging markets more objectively, we view the recent weakness in markets as an opportunity. Earnings downgrades have abated and have, in certain geographies, turned positive. Valuations are therefore attractive and have prompted increased attention from investors at the same time as outflows from emerging market funds have tailed off. Sharp daily moves in specific markets on only marginally positive news are consistent with oversold conditions and bode well for the rest of the year if investors' concerns abate more sustainably. More than one commentator has advised "caution, not abstinence" when investing in emerging markets at present. The portfolio continues to reflect those ideas we believe will deliver the best long term performance for investors in what remains a challenging environment.

Advance Emerging Capital Limited

20 June 2014

Investments

| At 30 April 2014 Company | Value (£'000) | % of net assets | At 30 April 2014 Company | Value (£'000) | % of net assets |
|---|------------------|--------------------|-------------------------------------|------------------|--------------------|
| Korea Fund Inc | 18,735 | 7.1% | Africa Emerging Markets Fund | 5,427 | 2.1% |
| Coronation Top 20 Fund | 14,823 | 5.6% | BlackRock Emerging Europe | 5,208 | 2.0% |
| Neuberger Berman – China Equity Fund | 14,280 | 5.4% | Komodo Fund | 5,125 | 1.9% |
| Templeton Emerging Markets Investment Trust | 14,215 | 5.4% | Ton Poh Emerging Thailand Fund | 4,897 | 1.9% |
| Edinburgh Dragon Trust | 12,349 | 4.7% | Korea Pref Basket | 4,333 | 1.6% |
| Schroder AsiaPacific Fund | 11,979 | 4.5% | Verno Capital Growth Fund | 4,161 | 1.6% |
| GBM Mexico Fund | 11,066 | 4.2% | Aberdeen Asian Small Companies Fund | 3,536 | 1.3% |
| China Fund Inc | 10,951 | 4.2% | iShares MSCI All Peru | 2,840 | 1.1% |
| India Fund Inc | 9,465 | 3.6% | Turkish Investment Fund Inc | 2,742 | 1.0% |
| JPMorgan Russian Securities | 9,412 | 3.6% | India Capital Growth Fund | 2,571 | 0.9% |
| Top ten holdings | 127,275 | 48.3% | Aberdeen New Thai Investment Trust | 2,445 | 0.9% |
| Aberdeen Latin America Equity Fund | 9,153 | 3.5% | Baring Vostok Investments Limited | 2,439 | 0.9% |
| Advance Brazil Leblon Equity Fund | 8,943 | 3.4% | Tarpon All Equities Fund | 1,484 | 0.6% |
| Taiwan Fund Inc | 8,941 | 3.4% | Other holdings | 970 | 0.4% |
| Lazard Emerging World Fund | 8,158 | 3.1% | Total holdings | 250,958 | 95.3% |
| iShares MSCI China Index | 7,802 | 3.0% | Cash and other net assets | 12,434 | 4.7% |
| Weiss Korea Opportunity Fund | 7,292 | 2.8% | Total | 263,392 | 100.0% |
| BlackRock Latin American Investment Trust | 6,873 | 2.6% | | | |
| iShares MSCI Taiwan Index | 6,333 | 2.4% | | | |
| Coupland Cardiff Asian Evolution | 6,030 | 2.3% | | | |
| Kospi Electronics Index | 5,980 | 2.3% | | | |
| Next ten holdings | 75,505 | 28.8% | | | |
| Top twenty holdings | 202,780 | 77.1% | | | |

Asset allocation

| At 30 April 2014 Country split | ADMF % | Benchmark % |
|-----------------------------------|--------------|----------------|
| Asia | | |
| China | 12.3% | 18.4% |
| India | 7.2% | 6.6% |
| Indonesia | 2.7% | 2.7% |
| Korea | 15.4% | 16.0% |
| Malaysia | 0.2% | 3.9% |
| Philippines | 0.6% | 1.0% |
| Taiwan | 7.8% | 12.0% |
| Thailand | 4.4% | 2.3% |
| Hong Kong | 4.7% | – |
| Singapore | 2.0% | – |
| Other | 1.2% | – |
| | 58.5% | 62.9% |
| EMEA | | |
| Czech Rep | 0.0% | 0.3% |
| Egypt | 0.3% | 0.2% |
| Greece | 0.0% | 0.6% |
| Hungary | 0.1% | 0.2% |
| Poland | 0.2% | 1.8% |
| Russia | 7.3% | 4.9% |
| South Africa | 5.6% | 7.8% |
| Turkey | 1.7% | 1.7% |
| Other | 2.0% | – |
| | 17.2% | 17.5% |

| At 30 April 2014 Country split | ADMF % | Benchmark % |
|-----------------------------------|---------------|----------------|
| Latin America | | |
| Brazil | 8.4% | 11.3% |
| Chile | 0.4% | 1.6% |
| Columbia | 0.1% | 1.1% |
| Mexico | 5.5% | 5.1% |
| Peru | 1.2% | 0.5% |
| Other | 0.1% | – |
| | 15.7% | 19.6% |
| Non-specified | 0.9% | – |
| Indirect cash | 3.0% | – |
| Portfolio cash | 4.7% | – |
| 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

Interim management report

The Chairman's statement on page 1 and the Investment Manager's report on pages 2 to 3 provide details on the performance of the Company. Those reports also include an indication of the important events that have occurred during the first six months of the financial year ending 31 October 2014 and the impact of those events on the condensed unaudited financial statements included in this half-yearly financial report.

Details of investments held at the period end are provided on page 4 and the asset allocation at the period end is shown on page 5.

Principal risks and uncertainties

The Board considers that the main risks and uncertainties faced by the Company fall into the categories of (i) General market risks, (ii) Developing Markets risks, (iii) Other portfolio specific risks and (iv) Internal risks (corporate governance and internal control). A detailed explanation of these risks and uncertainties can be found in the Company's most recent Annual Report for the year ended 31 October 2013 (the "Annual Report"). The principal risks and uncertainties facing the Company remain unchanged from those disclosed in the Annual Report. The Chairman's statement and the Investment Manager's report contain market outlook sections.

Related party transactions

Full details of the investment management arrangements were provided in the Annual Report. There have been no changes to the related party transactions described in the Annual Report that could have a material effect on the financial position or performance of the Company. Amounts payable to the investment manager in the six months ended 30 April 2014 are detailed in note 8 of the notes to the condensed set of financial statements.

Signed on behalf of the Board of Directors on 20 June 2014

John Hawkins
Director

Independent review report to Advance Developing Markets Fund Limited

Introduction

We have been engaged by Advance Developing Markets Fund Limited ("the Company") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 April 2014 which comprises the condensed unaudited statement of comprehensive income, the condensed unaudited statement of financial position, the condensed unaudited statement of changes in equity, the condensed unaudited statement of cash flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 2, the annual financial statements of the Company are prepared in accordance with IFRSs. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 April 2014 is not prepared, in all material respects, in accordance with IAS 34 and the DTR of the UK FCA.

Steven D. Stormonth

For and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors
Guernsey

20 June 2014

Responsibility statement of the directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed half-yearly financial statements which have been prepared in accordance with International Accounting Standards 34 Interim Financial Reporting; and

- the half-yearly financial report provides a fair review of the information required by:

a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed half-yearly financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year ending 31 October 2014; and

b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could materially affect the financial position or performance of the entity.

Signed on behalf of the Board of Directors on 20 June 2014

John Hawkins
Director

Condensed unaudited statement of comprehensive income

| | Notes | 6 months to 30 April 2014 Revenue £'000 | 6 months to 30 April 2014 Capital £'000 | 6 months to 30 April 2014 Total £'000 | 6 months to 30 April 2013 Revenue £'000 | 6 months to 30 April 2013 Capital £'000 | 6 months to 30 April 2013 Total £'000 |
|---|-------|---|---|---|---|---|---|
| (Losses)/gains on investments designated as fair value through profit or loss | | – | (23,746) | (23,746) | – | 43,929 | 43,929 |
| Capital (losses)/gain on currency movements | | – | (37) | (37) | – | 11 | 11 |
| Net investment (losses)/gains | | – | (23,783) | (23,783) | – | 43,940 | 43,940 |
| Investment income | | 1,787 | – | 1,787 | 2,116 | – | 2,116 |
| Total income | | 1,787 | (23,783) | (21,996) | 2,116 | 43,940 | 46,056 |
| Investment management fees | | (1,196) | – | (1,196) | (1,670) | – | (1,670) |
| Other expenses | | (301) | – | (301) | (418) | – | (418) |
| Operating profit/(loss) before finance cost and taxation | | 290 | (23,783) | (23,493) | 28 | 43,940 | 43,968 |
| Finance costs | | (17) | – | (17) | – | – | – |
| Operating profit/(loss) before taxation | | 273 | (23,783) | (23,510) | 28 | 43,940 | 43,968 |
| Withholding tax expense | | (200) | – | (200) | (211) | – | (211) |
| Total comprehensive income for the period | | 73 | (23,783) | (23,710) | (183) | 43,940 | 43,757 |
| Earnings per ordinary share | 6 | 0.12p | (40.22)p | (40.10)p | (0.25)p | 60.32p | 60.07p |

The Company does not have any income or expense that is not included in the profit/(loss) for the period and therefore the 'profit/(loss) for the period' is also the 'Total comprehensive income for the period', as defined in International Accounting Standards 1 (revised).

The total column of this statement represents the Company's Statement of Comprehensive Income, prepared under IAS 34. The revenue and capital columns, including the revenue and capital earnings per share, are supplementary information prepared under guidance published by the Association of Investment Companies.

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

The notes on pages 13 to 16 form an integral part of these financial statements.

Condensed unaudited statement of financial position

| | Notes | At 30 April 2014 £'000 | At 30 April 2013 £'000 | At 31 October 2013 £'000 |
|--|-------|------------------------------|------------------------------|--------------------------------|
| Non-current assets | | | | |
| Investments designated as fair value through profit or loss | | 250,958 | 326,844 | 309,697 |
| Current assets | | | | |
| Cash and cash equivalents | | 12,900 | 8,484 | 5,413 |
| Sales for future settlement | | – | 238 | 2,285 |
| Other receivables | | 174 | 165 | 182 |
| | | 13,074 | 8,887 | 7,880 |
| Total assets | | 264,032 | 335,731 | 317,577 |
| Current liabilities | | | | |
| Other payables | | 266 | 363 | 314 |
| Purchases for future settlement | | 374 | 180 | – |
| Total liabilities | | 640 | 543 | 314 |
| Net assets | | 263,392 | 335,188 | 317,263 |
| Equity | | | | |
| Share capital | | 215,220 | 245,478 | 245,381 |
| Capital reserve | | 52,925 | 93,750 | 76,708 |
| Revenue reserve | | (4,753) | (4,040) | (4,826) |
| Total equity | | 263,392 | 335,188 | 317,263 |
| Net asset value per ordinary share | 7 | 456.52p | 522.52p | 494.73p |
| Number of ordinary shares in issue (excluding treasury shares) | 5 | 57,695,696 | 64,148,682 | 64,128,454 |

The notes on pages 13 to 16 form an integral part of these financial statements.

Approved by the Board of directors and authorised for issue on 20 June 2014 and signed on their behalf by:

John Hawkins

Condensed unaudited statement of changes in equity

| 6 months to 30 April 2014 | Share capital £'000 | Capital reserve £'000 | Revenue reserve £'000 | Total £'000 |
|-------------------------------|------------------------|--------------------------|--------------------------|----------------|
| Opening equity | 245,381 | 76,708 | (4,826) | 317,263 |
| Tender offer | (30,082) | – | – | (30,082) |
| Other share buy backs | (79) | – | – | (79) |
| Increase/(decrease) in equity | – | (23,783) | 73 | (23,710) |
| Closing equity | 215,220 | 52,925 | (4,753) | 263,392 |

| 6 months to 30 April 2013 | Share capital £'000 | Capital reserve £'000 | Revenue reserve £'000 | Total £'000 |
|-------------------------------|------------------------|--------------------------|--------------------------|----------------|
| Opening equity | 306,011 | 49,810 | (3,857) | 351,964 |
| Tender offer | (60,533) | – | – | (60,533) |
| Increase/(decrease) in equity | – | 43,940 | (183) | 43,757 |
| Closing equity | 245,478 | 93,750 | (4,040) | 335,188 |

| Year ended 31 October 2013 | Share capital £'000 | Capital reserve £'000 | Revenue reserve £'000 | Total £'000 |
|-------------------------------|------------------------|--------------------------|--------------------------|----------------|
| Opening equity | 306,011 | 49,810 | (3,857) | 351,964 |
| Tender offer | (60,533) | – | – | (60,533) |
| Other share buy backs | (97) | – | – | (97) |
| Increase/(decrease) in equity | – | 26,898 | (969) | 25,929 |
| Closing equity | 245,381 | 76,708 | (4,826) | 317,263 |

The notes on pages 13 to 16 form an integral part of these financial statements.

Condensed unaudited statement of cash flow

| | 6 months to 30 April 2014 £'000 | 6 months to 30 April 2013 £'000 |
|--|--|--|
| Cash flows from operating activities | | |
| Cash inflow from investment income and bank interest | 1,645 | 2,271 |
| Cash outflow from management expenses | (1,398) | (2,002) |
| Cash inflow from disposal of investments | 73,264 | 144,362 |
| Cash outflow from purchase of investments | (35,613) | (78,593) |
| Cash (outflow)/ inflow from taxation | (200) | 20 |
| Net cash flow from operating activities | 37,698 | 66,058 |
| Cash flows from financing activities | | |
| Overdraft arrangement fee and interest charges | (17) | – |
| Tender offer | (30,082) | (60,533) |
| Other share buy backs | (79) | – |
| Net cash used in financing activities | (30,178) | (60,533) |
| Net increase in cash and cash equivalents | 7,520 | 5,525 |
| Opening balance | 5,413 | 2,948 |
| Cash flow | 7,520 | 5,525 |
| Effect of foreign exchange transactions | (33) | 11 |
| Balance at 30 April | 12,900 | 8,484 |

The notes on pages 13 to 16 form an integral 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 Shares hold a premium listing on the London Stock Exchange and commenced trading on 10 November 2009. The condensed interim financial statements of the Company are presented for the six months to 30 April 2014.

The Company invests in a portfolio of funds and products which give diversified exposure to developing and emerging market economies with the objective of achieving consistent returns for Shareholders in excess of the MSCI Emerging Markets Net Total Return Index in Sterling terms.

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

2 Basis of preparation

Statement of compliance

The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and the Disclosure and Transparency Rules ("DTR's") of the UK's Financial Conduct Authority. They do not include all of the information required for full annual financial statements and should be read in conjunction with the financial statements of the Company as at and for the year ended 31 October 2013. The financial statements of the Company as at and for the year ended 31 October 2013 were prepared in accordance with International Financial Reporting Standards ("IFRS"). The auditor's report on those financial statements was not qualified. The accounting policies used by the Company are the same as those applied by the Company in its financial statements as at and for the year ended 31 October 2013.

When 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 Condensed Unaudited Statement of Comprehensive Income is the profit and loss account of the Company. The capital and revenue columns provide supplementary information.

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 made available in electronic form on the Investment Manager's website, www.advance-emerging.com

Going concern

The directors have adopted the going concern basis in preparing the financial statements.

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.

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 for the foreseeable future.

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.

New accounting standards effective and adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2013.

IFRS 10 Consolidated Financial Statements (2012)

IFRS 10 is effective for annual periods beginning on or after 1 January 2013. It builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The new standard does not have a significant impact on the Company's financial position or performance.

IFRS 12 Disclosure of Interests in other entities

IFRS 12 is effective for annual periods beginning on or after 1 January 2013. It includes the disclosure requirements for all forms of interests in other entities including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The adoption of IFRS 12 does not have any significant impact on the Company's financial statements.

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 and it enhances fair value disclosures. 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. The adoption of IFRS13 does not have a significant impact on the Company's financial statements but results in additional disclosures.

3 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 which are in liquidation are valued at the estimate of their remaining realisable value; and
- (v) 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.

4 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 developing and emerging market economies. The key measure of performance used by the Board is the Net Asset Value of the Company (which is calculated under IFRS). Therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the financial statements.

The Board of directors is responsible for ensuring that the Company's objective and investment strategy is followed. The day-to-day implementation of the investment strategy has been delegated to the Investment Manager but the Board retains responsibility for the overall direction of the Company. The Board reviews the investment decisions of the Investment Manager at regular Board meetings to ensure compliance with the investment strategy and to assess the achievement of the Company's objective. The Investment Manager has been given full authority to make investment decisions on behalf of the Company in accordance with the investment strategy. Details of the portfolio's asset allocation can be found on page 5. Any significant change to the Company's investment policy requires shareholder approval. There has been no significant change to the Company's investment policy since its last financial year end.

The Company has a diversified portfolio of investments and, as disclosed in the Investments table on page 4, no single investment accounts for more than 7.1% of the Company's net assets. The Investment Manager aims to identify funds which it considers are likely to deliver consistent capital growth over the longer term, as such investment income is not a focus of the investment policy and it does not anticipate regular income from its investments. The largest income from an individual investment accounted for 23.0% of the total revenue income received in the period.

At 30 April 2014 there were two shareholders who had each notified the Company that they held more than 10% of the issued share capital. Their holdings were as follows:

| | Holding | % |
|--|------------|-------|
| City of London Investment Management Company Limited | 14,450,790 | 25.05 |
| Lazard Asset Management LLC | 13,243,498 | 22.95 |

As at 30 April 2014 the Company had 413 registered shareholders.

5 Share capital

| | Voting shares | Shares held in treasury | Total shares in issue |
|-------------------------------------|-------------------|-------------------------|-----------------------|
| Ordinary shares of 1p nominal value | | | |
| As at 31 October 2013 | 64,128,454 | 2,672,278 | 66,800,732 |
| Tender offer | (6,412,758) | – | (6,412,758) |
| Share Buy Backs | (20,000) | 20,000 | – |
| As at 30 April 2014 | 57,695,696 | 2,692,278 | 60,387,974 |

Tender offers

During the six months ended 30 April 2014

On 4 November 2013, the Company announced that a tender offer would be conducted in respect of the six month measurement period ended 31 October 2013. On 11 December 2013 a total of 6,412,758 ordinary shares were repurchased by the Company under a tender offer and cancelled, equating to 10% of the Company's ordinary shares in issue (excluding treasury shares) as at that date. The tender price was 466.4036 pence per ordinary share. The aggregate cost of the tender offer was £30,082,000.

Post balance sheet date

On 2 May 2014, the Company announced that a tender offer would be conducted in respect of the six month measurement period ended 30 April 2014. On 18 June 2014 a total of 5,769,467 ordinary shares were repurchased by the Company under the tender offer and cancelled, equating to 10% of the Company's ordinary shares in issue (excluding treasury shares) as at that date. The tender price was 473.6622 pence per ordinary share. The aggregate cost of the tender offer was £27,494,000.

6 Earnings per share

Earnings per share is based on the total comprehensive income for the period loss of £23,710,000 (2013: profit of £43,757,000) attributable to the weighted average of 59,125,864 ordinary shares in issue in the six months to 30 April 2014 (2013: 72,842,151).

7 Net asset value per share

Net asset value per ordinary share is based on net assets of £263,392,000 (2013: £335,188,000) divided by 57,695,696 (2013: 64,148,682) ordinary shares in issue (excluding treasury shares) at the period end.

8 Related party disclosures

Fees payable to the Investment Manager are shown in the Statement of Comprehensive Income. No performance fee accrual has been made (2013: £nil).

At 30 April 2014 investment management fees of £194,750 (2013: £253,936) were accrued in the condensed unaudited Statement of Financial Position. Total investment management fees for the period were £1,196,381 (2013: £1,669,899).

As at 30 April 2014 the Company held an investment with a valuation of £8,943,000 (2013: £12,735,000) in Advance Brazil Leblon Equities Fund, a fund established by Advance Emerging Capital Limited ("AECL") 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 market. The Company's shareholders benefit from significantly reduced management and performance fees on the investment and no double fees are charged by AECL.

9 Dividend

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

10 Bank overdraft facility

The Company has an overdraft credit facility with The Northern Trust Company. The facility is an uncommitted facility and is repayable on demand. The maximum amount that may be drawn down under the facility is £10 million and any amounts drawn down must be repaid within 90 days of the making of a drawing under the facility. No amount was drawn down from the facility at 30 April 2014 (2013: £nil).

11 Classification of financial instruments

The Company complies with IFRS 13. The Company's financial assets and liabilities are valued at fair value.

IFRS 13 requires the Company to classify its investments in a fair value hierarchy that reflects the significance of the inputs used in making the measurements. IFRS 13 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 13 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 assumptions 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 judgment, considering factors specific to the asset or liability.

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

The classification of the Company's investments held at fair value as at 30 April 2014 is detailed in the table below:

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|--|------------------|------------------|------------------|----------------|
| Investments designated as fair value through profit and loss | | | | |
| – Quoted | 211,524 | – | – | 211,524 |
| – Unquoted | – | 37,950 | 1,484 | 39,434 |
| | 211,524 | 37,950 | 1,484 | 250,958 |

The classification of the Company's investments held at fair value as at 30 April 2013 is detailed in the table below:

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|--|------------------|------------------|------------------|----------------|
| Investments designated as fair value through profit and loss | | | | |
| – Quoted | 249,218 | – | – | 249,218 |
| – Unquoted | – | 75,175 | 2,451 | 77,626 |
| | 249,218 | 75,175 | 2,451 | 326,844 |

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 and the Company's residual holding in Impax Asian Environmental Markets plc, a company which is in liquidation. 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 is shown below:

| | 6 months to 30 April 2014 £'000 | 6 months to 30 April 2013 £'000 |
|---|--|--|
| Opening balance | 1,805 | 2,256 |
| Additions during the period | – | – |
| Disposals during the period | – | – |
| Valuation adjustments | (321) | 195 |
| Closing balance | 1,484 | 2,451 |
| Total gains and losses for the period included in profit or loss relating to assets held at the end of the period | (321) | 195 |

12 Financial instruments – risk profile

The principal risks relating to financial instruments held by the Company remain the same as at the Company's last financial year end.

13 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 30 April 2014.

14 Post balance sheet events

A tender offer for the purchase of the Company's own shares took place on 18 June 2014. Further details are provided in Note 5 to the accounts.

15 Non-mainstream pooled investments (“NMPIs”)

The Company currently conducts its affairs so that the shares issued by the Company can be recommended by Independent Financial Advisers (“IFAs”) to ordinary retail investors in accordance with the Financial Conduct Authority's rules in relation to NMPIs and intends to continue to do so for the foreseeable future.

Directors, Investment Manager and advisers

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W N Collins
M R Hadsley-Chaplin
J A Hawkins
T F Mahony

Secretary and administrator

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