EFG – Hermes Middle East and Developing Africa Fund Limited

Financial Statements and Auditors' Report
For the Year Ended June 30, 2005

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Independent Auditors' Report

To: The Shareholders of EFG – Hermes Middle East and Developing Africa Fund Limited

We have audited the accompanying balance sheet of EFG-Hermes Middle East and Developing Africa Fund Limited as of June 30, 2005 and the related statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EFG-Herms Middle East and Developing Africa Fund Limited as of June 30, 2005 and the results of its operations and changes in its net assets for the year then ended in conformity with International Financial Reporting Standards "IFRS".

Cairo, August 29, 2005

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

EFG - Hermes Middle East and Developing Africa Fund Limited

Balance Sheet

As of June 30, 2005

	Note	30 June 2005 US$	30 June 2004 US$
Assets			
Cash and cash equivalents	(3)	8 778 116	1 604 633
Investments in equity securities	(4)	71 207 376	9 610 037
Investments in IC's	(5)	--	292 329
Other Assets	(6)	227 348	8 499
Total Assets		**80 212 840**	**11 515 498**
Liabilities			
Proceeds under purchase of fund's certificates		579 149	--
purchase awaiting settlement		1 915 704	--
Accrued Expenses	(7)	2 670 958	128 194
Total Liabilities		**5 165 811**	**128 194**
Net Assets		**75 047 029**	**11 387 304**
Number of shares outstanding	(8)	3 905 907	1 021 603
Net asset value per share		19.21	11.15

- The attached notes (1) to (17) form an integral part of these financial statements.

EFG - Hermes Middle East and Developing Africa Fund Limited

Statement of Operations

For the Year from July 1, 2004 to June 30, 2005

	Note	30 June 2005 US$	30 June 2004 US$
Investment Income			
Interest income		46 908	42 630
Dividend income		1 053 039	467 691
Other		1 704	1 292
		1 101 651	**511 613**
Expenses			
Management fees	(9)	449 734	184 633
Custody fees	(10)	55 790	42 778
Administrator's fees	(11)	11 409	11 079
Board of Directors' fees and expenses	(12)	20 725	21 768
Audit fees		6 000	6 000
Incentive fees	(9)	2 400 733	75 146
Other expenses	(13)	83 926	96 725
		3 028 317	**438 129**
Net Investment (Loss) Income		(1 926 666)	73 484
Redemption fees		2 797	24 700
Net realized gains on sale of investments		1 988 202	1 424 292
Net unrealized appreciation of investments		15 651 353	2 486 403
(Losses) Gains from foreign currency translation		(166 805)	7 174
Net Increase in Net Assets Resulting from Operations		**15 548 881**	**4 016 053**

- The attached notes (1) to (17) form an integral part of these financial statements.

EFG - Hermes Middle East and Developing Africa Fund Limited
Statement of Changes in Net Assets
For the Year from July 1, 2004 to June 30, 2005

	June 30, 2005 US$	June 30, 2004 US$
Changes in Net Assets from Operations		
Net investment (loss) income	(1 926 666)	73 484
Redemption fees	2 797	24 700
Net realized gains on sale of investments	1 988 202	1 424 292
Net unrealized appreciation of investments	15 651 353	2 486 403
(Losses) Gains from foreign currency translation	(166 805)	7 174
Net Increase in Net Assets Resulting from Operations	**15 548 881**	**4 016 053**
Change in Net Assets from Capital Transactions		
Proceeds from sale of shares	48 300 461	509 992
Payments on redemption of shares	(189 617)	(5 037 004)
Net Increase (Decrease) in Net Assets Resulting from Capital Transactions	**48 110 844**	**(4 527 012)**
Total Increase (Decrease) in Net Assets	63 659 725	(510 959)
Net assets - Beginning of the Year	**11 387 304**	**11 898 263**
Net Assets - End of the Year	**75 047 029**	**11 387 304**

- The attached notes (1) to (17) form an integral part of these financial statements.

EFG – Hermes Middle East and Developing Africa Fund Limited

Notes to the Financial Statements

For the Year from July 1, 2004 to June 30, 2005

1- The Company

EFG-Hermes Middle East and Developing Africa Fund Limited (The Company) is an investment company incorporated in Bermuda on 30 June 1998. The purpose of the company is to seek long-term capital appreciation through investment in Middle East and Developing Africa equity and equity related securities.

2- Basis for Preparation of Financial Statements

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investments in accordance with IFRS. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The significant accounting policies adopted are set out below:

A- Investments

Investments in listed securities, are valued at market based on the closing prices on the last day, such investments were traded on stock exchanges. Unlisted securities and quoted securities for which a price is unavailable, are valued at fair value estimated by the Manager.

B- Revenue recognition

Realized gains and losses from sale of securities are recognized on the trade date as the difference between selling price, net of commissions and expenses, and the average cost. Unrealized holding gains and losses on investments in securities are recognized in the statement of operations as the difference between the market or estimated fair value of securities on the day of valuation and the average cost.

Dividends are recognized when the right to receive them is established. Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable during the period until maturity.

C- Taxation

The taxation of income and capital gains of the Company is subject to the fiscal laws and practices of Bermuda, United Kingdom and any other jurisdiction in which the Company invests.

D- **Foreign currencies**

The Company's reporting currency is the US Dollar. Transactions in foreign currencies are recorded using the rate in effect at the date of the transactions. Assets and liabilities denominated in foreign currencies are revalued based on the prevailing exchange rate at the balance sheet date. All differences are taken to the statement of operations.

E- **Financial instruments**

Financial assets

The company's principal financial assets are comprised of cash and cash equivalents, investments in equity and debt securities and certain other assets.

Financial liabilities

The company's principal financial liabilities are comprised of certain accrued expenses.

3- **Cash and cash equivalents**

	30 June 2005	30 June 2004
	U.S.$	U.S.$
Current accounts	8 778 116	1 604 633
	8 778 116	**1 604 633**

4- **Investments in Equity Securities**

The composition of the equity investments portfolio is summarized below:

		June 30, 2005		June 30, 2004	
	Country	Book Value US$	Percentage of Net Assets Value	Book Value US$	Percentage of Net Assets Value
Listed securities					
AL Ahly United Bank BSC	Bahrain	421 726	0.56%	308 580	2.71%
Al Anwar Ceramics	Oman	388 932	0.52%	278 655	2.45%
Alliance Housing Bank	Oman	953 939	1.27%	659 337	5.79%
Arab Banking Corporation	Bahrian	1 695 000	2.26%	0	0.00%
Asec for Cement	Egypt	1 385 492	1.85%	0	0.00%
Bank Audi (GDR)	Lebanon	1 415 068	1.89%	0	0.00%
Bahrain Telecom Co.	Bahrain	602 828	0.80%	314 424	2.76%
Bank of Muscat	Oman	2 570 159	3.42%	661 282	5.81%
Banque Centrale Populaire	Oman	325 369	0.43%	0	0.00%
BCFC	Bahrain	595 663	0.79%	462 220	4.06%
Bank Internatinal Arab De Tunisie	Tunisia	660 448	0.88%	337 201	2.96%
B H Bank	Tunisia	495 473	0.66%	423 398	3.72%
Burqan Bank	Kuwait	684 094	0.91%	344 591	3.03%
CIB	Egypt	2 729 631	3.64%	0	0.00%
Commercial Facilities Co.	Kuwait	4 369 121	5.82%	269 854	2.37%
EAB	Egypt	1 771 037	2.36%	0	0.00%
Eastern Tobacco	Egypt	1 355 638	1.81%	256 087	2.25%
Egyptian Financial & Indu.	Egypt	76 123	0.10%	0	0.00%
EIPI Co.	Egypt	550 608	0.73%	0	0.00%
Global Investment House	Kuwait	4 957 364	6.61%	0	0.00%
Jordan Phosphate Mines	Jordan	466 642	0.62%	205 858	1.81%
Lafarge Ciments	Morocco	860 823	1.15%	557 175	4.89%
Managem	Morocco	0	0.00%	53 955	0.47%
Maroc Telecom	Morocco	1 947 115	2.59%	0	0.00%
Misr Bani Swaif Cement	Egypt	841 612	1.12%	0	0.00%
Mobinil	Egypt	2 167 082	2.89%	0	0.00%
M T C	Kuwait	7 117 011	9.48%	281 377	2.47%
National Bank of Bahrain	Bahrain	353 421	0.47%	383 245	3.37%
National Bank of Kuwait	Kuwait	129 448	0.17%	91 180	0.80%
Natinal Mobile Telecom	Kuwait	5 348 104	7.13%	0	0.00%
O C I GDR	Egypt	1 462 734	1.95%	388 360	3.41%
Oman Cement	Oman	2 275 296	3.03%	201 608	1.77%
Orascom Construction Ind.	Egypt	1 429 656	1.91%	667 760	5.86%
Orascom Telecom GDS	Egypt	5 397 274	7.19%	415 746	3.65%
Orascom Telecom LE	Egypt	2 270 865	3.03%	202 358	1.78%
P. Warehousing Co.	Kuwait	5 088 730	6.78%	0	0.00%
Port Services Corporation	Oman	222 815	0.30%	190 994	1.68%
Qatar Telecom	Qatar	1 261 474	1.68%	932 159	8.19%
Raya	Egypt	403 702	0.54%	225 196	1.98%
Raysut Cement Co.	Oman	2 169 847	2.89%	0	0.00%
Raysut Cement Co. (Right issue)	Oman	482 188	0.64%	0	0.00%
Sonasid	Morocco	301 477	0.40%	321 325	2.82%
Vodafone	Egypt	1 206 347	1.61%	176 112	1.55%
Total Listed Securities		**71 207 376**	**94.88%**	**9 610 037**	**84.39%**

As of 30 June, 2005, the aggregate cost of investments amounted to US$ 53 306 718 (against US$ 7 297 627 as of 30 June, 2004).

5- **Investments in IC'S**

The composition of investments in IC's is summarized as follows:

		30 June 2005		30 June 2004	
	Country	Book Value	Percentages of Net Assets Value	Book Value	Percentages of Net Assets Value
AMEX 2	Egypt	--	--	292 329	2.57%
		--		292 329	

6- **Other Assets**

	30 June 2005 U.S.$	30 June 2004 U.S.$
Sales awaiting settlement	222 352	--
Prepaid expenses	4 996	8 499
	227 348	**8 499**

7- **Accrued Expenses**

	30 June 2005 U.S.$	30 June 2004 U.S.$
Accrued management fees	247 505	39 157
Accrued custodian fees	13 612	5 583
Incentive fees	2 400 733	75 146
Other accruals	9 108	8 308
	2 670 958	**128 194**

8- **Share Capital Transactions**

The Company was incorporated with an authorized share capital of US$ 12 000 divided into 1 200 000 shares of a par value of US$ 0.01 each. On 28 June, 1999 the authorized share capital of the Company was increased to US$ 250 000 by the issuance of an additional 23 800 000 shares.

The shares issued by the Company are freely transferable, issued in registered form and holders are entitled, upon their request, to certificates in respect of their holdings. Fractions of shares may be issued. No pre–emptive rights exist in respect of the shares, either under Bermuda law, under the by-laws, or otherwise. Shares may be redeemed quarterly, subject to certain restrictions, commencing with the last valuation day in June 2000. Transactions in share capital during the year were as follows:

	No. of shares
Number of shares outstanding as of 1 July 2004	1 021 603
Shares redeemed during the year	(15 647)
Shares issued during the year	2 899 951
Number of shares outstanding as of 30 June, 2005	**3 905 907**

9- **Management Fees**

EFG-Hermes Group and Hermes Investment Limited have entered into an agreement dated July 1, 1999, as a joint venture, to act as the Manager for the company. The agreement was terminated, and on April 11, 2003 EFG – Herms Financial Management Limited (Egypt) was appointed to act as the company's Manager. The Manager is responsible for the management of the company's investment portfolio and for day-to-day management of the company, subject to the supervision of the Directors of the company. The Manager is entitled to receive from the company management fees accruing monthly at 1.6% per annum of the net asset value (calculated prior to the deduction of the management fees) of the company on each valuation day and payable quarterly in arrears. The Manager decided in June 2002 to lower management fees to 1.4% per annum.

The Manager is also entitled to receive from the company, with respect to each share issued, a performance fee of 20% of any positive out performance of each share in issue from the subscription date of such share, in terms of movements in the net asset value and dividends paid in respect of such shares, relative to S&P/IFICI global index. The performance fee is annual ; payable by the 14th day following the valuation day in June of every year. The Manager is also entitled to be reimbursed for out of pocket expenses and third party expenses incurred in its duties. At the Manager's discretion, the performance fee and annual management fee may be waived or partially rebated to any person who assists in the placing of the company's shares.

The update of the prospectus with the change in the Incentive policy is currently in process.

Management fees amounted to US$ 449 734 for the year ended 30 June 2005, against US$ 184 633 for the year ended 30 June 2004. Incentive fees amounted to US$ 2 400 733 for the year ended 30 June, 2005 (US$ 75 146 for the year ended 30 June, 2004).

10- **Custody Fees**

State Street Bank and Trust Company according to agreement dated July 1, 1999 act as the global custody for the company's assets. Fees payable for custodian services accrue monthly at a rate of .03% per annum of the net asset value of the Company up to US$ 50 million, and .015% per annum on any balance, with minimum annual fees of US$ 24 000, together with the reimbursement of proper expenses. The custodian also receives a multi–managed portfolio fee of US$ 1 000 per month and up to US$ 175 fee per transaction. The Company is also responsible for the fees of any sub–custodian.

The company has decided to enter into a new securities clearing agreement with the Hong Kong and Shanghai Banking Corporation limited (HSBC) pursuant to which HSBC will provide, among other things, custody services to the fund.

Custody fees amounted to US$ 55 790 for the year ended 30 June, 2005 (US$ 42 778 for the year ended 30 June, 2004).

11- **Administrator's Fees**

Pursuant to an agreement, MQ Services Limited was appointed to act as the registrar and the transfer agent of the company, as well as providing certain administrative and corporate secretarial services to the company. Administrator's fees amounted to US$ 11 409 for the year ended 30 June 2005 (US$ 11 079 for the year ended 30 June, 2004).

12- **Board of Directors Fees and Expenses**

The Board of Directors is currently comprised of three Directors, one being an employee of the Administrator (MQ), one being associated with a brokerage and one being wholly independent Director. The company is responsible for the payment of the Directors' fees. No Directors' fees were charged to the Company for the year ended 30 June 2003 according to the decision taken by the Board of Directors meeting held in 10th May 2002. The Board decided to resume payment of Directors fees starting 2004. Board of Directors fees amounted to US$ 20 725 for the year ended 30 June 2005 (US$ 21 768 for the year ended 30 June, 2004).

13- **Other Expenses**

Other expenses are summarized as follows:

	30 June 2005	30 June 2004
	U.S.$	U.S.$
Advertising	--	3 980
Bank charges	7 926	5 428
Insurance	11 845	11 347
Legal fees	5 384	46 564
Pre-starting expence	3 357	39 630
Others	55 414	(10 224)
	83 926	**96 725**

14- **Distribution Policy**

Dividends, interest and other income received by the company will be applied first for the payment of fees and expenses. After such payments have been made, the Directors intend to distribute net income to shareholders. No dividends will be paid out of the Company's unrealized or realized capital gains. Dividends, (if any) will be declared annually and be payable in respect of each financial year within six months of the commencement of the following financial year.

15- **Taxation**

The taxation of income and capital gains of the Company and the shareholders is subject to the fiscal laws and practice of Bermuda, any other jurisdiction in which the Company invests and of the jurisdictions in which shareholders are resident or otherwise subject to tax.

Currently, there is no Bermudan income, corporation or profits tax, withholding tax, capital gains, capital transfer tax, estate duty or inheritance tax payable by the Company or shareholders, other than shareholders ordinarily resident in Bermuda. Neither the Company nor shareholders will be subject to stamp duty on the issue, transfer or redemption of shares. As an exempted mutual fund company, the Company is liable to pay in Bermuda an annual registration fee, which, based upon its current authorized share capital, will be BM $ 5 610 at the current rate.

The Directors intend to conduct the affairs of the Company in such a manner as to minimize as much as reasonably practicable taxation of the Company. This will include conducting the affairs so that it does not become resident in the UK for taxation purpose. Accordingly, and provided that the Company does not carry on a trade in UK, the Company will not be subject to UK income or corporation tax other than on UK source income.

Investments held in the Middle East and Developing Africa by the Company may be subject to withholding and other taxes on the sale or transfer of such investments and in respect of dividend or other income received with respect to such investments.

16- **Related Party Transactions**

Due to the widespread operations undertaken by EFG-Hermes Group and its affiliates, a number of transactions were conducted through related brokerage houses. The deals carried out with EFG-Hermes Group or their affiliates represent 4 % (ordinary transactions) for the year ended 30 June 2005, the said deals represented 9.98% (ordinary transactions) of total transactions for the year ended 30 June 2004.

17- **Beneficial Interests**

On June 30, 2005, out of the outstanding shares of 3 905 907 in EFG-Hermes Middle East and Developing Africa Funds Limited, the investment Manager(s) and affiliates held the following beneficial interests in the shares of the Fund:

	Shares Held	Percentage of Outstanding Shares
Maha Baleigh	1 445	0.037 %

Directors and their related parties do not hold any interests in the Fund.