

EXPLANATORY MEMORANDUM



**GENESIS EMERGING MARKETS
FUND LIMITED**

(Incorporated with limited liability under the laws of Guernsey,
registered number 20790)

whose manager is



Distributor

Genesis Investment Management Limited

21 Knightsbridge
London SW1X 7LY

10th February, 1997

The contents of this document, which have been prepared by and are the sole responsibility of the Company, have been approved by Genesis Investment Management Limited (regulated by IMRO) for the purposes of section 57 of the Financial Services Act 1986.

The consent of the Advisory & Finance Committee of the States of Guernsey under The Control of Borrowing (Bailiwick of Guernsey) Ordinances 1959 to 1989 has been obtained for the Company to raise up to US\$253,750,000 by the issue of up to 25,000,000 Participating Shares and up to US\$85,000,000 by the issue of up to 8,500,000 'C' Shares. In giving this consent the Committee takes no responsibility for the financial soundness of any scheme or for the correctness of any of the statements made or opinions expressed with regard to it.

No person receiving either a copy of this document and/or any application form in any territory may treat this document or the application form as constituting an invitation to him to purchase or subscribe for Participating Shares, nor should he in any event use such application form unless in the relevant territory such an invitation could lawfully be made to him and such application form could lawfully be used without compliance with any registration or other legal or regulatory requirements. Any person wishing to subscribe for Participating Shares should satisfy himself as to the observance of the laws and regulatory requirements of any relevant territory in connection therewith, including the obtaining of any requisite governmental or other consents, the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such territory.

Prior to the admission of Participating Shares to the Official List of the London Stock Exchange, such Participating Shares must not be offered or sold in the United Kingdom (whether by this document or by any other means) other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments, whether as principal or agent, for the purposes of their businesses or otherwise in circumstances which will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 of Great Britain and the Financial Services Act 1986. This document must only be issued or passed on in the United Kingdom to a person who is of a kind described in Article 11 (3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or who is a person to whom the document may otherwise be lawfully issued or passed on.

The Company is not, and will not be, registered under the United States Investment Company Act of 1940, as amended (the "Investment Company Act"), and neither the Manager nor the Investment Adviser is or will be registered as an investment adviser under the United States Investment Advisers Act of 1940. In addition, the Participating Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"). Except as described below, the Participating Shares may not at any time be offered, sold or delivered, directly or indirectly, within the United States or to or for the account of any US person or to others for offering or resale in the United States or to or for the account of any US person.

The Manager may from time to time arrange the placing of Participating Shares with a limited number of sophisticated institutional investors who are in the United States or who are US persons under restrictions and other circumstances designed to preclude a distribution that would otherwise require registration of the offer and sale of Participating Shares under the Securities Act, cause the Company to become subject to the Investment Company Act, or cause the Manager or the Investment Adviser to become subject to the United States Investment Advisers Act of 1940.

For the purposes of the foregoing, "United States" means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction and "US person" means any citizen, national or resident of the United States, a corporation, partnership or other entity created or organised in or under the laws of the United States, or an estate or trust, the income of which is subject to United States Federal income taxation regardless of its source.

Certain restrictions also apply to the subsequent transfer of Participating Shares and to the circulation of this document and any other offering material relating to the Participating Shares.

The Articles of Association of the Company give powers to the Directors to require the redemption or transfer of Participating Shares held by any person who, by virtue of his holding, is in breach of the laws or regulations of any competent jurisdiction or whose membership of the Company could, in the opinion of the Directors, cause the Company some financial or fiscal disadvantage.

No broker, dealer, salesman or other person has been authorised by the Company to issue any advertisement or to give any information or to make any representation, other than those contained in this document and, if given or made, such advertisement, information or representations should be regarded as unauthorised and should accordingly not be relied upon.

Neither the delivery of this document nor the offer, issue or sale of Participating Shares shall, under any circumstances, create any implication or constitute a representation that the information given in this document is correct as of any time subsequent to the date of this document. This document will be updated and issued on an annual basis and from time to time should there be a material change to facts and circumstances described in this document. Potential subscribers for Participating Shares should seek confirmation from the Manager that no later Explanatory Memorandum has been issued by the Company.

Genesis Investment Management Limited is regulated by IMRO. Neither this Explanatory Memorandum nor any other information made available to any person or body corporate shall be taken to constitute advice or recommendations by Genesis Investment Management Limited or any of its officers, employees, agents or representatives to the recipient or to constitute any recipient as a customer of Genesis Investment Management Limited (within the meaning of the IMRO rules).

Potential subscribers for Participating Shares should note that past performance is not necessarily a guide to the future, that the value of investments can fall as well as rise and that an investor may not get back the amount he has invested.

Distribution of this document is not authorised unless it is accompanied by the latest available annual report and accounts of the Company and any subsequent half yearly report and accounts.

CONTENTS

Glossary	4
Introduction	5
Directors, Manager and Advisers	6
Economic and Investment Background	8
<i>The Genesis Definition of an Emerging Market</i>	8
<i>Demographic Features</i>	8
<i>Economic Growth and Reform</i>	9
<i>Stock Markets</i>	13
<i>Returns from Emerging Markets</i>	13
Investment Objective and Policy	15
<i>Investment Objective</i>	15
<i>Investment Policy</i>	15
<i>Country Focus List</i>	16
<i>Investment Restrictions</i>	17
<i>Dividend Policy</i>	18
<i>Risk Factors</i>	18
Management and Administration	19
<i>Directors</i>	19
<i>The Manager</i>	20
<i>The Investment Adviser</i>	20
<i>Custodian, Registrar and Secretary</i>	21
Issue, Transfer and Redemption of Participating Shares	22
<i>Issue of Participating Shares</i>	22
<i>Transfer of Participating Shares</i>	23
<i>Redemption of Participating Shares</i>	24
<i>Publication of Prices</i>	24
Taxation	25
Additional Information	27
Subscription Procedure	35
Application Form	

Potential subscribers for Participating Shares should inform themselves as to (a) the possible tax consequences, (b) the legal requirements and (c) any foreign exchange restrictions or exchange control requirements which they might encounter under the laws of the countries of their citizenship, residence or domicile and which might be relevant to the subscription, holding or disposal of Participating Shares.

Potential investors should note that investing in the securities of companies in Developing Countries involves a relatively high degree of risk and is therefore only suitable for sophisticated investors who understand the risks involved. Some of the principal risk factors are set out under the heading "Risk Factors" on page 18.

GLOSSARY

The following definitions apply throughout this document, unless the context otherwise requires:

"Application Form"	the form of application for Participating Shares at the back of this document;
"Articles"	the Articles of Association of the Company;
"Board" or "Directors"	the directors or board of directors of the Company;
"Business Day"	a day (other than a Saturday) when banks are open for business in both London and Guernsey;
"Custodian"	Bank of Bermuda (Guernsey) Limited;
"Dealing Day"	the second Business Day following each Valuation Day;
"Developing Country"	one of the countries classified by the World Bank as having a per capita GNP of \$8,955 or less in 1994;
"Emerging Market"	the stock market of a Developing Country;
"GDP"	in relation to a country, its gross domestic product;
"GEMF" or "Company"	Genesis Emerging Markets Fund Limited;
"GHIL"	Genesis Holdings International Limited;
"GNP"	in relation to a country, its gross national product;
"High-income Economics"	one of the countries classified by the World Bank as having a per capita GNP of \$8,956 or more in 1994;
"IFC"	International Finance Corporation;
"IFC Global Index"	the IFC Global Composite Index, formerly known as the IFC Composite Index;
"IMRO"	Investment Management Regulatory Organisation Limited;
"Investment Adviser" or "Distributor"	Genesis Investment Management Limited;
"London Stock Exchange"	London Stock Exchange Limited;
"Manager"	Genesis Fund Managers Limited;
"MSCI World Index"	the World Index published by Morgan Stanley Capital International;
"net asset value" or "NAV"	the value of the net assets of the Company or, as the context may require, the value of such net assets attributable to each Participating Share, in each case determined in accordance with the Articles. A summary of the procedure for the determination of net asset value is set out under the heading "Articles" on pages 27 to 33;
"Nominal Shares"	shares in the capital of the Company of 1 cent nominal value each issued as non-participating redeemable preference shares;
"OECD"	Organisation for Economic Co-operation and Development;
"Participating Shares"	Participating Redeemable Preference Shares of 1 cent nominal value each in the capital of the Company;
"Participating Shareholders"	the holders of Participating Shares;
"Placing Agents"	stockbrokers, institutions authorised under the Banking Act 1987, solicitors, accountants, authorised persons under the Financial Services Act 1986, institutions incorporated or resident outside the United Kingdom and other persons appointed as placing agents pursuant to the Distributorship Agreement described under the heading "Issue of Participating Shares" on page 22;
"Subscription Price"	the subscription price for Participating Shares calculated in accordance with the Articles. A summary of the procedure for the calculation of Subscription Prices is set out under the heading "Issue of Participating Shares" on page 22;
"Valuation Day"	has the meaning ascribed to that expression under the heading "Issue of Participating Shares" on page 22;
"World Bank"	International Bank for Reconstruction and Development;
"dollar", "cent" and the sign "\$"	the lawful currency of the United States of America;
"sterling" and the sign "£"	the lawful currency of the United Kingdom of Great Britain and Northern Ireland and of Guernsey.

INTRODUCTION

The following summary is taken from, and should be read in conjunction with, the full text of this document.

INVESTMENT OBJECTIVE

The investment objective of Genesis Emerging Markets Fund Limited is to achieve capital growth over the medium to long term, primarily through investment in equity securities quoted on Emerging Markets. The Directors believe that the Company can provide an element of portfolio risk reduction for international investors; work published by the IFC indicates that low levels of correlation exist both between different Emerging Markets and between them and the principal developed markets.

THE COMPANY

The Company is a closed-ended investment company designed for institutional and sophisticated private investors. An initial placing of Participating Shares in June 1989 raised \$43.5 million. Further issues have been made subsequently, including an issue of 8,500,000 'C' Shares at \$10.00 per 'C' Share made by way of placing and open offer to shareholders in May 1993 which were converted into 3,775,852 Participating Shares in September 1993 and a one-for-one capitalisation issue to shareholders made in September 1994, and at the date of this Explanatory Memorandum there were 26,963,303 Participating Shares in issue. As at 31st December, 1996, total net assets of the Company were approximately \$472,216,635, representing an NAV of \$17.51 per Participating Share.

Shareholders may redeem Participating Shares only if the holders of Participating Shares by extraordinary resolution so resolve. It is not the intention of the Directors to put or recommend such a resolution to shareholders.

Participating Shares are available for issue as described under the heading "Issue of Participating Shares" on page 22, at the prevailing Subscription Price, on twice monthly Dealing Days, provided that:

- i) at least 75 per cent. of the Company's net assets are, as at the previous Valuation Day invested in securities falling within the then current investment policy of the Company; and
- ii) Participating Shares are not available for purchase on the London Stock Exchange at a price (inclusive of dealing costs) equal to or less than the Subscription Price applicable on the relevant Dealing Day.

The Company is not a "collective investment scheme" for the purposes of the Protection of Investors (Bailiwick of Guernsey) Law 1987 or for the purposes of the Financial Services Act 1986 of the United Kingdom.

MANAGER AND INVESTMENT ADVISER

Genesis Fund Managers Limited, the Manager of the Company, is part of the Genesis group, which was established in January 1989 to provide to institutional investors specialised investment management services in Emerging Markets. As at 31st December, 1996, the Genesis group managed assets of some \$5 billion representing quoted funds (including the Company), private segregated accounts and pooled funds restricted to specific categories of investors.

Genesis Investment Management Limited, the London-based investment management company of the Genesis group and regulated by IMRO, is an Investment Adviser to the Manager.

LISTING

Existing Participating Shares are listed on the London Stock Exchange and application will be made for new Participating Shares to be listed on the London Stock Exchange.

APPLICATION PROCEDURE AND PAYMENT

Applications for Participating Shares should be made using the Application Form at the back of this document. Applications must be received at or before 10.00 a.m. London time on the relevant Dealing Day. Details of the procedure for application and the calculation of Subscription Prices are set out under the heading "Issue of Participating Shares" on page 22.

DIRECTORS, MANAGER AND ADVISERS

DIRECTORS

Jeremy David Paulson-Ellis (*Chairman*)

21 Knightsbridge, London SW1X 7LY
United Kingdom

Masood Akbar

24/10 Asad Jan Road, Cantt. Lahore
Pakistan

Dr. Adolf Bier

Prinsenweg 68, 2242 EJ Wassenaar
The Netherlands

Richard George Passmore Carss

21 Knightsbridge, London SW1X 7LY
United Kingdom

John Peter Clay

200 Park Avenue
New York City, NY 10166
United States of America

Aloysius Borja Colayco

222 Sen. Gil J Puyat Avenue
Makati, Metro Manila 1200
Philippines

Anthony John Newsome

21 Knightsbridge, London SW1X 7LY
United Kingdom

Coen Nicolaas Teulings

Avenue Lloyd George 6, Boite 8
1000 Brussels
Belgium

The Hon. John Train

667 Madison Avenue
New York City, NY 10021
United States of America

MANAGER

Genesis Fund Managers Limited

P.O. Box 208, Bermuda House
St. Julian's Avenue, St. Peter Port
Guernsey, Channel Islands

INVESTMENT ADVISER AND DISTRIBUTOR

Genesis Investment Management Limited

(*regulated by IMRO*)
21 Knightsbridge, London SW1X 7LY
United Kingdom

CUSTODIAN AND REGISTRAR

Bank of Bermuda (Guernsey) Limited
P.O. Box 208, Bermuda House
St. Julian's Avenue, St. Peter Port
Guernsey GY1 3NF
Channel Islands

SUBCUSTODIAN

Chase Investment Bank Limited
Woolgate House, Coleman Street
London EC2P 2HD
United Kingdom

SECRETARY

Management International (Guernsey) Limited
P.O. Box 208, Bermuda House
St. Julian's Avenue, St. Peter Port
Guernsey GY1 3NF
Channel Islands

BANKERS

Bank of Bermuda (Guernsey) Limited
P.O. Box 208, Bermuda House
St. Julian's Avenue, St. Peter Port
Guernsey GY1 3NF
Channel Islands

LISTING BROKER

SBC Warburg (*a division of Swiss Bank Corporation*)
(a member of the London Stock Exchange)
1 Finsbury Avenue
London EC2M 2PA
United Kingdom

REGISTERED OFFICE OF THE COMPANY

Bermuda House
St. Julian's Avenue
St. Peter Port
Guernsey GY1 3NF
Channel Islands

AUDITORS

Coopers & Lybrand
Chartered Accountants
P.O. Box 321, National Westminster House
Le Truchot, St. Peter Port
Guernsey GY1 4ND
Channel Islands

LEGAL ADVISERS

to the Company:

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

to the Manager:

Slaughter and May
35 Basinghall Street
London EC2V 5DB
United Kingdom

ECONOMIC AND INVESTMENT BACKGROUND

THE GENESIS DEFINITION OF AN EMERGING MARKET

The Manager defines an Emerging Market by reference to the World Bank classification published annually in the World Development Report, which currently divides 133 countries into two basic groups:

- i) the 25 High-income Economies, being those countries having a per capita GNP of \$8,956 or more in 1994; and
- ii) the 108 Developing Countries, which may be further subdivided into:
 - a) the 51 low-income economies, currently defined as having a per capita GNP of \$725 or less in 1994, ranging from Rwanda (\$80) to Myanmar; and
 - b) the 57 middle-income economies, defined as having a per capita GNP of between \$726 and \$8,955 in 1994, ranging from Bolivia (\$770) to Korea (\$8,260).

Note that Taiwan, classified as a High-income Economy, is not included in the statistics used for definitions. The 133 countries referred to further exclude 76 economies with sparse data, or with populations of less than 1 million.

The use of a consistent basis for the definition of an Emerging Market over time has not precluded change in the actual universe of countries. The Company's original listing particulars issued in June 1989 referred to 97 Developing Countries, which the addition of Taiwan would have increased to 98. Of these 98, 5 have moved up to become High-income Economies (Hong Kong, Israel, Portugal, Singapore and Taiwan), 2 have united (Yemen PDR and Yemen Arab Republic) and 1 has ceased to exist (Yugoslavia). The principal source of new entries has been the constituent parts of the former USSR and its satellite countries.

DEMOGRAPHIC FEATURES

The Emerging Markets represented some 85 per cent. of the world population in 1994. Population growth has been more rapid than in the High-income Economies and the World Bank projects that this is likely to continue. A further distinction between Developing Countries as a group and the High-income Economies lies in the very different projections of demographic structures. The table below shows the contrasting projections for the 20-39 year age groups in High-income Economies and Developing Countries - shrinking in both absolute and relative terms in the former. This age group is generally considered to be the most economically active. Also apparent from the table is the relatively small proportion of Developing Countries' population represented by the economically less active over-60 year old age group.

Table 1 : Selected Population Trends and Projections

Country Group/Age Group	Population (millions) (percentage of total)			
	1990	1995E	2000E	2025E
High-income Economies	817.1	843.2	865.6	922.7
of which ages: 20 - 39 years	255.7 (31.3)	258.1 (30.6)	251.1 (29.0)	215.4 (23.3)
over 60 years	145.6 (17.8)	154.7 (18.3)	166.0 (19.2)	264.3 (28.6)
Developing Countries	4,449.0	4,849.1	5,248.1	7,198.6
of which ages: 20 - 39 years	1,398.2 (31.4)	1,545.8 (31.9)	1,666.8 (31.8)	2,195.5 (30.5)
over 60 years	345.0 (7.8)	391.5 (8.1)	439.6 (8.4)	907.9 (12.6)

Source: World Population Projections 1994-95 (A World Bank Book)

ECONOMIC GROWTH AND REFORM

The Emerging Markets generated a combined GDP in 1994 equivalent to \$5,276 billion, or about 21 per cent. of the World Bank reported total for all economies.

In the years leading up to the first oil crisis in 1973 the Developing Countries in most regions of the world enjoyed growth rates well above those in the High-income Economies as a group. Though developments at the per capita level were more mixed, statistically at least the populations were growing more prosperous. The table below illustrates this clearly.

Table 2 :

Country Group	1966 - 1973 (annual percentage changes in real growth rates)	
	Real GDP	Real GDP per capita
High-income Economies	4.8	3.8
Developing Countries	6.9	4.3
East Asia and Pacific	7.9	5.1
South Asia	3.7	1.3
Latin America and Caribbean	6.4	3.7
Europe and Central Asia	6.9	5.8
Middle East and North Africa	8.6	5.7
Sub-Saharan Africa	4.7	2.0

Source : Global Economic Prospects and the Developing Countries 1996 (A World Bank Book)

World growth slowed sharply after the first and through the second oil shock, but during this more difficult period from 1974 to 1980 the Developing Countries were apparently able to maintain higher GDP growth, at 5.4 per cent. per annum, than the High-income Economies at 3.0 per cent. per annum. In practice the ability of different countries to manage change, illustrated by government policy responses to the oil shocks varied considerably. Those countries which gave the correct response - allowing the effects of higher oil prices to flow through their economies - recovered quickly. Others, notably in Latin America, attempted to ease the adjustment process through increased government spending and foreign borrowing. The resulting misallocation of resources brought about severe internal crises, characterised by high rates of inflation, currency collapse, sharply reduced GDP growth, declining per capita GDP, capital flight and default on external debt. As a group, the Developing Countries maintained GDP growth at the same level as the High-income Economies during their recovery phase in the 1980s, but the disparities between regions widened substantially as shown below.

Table 3: Diverging Rates of Real GDP Growth

Country Group	(annual percentage changes)	
	1974 -1980	1981 -1990
High-income Economies	3.0	3.2
Developing Countries	5.0	3.2
East Asia and Pacific	6.8	7.6
South Asia	4.0	5.7
Latin America and Caribbean	4.8	1.7
Europe and Central Asia	4.9	2.9
Middle East and North Africa	4.7	0.2
Sub-Saharan Africa	3.4	1.7

Source : Global Economic Prospects and the Developing Countries 1995 (A World Bank Book)

The early 1990s saw the major economies in recession following the expansion of the 1980s. For Eastern Europe and the former Soviet Union the impact was exacerbated by the collapse of Communism, which caused sharp contractions in output in most of the economies concerned. This served to widen still further the divergences in real GDP growth observed during the 1980s (Table 3 above), and contributed to a decline in real per capita incomes in Developing Countries as a group.

Table 4 : Recession in the 1990s

Country Group	1990 - 1994 (annual percentage changes in real growth rates)	
	Real GDP	Real GDP per capita
High-income Economies	1.7	1.0
Developing Countries	1.0	(0.7)
East Asia and Pacific	9.4	8.0
South Asia	3.9	1.8
Latin America and Caribbean	3.6	1.6
Europe and Central Asia	(9.0)	(9.3)
Middle East and North Africa	2.4	(0.3)
Sub-Saharan Africa	0.7	(2.2)

Source : Global Economic Prospects and the Developing Countries 1996 (A World Bank Book)

What is not apparent from Table 4 above is that 1994 itself represented a turnaround year with real GDP growth recovering to 3.0 per cent. in the High-income Economies and to 2.5 per cent. in the Developing Countries. More remarkable was the sharp reversal in the long deceleration in the growth of world trade as highlighted below.

Table 5 : A Reacceleration in World Trade

World Trade	average annual percentage change			
	1974 - 1980	1981 - 1990	1991 - 1993	1994
	4.8	4.2	4.1	9.5

Source : Global Economic Prospects and the Developing Countries 1996 (A World Bank Book)

According to World Bank estimates, world trade growth continued to be strong at 8.9 per cent. in 1995, despite a slowdown in real GDP growth to 2.5 per cent. in the High-income Economies. Given that 1995 was the year following the Mexican crisis, two further points stand out. First, private capital flows to Developing Countries rose by 5 per cent. to \$167 billion, despite a 37 per cent. drop in portfolio equity investment. Aggregate flows excluding portfolio equity investment rose by nearly 17 per cent. to \$145 billion of which foreign direct investment represented \$90 billion, up 13 per cent. Secondly, real GDP growth in the Developing Countries as a whole accelerated to 3.9 per cent., according to World Bank estimates, substantially outpacing that in the High-income Economies. This estimated acceleration was achieved despite contractions in the economies of Argentina and Mexico following the Mexican crisis, and slower growth in China and India. An important contribution was made by improvements in certain transitional economies of Europe and Central Asia where growth in real GDP increased from 2.0 per cent. in 1994 to 4.8 per cent. in 1995, led by Poland and the Czech Republic.

The World Bank has set out baseline projections for High-income Economies as a group and for Developing Countries, both as a group and by region. In summary, a controlled and moderate expansion of industrial economies is expected to lead to an acceleration of growth in Developing Countries, averaging 5.3 per cent. over the same period, supported by higher levels of net private capital flows. The following considerations were regarded by the World Bank as significant in making the projections shown in Table 6 - The Next Decade - Trend Projections 1996-2005.

- World trade should be a major engine of growth over the next ten years. Assuming that liberalisation policies continue, world merchandise trade is projected to continue to grow at more than 6 per cent. per annum, faster than at any time since the 1960s. Trade in services should increase even faster, especially as advances in information and telecommunications technology expand trade in long distance services.
- The integration of Developing Countries into world trade will proceed much more rapidly than was the case before the 1990s. The excess of international trade over world output growth is projected to average a little under 3 per cent. per annum in the next decade.
- Provided policy reforms in Developing Countries stay on track, their output growth is expected to accelerate from 2.2 per cent. in 1981-1994 and an estimated 3.9 per cent. in 1995 to 5.3 per cent. over the next decade.
- The aggregate outlook for Developing Countries masks wide differences. Past and prospective progress in structural economic reforms, especially those that integrate countries more closely with the global economy, explain a large part of these differences.
- Recovery in the industrial economies slowed during 1995, but the prospects for sustaining it over the medium term appear good, thanks to progress in reducing inflation and the continuing anti-inflationary thrust of monetary policies. Industrial country growth is expected to average 2.8 per cent. per annum in 1996-2005, with inflation rising to a muted 2.6 per cent. The rising importance of Developing Countries in world trade and output helped to dampen the effects of the recession in industrial countries, and is also likely to contribute to their output growth during recovery.
- Aggregate private capital flows to Developing Countries continued to grow in the aftermath of the 1994/95 Mexican crisis; countries adopting realistic exchange rate policies and maintaining low deficits were hardly affected. Overall growth in private capital flows should continue in response to the liberalisation of investment regimes in Developing Countries, but those countries unable to control fiscal and external deficits will find that their share of these flows will fall. Total world demand for capital will rise with growth, but real long-term interest rates should be sustainable at under 4 per cent.
- Commodity exporting countries should use the 1994/95 boost to their revenues from higher prices to strengthen structural reforms. Oil and non-oil commodity prices are expected to soften in real terms over the next decade.

Table 6 : The Next Decade

Country Group	Trend Projections (annual percentage changes in real GDP growth rates)	
	1996 -1997	1996-2005
High-income Economies	2.6	2.9
Developing Countries	4.8	5.3
East Asia and Pacific	8.2	7.9
South Asia	5.5	5.4
Latin America and Caribbean	2.6	3.8
Europe and Central Asia	3.0	4.3
Middle East and North Africa	3.2	2.9
Sub-Saharan Africa	3.7	3.8

Source : Global Economic Prospects and the Developing Countries 1996 (A World Bank Book)

There are risks to this broadly favourable baseline outlook. These would include most significantly a near-term failure on the part of industrialised nations to continue with policy adjustments to reduce fiscal deficits, or to sustain their commitment to low inflation. Such failures would have the effect of reducing the availability and raising the cost of capital available to Developing Countries, and, in the longer term would exacerbate the fiscal problems associated with ageing populations in the High-income Economies (see Table 1 above). Demographic shifts are likely to reduce savings in the OECD countries over time, and public pension liabilities will start to grow rapidly in the absence of measures to stimulate private provisions for retirement. A reversal of the trend in favour of greater global trade liberalisation would clearly upset forecasts of continuing high growth in world trade, while, on the Developing Country side, the risk remains that individual countries may pursue inappropriate fiscal, exchange rate or other policies to their own detriment.

Table 5 above highlighted the upward shift in growth of world trade seen during 1994 and 1995. This should be seen also in the context of trade growth exceeding that of output, following earlier tariff reductions. Tariffs imposed by industrial countries on imports from Developing Countries have fallen over time to around 4 per cent. on average, while tariff rates in a number of Developing Countries were also lowered significantly between the mid-1980s and early 1990s, helping to increase trade between those countries as well as with the High-income Economies. The next Table illustrates the growth of world trade relative to output, as well as the marked improvement in the export performance of regional groups of Developing Countries since 1990.

Table 7 : Output, Trade and Export Growth

Country Group	(percentage changes in real term)			
	1981 - 1990	1991 - 1993	1994 - 1995	1996 - 2005E
World output	3.1	1.4	2.9	3.5
World trade	4.1	4.0	9.2	6.3
Exports by region				
High-income Economies	4.8	3.7	8.7	6.0
Developing Countries	2.4	6.6	10.6	7.5
East Asia	9.3	14.1	17.4	10.2
South Asia	5.6	10.8	10.1	7.2
Latin America and Caribbean	4.4	9.3	8.8	6.1
Europe and Central Asia	(0.5)	(3.8)	10.2	5.1
Middle East and North Africa	(1.6)	4.6	0.6	4.1
Sub-Saharan Africa	0.0	0.5	2.6	4.8

Source: Global Economic Prospects and the Developing Countries 1996 (A World Bank Book)

A recent World Bank study provides some evidence of an inverse correlation between regional tariff levels (and the size of reductions therein) and both export growth and foreign direct investment (FDI) relative to GDP. South Asia, with average tariffs at around 45 per cent. has the lowest ratio of FDI to GDP, though trade performance has benefited from a drop in tariffs from much higher levels after 1989. The Middle East, North and Sub-Saharan Africa have maintained relatively high tariffs virtually unchanged, have demonstrated poor export performance and have seen FDI drop sharply relative to GDP. The successful regions, by contrast, are those with the lowest tariffs: Latin America, Europe and Central Asia and East Asia have all been able to attract FDI flows which have grown over time relative to their economies.

Trade reforms and liberalisation are not in themselves a guarantee of success. They are likely to fail in countries with large fiscal deficits, inflationary financing and overvalued exchange rates. The growth of trade relative to output suggests increasing integration of world markets for goods and services. This should have the effect of intensifying global competition. With capital flows to Developing Countries now dominated by the private sector (it is estimated by the World Bank to have accounted for some 72 per cent. of all long-term net resource flows in 1995) and responding to purely commercial considerations, it is likely to continue to be directed towards those countries which have achieved, or are in the process of achieving stable, free-market economies. It will tend to focus, too, on areas of national comparative advantage, thus reinforcing the natural strengths of individual economies. Global integration will increase competition, but also opportunities and the rewards for success.

STOCK MARKETS

As at the end of 1989 the IFC supplied market capitalisation data on 33 markets, accounting for \$738.1 billion or 6.3 per cent. of world market capitalisation. By the end of 1995, data was supplied on 58 markets (excluding Taiwan, which had moved out of the World Bank middle-income definition), accounting for \$1,708.5 billion, or 9.6 per cent. of world market capitalisation.

The 26 new markets opened over the 1989-1995 period accounted for 8.4 per cent. of Emerging Markets capitalisation as at 31st December 1995. There has thus been a significant process of bringing Developing Country economies, via their stock markets, within the reach of international investors, and the Directors expect this process to continue.

While Emerging Market capitalisation (excluding Taiwan) has more than tripled over the six years to 1995, the rise in turnover has been even more striking. Excluding Taiwan, Emerging Markets' turnover rose by a factor of 3.3 times between 1989 and 1995. With increasing liberalisation of foreign investment and foreign exchange regulations as countries continue to restructure their economies, and the continuing demand for capital across the spectrum of Developing Countries, the Directors anticipate that both Emerging Market capitalisation and turnover will continue to rise.

RETURNS FROM EMERGING MARKETS

The IFC calculates indices which are indicative of the scale and nature of returns from a sample of Emerging Markets (see the table on page 14). Between 1985 and 1989 most Emerging Markets in the sample, including those with high rates of currency depreciation, performed well in dollar terms. The subsequent three years proved more volatile in general, influenced by the hostilities in the Arabian Gulf during late 1990 and early 1991, but further progress was made over the three year period ended December 1992 by 12 out of the 20 Emerging Markets then included in the IFC Global Index. There was a marked contrast between the good performance in certain countries where the processes of economic reform were being pushed ahead (examples included Argentina, Mexico and Pakistan) and those where political or other factors caused interruptions or delays (examples included Brazil, Korea and Turkey).

1993 proved an exceptionally strong year for most Emerging Markets as the low interest rates available in many High-income Economies, notably the United States, encouraged capital flows to seek higher returns via international equity investment. Total returns of between 739.6 per cent. (Poland) and 18.8 per cent. (India) were achieved by 22 out of the 24 Emerging Markets represented in the expanded IFC Global Index during 1993. Rising interest rates in the High-income Economies contributed to a partial reversal of the upward trend in Emerging Markets during 1994, with a significant reduction in portfolio inflows to Developing Countries; late in that year, mishandling of the Mexican peso devaluation led to a sharp sell-off which continued through much of the first quarter of 1995. This particularly affected Latin American markets, although the impact was felt across the Emerging Market spectrum. The second quarter of 1995 saw some recovery, but by the end of the year only 9 of the 27 markets covered by the IFC Global indices were above their end-1994 levels.

The year ended December 1996 saw a partial recovery - 19 out of 27 markets produced positive returns, but the return on the Composite Index was restrained by poor performance of three large constituent markets, Korea, Thailand and South Africa. Although the composite itself remained below its end-1993 peak, 18 of the constituents have achieved gains since then.

The Directors consider that despite the short-term uncertainties caused by inappropriate economic policies in certain individual countries the stock markets of countries currently undergoing structural economic reform or development will continue to offer significant investment potential in the years to come as free-market policies are introduced and reinforced.

The development of capital markets frequently lags behind economic progress, which can lead to substantial mispricing of equities in relation to corporate earnings power. The Directors believe that the combination of rapid earnings growth and inefficient pricing of individual stocks is likely to provide attractive investment opportunities for the Company.

Furthermore, carefully selected Emerging Market companies, chosen for their strong management, flexibility, capacity for earnings growth and entrepreneurial spirit should be well placed to take advantage of the pace of underlying economic growth and of the opportunities created by structural reform.

Table 8 : Emerging Markets Total Return Indexes (Capital appreciation plus income)
(In \$: December 1984 = 100)

	1984	1989	1990	1991	1992	1993	1994	1995	1996
Latin America									
Argentina	100	541	343	1,705	1,253	2,165	1,661	1,872	2,290
Brazil	100	171	59	158	159	317	538	429	577
Chile	100	1,026	1,441	2,854	3,316	4,463	6,471	6,508	5,575
Colombia	100	390	536	1,561	2,172	2,925	3,771	2,875	3,106
Mexico	100	803	1,041	2,152	2,608	3,910	2,321	1,718	2,024
Peru ^(a)	-	-	-	-	100	137	211	234	241
Venezuela	100	89	627	907	524	487	362	256	610
East Asia									
China ^(a)	-	-	-	-	100	93	62	54	104
Korea	100	798	595	501	519	627	747	695	430
Philippines	100	2,372	1,094	1,739	2,057	4,831	4,802	4,125	4,965
Taiwan	100	1,407	691	687	504	952	1,166	809	1,111
South Asia									
India	100	241	286	339	416	494	531	349	342
Indonesia ^(b)	-	100	99	57	59	126	102	114	136
Malaysia	100	178	158	177	227	460	361	374	466
Pakistan	100	185	205	558	455	711	650	448	360
Sri Lanka ^(a)	-	-	-	-	100	165	165	102	91
Thailand	100	679	538	642	900	1,828	1,621	1,598	1,013
Europe, Middle East and Africa									
Czech Republic ^(c)	-	-	-	-	-	100	81	65	79
Greece	100	446	911	736	537	655	669	738	775
Hungary ^(a)	-	-	-	-	100	125	106	77	152
Jordan	100	121	127	146	182	226	204	230	227
Nigeria	100	51	72	99	64	57	166	131	214
Poland ^(a)	-	-	-	-	100	840	484	450	785
Portugal ^(d)	-	875	614	624	503	695	834	825	1,067
South Africa ^(a)	-	-	-	-	100	182	240	282	234
Turkey ^(e)	-	849	825	481	227	759	454	402	599
Zimbabwe	100	1,029	2,006	956	385	938	1,203	1,404	2,339
IFC Global	100	401	281	330	331	555	552	484	522
MSCI World Index	100	303	247	286	266	320	331	392	438

(a) Dec. 1992 = 100

(b) Dec. 1989 = 100

(c) Dec. 1993 = 100

(d) Jan. 1986 = 100

(e) Dec. 1986 = 100

Sources: IFC Emerging Stock Markets Factbook 1996, IFC Monthly Review of Emerging Markets, and Morgan Stanley Capital International

INVESTMENT OBJECTIVE AND POLICY

INVESTMENT OBJECTIVE

Capital Growth

The investment objective of the Company is to achieve capital growth over the medium to long term, primarily through investment in equity securities quoted on Emerging Markets. The Company may also acquire the securities of companies quoted on High-income Economy stock markets where, in the opinion of the Directors, more than 50 per cent. of the revenues or profits of such companies have their source in, or more than 50 per cent. of the assets of such companies are located in, Developing Countries.

Risk Reduction

The Directors believe that the Company can provide an element of portfolio risk reduction for international investors: work published by the IFC indicates that low levels of correlation exist both between different Emerging Markets and between them and the principal developed markets. The results of the Company since inception have indicated the possibility of investment returns higher than those obtained from the world's principal stock markets (as represented by the MSCI World Index), with only a small increase in volatility.

INVESTMENT POLICY

Investments are selected on the basis of the long-term earning power of the underlying companies. The composition of the portfolio at any given time between countries and industries is primarily a function of the identification by the Manager, with the advice of the Investment Adviser, of those securities which in the view of the Manager (a) are selling at discounts to their apparent value and (b) have a potential for gain because of the quality of the underlying company and the environment in which it operates.

An asset allocation approach is not employed. This does not mean, however, that an evaluation of an individual company can be made without a comprehensive knowledge of the political and economic environment in which it operates. The operating environment is a key determinant of the Manager's assessment of the valuation appropriate to the individual candidates for investment, and this in turn may limit investments in any particular country.

Pending investment in Emerging Market securities, or during periods when stock market conditions or other factors warrant, the Company's assets may be invested in money market instruments, cash or deposits in major international currencies or those of Developing Countries. Under normal circumstances, it is expected that the majority of liquid assets will be maintained in dollars.

While it is not practicable to hedge the currencies of most Developing Countries, the Manager, in selecting investments, may take into account the desirability of providing an indirect hedge by investing in companies such as exporters.

The Directors are responsible for the investment policy of the Company and the Manager has been appointed with responsibility for the selection of investments. Further details concerning the Manager are set out under the heading "The Manager" on page 20. Neither the Memorandum of Association nor the Articles contain any restriction on the investment powers of the Company. The Articles do however, contain restrictions on the exercise by the Directors of certain of the powers of the Company. These are described under the heading "Investment Restrictions" on page 17.

Diversification

The Company's investments are geographically diversified, and will continue to be so. The Company will not normally invest more than 15 per cent. of its assets (at the time the investment is made) in any one country.

The Directors believe that, for an investment vehicle of this nature, the number of individual holdings should be significantly higher than for a more traditional international equity fund, and thus the exposure to any one company or group (other than an investment company, unit trust or mutual fund) is unlikely to exceed five per cent. of the Company's net assets at the time the investment is made.

The Long-term View

The Directors do not believe short-term trading to be the most appropriate way to maximise the net asset value of the Company in the longer term, nor do they consider it to be practicable, either between or within the small markets and thinly-traded securities which characterise Emerging Markets.

Secondary Vehicles

Not all Developing Countries presently have stock markets, and investment by non-residents is not currently permitted in all those that do. It has been necessary for the Manager to establish intermediary companies for the Company to achieve access to or hold Emerging Market securities, or to invest through investment funds designed for overseas participation. This may continue to be the case.

COUNTRY FOCUS LIST

In some Developing Countries, the Directors may regard the degree of risk as unacceptable for portfolio investment. For this reason, the Directors have drawn up a primary list of 42 countries from which the Company may select its investments. Further countries where investments may be selected will be added when the Directors consider it appropriate in the future.

The Directors review countries regularly in the light of changing circumstances, but for the immediate future expect to continue to concentrate the Company's investments in the countries included in the list below. As prosperity grows, it should be expected that some countries will graduate from the "Developing Country" category. At the same time, the Directors expect that new stock markets will become available to the Company for investment, creating further opportunities

Country Focus List		
Asia & Pacific	Middle East & Africa	Caribbean & Latin America
Bangladesh	Botswana	Argentina
China	Egypt	Brazil
India	Ghana	Chile
Indonesia	Jordan	Colombia
Korea	Kenya	Ecuador
Malaysia	Lebanon	Mexico
Pakistan	Mauritius	Panama
Papua New Guinea	Morocco	Peru
Philippines	Oman	Venezuela
Sri Lanka	South Africa	
Thailand	Zambia	Europe
Vietnam	Zimbabwe	Croatia
		Czech Republic
		Greece
		Hungary
		Poland
		Romania
		Russia
		Slovak Republic
		Turkey

INVESTMENT RESTRICTIONS

Neither the Memorandum of Association nor the Articles contain any restriction on the investment powers of the Company. The Articles do, however, contain the following restrictions on the exercise by the Directors of certain of the powers of the Company. The Directors may not, without the consent of the Company in general meeting:

- i) have more than 10 per cent. of the net asset value of the Company invested in:
 - a) securities issued or guaranteed by any one company (other than an investment company, unit trust or mutual fund, where the limit is 15 per cent.); or
 - b) securities or debt instruments not listed on a stock exchange or traded in the interbank market or on an over-the-counter market;
- ii) have more than 30 per cent. of the net asset value of the Company invested in securities falling within any of the following categories:
 - a) units in unit trusts;
 - b) securities of open or closed-ended investment companies; and
 - c) mutual funds;
- iii) acquire more than 10 per cent. of the nominal value of any one class of securities;
- iv) borrow amounts in excess of 10 per cent. of the net asset value of the Company;
- v) make short sales;
- vi) enter into forward currency contracts, except for the purpose of protecting the value of investments denominated in a currency other than dollars;
- vii) make investments in which the liability of the holder is unlimited;
- viii) create or permit to subsist over all or any of the assets of the Company any mortgage, pledge, lien or charge (other than liens arising by operation of law), except to the extent necessary to secure borrowings permitted under paragraph (iv) above; or
- ix) make loans or guarantee the repayment of loans other than:
 - a) the making of deposits with the Custodian to the Company, or any bank or deposit-taking institution approved by the Custodian to the Company; or
 - b) the making of loans to, or the guaranteeing of moneys lent to, a wholly-owned subsidiary of the Company; or
 - c) the subscription for, acquisition or holding of, debt or loan securities.

The restrictions set out in paragraphs (i) and (iii) above do not apply in the case of any debt instrument issued or guaranteed by a sovereign state, a political sub-division of a sovereign state or a supra-national body.

None of these restrictions requires the Manager to dispose of any investment if, by reason solely of any circumstances or events arising after such investment has been acquired, the Manager would not have been permitted to make such investment if it had been made at a later time. The Manager may not, however, at any time increase the Company's holding of such investment where there would have been a breach of the restriction in (i) above if the Company's entire holding of such investment had been acquired at the time of the proposed increase.

The Company will not invest in real property or goods, except that investments in commodities may be made if, in the opinion of the Directors or the Manager, exceptional circumstances exist which make such an investment in the best interests of shareholders.

For the purpose of these provisions, the net asset value of the Company is determined in accordance with the procedure in the Articles. In all cases, references to the net asset value of the Company are based on the value most recently calculated prior to the date when the relevant investment is to be made.

DIVIDEND POLICY

The Directors intend that the Company should pay annual dividends and that it will distribute substantially all income received (net of withholding taxes) after allowing for expenses. Dividends of \$0.08, \$0.10 and \$0.26 per Participating Share were paid in respect of the periods ended 30th June, 1991, 1992 and 1993, respectively. Dividends will, however, only be paid to the extent that they are covered by income received from underlying investments, and since a small net deficit was recorded for the year ended 30th June, 1994, no dividend was paid in respect of this period. For the years ended 30th June, 1995 and 1996 net income received was considered by the Directors as insufficient to warrant a dividend payment.

Profits or losses arising on the sale, redemption or maturity of securities are treated in the accounts of the Company as accretions to, or depletions of, capital. Any such profits are not, therefore, available for distribution as dividend. The Articles permit realised capital gains to be distributed as a capital payment, although the Directors do not presently intend that the Company should make any such distributions.

RISK FACTORS

Some Developing Countries have securities markets to which foreign investors have only limited direct or indirect access, while others have securities markets to which foreign investors do not presently have access. While the Directors would expect that at some time in the future some or all of these markets will become accessible or more accessible to the Company, there can be no assurance that this will be the case.

In certain Developing Countries, portfolio investment by foreign investors may require consents or be subject to limitations, and repatriation of investment income, capital and the proceeds of sales by foreign investors may require government registration and/or approval. The Company could be adversely affected by delays in or a refusal to grant any required government approval or by the lack of availability of foreign exchange. In addition, there is in some Developing Countries a higher possibility of nationalisation, expropriation or confiscatory taxation, political changes, government regulation, social instability or diplomatic developments (including war) which could adversely affect the economies of such countries or the Company's investments in those countries.

The Company's assets will be invested in securities of companies in various countries and income will be received by the Company in a variety of currencies. However, the Company will compute its net asset value and make any distributions in dollars. The value of the assets of the Company as measured in dollars may be affected favourably or unfavourably by fluctuations in currency rates and exchange control regulations. Further, the Company may incur costs in connection with conversions between various currencies.

Companies in Developing Countries are not always subject to accounting, auditing and financial reporting standards, practices and disclosure requirements comparable to those applicable to companies in High-income Economies. In addition, there is generally less government supervision and regulation of stock exchanges, brokers and listed companies in Developing Countries than in countries with more advanced securities markets.

Trading volume on the stock exchanges of Developing Countries can be substantially less than in the leading stock markets of the developed world, so that accumulation and disposal of holdings may be time consuming and may need to be conducted at unfavourable prices. Volatility of prices can be greater than in the developed world.

The economies of Developing Countries can be heavily dependent on international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, managed adjustments in relative currency values, other protectionist measures imposed or negotiated by the countries with which they trade and international economic developments generally.

MANAGEMENT AND ADMINISTRATION

DIRECTORS

Details of the Directors of the Company, who are responsible for its investment policy, are given below:

Jeremy David Paulson-Ellis (British), born 1943, is Chairman of Genesis Holdings International Limited and its subsidiaries. Previously with Vickers da Costa Limited as Chairman, he has been closely involved in the development of the newer stock markets, working first on Japan and subsequently on Korea, Taiwan and Thailand. Until his resignation in July 1988 he had been with the Vickers da Costa group (latterly Citicorp Scrimgeour Vickers International) for 24 years.

Masood Akbar (Pakistan), born 1948, is Managing Director of Investrust Pakistan Limited an investment advisory firm. Prior to this he was for three years the CEO of Jardine Fleming Pakistan Limited. He has also worked as portfolio manager with two leading Middle East financial institutions. His experience has been in areas of investment management, asset allocation strategies, quantitative techniques and other corporate finance work. He graduated with Honours from Government College Lahore and is an Actuary as well as a C.F.A.

Adolf Bier (Netherlands), born 1923, is an independent consultant advising on industrial investment projects in many Developing Countries. Before his retirement he made a career with the Royal Dutch Shell Group, holding a variety of positions, both in the Netherlands and internationally, including that of Managing Director of the Shell Pension Fund in the Netherlands.

Richard George Passmore Carss (British), born 1940, is joint Managing Director, Genesis Investment Management Limited and is responsible for the development of Genesis business in Emerging Markets. Prior to this he was with Templeton Investment Management and J.P. Morgan based in London, Tokyo and Hong Kong. Earlier he was with Vickers da Costa in Hong Kong and was responsible for the production of some of the first authoritative investment research material on Korea, Thailand and Brazil.

John Peter Clay (United States), born 1934, is Co-Chairman and President of Clay Finlay Incorporated, an international investment manager with offices in Bermuda, New York, Geneva, Tokyo and London. He has been involved for over 30 years with emerging markets in Japan, East Asia, Europe and Latin America, and has practical experience of fund management in several of these markets.

Aloysius Borja Colayco (Philippines), born 1950, is Jardine Matheson Group Country Chairman for the Philippines and a member of the Board of Jardine Pacific and of the Jardine Matheson Asia Pacific Regional Board. He was formerly Vice President, Foreign Investments for American International Group, Inc. ("AIG") and President of AIG Investment Corporation, based in New York.

Anthony John Newsome (British), born 1949, is joint Managing Director, Genesis Investment Management Limited with responsibility for a number of global Emerging Markets portfolios. He was formerly with Baring International, based in Hong Kong, Japan and London, where he was a director and investment manager responsible for a number of portfolios invested in the Japanese and Pacific regional stock markets. Prior to that, he represented Vickers da Costa in Japan, with further responsibility for Japanese investment research.

Coen Nicolaas Teulings (Netherlands), born 1938, is Chairman of Merifin Capital Group, a substantial private investment group which participates actively in commercial enterprises internationally. He was formerly with Kleinwort Benson Limited, based in London and Brussels, and is a director of Charterhouse Group International Inc.

The Hon. John Train (United States), born 1928, is Chairman of Montrose Advisors and founder of Train Smith Counsel, both investment advisers in New York. His books include "The Craft of Investing", "The Money Masters", "The New Money Masters", "Preserving Capital and Making it Grow", "Famous Financial Fiascos" and "The Midas Touch". He writes columns for the *Wall Street Journal*, the *Financial Times* and other periodicals. He has received a number of US Presidential appointments.

THE MANAGER

The Company has appointed Genesis Fund Managers Limited as its Manager, under an agreement between the Company and the Manager dated 19th June, 1989 as amended by a letter agreement dated 29th April, 1993 (the "Management Agreement"), with responsibility for the selection of investments and the management of the Company. The Manager was incorporated with limited liability in Guernsey on 31st May, 1989 and is a wholly-owned subsidiary of GHIL.

The Manager is also responsible for the management of Genesis Chile Fund Limited, Genesis Malaysia Maju Fund Limited, Genesis Condor Fund Limited and The Genesis Emerging Markets Investment Company which are specialist vehicles for investment by institutional and sophisticated private investors in the Chilean stock market (in the case of Genesis Chile Fund Limited), in small- and medium-sized Malaysian companies (in the case of Genesis Malaysia Maju Fund Limited), in Latin America (in the case of Genesis Condor Fund Limited), and in Emerging Markets (in the case of The Genesis Emerging Markets Investment Company).

The initial appointment of the Manager was for a period of three years from 19th June, 1989 and in accordance with the terms of the Management Agreement continues automatically thereafter unless and until determined by three months' written notice given by the Company or 12 months' written notice given by the Manager. The Manager is entitled to receive the initial charge incorporated in the Subscription Price of Participating Shares issued, out of which it will remunerate the Distributor and other placing agents, as described under the heading "Issue of Participating Shares" on page 22. In addition, the Manager is entitled to receive a management fee from the Company, payable monthly, equal to 0.125 per cent. of the net asset value of the Company as at the last Valuation Day of the relevant month, out of which it pays the fees of the Investment Adviser described below.

The Management Agreement provides that the management fee is to be reduced to the extent that the Company invests in any other open- or closed-ended funds. The Manager will absorb the expenses of management of such other funds to a maximum of one per cent. per annum of the value of the Company's holding in the relevant fund at the relevant time. No management fee is charged on the assets of the Company invested in Genesis Chile Fund Limited.

The Manager or any subsidiary, holding company or associated company of the Manager may deal as agent of the Company or as principal in the acquisition and disposal of securities for the Company on normal commercial terms, and is entitled to retain commissions or profits received from so doing.

THE INVESTMENT ADVISER

The Manager, with the consent of the Directors, appointed Genesis Investment Management Limited as its investment adviser under an agreement dated 19th June, 1989 (the "Investment Advisory Agreement"), with responsibility for the provision of investment advice to assist in the implementation by the Manager of the investment objectives of the Company. The initial appointment of the Investment Adviser was for a period of three years from 19th June, 1989 and in accordance with the terms of the Investment Advisory Agreement continues unless and until determined by three months' written notice given by the Manager or 12 months' written notice given by the Investment Adviser. Under the Investment Advisory Agreement, the Investment Adviser is entitled to receive a fee from the Manager, payable monthly, equal to one per cent. per annum of the net asset value of the Company, calculated and accrued as at each Valuation Day.

The Investment Adviser is a London-based investment management company which is a wholly-owned subsidiary of GHIL. The Genesis companies were established in 1989 by a group of individuals with initial sponsorship from, amongst others, Pine Street Investments Limited. GHIL has institutional and substantial private shareholders located, *inter alia*, in Hong Kong, The Netherlands, Norway, Saudi Arabia, the United Kingdom and the United States. The executives (and their associated interests) of GHIL and its subsidiaries currently hold 56 per cent. of the equity capital of GHIL.

The current directors of the Investment Adviser are:

Jeremy Paulson-Ellis (<i>Chairman</i>)	Paul Greatbatch	Catherine Vlasto
Richard Carss	Mark Lightbown	Karen Yerburgh
Anthony Newsome	Jonathan Points	

The Investment Adviser also acts as investment adviser to Brazilian Holdings F.I.C.E., Genesis Chile Fund Limited, Genesis Malaysia Maju Fund Limited, Genesis Condor Fund Limited and The Genesis Emerging Markets Investment Company.

CUSTODIAN, REGISTRAR AND SECRETARY

By an agreement (the "Custodian and Registrar Agreement") between the Company, the Manager and the Custodian dated 19th June, 1989, as amended by a supplemental agreement dated 29th April, 1993, Bank of Bermuda (Guernsey) Limited was appointed by the Company as custodian of the investments and uninvested cash of the Company, which are held on behalf of the Company either directly by, or in the name of, the Custodian or sub-custodians, nominees, agents or delegates of the Custodian. The Custodian, which was incorporated with limited liability in Guernsey on 13th March, 1973, has an issued and paid-up share capital of £10 million. Bank of Bermuda Limited, a limited company incorporated in Bermuda under the Bank of Bermuda Act of 1890, is the ultimate holding company both of the Custodian and of Management International (Guernsey) Limited.

The appointment of the Custodian as custodian to the Company may be terminated, either by the Company or by the Custodian, on giving the other not less than six months' notice in writing. The Custodian is entitled to receive a fee for acting as such, payable monthly, based on the net asset value of the Company, calculated and accrued as at each Valuation Day, and to be reimbursed its out-of-pocket expenses.

The Custodian is also responsible for maintaining the register of shareholders of the Company and is entitled to receive a fee from the Company for acting as Registrar based on the number of shareholders of the Company, and to be reimbursed its out-of-pocket expenses. The Registrar's fee (including transfer agent fees) for the year ended 30th June, 1996 was \$42,409.

The Custodian has entered into an agreement with Chase Investment Bank Limited ("Chase"), formerly The Chase Manhattan Bank, N.A. under which the latter has agreed to act as sub-custodian of the Company's investments. Chase has been a market leader in global custody since developing the product in 1974, and currently has an extensive custody network.

Under the agreement between the Custodian and Chase, Chase as sub-custodian is entitled to receive a fee, borne by the Company, calculated and payable on the same basis as the Custodian's fee, together with fees based on rates which vary considerably according to the country in question for each sale and purchase transaction undertaken by the Company. The total cost to the Company of custodian and settlement services will therefore depend on both the deployment of the Company's assets and the level of investment activity. The cost of such services is presently running at approximately 0.19 per cent. per annum of the net asset value of the Company.

By an agreement (the "Secretarial Agreement") between the Company, the Manager and Management International (Guernsey) Limited ("MIGL") dated 19th June, 1989, as amended by a supplemental agreement dated 29th April, 1993, MIGL was appointed by the Company as Secretary to the Company, with responsibility for the periodic calculation of the net asset value per Participating Share, the administration of the issue of Participating Shares, the provision of company secretarial services and the general administration of the Company. Under a separate agreement with the Manager, it also provides administrative and accounting services to the Manager. Under the Secretarial Agreement, MIGL is entitled to receive fees from the Company calculated according to the services required to be carried out by it on behalf of the Company, and to be reimbursed its out-of-pocket expenses.

ISSUE, TRANSFER AND REDEMPTION OF PARTICIPATING SHARES

ISSUE OF PARTICIPATING SHARES

Participating Shares may, at the discretion of the Directors, be issued by the Company, pursuant to applications received by the Distributor at or before 10.00 a.m. (London time) on each Dealing Day (described below) or at such other time and/or on such other day as the Directors with the agreement of the Manager may determine, at the Subscription Price calculated as at the close of business on the preceding Valuation Day (described below). Details of the calculation of the Subscription Price, which is based on the net asset value of the Company, are set out below. The Articles provide that Participating Shares may not be issued at a price lower than the applicable net asset value.

Prospective subscribers wishing to acquire Participating Shares should complete the Application Form and send it to the Distributor at 21 Knightsbridge, London SW1X 7LY, so as to be received no later than 10.00 a.m. (London time) on a Dealing Day.

Participating Shares may not be issued during any period when either of the two conditions described under the heading "Restrictions on Subscriptions" on page 23 is not fulfilled, or when the calculation of the net asset value of the Company is suspended. In any such circumstances, applicants will be notified.

An initial charge, included in the Subscription Price, will be payable on the issue of Participating Shares and retained by the Manager, out of which the Manager will pay a fee of 0.5 per cent. of the Subscription Price (excluding the initial charge) to the Distributor and may also pay commissions to Placing Agents. The Articles provide for an initial charge not exceeding 5.25 per cent. of the Subscription Price (excluding such charge), but the Directors presently intend that the initial charge will not exceed 1.5 per cent. of the Subscription Price (excluding such charge).

At the option of the Directors, the Company is permitted by the Articles to satisfy any application for Participating Shares by procuring the transfer to the applicant of fully-paid Participating Shares, the effective date of the transfer being the relevant Dealing Day.

Under an agreement between the Manager and the Distributor dated 19th June, 1989 (the "Distributorship Agreement"), the Manager has appointed Genesis Investment Management Limited as the Distributor for Participating Shares, with responsibility for the marketing of the Participating Shares.

The initial appointment of the Distributor was for a period of three years, and under the terms of the Distributorship Agreement continues unless and until determined by three months' written notice given by the Manager or 12 months' written notice given by the Distributor.

The Distributor is entitled to receive from the Manager a fee of 0.5 per cent. of the Subscription Price (excluding the initial charge) for Participating Shares. This is in addition to other fees the Distributor may receive from the Manager.

Valuation Days and Dealing Days

Valuation Days are the 15th day and last day of each month (or, if any such day is not a Business Day, the last Business Day prior to such day). Dealing Days are the second Business Day following each Valuation Day.

Calculation of Subscription Price

The Subscription Price of Participating Shares as at any Valuation Day will be calculated by:

- i) determining the net asset value per Participating Share (in the manner described under the heading "Calculation of net asset value" on pages 31 to 33) as at the close of business on that Valuation Day and adding thereto such sum as the Directors consider represents the appropriate provision for duties and charges which would be incurred on the assumption that all the investments held by the Company at the relevant Valuation Day were to be purchased by the Company;

- ii) dividing the resulting sum by the number of Participating Shares in issue or deemed to be in issue at the relevant Valuation Day; and
- iii) adding thereto the initial charge referred to under the heading "Issue of Participating Shares" on page 22.

Restrictions on Subscriptions

The Directors may only accept applications for new Participating Shares if the following conditions are fulfilled:

- i) at least 75 per cent. of the Company's net assets are, as at the relevant Valuation Day, invested in securities falling within the investment policy of the Company; and
- ii) Participating Shares are not available for purchase on the London Stock Exchange at a price (inclusive of dealing costs) equal to or less than the Subscription Price applicable on the relevant Dealing Day.

Applicants will accordingly be required to appoint the Manager as their agent to acquire Participating Shares in the secondary market on their behalf and at their risk.

Prior to the admission of Participating Shares to the Official List of the London Stock Exchange, such Participating Shares must not be offered or sold in the United Kingdom whether by this document or by any other means) other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments, whether as principal or agent, for the purposes of their businesses or otherwise in circumstances which will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 of Great Britain and the Financial Services Act 1986.

The Company is not, and will not be, registered under the United States Investment Company Act of 1940, as amended (the "Investment Company Act") and neither the Manager nor the Investment Adviser is or will be registered as an investment adviser under the United States Investment Advisers Act of 1940. In addition, the Participating Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"). Except as described below, the Participating Shares may not at any time be offered, sold or delivered, directly or indirectly, within the United States or to or for the account of any US person or to others for offering or resale in the United States or to or for the account of any US person.

The Manager may from time to time arrange the placing of Participating Shares with a limited number of sophisticated institutional investors who are in the United States or who are US persons under restrictions and other circumstances designed to preclude a distribution that would otherwise require registration of the offer and sale of Participating Shares under the Securities Act, cause the Company to become subject to the Investment Company Act, or cause the Manager or the Investment Adviser to become subject to the United States Investment Advisers Act of 1940.

For the purposes of the foregoing, "United States" means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction and "US person" means any citizen, national or resident of the United States, a corporation, partnership or other entity created or organised in or under the laws of the United States, or an estate or trust, the income of which is subject to United States Federal income taxation regardless of its source.

Fractions

Fractions of Participating Shares will not be issued.

Certificates

Certificates for Participating Shares will not be issued unless specifically requested.

TRANSFER OF PARTICIPATING SHARES

Any shareholder may transfer all or any of his Participating Shares by an instrument of transfer in any usual or common form in use in Guernsey, or in such other form as the Directors may allow. The instrument of transfer must state the full name and address (and, if required by the Directors, the nationality) of the transferor and transferee and be dated on the date on which it is executed. The transferor is deemed to remain the holder until the transferee's name is entered in the register.

The Directors may decline to register any transfer of Participating Shares unless the instrument of transfer is deposited at the registered office of the Company or such other place as the Directors may reasonably require, accompanied by the certificate for the Participating Shares to which it relates (where issued) and such other evidence as the Directors may reasonably require to evidence the right of the transferor to make a transfer.

The registration of transfers may be suspended at such times and for such periods (not exceeding 30 days in any year) as the Directors may from time to time determine.

The Directors may, by notice to a shareholder, at any time request such shareholder to furnish a declaration, in a form satisfactory to the Directors, as to that shareholder's tax residential status. The Articles confer upon the Directors the power to require the transfer or redemption of Participating Shares if the holder is a person who, by virtue of his holding of Participating Shares, is in breach of any laws or regulations of any competent jurisdiction or whose membership of the Company could, in the opinion of the Directors, cause the Company some financial or fiscal disadvantage.

REDEMPTION OF PARTICIPATING SHARES

The Articles provide that, if the holders of Participating Shares by extraordinary resolution so resolve, a holder of Participating Shares will thereafter become entitled to require the Company to redeem the whole or part of his holding of Participating Shares at a price calculated by reference to the net asset value of the Company. The effect of such an extraordinary resolution would be, under existing Guernsey law, to convert the Company into a collective investment scheme requiring authorisation under the provisions of the Protection of Investors (Bailiwick of Guernsey) Law 1987 and, under existing English law, to convert the Company into an unregulated collective investment scheme. In this situation certain restrictions would apply to the promotion of the Participating Shares in the United Kingdom and, according to the current practice of the London Stock Exchange, to the release of information relating to the Company. Furthermore, such an extraordinary resolution could place the Company in a position where, in order to provide sufficient cash to comply with Participating Shareholders' redemption requests, it was necessary for the Company to dispose of illiquid specialist investments at an unfavourable price, which would be to the disadvantage of all holders of Participating Shares.

Taking into account the above considerations, it is not the intention of the Directors to put such a resolution to the holders of Participating Shares unless they are requested to do so by the holders of a material proportion of the Participating Shares and, were such a resolution to be so put, the current intention of the Directors would be to recommend the holders of Participating Shares to vote against it.

The Directors may, at any time after 1st July, 2050, require all or any of the Participating Shares to be redeemed at a price calculated by reference to the net asset value of the Company.

PUBLICATION OF PRICES

The latest net asset value and secondary market price of Participating Shares are published daily in the *Financial Times* and may in future be published in such other daily newspaper or newspapers as the Directors may determine. Current net asset value and secondary market information may also be obtained during normal working hours on a Business Day from the Manager in Guernsey and the Distributor in London.

TAXATION

GUERNSEY

The Administrator of Income Tax in Guernsey has confirmed that the Company is eligible for exemption from taxation in Guernsey under the provisions of the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989. The fee payable for this exemption, which is granted on an annual basis, is £500. The Directors have applied for exemption for the current period and it is their intention annually to apply for such exemption.

Guernsey does not levy taxes on capital inheritances, capital gains, gifts or sales. No document duty is levied in Guernsey on the transfer or redemption of Participating Shares, and no Guernsey tax is withheld in respect of the payment of redemption proceeds to non-Guernsey residents.

Guernsey resident investors will suffer withholding tax on dividend payments. In addition, the attention of Guernsey residents is drawn to the provisions of the Income Tax (Guernsey) Law 1975 as amended, which may render a resident liable to Guernsey income tax on undistributed income and profits of the Company.

UNITED KINGDOM

On the basis that the central management and control of the Company is not undertaken in the United Kingdom, the Company should not be liable to United Kingdom corporation tax on its income or capital gains.

Subject to their personal circumstances, shareholders in the Company who are resident in the United Kingdom for taxation purposes will be liable to United Kingdom income tax or corporation tax in respect of any income distributions of the Company.

The effect of the provisions of Chapter V of Part XVII of the Income and Corporation Taxes Act 1988 (the "ICTA") is that if an investor resident or ordinarily resident in the United Kingdom for taxation purposes acquires an interest in certain circumstances in a company that is resident outside the United Kingdom for taxation purposes and that constitutes an "offshore fund" for the purposes of those provisions, any gain accruing to the investor upon the sale or other disposal of that interest will be taxed as income and not as a capital gain unless the company has qualified as a "distributing fund" throughout the period that the investor has held that interest. Section 134 of the Finance Act 1995 provides that a company resident outside the United Kingdom cannot be an "offshore fund" unless it constitutes a "collective investment scheme" for the purposes of the Financial Services Act 1986. So long as the Company continues to be a closed-ended investment company that does not have the power to purchase its own shares, the Company will not be a "collective investment scheme". Accordingly, unless and until the shareholders in the Company resolve (as mentioned on page 24) to make Participating Shares redeemable and thereby render the Company open-ended, the Company will not constitute an "offshore fund" for the purposes of the above-mentioned provisions of the ICTA. On that basis, the proceeds of sale or other disposal of Participating Shares should not constitute income for United Kingdom taxation purposes, except where the shareholder is treated for United Kingdom taxation purposes as dealing in securities. The sale or other disposal of Participating Shares may, however, give rise to the realisation of a gain or loss for the purposes of United Kingdom taxation of chargeable gains. Where a shareholder resident or ordinarily resident in the United Kingdom for taxation purposes so realises a gain in respect of any Participating Share, he may, subject to his individual circumstances, be liable to United Kingdom capital gains tax or corporation tax on that gain.

The attention of individuals ordinarily resident in the United Kingdom for taxation purposes is drawn to the provisions of Chapter III of Part XVII of the ICTA, which may render them liable to income tax in respect of the undistributed income of the Company.

The attention of companies resident in the United Kingdom for taxation purposes is drawn to the fact that the "controlled foreign companies" provisions contained in Chapter IV of Part XVII of the ICTA could be material to any company so resident that holds, alone or together with certain other persons associated with it for taxation purposes, such number of Participating Shares as would enable the Board of Inland Revenue to apportion to that company 10 per cent. or more of the "chargeable profits" of the Company for the purposes of those provisions, if at the same time the Company is controlled by persons (whether companies, individuals or others) who are resident in the United Kingdom for taxation purposes. The "chargeable profits" of the Company do not include any of its capital gains.

This taxation summary is based on the law and practice currently in force and is subject to changes therein.

Investors should consult their professional advisers on the potential tax consequences of subscribing for, purchasing, holding, redeeming or selling Participating Shares under the laws of their country of citizenship, domicile or residence.

ADDITIONAL INFORMATION

1. Incorporation

The Company is a public company incorporated with limited liability in the Bailiwick of Guernsey. It was incorporated and registered as a closed-ended investment company on 7th June, 1989, under the provisions of the Companies (Guernsey) Law, 1994, with the number 20790. The Company has no place of business in the United Kingdom.

The Company is not a "collective investment scheme" for the purposes of the Protection of Investors (Bailiwick of Guernsey) Law 1987 or for the purposes of the Financial Services Act 1986 of the United Kingdom.

The Memorandum of Association of the Company provides that the Company's principal object is to carry on business as an investment company, as provided in Clause 3(a) of the Memorandum of Association of the Company. The objects of the Company are set out in full in Clause 3 of the Memorandum of Association, which is available for inspection at the registered office of the Company.

2. Responsibility

The Directors, whose names appear on pages 6 and 19, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

3. Share Capital

- a) The share capital of the Company is denominated in dollars. The Company was established with an authorised share capital of \$251,000 divided into 1,000 Founder Shares of \$1 each, all of which have been subscribed fully paid in cash by or on behalf of the Manager, and 25,000,000 unclassified shares of 1 cent each. The unclassified shares may be issued as Participating Shares or Nominal Shares. The Company's shares are in registered form.
- b) By a special resolution passed on 26th May, 1993, the authorised share capital of the Company was increased from \$251,000 to \$336,000 by the creation of 8,500,000 Participating Redeemable 'C' Preference Shares (" 'C' Shares") of 1 cent nominal value each. These 'C' Shares were converted in accordance with their terms on 17th September, 1993 into 3,775,852 Participating Shares and 4,724,148 Nominal Shares. These Nominal Shares were redeemed at par on 22nd September, 1994.
- c) By an ordinary resolution passed on 23rd September, 1994, 10,128,965 Participating Shares were allotted, fully-paid, to shareholders on a one-for-one basis by capitalising the capital redemption reserve arising on the redemption of the Nominal Shares referred to above and part of the Company's non-distributable capital reserve.
- d) There are no rights of pre-emption upon the issue or sale of any class of shares in the Company.

4. Articles

The Articles contain, *inter alia*, provisions to the following effect:

a) Dividend and voting rights

The dividend and voting rights attaching to the various classes of shares are as follows:

i) Founder Shares

Founder Shares have been created so that Participating Shares may be issued with a preference over another class of capital. They carry one vote each on a poll, and do not carry any right to dividends or income. Founder Shares are not redeemable. Save for the Founder Shares subscribed by the subscribers to the Memorandum and Articles of Association of the Company, they are held only by or on behalf of the Manager.

ii) *Unclassified Shares*

These may be issued by the Directors either as Participating Shares or as Nominal Shares.

1) *Participating Shares*

Participating Shares carry a right to participate in dividends. Each holder of a Participating Share is entitled, on a poll, to one vote for each Participating Share held.

2) *Nominal Shares*

Nominal Shares may only be issued and redeemed at par and only to the Manager for the purpose of providing funds for the redemption of Participating Shares. They carry no right to dividend and no right to vote whatsoever.

The Manager is obliged to subscribe for Nominal Shares for cash at par when Participating Shares are redeemed unless the Directors decide that the nominal amount of such Participating Shares is to be redeemed out of distributable profits.

b) *Rights on winding-up*

In the event of the Company being wound up, the liquidator will apply the assets of the Company, subject to the provisions of Guernsey law, in satisfaction of creditors' claims in such manner and order as he thinks fit. The assets available for distribution among the shareholders will be applied in the following priority:

- i) **first**, in the payment to the holders of Participating Shares of a sum equal to the nominal amount of the Participating Shares held by such holders respectively, provided that there are sufficient assets available in the Company to enable such payment to be made;
- ii) **secondly**, in the payment to the holders of Nominal Shares of sums up to the nominal amount paid up thereon;
- iii) **thirdly**, in the payment to the holders of Founder Shares of sums up to the nominal amount paid up thereon; and
- iv) **fourthly**, in the payment to the holders of Participating Shares of any balance of any assets then remaining, such payment being made in proportion to the number of Participating Shares held.

c) *Transfer of shares*

Any shareholder may transfer all or any of his shares (other than Founder Shares or Nominal Shares) by an instrument of transfer in any usual or common form in use in Guernsey, or in such other form as the Directors may allow. The instrument of transfer must state the full name and address (and, if required by the Directors, the nationality) of the transferor and transferee and be dated on the date on which it is executed. The transferor is deemed to remain the holder until the transferee's name is entered in the register.

The Directors may decline to register any transfer of any shares unless the instrument of transfer is deposited at the registered office of the Company or such other place as the Directors may reasonably require, accompanied by the certificate for the shares to which it relates (where issued) and such other evidence as the Directors may reasonably require to evidence the right of the transferor to make a transfer.

The registration of transfers may be suspended at such times and for such periods (not exceeding 30 days in any year) as the Directors may from time to time determine.

d) *Compulsory transfer of Participating Shares*

The Directors have the power to impose such restrictions, other than any restriction on transfer, as they may think necessary to ensure that no Participating Share is acquired or held by any person in breach of the laws or requirements of any country or governmental authority. The Directors also have the power under the Articles to require the transfer or redemption of Participating Shares in certain circumstances - see "Transfer of Participating Shares" on pages 23 and 24.

e) *Variation of class rights*

- i) Subject to the provisions of Guernsey law, all or any of the special rights for the time being attached to any class of shares for the time being issued may (unless otherwise provided by the terms of issue of the shares of that class) from time to time (whether or not the Company is being wound up) be altered or abrogated with the consent in writing of the holders of not less than three-fourths of the issued shares of that class, or with the sanction of a resolution passed by a majority of three-fourths of the votes cast at a separate general meeting of the holders of such shares.

To every such separate general meeting, all of the provisions of the Articles as to general meetings of the Company shall (with certain exceptions) *mutatis mutandis* apply.

- ii) The rights attached to Participating Shares are deemed to be varied by the creation, allotment or issue of any shares (other than Participating Shares) ranking *pari passu* with or in priority to the Participating Shares as regards participation in the profits or assets of the Company. Notwithstanding the foregoing, the rights attached to the Participating Shares, the Founder Shares and the Nominal Shares shall be deemed not to be varied by the creation, allotment or issue of shares in the capital of the Company which (a) either (i) carry rights to participate in the profits or assets of the Company only to the extent attributable to the net cash proceeds (after all expenses relating thereto) of the issue of such shares (or the net proceeds of sale after all expenses in the case of any non-cash consideration for the issue thereof) as invested in or represented by investments or cash or other assets from time to time less such expenses and liabilities (or the due proportion thereof) as the Directors fairly consider to be allocable thereto or (ii) for such period as may be specified in or provided by the terms of issue thereof carry rights to participate in the profits or assets of the Company only to the extent set out in (i) and thereafter convert (in whole or in part), on a basis related to the ratio which the net asset value attributable to each such share bears to the net asset value attributable to each Participating Share on the date of calculation (such net asset values being determined on a consistent basis specified in or provided by the terms of issue of such shares), into and rank *pari passu* in all respects with Participating Shares and, to the extent that they do not so convert, do not rank *pari passu* with or in priority to the Participating Shares as respects participating in the profits or assets of the Company and (b) do not carry the right to attend or vote at any General Meeting (other than a separate class meeting of the holders of such shares) of the Company.
- iii) Subject to paragraph (ii) above, the special rights attached to any class of shares having special rights are, unless otherwise expressly provided by the conditions of issue of such shares, deemed not to be varied by the creation or issue of further shares ranking in any respect *pari passu* therewith.

f) *Directors*

- i) Unless otherwise determined by an ordinary resolution of the Company in general meeting, the number of Directors shall not be less than five nor more than ten. A majority of Directors shall not be resident in the United Kingdom.
- ii) There is no shareholding qualification for Directors.
- iii) The Directors may exercise all the powers of the Company to borrow or raise money and secure any debt or obligation of or binding on the Company in any manner, including the issue of debentures, and to secure the repayment of any money borrowed, raised or owing by mortgage, charge, pledge or lien upon the whole or any part of the Company's undertaking, property or assets, present or future and also by a similar mortgage, charge, pledge or lien to secure and guarantee the performance of any obligation or liability undertaken by the Company or any third party.

The Directors are required by the Articles to restrict the borrowings of the Company so that the aggregate principal amount (including any fixed or minimum premium payable on final repayment) of moneys borrowed by the Company shall not, without the previous sanction of an ordinary resolution of the Company in general meeting, exceed at the time such borrowing is incurred or increased, as the case may be, a sum equal to ten per cent. of the net asset value of the Company.

- iv) The Directors shall be entitled to such remuneration as the Directors shall determine (such remuneration not to exceed \$100,000 per annum in the aggregate). The Directors shall be entitled to receive such increased remuneration as may be voted to them by the Company in general meeting. Such remuneration shall be deemed to accrue from day to day. The Directors may also be paid all travelling, hotel and other expenses properly incurred by them in attending and returning from meetings of the Directors, or of any committee of the Directors, or general meetings of the Company, or in connection with the business of the Company.
- v)
- 1) A Director may hold any other office or place of profit under the Company, other than the office of auditor, in conjunction with his office of Director on such terms as to tenure of office or otherwise as the Directors may determine.
 - 2) A Director may act by himself or by his firm in a professional capacity for the Company, other than as auditor, and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.
 - 3) A Director may be interested, whether as a member, director, managing director, manager or other officer, in a company in which the Company is interested, and, unless otherwise agreed, shall not be accountable for any remuneration or other benefits received by him as such.
 - 4) No Director or intending Director shall be disqualified by his office from contracting with the Company as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company in which any Director is in any way interested be liable to be avoided, nor shall any Director who is so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relationship thereby established, but the nature of his interest must be declared by him at the meeting of the Directors at which the proposal to enter into the contract or agreement is first considered or, if the Director in question was not at the date of that meeting interested in the proposed contract or arrangement, then at the next Directors' meeting held after he becomes so interested. A general notice in writing given to the Directors by any Director to the effect that he is a member of any specified company or firm and is to be regarded as interested in any contract or arrangement which may thereafter be made with that company or firm is deemed a sufficient declaration of interest in relation to any contract or arrangement so made.
 - 5) Except as otherwise provided in the Articles, a Director shall not vote in respect of any contract or arrangement or any other proposal whatsoever in which he has any material interest, otherwise than by virtue of his interest in shares or debentures or other securities of, or otherwise in or through, the Company. A Director shall not be counted in the quorum at any meeting in relation to any resolution upon which he is debarred from voting.
 - 6) The Company may by ordinary resolution suspend or relax the provisions of (5) above to any extent or ratify any transaction not duly authorised by reason of a contravention of any such provision.
- vi) There is no requirement under the Articles for a Director to retire at a specified age. At each Annual General Meeting, two Directors shall retire from office but, if there is only one Director who is subject to retirement by rotation, he shall retire. Subject to the provisions of Guernsey law and of the Articles, the Directors to retire by rotation shall be those who have been longest in office since their appointment or reappointment, but as between persons who became or were last reappointed Directors on the same day, those to retire shall (unless they otherwise agree amongst themselves) be determined by lot.

If the Company, at the meeting at which a Director retires by rotation, does not fill the vacancy, the retiring Director shall, if willing to act, be deemed to have been reappointed unless at the meeting it is resolved not to fill the vacancy or a resolution for the reappointment of the Director is put to the meeting and lost.

No person other than a Director retiring at the meeting (whether by rotation or otherwise) shall be appointed or reappointed a Director at a general meeting unless:

- 1) he is recommended by the Board; or
- 2) not less than six nor more than thirty-five clear days before the meeting, notice executed by a member qualified to vote at the meeting (not being the person to be proposed) has been given to the Secretary of the intention to propose that person for appointment or reappointment together with notice executed by that person of his willingness to be appointed or reappointed.

g) *Dividends*

The Company in general meeting may declare dividends, but no dividends shall exceed the amount recommended by the Directors. The Directors may from time to time if they think fit pay such interim dividends as appear to the Board to be justified by the profits of the Company. No dividend may be declared or paid other than from the profits or gains resulting from the Company's business, and no dividend is payable on any shares other than Participating Shares. Any dividend unclaimed after a period of twelve years from the date of declaration shall be forfeited and shall revert to the Company.

h) *Untraced shareholders*

The Company shall be entitled to sell at the best price reasonably obtainable the shares of a member or the shares to which a person is entitled by transmission if, during a period of twelve years, at least three dividends have been paid in relation to such shares during those twelve years and no such dividend has been claimed and during such period of twelve years and within a further period of three months from the date of advertisements giving notice of its intention to sell such shares placed after the expiry of the period of twelve years the Company has not received any communication from the member or the person entitled by transmission. The Company shall be obliged to account to the former member or person entitled by transmission for the net proceeds of sale of such shares but no trust shall be created in respect of the debt and no interest shall be payable to account for any money earned on the net proceeds.

i) *Calculation of net asset value*

The Articles provide for the net asset value per Participating Share to be determined as of each Valuation Day by reference to the net asset value of the Company as at the close of business on the relevant Valuation Day. The net asset value per Participating Share is calculated by dividing the value of the assets of the Company, less its liabilities (including accrued charges and expenses and provision for contingent liabilities as appropriate), by the total number of Participating Shares in issue.

The value of the assets of the Company and the amount of its liabilities are determined by the Directors in accordance with Article 19 of the Articles, which provides, *inter alia*, that:

- 1) the assets of the Company shall be deemed to include the following:
 - a) all cash in hand, on loan or on deposit, or on call, including any interest accrued thereon;
 - b) all bills, demand notes, promissory notes and accounts receivable;
 - c) all bonds, time notes, shares, stock, debenture stock, subscription rights, warrants, options and other investments and securities owned or contracted for by the Company, other than rights and securities issued by it;
 - d) all stock and cash dividends and cash distributions to be received by the Company and not yet received by it but declared payable to stockholders of record on a date before the day as of which the assets are being valued;
 - e) all interest accrued on any interest-bearing securities owned by the Company;
 - f) all interests of the Company in limited partnerships;
 - g) all other investments of the Company; and
 - h) all other assets of the Company of every kind and nature, including prepaid expenses as valued and defined from time to time by the Directors;

- 2) any expense or liability of the Company may be capitalised and amortised over such period as the Directors may determine (and the Directors may at any time and from time to time determine to lengthen or shorten any such period) and the unamortised amount thereof at any time shall also be deemed to be an asset of the Company;
- 3) the investments of the Company shall be valued as follows:
 - a) deposits shall be valued at their principal amount plus accrued interest from the date of acquisition;
 - b) certificates of deposit acquired at their nominal value shall be valued at cost plus accrued interest from the date of acquisition on the nominal value at the coupon rate;
 - c) certificates of deposit acquired at a discount or premium to the sum of the nominal value and accrued interest at the date of acquisition shall be valued at their cost plus accrued interest from the date of acquisition on the nominal value at the coupon rate, and adjusted by an amount equal to the discount or premium at which they were acquired divided by the number of days unexpired at the date of acquisition and multiplied by the number of days elapsed from the date of acquisition to the date as of which the assets are being valued;
 - d) treasury bills shall be valued at their cost, plus accrued interest calculated by dividing the discount (if any) at which they were acquired by the number of days unexpired at the date of acquisition and multiplied by the number of days elapsed from the date of acquisition to the date as of which the assets are being valued; and
 - e) assets listed or quoted on a stock exchange shall be valued at the middle market closing prices on the relevant stock exchange on the relevant Valuation Day (or, if such stock exchange is not open for trading on such Valuation Day, on the last day preceding such Valuation Day on which it was open) provided, however, that if such assets shall be listed or dealt in upon more than one stock exchange, the Directors may in their discretion select one of such stock exchanges for the foregoing purposes.

If, in the case of any investment of the Company described in sub-paragraph iii) above, the Directors at any time consider that the above basis of valuation is inappropriate or that the value determined in accordance with the foregoing principles is unfair, the Directors shall be entitled to substitute what is, in their opinion, a fair value therefor;

- 4) notwithstanding the foregoing, where at the time as of which the assets are being valued any investment of the Company has been realised or contracted to be realised, there shall be included in the assets of the Company in place of such investment the net amount receivable by the Company in respect thereof provided that if the net amount receivable is not payable until some future time after the time as of which the assets are being valued, the Directors may make such allowance as they consider appropriate;
- 5) any valuations made pursuant to the Articles shall be binding on all persons;
- 6) the liabilities of the Company shall be deemed to include all its liabilities (including such amount as the Directors determine to provide in respect of contingent liabilities) of whatsoever kind and nature except liabilities represented by Participating Shares in the Company. In determining the amount of such liabilities, the Directors may calculate any liabilities on an estimated figure for yearly or other periods in advance and accrue the same in equal proportions over any such period. Where applicable, liabilities shall be accrued from day to day; and
- 7)
 - a) the price of Participating Shares which have been allotted or provisionally allotted payable to the Company (less commission, if any, and less any other duties and charges payable by the Company in connection with the allotment and issue thereof) shall be deemed to be an asset of the Company as of the time at which such Participating Shares are deemed to be in issue pursuant to the Articles; and

- b) the price for Participating Shares which have been redeemed or whose allotment has been provisionally cancelled shall, from the time at which such Participating Shares are deemed to have ceased to be in issue pursuant to the Articles until such price is paid, be deemed to be a liability of the Company.

The Articles contain provisions enabling the Directors to suspend the determination on any Valuation Day of the net asset value for Participating Shares for the whole or any part of a period during which:

- a) a breakdown occurs in any of the means normally employed by the Directors in ascertaining the net asset value of the Company; or
- b) circumstances exist as a result of which, in the opinion of the Directors, it is not reasonably practicable for the Company to realise or to dispose of assets of the Company or fairly to determine the net asset value.

j) *Indemnities*

Every Director, Secretary and other officer or servant of the Company will be indemnified by the Company against all costs, losses and expenses which any such Director, officer or servant may incur or become liable to by reason of any contract entered into or in respect of any claim made or brought against him directly or indirectly arising out of his office as a Director, secretary, officer or servant of the Company or otherwise incurred in any way in the discharge of his duties.

5. Conflicts of interest

- a) Certain of the Directors (Mr. J. D. Paulson-Ellis, Mr. R. G. P. Carss, Mr. C. N. Teulings and the Hon. J. Train) are also members of the board of directors of Genesis Chile Fund Limited. In addition, the Manager and the Investment Adviser and Distributor perform similar functions for Genesis Chile Fund Limited, and the Investment Adviser and Distributor performs similar functions for Brazilian Holdings F.I.C.E. As at 31st December, 1996 the Company held 1,362,004 shares in Genesis Chile Fund Limited and 2,676,428 units in Brazilian Holdings F.I.C.E. These shareholdings are portfolio investments of the Company made in accordance with the investment objective and policy set out on pages 14 to 17. In order to avoid any conflict of interest, the Directors and the Manager have confirmed to Genesis Chile Fund Limited that, unless and until there is any material change in the regulations relating to foreign investment in the Chilean stock market, the Company will not invest directly in securities issued by Chilean companies in Chile. In the event of any such material change, the Directors and the Manager will discuss the matter with the directors of Genesis Chile Fund Limited with a view to avoiding any potential conflicts of interest. The Company is not prevented from investing outside Chile in Chilean-related securities, such as American Depositary Receipts or funds investing in Chile.
- b) It is possible that the Manager and the Investment Adviser may, in the course of their respective businesses, have potential conflicts of interest with the Company. They may, for example, make investments on their own behalf or for other clients without making the same available to the Company, and may provide investment advice to other clients.

6. General meetings and reports and accounts

All holders of Participating Shares are entitled to receive notices of general meetings and to attend and vote thereat. At a vote taken by a show of hands, every holder of Participating Shares who is present in person has one vote. On a poll, a holder present in person or by proxy of Participating Shares has one vote for each Participating Share held by him.

The Annual General Meeting of shareholders of the Company is held in Guernsey for the purpose, *inter alia*, of considering the annual audited financial statements of the Company, made up to 30th June in each year. Notices convening the Annual General Meeting, together with the annual report and accounts of the Company, will be sent, normally in the following September, to shareholders at their registered addresses at least 21 days before the date fixed for the meeting.

Shareholders are also sent, normally in February of each year, copies of the Manager's half-yearly report on the Company and the half-yearly unaudited financial statements of the Company (made up to 31st December in the preceding year).

Other general meetings and class meetings of the Company may be convened from time to time by the Directors on the giving of 21 days' notice to all shareholders, or to holders of the relevant class of share, as the case may be.

7. Costs and expenses

The Company is responsible for all its operating expenses including, without limitation, Directors' fees and expenses, legal costs, bank charges, auditors' remuneration and expenses, the cost of all brokerage payable on the purchase or sale of investments, interest on borrowings and related fees, the initial and annual fees payable in respect of exempt company status in Guernsey, the cost of printing and distributing the half-yearly and annual reports and statements, the cost of preparing prospectuses and explanatory memoranda, expenses incurred in obtaining and maintaining a listing for the Participating Shares (and any other class of share which may be issued from time to time) on the London Stock Exchange and on any other stock exchange in any jurisdiction and the costs of publishing Subscription Prices and net asset values.

GENESIS EMERGING MARKETS FUND LIMITED

(the "Company")

(Incorporated with limited liability under the laws of Guernsey, registered number 20790)

APPLICATION FORM

Application for Participating Shares of 1 cent each at the Subscription Price calculated in accordance with the Articles of Association of the Company

Notes on how to complete this application form appear on page 35 of the Explanatory Memorandum

Return to the Distributor:
Genesis Investment Management Limited
21 Knightsbridge
London SW1X 7LY, United Kingdom

Telephone: 0171 235 7022
Telex: 919062 GIML G
Facsimile: 0171 235 8072

1. Details of Applicant(s): BLOCK CAPITALS PLEASE

Surname(s)	Forenames in Full
(1)	
(2)	
(3)	
(4)	
Company or other entity (if applicable)	
Permanent Address (first named holder only)	
Telephone:	
Facsimile:	Telex:

2. Registration Name and Address

Name(s) and address in which holding to be registered (if different from (1) above).

Name(s) _____

Address _____

For the purposes of sub-paragraphs 2(a) and (b) above, "United States" means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction and "US person" means any citizen, national or resident of the United States, a corporation, partnership or other entity created or organised in or under the laws of the United States, or an estate or trust, the income of which is subject to United States Federal income taxation regardless of its source.

I/We declare that I am/we are not resident in Guernsey, Alderney or Herm for the purposes of Guernsey income tax legislation and that I am/we are not acquiring the Participating Shares as nominee or trustee for any person(s) so resident.

Signature(s)	Date
(1)	
(2)	
(3)	
(4)	

A company should execute under the hand of an authorised official or under its common seal.

Placing Agent	
Name:	
Address:	
Telephone:	Facsimile:

3. Amount of Investment

I/We apply

for (indicate number of shares):

Participating Shares of 1 cent each in Genesis Emerging Markets Fund Limited subject to the Articles of Association of the Company.

4. Type of Holding

I/we wish the holding to be certificated

☐

(tick appropriate box)

uncertificated

☐

5. Payment

I/We undertake to make payment to the account and in the form specified by the Manager upon notification of the Subscription Price and the amount due in respect of this application.

6. By completing and delivering this Application Form, I/we:

- i) agree that my/our application for Participating Shares is made solely on the basis of the information contained in the explanatory memorandum dated ● February, 1997 and the accompanying half-yearly or annual accounts of the Company (together, the "Explanatory Memorandum") and that I/we have not, in accepting such offer, relied upon any information, representation or warranty, express or implied, which is not contained in such Explanatory Memorandum;
- ii) agree to accept the allotment or transfer to me/us of the number of Participating Shares specified in this Application Form;
- iii) authorise the Distributor to procure that the name(s) specified above is/are placed on the register of members of the Company as the holder(s) of the number of Participating Shares in respect of which the application is accepted, in fully-paid form;
- iv) authorise and appoint Genesis Fund Managers Limited (the "Manager") as my/our agent to purchase Participating Shares in the secondary market on my/our behalf (and in satisfaction in whole or in part of this application) and at my/our risk if, on the relevant Dealing Day, Participating Shares are available for purchase on the London Stock Exchange Limited at a price (inclusive of the Manager's dealing charge of 0.5 per cent. of consideration) equal to or less than the Subscription Price applicable on such Dealing Day; and
- v) confirm that I/we have attained 18 years of age.

7. Declaration and Signature

I/We declare that: (delete as appropriate)

- 1) a) I am/we are not a person in the United Kingdom; or
b) I am/we are a person whose ordinary activities involve acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of a business or who is a government, local authority or public authority as defined in paragraph 3 of Schedule 1 to the Financial Services Act 1986.
- 2) a) I am/we are not a person in the United States nor am I/are we a US person or acting on a non-discretionary basis for a person in the United States or a US person; OR
b) I am/we are a person in the United States who is an "accredited investor" within the meaning of Regulation D under the United States Securities Act of 1933, as amended, and have delivered a letter to you regarding such status and as to certain other matters and containing our agreement to certain restrictions upon the resale of the Participating Shares.