EFG – Hermes Middle East and Africa Funds Limited
Telecom Fund

Financial statements and independent auditors' report for the financial year ended December 31, 2010

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Deloitte

Saleh, Barsoum & Abdel Aziz
95c Merghany Street
Heliopolis,
Cairo, 11341
Egypt
Tel : +20 (2) 22 903 278
Fax: +20 (2) 22 903 276
www.deloitte.com

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, 2010 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 information.

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, 2010 and its financial performance and changes in its net assets for the year then ended in conformity with International Financial Reporting Standards "IFRS".

Emphasis of a matter

We draw attention to Note (22) to the financial statements which describes the fact that the events that have occurred in the Middle East , including Egypt, subsequent to the end of the current reporting period do not have an impact on the Fund's financial statements as of December 31, 2010, and that management was unable to quantify the impact of these events on the financial statements of future periods since no sufficient and reliable information is currently available to management to disclose such impact. The fund has investments portfolio in Egyptian entities amounting to USD 1.570 M at the end of the current reporting period. Our opinion on the financial statements as of December 31, 2010 is not qualified in respect to this matter.

Cairo, February 24, 2011

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, 2010

	Note	December 31, 2010 USD	December 31, 2009 USD
Assets			
Cash held with brokers	(6)	582 781	2 055 500
Cash at banks	(7)	1 741 139	1 360 168
Investments at fair value through profit or loss - Held for trading investments	(8)	17 795 885	18 892 241
Available for sale investments	(9)	2 351 480	--
Debtors and other debit balances	(10)	52 611	76 593
Total assets		**22 523 896**	**22 384 502**
Liabilities			
Payables on purchase of investments		15 145	476 709
Creditors and other credit balances	(11)	271 192	145 473
Total liabilities		**286 337**	**622 182**
Net assets value		**22 237 559**	**21 762 320**
Number of outstanding shares	(12)	**720 412**	**771 992**
Net assets value per share		**30.87**	**28.19**

- The attached notes from (1) to (22) 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, 2010

	Note	Year ended December 31, 2010 USD	Year ended December 31, 2009 USD
Investment income			
Interest income on current accounts	(5-a)	11 107	5 767
Dividends income	(5-a)	614 418	1 830 324
Gain on sale and measurement of held for trading investments	(5-e)	2 099 267	688 395
Foreign currencies translation differences	(5-b)	(215 284)	9 120
Total investment income		**2 509 508**	**2 533 606**
Investment cost			
Management fees	(13)	383 520	379 810
Custody fees	(14)	39 802	31 107
Administrator's fees	(15)	33 050	39 892
Board of directors' fees	(16)	--	65 604
Incentive fees	(13)	2 567	--
Other expenses		95 562	71 763
Total investment cost		**554 501**	**588 176**
Net investment income		**1 955 007**	**1 945 430**
Redemption fees		5 540	--
Net income for the year from operations		**1 960 547**	**1 945 430**
Other comprehensive income			
Net gain on available-for-sale financial assets		46 164	--
Total other comprehensive income		**46 164**	--
Total comprehensive income for the year		**2 006 711**	**1 945 430**

- The attached notes from (1) to (22) 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, 2010

	Year ended December 31, 2010 USD	Year ended December 31, 2009 USD
Cash flow from operating activities		
Net income for the year from operations	1 960 547	1 945 430
Adjusted by:		
(Gain) on sale and measurement of held for trading investments	(2 099 267)	(688 395)
Loss (gain) from foreign currencies translation	215 284	(9 120)
Operating gain before working capital changes	**76 564**	**1 247 915**
Decrease in investments at fair value through profit or loss	675 023	(658 188)
Decrease in receivable on sale of investments	--	201 439
Decrease in debtors and other debit balances	23 982	69 179
(Decrease) increase in payables on purshase of investments	(461 564)	262 684
Increase in creditors and other credit balances	125 719	26 036
Net cash resulted from operating activities	**439 724**	**1 149 065**
Cash flows from financing activities		
Proceeds from sale of certificates	--	999 986
Payments on redemption of certificates	(1 531 472)	(1 226 288)
Net cash (used in) financing activities	**(1 531 472)**	**(226 302)**
Net change in cash and cash equivalents during the year	(1 091 748)	922 763
Cash and cash equivalents - beginning of the year	**3 415 668**	**2 492 905**
Cash and cash equivalents - end of the year	**2 323 920**	**3 415 668**
Cash and cash equivalents are represented in:		
Cash at banks	1 741 139	1 360 168
Cash held with brokers	582 781	2 055 500
Cash and cash equivalents at the end of the year	**2 323 920**	**3 415 668**

- The attached notes from (1) to (22) 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, 2010

	Year ended December 31, 2010 USD	Year ended December 31, 2009 USD
Change in Net Assets from Operations		
Total comprehensive income for the year	2 006 711	1 945 430
Increase in net assets resulting from operations	**2 006 711**	**1 945 430**
Change in Net Assets from Capital Transactions		
Proceeds from sale of certificates	--	999 986
Payments on redemption of certificates	(1 531 472)	(1 226 288)
Relevant redemption fees	5 540	--
Less: Redemption fees reclassified to profit or loss	(5 540)	--
Net (decrease) in net assets (used in) Capital Transactions	**(1 531 472)**	**(226 302)**
Total increase in net assets during the year	475 239	1 719 128
Net Assets at the beginning of the year	**21 762 320**	**20 043 192**
Net Assets at the end of the year	**22 237 559**	**21 762 320**

- The attached notes from (1) to (22) 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 year ended December 31, 2010

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 (IFRS) issued by the International Accounting Standards Board (IASB).

1. Application of new and revised International Financial Reporting Standards

1.1. Standards and Interpretations effective in the current period

Amendments to IAS 1 presentation of Financial statements (as part of improvements to IFRSs issued in 2010

The Fund adopted amendments to International Accounting Standard 1 Presentation of Financial Statements (2007) ("IAS 1"), which introduces non-mandatory terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. IAS 1 requires that all items of income and expense be presented either: in a single statement (a 'statement of comprehensive income'), or in two statements (a separate 'income statement' and a 'statement of comprehensive income'). The Fund has elected to present a single statement of comprehensive income.

Amendments IAS 32 Puttable Financial Instruments and Obligations Arising on Liquidation issued in 2008

In the current period, the Fund adopted amendments to IAS 32: Financial Instruments: Presentation (IAS 32) relating to the classification of certain puttable financial instruments issued by an entity. Under the amendments, if certain conditions are met, an entity is required to classify such financial instruments as equity. Prior to the amendments, IAS 32 required an entity to classify such financial instruments as liabilities. Such instruments are presented on the statement of financial position as "net assets". No impact has resulted on the Fund's financial statements during the current reporting period from the adoption of these amendments, since these financial instruments had always been stated at the statement of financial position at redemption value and include a contractual obligation for the Fund (issuer) to deliver to the holders a prorata share of the Fund's net assets only on liquidation which is uncertain to occur but is at the option of the instrument holder. All conditions qualifying these puttable "net assets" to be classified as equity instruments are set out in note (5h) below

Amendments IAS 7 Statement of Cash Flows (as part of Improvements to IFRS issued in 2009)

The Fund adopted amendments to IAS 7 which specify that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

No impact has resulted on the Fund's financial statements during the current reporting period, from the adoption of this amendment since the Fund has no capitalized expenditures.

New Interpretations	
IFRIC 17	Distributions of Non-cash Assets to Owners

No impact has resulted on the Fund's financial statements during the current reporting period, from the adoption of this amendment since the Fund has not entered into such transactions.

1.2. Standards and Interpretations in issue but not yet effective

At the date of authorization of these financial statements, the Fund has not adopted the following relevant Standards and Interpretations that have been issued but are not yet effective. They will be effective for annual periods beginning on or after the dates described below.

(i)New and Revised Standards		**Effective from**
IFRS 9	Financial Instruments – Covering classification and measurement of financial assets, as the first part of its project to replace IAS 39	1 January 2013
IFRS 7	Disclosures – Transfers of Financial Assets	1 July 2011
IAS 24	Related Party Disclosures — Revised definition of related parties	1 January 2011
IAS 32	Financial Instruments: Presentation— Amendments relating to classification of rights issues	1 February 2010
Various	Improvements to IFRS issued in 2010	Various
(ii)New Interpretations		**Effective from**
IFRIC 14	Amendments relating to Prepayments of a Minimum Funding Requirement	1 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

The directors do not anticipate that the standards and interpretations listed in the preceding tables that will be adopted in the Fund's financial statements for the annual periods beginning on 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, cost or amortized cost, as appropriate. 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 includes some assumptions not supported by observable market prices or rates. The shares that are such measured have a carrying amount of USD 2.351 million (2009: USD 2.397 million) and are classified as available for sale financial assets as disclosed in Note (9).

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.

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' (AFS) 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 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 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.

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 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 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 that, as a result of one or more events that occurred after the initial recognition of the financial asset, 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- De recognition 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 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 no 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 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, 2010	December 31, 2009
	USD	USD
EFG-Hermes (AED)	58 786	36 558
Vision (OMR)	(468)	163 499
Kamco (KWD)	36 554	1 378 818
ICAP Securities (USD)	71 492	10 939
Kamco (Other currencies)	416 417	465 686
	582 781	**2 055 500**

7- Cash at banks

	December 31, 2010	December 31, 2009
	USD	USD
Banks - current accounts (USD)	944 839	1 215 994
Banks - current accounts (other currencies)	796 300	144 174
	1 741 139	**1 360 168**

8- Held for trading investments

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

		As of December 31, 2010			As of December 31, 2009		
	Country (Region)	Quantity	Fair Value USD	Percentage of Net Asset Value	Quantity	Fair Value USD	Percentag of Net Asset Valu
Held for trading							
Bahrain Telecommunications Company	Bahrain	--	--	--	21 238	33 237	0.15%
Access Kenya		3 639 400	608 509	2.74%	--	--	--
Orascom Telecom	Egypt	--	--	--	393 792	1 803 343	8.29%
Telecom Egypt	Egypt	251 400	783 013	3.52%	251 400	829 537	3.81%
Telecom Egypt GDS	Egypt	--	--	--	--	--	0.00%
Raya Holding	Egypt	--	--	--	90 000	94 669	0.44%
Mobile Telecommunications Company (Zain)	Kuwait	290 000	1 568 683	7.05%	--	--	--
Maroc Telecom	Morocco	--	--	--	100 900	1 735 239	7.97%
Starcomms PLC	Nigeria	112 666 705	1 067 369	4.80%	104 691 348	1 225 484	5.63%
Oman Telecommunication	Oman	--	--	--	7 400	24 987	0.11%
Nawras	Oman	1 471 550	3 044 507	13.69%	--	--	--
Qatar Telecom	Qatar	57 752	2 834 542	12.75%	70 852	2 823 184	12.97%
Vodafone Qatar	Qatar	--	--	--	315 800	728 469	3.35%
Etihad Etisalat	Saudia Arabia	30 870	454 806	2.05%	150 694	1 205 631	5.54%
Etisalat Sawps	Saudia Arabia	--	--	--	44 617	516 264	2.37%
Etihad Etisalat P-Notes	Saudia Arabia	257 841	3 798 756	17.08%	51 941	601 010	2.76%
MTN	South Africa	120 300	2 444 776	10.99%	87 200	1 389 684	6.39%
Telecom SA	South Africa	--	--	--	253 100	1 281 237	5.89%
Vodacom Group Ltd	South Africa	--	--	--	240 400	1 835 658	8.44%
Vox Telecom	South Africa	17 505 000	1 190 924	5.36%	8 757 385	366 964	1.69%
Total listed securities			**17 795 885**	**80.0%**		**16 494 597**	**75.8%**
Unlisted securities							
Luxsat Middle East	**Middle East**		--	--	100 000	197 000	0.91%
National Telecom Co.	**Egypt**		--	--	182 675	832 551	3.83%
Thuraya Satellite Telecommunication	**UAE**		--	--	5 111 111	3 131 382	14.39%
Total unlisted securities			--	--		**4 160 933**	**19.12 %**
Less:							
Allowance for decline in securities							
Luxsat Middle East	**Middle East**		--	--		(197 000)	--
Thuraya Satellite Telecommunication	**UAE**		--	--		(1 566 289)	--
Total allowance for decline in securities			--	--		**(1 763 289)**	--
Total unlisted securities net of allowance			--	--		**2 397 644**	**11.02%**
Total			**17 795 885**	**80.0%**		**18 892 241**	**86.81%**

Transfer of financial assets

During the year, the Fund has transferred USD 2.351 million of Investments at fair value through profit or loss - Held for trading investments to Available for sale investments. This transfer has been carried out because the AFS shares are not listed on stock exchanges and their fair values cannot be measured reliably. The investments are transferred based on the net book value (cost less impairment) on the transfer date

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

		As of December 31, 2010			As of December 31, 2009		
	Country (Region)	Quantity	Cost less impairment USD	Percentage of Net Asset Value	Quantity	Cost less impairment USD	Percentage of Net Asset Value
AFS equity securities							
Luxsat Middle East	Middle East	100 000	--		--	--	
National Telecom Co.	Egypt	182 675	786 728	3.54 %	--	--	--
Thuraya Satellite Telecommunication	UAE	5 111 111	1 564 752	7.04 %	--	--	--
Total AFS securities			**2 351 480**	**10.57%**	--	--	--

* These shares have been transferred to AFS investments from FVTPL and stated at cost, less recognized impairment, because they are not listed on stock exchanges and their fair values cannot be measured reliably. Their foreign currency translation differences are, however, recognized in other comprehensive income.

10- Debtors and other debit balances

	December 31, 2010 USD	December 31, 2009 USD
Equity dividends receivable	52 611	76 593
	52 611	**76 593**

11- Creditors and other credit balances

	December 31, 2010 USD	December 31, 2009 USD
Accrued management fees	195 581	98 090
Accrued custody fees	1 101	1 120
Accrued audit fees	15 000	12 000
Accrued directors fees	13 000	26 000
Accrued administration fees	16 525	8 263
Other credit balances	29 985	--
	271 192	**145 473**

12- Share capital

According to the initial offer, no redemption or subscription in Telecom Fund shares was permitted until December 31, 2001. The number of shares subscribed upon the initial offer were 4 211 903 shares.

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

	2010 No. of shares	2009 No. of shares
Outstanding shares as of January 1	**771 992**	**781 812**
Shares redeemed during the period	(51 580)	(48 821)
Shares issued during the period	--	39 001
Outstanding shares as of December 31	**720 412**	**771 992**

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, 2010 amounted to USD 383 520 (USD 379 810 for the year ended December 31, 2009).

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 year, 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 entitled to receive incentive fees of USD 2 567 for the year ended December 31, 2010 (No incentive fees for the year ended December 31, 2009).

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, 2010 amounted to USD 39 802 (USD 31 107 for the year ended December 31, 2009).

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, 2010 amounted to USD 33 050 (USD 39 892 for the year ended December 31, 2009).

16- Board of Directors' fees

The Board of Directors is currently comprised of three directors, one being an employee of the administrator (Apex), and two independent directors.

No directors' fees were charged to the Fund for the year ended December 31, 2010 (USD 65 604 for the year ended December 31, 2009).

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, which may 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

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 383 520. 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 2.7% (ordinary placement) of total sales and purchases transactions for the year ended December 31, 2010. The said deals represented 35.3 % (ordinary placement) of total transactions for the period ended December 31, 2010.

The Fund does not hold any shares as of December 31, 2010 in EFG-Hermes Holding.

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

	31/12/2010 USD	31/12/2009 USD
Financial assets		
Fair value through profit or loss (FVTPL)		
Held for trading investments (level 1*)	17 795 885	16 494 597
Available for sale investments	2 351 480	2 397 644
Receivables	52 611	76 593
Cash and cash equivalents (including brokers current accounts)	2 323 920	3 415 668
Financial liabilities		
Short term liabilities at amortized cost (immaterial effect of time value of money)	286 337	622 182

*Level 1 fair value measurement held -for -trading investments are those whose fair value are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities

20-2 Financial risk management objectives

The investment manager co-ordinates access to domestic and international financial markets, 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 provide 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 financial instruments, including 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, 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 of the securities held by the Funds.

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 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 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, 2010 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 on Net Assets (000s) USD
Arab Emirates Dirham	3 168	158.40
Egyptian Pound	1 574	78.7
Kuwait Dinar	1 732	86.6
Oman Rial	3 116	155.8
Qatar Rial	2 868	143.4
Saudi Rial	4 480	224
Morocco Dinar	29	1.45
Zar	4 177	208.85
Other currencies	189	9.45
	21 333	1 066.7
As a percentage of Net assets	96%	4.9%

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, 2010, 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 1 066 Thousands (approximately 4.9 % 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 the year.

20-2.3 Credit risk

Credit risk refers to the risk that 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, 2010.

20-2.4 Liquidity of shares risk

The 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, 2010 the Fund's outstanding number of shares was 720 412.

If 5% of these shares were redeemed within one month from the end of reporting period, it would have been settled at USD 1 111 878 which may be covered by the cash and cash equivalents balance as of December 31, 2010, 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, 2010, out of the outstanding 720 412 shares of EFG-Hermes Telecom Fund, the investment Directors held the following beneficial interests in the shares of the Fund:

	Shares Held	Percentage from Outstanding Shares
Directors		
Khalid Abu Botain	2 258	0.313%

22- Non adjusting Subsequent Events after the end of the reporting period

Telecom fund invests in telecommunications and other information technology companies in the Middle East and Africa, where there have been some fundamental events especially in Egypt, which affected the economic climate and which consequently can expose the Fund's investments to various risks, including the stability of the investments' fair value, income derived there from, and fluctuations in foreign exchange rates. The carrying amount of the Fund investments portfolio in Egyptian entities is USD 1.570 M. These events did not affect the financial statements of the Fund at December 31, 2010, but they may affect the financial statements for future financial periods. It is difficult at the moment to determine the amount of this effect on the financial statements of the Fund in future years, for disclosures purposes, since management does not currently have sufficient and reliable information to disclose this impact. The magnitude of the impact is likely to vary based on the length of time for which these events are expected to continue and their effects crystallize.