EFG – Hermes Middle East and Africa Funds Limited
Telecom Fund

Financial statements and audit report for the financial year ended December 31, 2011

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INDEPENDENT AUDITOR'S REPORT

To: The Shareholders of EFG – Hermes Telecom Fund

Report on the financial statements

We have audited the accompanying financial statements of EFG – Hermes Telecom Fund Limited as of December 31, 2011 which comprise the statement of financial position and the related statements of comprehensive income, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies, and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the EFG–Hermes Telecom Fund Limited as of December 31, 2011 and its financial performance, its cash flows and changes in its net assets for the period then ended in conformity with International Financial Reporting Standards "IFRS".

Cairo, February 29, 2012

Kamel Magdy Saleh, ACA
F.E.S.A.A. (R.A.A. 8510)

EFG – Hermes Middle East and Africa Funds Limited
Telecom Fund
Statement of Financial position
As of December 31, 2011

	Note	December 31, 2011 USD	December 31, 2010 USD
Assets			
Cash held with brokers	(6)	770 733	582 781
Cash at banks	(7)	2 688 178	1 741 139
Investments at fair value through profit or loss - Held for trading investments	(8)	10 987 130	17 795 885
Available for sale investments	(9)	756 394	2 351 480
Debtors and other debit balances	(10)	763 979	52 611
Total assets		**15 966 414**	**22 523 896**
Liabilities			
Payables on purchase of investments		-	15 145
Creditors and other credit balances	(11)	130 567	271 192
Total liabilities		**130 567**	**286 337**
Net assets value		**15 835 847**	**22 237 559**
Number of outstanding shares	(12)	**680 182**	**720 412**
Net assets value per share		**23.28**	**30.86**

- The attached notes from (1) to (21) form an integral part of these financial statements.

-Independent auditors' report attached.

EFG – Hermes Middle East and Africa Funds Limited
Telecom Fund
Statement of Comprehensive income
For the year ended December 31, 2011

	Note	Year ended December 31, 2011 USD	Year ended December 31, 2010 USD
Investment income			
Interest income on current accounts	(5-a)	2 147	11 107
Dividends income	(5-a)	783 011	614 418
Net realized and unrealized (loss) gain on investement	(5-e)	(3 838 468)	2 099 267
Foreign currencies translation (losses)	(5-b)	(184 550)	(215 284)
Total investment (loss) income		**(3 237 860)**	**2 509 508**
Investment cost			
Management fees	(13)	314 225	383 520
Custody fees	(14)	37 522	39 802
Administrator's fees	(15)	33 050	33 050
Board of directors' fees	(16)	21 523	--
Incentive fees	(13)	--	2 567
Impairment Loss on AFS investements		1 565 563	--
Other expenses		74 683	95 562
Total investment cost		**2 046 566**	**554 501**
Net investment (loss) gain		**(5 284 426)**	**1 955 007**
Redemption fees		872	5 540
Net (loss) gain for the year from operations		**(5 283 554)**	**1 960 547**
Other comprehensive income			
Net (loss) gain on available-for-sale financial assets		(29 523)	46 164
Total other comprehensive (loss) income		**(29 523)**	**46 164**
Total comprehensive (loss) income for the year		**(5 313 077)**	**2 006 711**

- The attached notes from (1) to (21) form an integral part of these financial statements.

EFG – Hermes Middle East and Africa Funds Limited
Telecom Fund
Statement of Changes in Net Assets
For the year ended December 31, 2011

	Year ended December 31, 2011 USD	Year ended December 31, 2010 USD
Change in Net Assets from Operations		
Total comprehensive (loss) Income for the year	(5 313 077)	2 006 711
(Decrease) in net assets resulting from operations	**(5 313 077)**	**2 006 711**
Change in Net Assets from Capital Transactions		
Payments on redemption of certificates	(1 088 635)	(1 531 472)
Relevant redemption fees	872	5 540
Less: Redemption fees reclassified to profit or loss	(872)	(5 540)
Net (decrease) in net assets (used in) Capital Transactions	**(1 088 635)**	**(1 531 472)**
Total (decrease) or increase in net assets during the year	(6 401 712)	475 239
Net Assets at the beginning of the year	**22 237 559**	**21 762 320**
Net Assets at the end of the year	**15 835 847**	**22 237 559**

- The attached notes from (1) to (21) form an integral part of these financial statements.

EFG – Hermes Middle East and Africa Funds Limited
Telecom Fund

Statement of Cash flow

For the year ended December 31, 2011

	Year ended December 31, 2011 USD	Year ended December 31, 2010 USD
Cash flow from operating activities		
Net (loss) gain for the year from operations	(5 283 554)	1 960 547
Adjusted by:		
Loss (gain) on sale and measurement of investments	3 838 468	(2 099 267)
Losses from foreign currencies translation	184 550	215 284
Impairment loss on AFS investements	1 565 563	--
Operating profit before working capital changes	**305 027**	**76 564**
Decrease in investments at fair value through profit or loss	2 785 737	675 023
(Increase) decrease in debtors and other debit balances	(711 368)	23 982
(Decrease) in payables on purshase of investments	(15 145)	(461 564)
(Decrease) increase in creditors and other credit balances	(140 625)	125 719
Net cash generated from operating activities	**2 223 626**	**439 724**
Cash flows from financing activities		
(Payments) on redemption of certificates	(1 088 635)	(1 531 472)
Net cash (used in) financing activities	**(1 088 635)**	**(1 531 472)**
Net change in cash and cash equivalents during the year	1 134 991	(1 091 748)
Cash and cash equivalents - beginning of the year	**2 323 920**	**3 415 668**
Cash and cash equivalents - end of the year	**3 458 911**	**2 323 920**
Cash and cash equivalents are represented in:		
Cash at banks	2 688 178	1 741 139
Cash held with brokers	770 733	582 781
Cash and cash equivalents at the end of the year	**3 458 911**	**2 323 920**

- The attached notes from (1) to (21) form an integral part of these financial statements.

EFG – Hermes Middle East and Africa Funds Limited
Telecom Fund
Notes to the Financial Statements
For the financial year ended December 31, 2011

1- General information

The EFG Hermes Telecom Fund (The Fund) is a sub-fund of EFG-Hermes Middle East and Africa Funds Limited, an umbrella fund incorporated as a mutual fund in Bermuda on January 27, 2000.

The Telecom fund is being established for the purpose of providing shareholders with the opportunity of investing indirectly in telecommunications and other information technology companies in the Middle East and Africa. The principal investment objective in the management of the Telecom fund's investments is to provide investors with return in the form of long-term capital appreciation. The Fund is investing principally in listed and unlisted equity and equity-related securities of telecommunications media entertainment, information technology, internet, e-commerce and related infrastructure companies incorporated or operating in Middle East and Africa.

2- Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

1. Adoption of new and revised International Financial Reporting Standards

1.1. Relevant Standards and Interpretations effective in the current period

IAS 24	Related Party Disclosures – Revised definition of related parties The amended definition aims to simplify the definition of related party, clarify its intended meaning, and eliminate inconsistencies. No changes in the Fund's related parties disclosures have resulted from the revisions in IAS 24.
IAS 32	Financial Instruments: Presentation — Amendments relating to classification of rights issues The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application. The application of the amendments has had no effect on the amounts reported in the current year and prior years because the Fund has not issued instruments of such nature.
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments The interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognized in profit or loss. The application of IFIC 19 has had no effect on the amounts reported in the current year and prior years because the Fund has not entered into any transactions of such nature.

1.2. Relevant Standards in issue but not yet effective

New and Revised Standards		Effective from annual periods beginning on or after the dates specified below
IFRS 7	Financial Instruments – Amendment to IFRS 7: Disclosure The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. The directors do not anticipate that these amendments to IFRS 7 will have a significant effect on the Fund's disclosures regarding transfers of financial assets previously affected. However, if the Fund enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.	1 July 2011
IFRS 9	Financial Instruments – Amendment of recognition and measurement requirements as the first part of the project to replace IAS 39	1 January 2015
IFRS 13	Fair Value Measurement IFRS 13 defines fair vale, establishes a frame work for measuring fair value, and requires disclosures about fair value measurement. The scope of IFRS 13 is broad; it applies to both financial instrument items and non financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards.	1 January 2013
IAS 1	Presentation of Financial Statements— Amendments to revise the way other comprehensive income is presented	1 July 2012

-The directors do not anticipate that the Standards and Interpretations listed in the preceding table that will be adopted in the Fund's financial statements for the annual periods beginning on or after the dates specified above will have a significant impact on amounts reported in the fund's financial statements. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

3- Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

4- Critical accounting judgments and key sources of estimation uncertainty

In the application of the Fund's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. These estimates and associated assumptions are based on management historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Therefore, those estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4.1. Critical judgments in applying accounting policies

The directors have not made critical judgements when applying the entity's accounting policies, apart from those involving estimations (Note 4.2), that have the most significant effect on the amounts recognised in the financial statements.

4.2. Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the financial reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value of derivatives and other financial instruments

As described in Notes (5i and 20), the directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. The estimation of fair value of unlisted shares, whose fair value can be reliably measured, includes some assumptions not supported by observable market prices or rates. The unlisted shares that do not have quoted prices and whose fair value can not be relaibly measured and, therefore, stated at cost, have a carrying amount of USD 0.765 millions (2010: USD 2.351 million) and are classified as available for sale financial assets as disclosed in Note (9).

Impairment of available-for-sale financial assets

At the end of each reporting period, the fund reviews the carrying amounts of its available for sale financial assets to determine whether there is any objective evidence that an AFS financial asset or group of AFS financial assets is impaired. An AFS financial asset is impaired, and an impairment loss recognized, if and only if, such evidence exists. Objective evidence of impairment may result from one or more events that occurred after the initial recognition of the asset (a 'loss event') which the fund considers.

When considering what is a 'significant or prolonged decline in fair value' of an available-for-sale listed equity investment below cost, the fund compares the original cost at the date of acquisition and fair value of the equity security on the re-measurement date. This assessment is made in the functional currency of the entity holding the instrument. Therefore, when the foreign currency, in which the listed equity investment is denominated, depreciates significantly and causes decline in fair value below cost, an impairment loss is recognized.

If there is objective evidence that an AFS unquoted equity investment (measured at cost) is impaired, the fund measures the amount of the impairment loss as the difference between carrying amount and the present value of estimated future cash flows discounted at the current rate of return for a similar financial asset.

5- Significant accounting policies

The principal accounting policies set out below have been consistently applied in the preparation of the accompanying financial statements for all periods presented:

a- Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Dividend income on equity securities is recognized when the shareholders' right to receive payment has been established provided that the economic benefits will flow to the fund and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Fund and the amount of income can be measured reliably. Interest is accrued on a time basis, by reference to the principal outstanding and at the effective interest

rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

b- Foreign currencies

The Fund's net assets value is quoted in US Dollar and as such, the financial statements of the fund are presented in US Dollar; the currency in which its cash flows from financing activities are invested or generated and in which receipts from operating activities are usually retained. However, operations are mainly denominated in multi currency.

Transactions denominated in currencies other than the US Dollar, are translated to US Dollar using the rate in effect at the date of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise, except for exchange differences arising on non-monetary assets and liabilities carried at fair value through profit or loss, where translation differences are recognized as part of changes in fair value.

c- Taxation

The taxation of income and capital gains of the Fund is subject to the fiscal laws and practices of Bermuda, United Kingdom and any other jurisdiction in which the Fund invests. See Note (18) for detailed information on Taxation.

d- Provisions

Provisions are recognized when the Fund has a present obligation (legal or constructive), as a result of past events, it is probable that the fund will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the financial reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognized in profit or loss as finance cost.

e- Financial instruments

Financial assets and financial liabilities are recognized when the Fund becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated upon initial recognition as at FVTPL.

A financial asset is classified as "Held for Trading" if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Held for trading financial assets are stated at fair value, with any resulting gain or loss, representing the difference between the market or estimated fair value of securities, on the day of valuation, and average cost, recognized in profit or loss.

Realized gains and losses on sale of held for trading investments are recognized, in profit or loss, on the trade date, as the difference between the selling price, net of commissions and expenses, and average cost.

Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency, interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss, that was previously deferred in other comprehensive income, is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Fund's right to receive the dividends is established.

Foreign exchange gains and losses (related to equity instruments) are recognized in other comprehensive income until the asset is disposed of or impaired, in which case, they are reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables including Dividend receivables, bank balances and cash are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances and short-term demand deposits that are readily convertible to known amounts of cash. However, for the purpose of preparing the cash flow statement, cash held with brokers are also considered since the Fund has full access to the cash balances held at the broker banks accounts.

f- Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the financial asset, that the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.
For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.
The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value, subsequent to an impairment loss, is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve.

g- Derecognition of financial assets

The Fund derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Fund recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the Fund continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognizing of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.
On derecognizing of a financial asset other than in its entirety (e.g. when the Fund retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Fund retains control), the Fund allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

h- Financial liabilities and equity instruments issued by the Fund

Share capital

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.
The redeemable shares provide investors with the right to require redemption for cash at a value proportionate to the investor's share in the Fund's net assets at each monthly redemption date and also in the event of the Fund's liquidation and after deduction of performance fees attributable to each number of redeemed shares.
A puttable financial instrument that includes a contractual obligation for the Fund to repurchase or redeem that instrument for cash or another financial asset is classified as equity if it meets all of the following conditions:

- It entitles the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation;
- It is in the class of instruments that is subordinate to all other classes of instruments;
- All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- Apart from the contractual obligation for the Fund to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability; and
- The total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund over the life of the instrument.

The Fund's redeemable shares meet these conditions and, therefore, they are classified as equity.
Incremental costs directly attributable to the issue or redemption of redeemable shares are recognized directly in equity as a deduction from the proceeds or part of the acquisition cost. These are then reclassified from equity to profit or loss as part of the net income from operations in the statement of comprehensive income pursuant to the Fund's prospectus which regards these fees as part of the Fund's revenues.

Financial liabilities

Financial liabilities are classified as 'other financial liabilities'.

Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.
The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to its carrying amount on initial recognition.

Derecognition of financial liabilities

The Fund derecognizes financial liabilities when, and only when, the Fund's obligations are discharged, cancelled or they expire.
Other financial liabilities include payables and accrued expenses. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of initial recognition.

Payables

Trade payables are short-term non-interest bearing financial liabilities. Payables are stated at their nominal value.
According to the basis of recognition and measurement disclosed above, the Directors of the Fund do not expect the carrying amount of the financial assets and liabilities that are not measured at fair value to be materially different from their fair value at the end of the reporting period.

i- **Fair value of financial instruments**

The fair value of financial instruments that are traded in an active market is based on quoted market prices for identical instruments at the financial reporting date.
The fair value of financial instruments that are not traded in an active market is determined using valuation techniques that are based on market conditions existing at each financial reporting date.
As such, investments in listed securities are valued at fair value based on the weighted average of all prices during the last day such investments were traded on the stock exchange.

Unlisted securities and quoted securities for which a price is unavailable are valued at cost and will only be valued at higher price if deals are executed for an aggregate value equal to or exceeding EGP 1 000 000 and will only be valued at lower price if deals are executed for an aggregate value equal to or exceeding EGP 100 000.

6- Cash held with brokers

	December 31 , 2011 USD	December 31, 2010 USD
EFG-Hermes (AED)	36 555	36 554
EFG-Hermes-Vision II(OMR)	696 387	71 492
ICAP Securities (USD)	21 320	58 786
Kamco (USD)	(14)	(468)
Kamco (Other currencies)	16 485	416 417
	770 733	**582 781**

7- Cash at banks

	December 31, 2011 USD	December 31, 2010 USD
Banks - current accounts (USD)	926 911	944 839
Banks - current accounts (other currencies)	1 761 267	796 300
	2 688 178	**1 741 139**

8- Investments at FVTPL -Held for trading investments

The breakdown of investments in equity securities portfolio is summarized as follows:

		As of December 31, 2011			As of December 31, 2010		
	Country (Region)	Quantity	Fair Value USD	Percentage of Net Assets Value	Quantity	Fair Value USD	Percentag of Net Ass Value
Held for trading							
Access Kenya	Kenya	19 234 400	1 166 064	7.36%	3 639 400	608 509	2.74%
Orascom Telecom holding	Egypt	5 558 500	1 592 750	10.06%	--	--	--
Orascom Telecom Media and Technology	Egypt	5 558 500	1 153 371	7.28%	--	--	--
Telecom Egypt	Egypt	497 917	1 090 450	6.89%	251 400	783 013	3.52%
Mobile Telecommunications Company (Zain)	Kuwait	--	--	0.00%	290 000	1 568 683	7.05%
Starcomms PLC	Nigeria	99 979 380	308 198	1.95%	112 666 705	1 067 369	4.80%
Omani Qatari Telecommunication	Oman	200 000	338 119	2.14%	1 471 550	3 044 507	13.69%
Qatar Telecom	Qatar	58 202	2 251 021	14.21%	57 752	2 834 542	12.75%
Etihad Etisalat	Saudia Arabia	--	--	--	30 870	454 806	2.05%

Etihad Etisalat P-Notes	Saudi Arabia	220 523	3 087 157	19.49%	257 841	3 798 756	17.08%
MTN	South Africa	--	--	0.00%	120 300	2 444 776	10.99%
Vox Telecom	South Africa	--	--	0.00%	17 505 000	1 190 924	5.36%
Total held for trading investments			**10 987 130**	**69.38%**		**17 795 885**	**80.0%**

9- Available for sale investments (Net of impairment)*

		As of December 31 2011			As of December 31 2010		
	Country (Region)	Quantity	Cost less impairment USD	Percentage of Net Asset Value	Quantity	Cost less impairment USD	Percentage Net Asse Value
AFS equity securities							
Luxsat Middle East	Middle East	100 000	--	--	100 000	--	
National Telecom Co.	Egypt	182 675	756 394	4.7%	182 675	786 728	3.53 %
Thuraya Satellite Telecommunication	UAE	5 111 111	--	--	5 111 111	1 564 752	7.03 %
Total AFS securities			**756 394**	**4.7%**		**2 351 480**	**10.57%**

* AFS investments are stated at cost less recognized impairment because they are not listed on stock exchanges and their fair values cannot be measured reliably. Any portion of the cumulative net loss that is attributable to foreign currency movements that had been recognized in other comprehensive income in the case of non-monetary item (i.e., equity instruments), is reclassified from equity to profit or loss upon impairment of that non-monetary item. Foreign currency translation gains on non-monetary AFS investments are, however, recognized in other comprehensive income.

10- Debtors and other debit balances

	December 31 2011	December 31 2010
	USD	USD
Equity dividends receivable	--	52 611
Receivables From sale of investments	763 979	--
	763 979	**52 611**

11- Creditors and other credit balances

	December 31 2011	December 31 2010
	USD	USD
Accrued management fees	70 784	195 581
Accrued custody fees	16 095	1 101
Accrued audit fees	5 628	15 000
Accrued directors fees	21 523	13 000
Accrued administration fees	16 523	16 525
Other credit balances	14	29 985
	130 567	**271 192**

12- Share capital

According to the initial offering, redemption or subscription in Telecom Fund shares was not permitted until December 31 2001. The number of shares subscribed upon the initial offering was 4 211 903 shares.

Following is a summary of subscriptions and redemptions during the current year:

	2011	2010
	No. of shares	No. of shares
Outstanding shares as of January 1	**720 412**	**771 992**
Shares redeemed during the year	(40 230)	(51 580)
Shares issued during the year	--	--
Outstanding shares at the end of the year	**680 182**	**720 412**

13- Management and incentive fees

Pursuant to the Management Agreement dated March 29, 2000 EFG-Hermes Financial Management Limited (Egypt) was appointed to act as the Fund's manager and to be responsible for the management of the Fund's investment portfolio. The Manager which was incorporated in Bermuda on July 19, 1996 is a subsidiary of EFG-Hermes Holding SAE. The Manager is entitled to receive management fees at an annual rate of 1.75 % of the net asset value calculated and accrued at the end of each month. Management fees for the year ended December 31, 2011 amounted to USD 314 225(USD 383 520 for the year ended December 31, 2010).

In addition, the manager is entitled to receive from the Fund in respect of each share in issue an incentive fee of 15 percent of any out-performance of such share (in terms of movements in the net asset value and dividends paid in respect of such share) relative to a fixed hurdle rate of 10 percent. Such fee is an annual fee and is payable within 14 days following the valuation day in December of each year (in respect of any share redeemed during the course of the period such fee shall accrue on the valuation day on which such share is redeemed). Finally the manager is also entitled to reimburse all reasonable out-of-pocket and third party expenses incurred in the performance of its duties. The manager is entitled to waive or rebate any part of its incentive fee or annual management fee to any person who assists in the placing of shares in the Fund. The manager was not entitled to receive incentive fees for the year ended December 31, 2011 (incentive fees of USD 2 567for the period ended December 31, 2010).

14- Custody fees

Citibank was appointed pursuant to an agreement dated March 29, 2000 to act as the Fund's custodian. Under this agreement the custodian has the power to appoint sub-custodians agents or nominees and to delegate certain custodian and other functions where necessary.

Pursuant to this agreement, the Fund has appointed the Hong Kong and Shanghai Banking Corporation Limited (HSBC) to provide custody services in Bahrain, Palestine and Qatar.

The United Gulf Bank was appointed to act as the Fund's custodian for securities listed in Kuwait.

In addition, American Express Bank was appointed to provide custody services for securities listed on London Stock Exchange.

On November 2001 the Fund appointed HSBC Investment Banking PLC to provide custody services in South Africa.

The custodians are entitled to receive fees accrued on a monthly basis at rates varying according to the location, value and type of assets held for the Fund. Such fees ranged from 0.045% to 0.47% per annum of the value of the assets held. This percentage was changed to 0.125% starting October 2004.

Additionally, custodians charge transaction fees at rates up to USD 8 per transaction. Custody fees for the year ended December 31, 2011 amounted to USD 37 522(USD 39 802 for the year ended December 31, 2010).

15- Administrator's fees

MQ Services Limited (Bermuda) was appointed pursuant to an agreement dated March 29, 2000 to act as the Fund's registrar and transfer agent in addition to rendering certain administrative and corporate secretarial services.

Starting June 5, 2002, the administrator charges fixed fees for its services at USD 11 500 per annum instead of USD 10 000 in addition to other invoiced charges.

Starting April, 2007, the Board of Directors appointed APEX Fund Service Ltd. to take the operations instead of MQ Service Ltd.

Administrator's fees for the year ended December 31, 2011 amounted to USD 33 050 (USD 33 050 for the year, ended December 31 2010).

16- Board of Directors' fees

The board of directors for EFG – Hermes Middle East and Africa Fund Limited (mother company) is currently comprised of four directors, one being an employee of APEX and three independent directors.

The directors' fees charged to the fund for the year ended December, 2011 amounted to USD 21 523 (No directors' fees were charged to the Fund for the year ended December 31, 2010).

17- Distribution policy

Dividends, interest and other income received by the Fund shall apply first for the payment of fees and expenses. Any net income after payment of such fees and expenses shall be distributed to shareholders. The Fund may distribute a percentage of the Fund's net realized capital gain in addition to its net investment income from interest and dividends annually. Realized capital gains not distributed will be reinvested. Dividends, if any, will be declared annually and be payable in cash or reinvested in additional shares of the same class at the subscription price per share as of the payment date for such dividends or the immediately preceding valuation day. No front-end charges will be levied in connection with the reinvestment of dividends.

18- Taxation

Taxation of income and capital gains of the Fund is subject to the fiscal laws and practices of Bermuda, the United Kingdom (UK), Middle East and Africa. The Fund had no transactions in any other jurisdiction that might result in a material tax implication.

Bermuda

At the date of the explanatory memorandum, there was no Bermuda income, corporation or profits tax, withholding tax, capital gains tax, capital transfer tax, estate, duty or inheritance tax payable by the Fund or shareholders. Neither the Fund nor shareholders will be subject to stamp duty on the issue, transfer or redemption of shares.

The Fund has obtained from the Minister of Financial of Bermuda under the exempted undertakings tax protection act 1966 an assurance that in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income or computed on any capital assets, gains or appreciation of any tax in the nature of estate, duty or inheritance tax, such tax shall not, until March 28, 2016, be applicable to the Fund or to any of its operations or to any of its shares, debentures or other obligations except in so far as such tax applies to persons ordinarily residing in Bermuda and holding such shares, debentures or other obligations of the Fund.

United Kingdom

The Fund is not a resident in the UK as it is considered an offshore fund for the purpose of UK taxation. Also, the Fund is not deemed to carry on trade activities in the UK by virtue of various exemptions which are available to overseas persons such as the Fund dealing through UK brokers and investment advisors. Accordingly, the Fund is not subject to UK income tax or corporation tax.

The Fund did not seek certification as a distributing fund in the UK. As a result, any gains arising from disposal of its shares will constitute income for the purposes of UK taxation.

Taxation of investments

Investments held in the Middle East and Africa by the Fund may be subject to withholding and other taxes on the sale or transfer of such investments and in respect to dividends or other income received from such investments.

19- Related party transactions

A party (a company or individual) is related to an entity if:

a) Directly, or indirectly through one or more intermediaries, the party:

i. controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);

ii. has an interest in the entity that gives it significant influence over the entity; or

iii. has joint control over the entity;

b) The party is an associate (as defined in IAS 28 Investments in Associates) of the entity;

c) The party is a joint venture in which the entity is a venturer (as defined in IAS 31 Interests in joint ventures);

d) The party is a member of the key management personnel of the entity or its parent;

e) The party is a close member family of any individual referred to in (a) or (d);

f) The party is an entity that is controlled, jointly controlled or significantly influenced by, or which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

g) The party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is related party of the entity.

EFG-Hermes - the Fund manager - and its group and affiliates are the major related parties of the Fund. Management fees incurred during the year and payable to the Fund manager amounted to USD 314 225. In addition, due to the widespread operations undertaken by EFG-Hermes Group and its affiliates the Fund has conducted a number of transactions through related brokerage houses. The deals carried out with EFG-Hermes Group conducted by Financial Brokerage Group represent 48. 6% (ordinary placement) of total sales and purchases transactions for the year ended December 31, 2011

The Fund does not hold any shares as of December 31 2011 in EFG-Hermes Holding or any of its Group entities.

20- Financial instruments and risk management

20-1 Use of financial instruments

The Fund's financial instruments consist primarily of cash and cash equivalents, investments in equity securities and receivables and payables arising from sale and purchase of securities.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized in respect of each class of financial asset, financial liability and equity instrument are disclosed in (Note 5) to the financial statements.

The following table illustrates categories of financial instruments and their carrying amounts at the date of the financial statements:

Categories of financial instruments

	31/12/2011 USD	31/12/2010 USD
Financial assets		
Fair value through profit or loss (FVTPL)		
Held for trading investments – at fair value	10 987 130	17 795 885
Available for sale investments – at cost less impairment loss	756 394	2 351 480
Short-term receivables – at amortized cost (immaterial effect of time value of money)	763 979	52 611
Cash and cash equivalents (including cash held with brokers)	3 458 911	2 323 920
Financial liabilities		
Short term liabilities at amortized cost (immaterial effect of time value of money)	130 567	286 337

20-2 Financial risk management objectives

The investment manager co-ordinates access to domestic and international financial markets, and monitors and manages the financial risks relating to its operations based on the degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The investment manager seeks to minimize the effects of these risks by complying with policies and procedures sufficient to address these risk exposures. The use of these policies and procedures is governed by the Fund's prospectus approved by the board of directors which provides written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity. Compliance with those policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Fund does not enter into or trade derivative financial instruments, for speculative purposes.

20-2.1 Market risk

Investments in unlisted companies

The companies in which the Telecom Fund invests may include small unlisted companies and even many of the listed companies in which Telecom Fund invests may have a lower market capitalization than many companies listed in OECD countries.

Investments in the securities of smaller companies can involve greater risks than is customarily associated in larger, more established companies, in particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals.

In addition, the market for stock in unlisted and in smaller listed companies is often less liquid than that for stock in larger listed companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock.

Several rules and instructions are set in the prospectus to assist in reducing this risk to an acceptable level as follows:

Telecommunication and information technology companies

The manager will seek to capture the potential growth and opportunities presented by these development and reforms and provide investors with means of participating in the rapidly developing fixed line, cellular, data and other telecommunication and information technology sectors.

The investment may be in various countries in Middle East and Africa and it may be made in telecommunications and information technology sectors, and also, in related high technology and communication companies in all such countries (subject to any applicable foreign investment restrictions).

Such investments may include media and related entertainment stocks (e.g. in Cable TV companies), related infrastructure companies and internet related and e-commerce businesses.
The manager may not, for the time being, acquire any investment if , as a result, more than 50 percent of the Net Assets Value of the Telecom Fund is invested in companies established in any one country.
The Fund will operate as a passive investment vehicle and will not be involved in the day to day management of investee companies and assets and will not take management and legal control of any such companies.
All security investments present a risk of loss of capital. The maximum risk is determined by the fair value or, as appropriate, the carrying amount of the securities held by the Fund.

20-2.2 Currency risk

The Fund invests primarily in securities denominated in multi currencies but its net assets value is quoted in US Dollar. Accordingly, a change in the value of various currencies against the US Dollar can result in a corresponding change in the US Dollar Net assets value. The Manager does not hedge the foreign exchange risk and accordingly, investors will bear the risk of adverse movements in the various currencies against the US Dollar foreign exchange rate as well as any such adverse movements in the US Dollar exchange rate with the investor's own base currency. The following table details the foreign currencies to which the Fund has significant exposure as at December 31, 2011 in terms of US Dollar and the Fund's sensitivity to a 5 % increase and decrease in the US Dollar against the relevant foreign currencies:

Currency	Total Exposure (000s) in USD	Impact of 5% changes on Net Assets (000s) USD
Arab Emirates Dirham	36 555	1 828
Egyptian Pound	4 593 233	229 662
Kuwait Dinar	14 967	749
Oman Riyal	1 034 506	51 725
Qatar Riyal	2 461 998	123 099
Saudi Riyal	3 088 661	154 433
Morocco Dinar	28 017	1 401
Zar	1 398 891	69 945
Jordanian Dinar	71 644	3 582
Bahraini Dinar	49 062	2 453
Turkish lira	2 411	120
	12 779 945	638 997
As a percentage of Net assets	80.70%	4.035%

The Sensitivity analysis includes outstanding foreign currency denominated monetary and non monetary items and adjusts their translation at the period-end for a 5% change in USD rate. As at December 31, 2011, if the US Dollar had strengthened or weakened by 5% in relation to other currencies, with all other variables held constant, the net assets value would have decreased or increased respectively by approximately USD 638 997 (approximately 4.035 % of net assets value). In practice, the actual trading results may differ from the above approximate sensitivity analysis amounts and the differences could be material.

In management opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period does not reflect the exposure during that period.

20-2.3 Credit risk

Credit risk refers to the risk that the counterparty fails to perform on its contractual obligations resulting in financial loss to the Fund. The credit risk is somehow limited as the Fund has adopted a policy of only dealing with credit worthy counterparties which are generally major brokerage firms. In addition, no investments in debt securities are held by the Fund as of December 31, 2011.

20-2.4 Liquidity risk of own shares

The Fund own ordinary shares are only redeemable on a quarterly basis and then are subject to several limitations and restrictions. Although the ordinary shares are listed on the Dubai Financial Market, the directors do not anticipate that an active secondary market will develop. Accordingly, it may not always be possible for a shareholder promptly to realize an investment at an appropriate price.

Several rules and instructions are set in the prospectus to assist in reducing this risk to an acceptable level such as, pending investment or re-investment, in telecommunication securities, of the proceeds of the issue of shares or the proceeds of any realization of investments or distributions to shareholders, and to the extent otherwise considered appropriate by the directors for meeting cash needs, the Fund invests all or a portion of its assets not invested in telecommunication securities in cash deposits, money market instruments and Egyptian or OECD government securities.

As at December 31, 2011, the Fund's outstanding number of shares was 680 182.

If 5% of these shares were redeemed within one month from the end of reporting period, it would have been settled at USD 791 732 which may be covered by the cash and cash equivalents balance as of December 31, 2011 had all other variables held constant.

The actual trading results may differ from the above approximate sensitivity analysis amounts and the differences could be material.

21- Beneficial interests

As of December 31, 2011, out of the outstanding 680 182 shares of EFG-Hermes Telecom Fund, the investment Directors hold the following beneficial interests in the shares of the Fund:

	Shares Held	Percentage from Outstanding Shares
Directors		
Khalid Abu Botain	2 258	0.32%