# EFG – Hermes Middle East and Developing Africa Fund Limited

## Financial Statements and Auditors' Report for the period from July 1, 2005 to December 31, 2005

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# Independent Accountant's review report

**To: The shareholders of EFG-Hermes Middle East and Developing Africa Fund Limited**

We have reviewed the accompanying balance sheet of EFG-Hermes Middle East and Developing Africa Fund Limited at December 31, 2005, and the related statements of operations and changes in net assets for the period from July 1, 2005 to December 31, 2005. These financial statements are the responsibility of the company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements do not give a true and fair view in accordance with International Financial Reporting Standards.

Cairo, April 13, 2006

**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 December 31, 2005**

| | Note | December 31, 2005 US$ | June 30, 2005 US$ |
|---|---|---|---|
| **Assets** | | | |
| Cash at banks | (3) | 6 274 101 | 8 778 116 |
| Investments in equity securities | (4) | 92 102 369 | 71 207 376 |
| Other assets | (5) | 792 337 | 227 348 |
| **Total Assets** | | **99 168 807** | **80 212 840** |
| **Liabilities** | | | |
| Proceeds under purchase of fund's shares | | 735 581 | 579 149 |
| Purchases awaiting settlement | | 972 369 | 1 915 704 |
| Accrued expenses | (6) | 1 364 922 | 2 670 958 |
| **Total Liabilities** | | **3 072 872** | **5 165 811** |
| **Net Assets** | | **96 095 935** | **75 047 029** |
| Number of shares outstanding | (7) | 4 242 461 | 3 905 907 |
| Net asset value per share | | 22.65 | 19.21 |

- The attached notes (1) to (16) form an integral part of these financial statements.

## EFG - Hermes Middle East and Developing Africa Fund Limited

## Statement of Operations

## For the period from July 1, 2005 to December 31, 2005

| | Note | 2005 US$ | 2004 US$ |
|---|---|---|---|
| **Investment Income** | | | |
| Interest income | | 15 532 | 5 122 |
| Dividend income | | 197 344 | 208 486 |
| | | 212 876 | 213 608 |
| **Expenses** | | | |
| Management fees | (8) | 623 219 | 91 238 |
| Custody fees | (9) | 69 890 | 15 763 |
| Administrator's fees | (10) | 19 893 | 6 073 |
| Board of Directors' fees and expenses | (11) | 7 952 | 8 916 |
| Incentive fees | (8) | 999 653 | -- |
| Other expenses | (12) | 56 721 | 23 004 |
| | | 1 777 328 | 144 994 |
| **Net Investment (loss) Income** | | (1 564 452) | 68 614 |
| Redemption fees | | 8 208 | 2 660 |
| Net realized gains on sale of investments | | 8 197 885 | 802 289 |
| Net unrealized appreciation of investments | | 7 781 068 | 1 956 261 |
| (Losses) Gains from foreign currency translation | | ( 57 021) | 154 917 |
| **Net Increase in Net Assets Resulting from Operations** | | 14 365 688 | 2 984 741 |

- The attached notes (1) to (16) 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 period from July 1, 2005 to December 31, 2005**

| | 2005<br>US$ | 2004<br>US$ |
|---|---|---|
| **Changes in Net Assets from Operations** | | |
| Net investment (loss) income | (1 564 452) | 68 614 |
| Redemption fees | 8 208 | 2 660 |
| Net realized gains on sale of investments | 8 197 885 | 802 289 |
| Net unrealized appreciation of investments | 7 781 068 | 1 956 261 |
| ( Losses) Gains from foreign currency translation | ( 57 021) | 154 917 |
| **Net Increase in Net Assets Resulting from Operations** | **14 365 688** | **2 984 741** |
| **Change in Net Assets from Capital Transactions** | | |
| Proceeds from sale of shares | 8 324 828 | 290 431 |
| Payments on redemption of shares | (1 641 610) | ( 162 234) |
| **Net Increase in Net Assets Resulting from Capital Transactions** | **6 683 218** | **128 197** |
| Total Increase in Net Assets | 21 048 906 | 3 112 938 |
| **Net assets at the beginning of the period** | **75 047 029** | **11 387 304** |
| **Net assets at the end of the period** | **96 095 935** | **14 500 242** |

- The attached notes (1) to (16) form an integral part of these financial statements.

**EFG – Hermes Middle East and Developing Africa Fund Limited**

**Notes to the Financial Statements**

**For the period from July 1, 2005 to December 31, 2005**

## 1- The Company:

EFG-Hermes Middle East and Developing Africa Fund Limited (The Company) is an investment company incorporated in Bermuda on June 30, 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 International Financial Reporting Standards "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 at 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 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 at banks, 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 at banks:**

| | December 31, 2005 U.S.$ | June 30, 2005 U.S.$ |
|---|---|---|
| Current accounts | 6 274 101 | 8 778 116 |
| | **6 274 101** | **8 778 116** |

4- **Investments in Equity Securities**

The composition of the equity investments portfolio is summarized below:

| | Country | December 31, 2005 Book Value US$ | December 31, 2005 Percentage of Net Asset Value | June 30, 2005 Book Value US$ | June 30, 2005 Percentage of Net Asset Value |
|---|---|---|---|---|---|
| **Listed securities** | | | | | |
| AL Ahly United Bank BSC | Bahrain | 2 824 042 | 2.94% | 421 726 | 0.56% |
| Al Anwar Ceramics | Oman | 366 853 | 0.38% | 388 932 | 0.52% |
| Alliance Housing Bank | Oman | 881 532 | 0.92% | 953 939 | 1.27% |
| Amoc | Egypt | 2 369 043 | 2.47% | -- | 0.00% |
| Arab Banking Corporation | Bahrain | 1 822 750 | 1.90% | 1 695 000 | 2.26% |
| Asec for cement | Egypt | -- | 0.00% | 1 385 492 | 1.85% |
| Bank Audi (GDR) | Lebanon | 5 657 250 | 5.89% | 1 415 067 | 1.89% |
| Bahrain Telecom Co. | Bahrain | -- | 0.00% | -- | 0.00% |
| Bank of Muscat | Oman | 2 098 676 | 2.18% | 2 570 159 | 3.42% |
| Banque Centrale Populaire | Oman | 337 974 | 0.35% | 325 369 | 0.43% |
| Batelco | Bahrain | -- | 0.00% | 602 828 | 0.80% |
| BCFC | Bahrain | 644 497 | 0.67% | 595 663 | 0.79% |
| Bank International Arab De Tunisie | Tunisia | -- | 0.00% | 660 448 | 0.88% |
| B H Bank | Tunisia | 523 880 | 0.55% | 495 473 | 0.66% |
| Burqan Bank | Kuwait | 1 855 243 | 1.93% | 684 094 | 0.91% |
| Byblos Bank S.A.L | Lebanon | 2 688 000 | 2.80% | -- | 0.00% |
| CIB | Egypt | 3 540 868 | 3.68% | 2 729 631 | 3.64% |
| Commercial Facilities Co. | Kuwait | 3 579 750 | 3.73% | 4 369 121 | 5.82% |
| EAB | Egypt | -- | 0.00% | 1 771 037 | 2.36% |
| Eastern Tobacco | Egypt | -- | 0.00% | 1 355 638 | 1.81% |
| Egyptian Financial and Industries | Egypt | -- | 0.00% | 76 123 | 0.10% |
| EIPI Co. | Egypt | -- | 0.00% | 550 608 | 0.73% |
| Global Investment House | Kuwait | 7 378 514 | 7.68% | 4 957 364 | 6.61% |
| Jordan Phosphate Mines | Jordan | -- | 0.00% | 466 642 | 0.62% |
| Lafarge Cements | Morocco | 912 336 | 0.95% | 860 823 | 1.15% |
| Maroc telecom | Morocco | -- | 0.00% | 1 947 114 | 2.59% |
| Misr Bani Swaif Cement | Egypt | 2 839 298 | 2.95% | 841 612 | 1.12% |
| Mobinil | Egypt | -- | 0.00% | 2 167 082 | 2.89% |
| M T C | Kuwait | 7 396 351 | 7.70% | 7 117 012 | 9.48% |
| Nasr City Housing | Egypt | 2 357 490 | 2.45% | -- | 0.00% |
| Nass corporation B.S.C. | Bahrain | 664 965 | 0.69% | -- | 0.00% |
| National Bank of Bahrain | Bahrain | -- | 0.00% | 353 420 | 0.47% |
| National Bank of Kuwait | Kuwait | 951 830 | 0.99% | 129 448 | 0.17% |
| National Mobile Telecom | Kuwait | 3 068 388 | 3.19% | 5 348 105 | 7.13% |
| OCI (GDR) | Egypt | 3 508 514 | 3.65% | 1 462 734 | 1.95% |
| Olympic Group | Egypt | 1 076 189 | 1.12% | -- | 0.00% |
| Oman Cement | Oman | -- | 0.00% | 2 275 296 | 3.03% |
| Orascom Construction Ind. | Egypt | 3 287 631 | 3.42% | 1 429 656 | 1.91% |
| Orascom Telecom (GDS) | Egypt | 4 358 707 | 4.54% | 5 397 274 | 7.19% |
| Orascom Telecom LE | Egypt | 4 120 770 | 4.29% | 2 270 865 | 3.03% |
| OPTD | Egypt | 3 087 982 | 3.21% | -- | 0.00% |
| P. Warehousing Co. | Oman | 4 739 649 | 4.93% | 5 088 729 | 6.78% |
| PWC - (Right issue) | Kuwait | 504 086 | 0.52% | -- | 0.00% |
| Port Services Corporation | Oman | 157 486 | 0.16% | 222 815 | 0.30% |
| Qatar shipping | Qatar | 1 951 203 | 2.03% | -- | 0.00% |
| Qatar Telecom | Qatar | 1 008 425 | 1.05% | 1 261 474 | 1.68% |
| Raya | Egypt | -- | 0.00% | 403 702 | 0.54% |
| Raysut Cement Co. | Oman | 3 403 080 | 3.54% | 2 169 848 | 2.89% |
| Raysut Cement Co.(Right issue) | Oman | 653 909 | 0.68% | 482 188 | 0.64% |
| Renaissance services | Oman | 152 197 | 0.16% | -- | 0.00% |
| Solidere Type A | Lebanon | 2 216 625 | 2.31% | -- | 0.00% |
| Solidere Type B | Lebanon | 805 711 | 0.84% | -- | 0.00% |
| Sonasid | Morocco | -- | 0.00% | 301 477 | 0.40% |
| Suez Cement | Egypt | 910 721 | 0.95% | -- | 0.00% |
| Telecom Egypt | Egypt | 908 877 | 0.95% | -- | 0.00% |
| Telecom Egypt GDRs | Egypt | 489 000 | 0.51% | -- | 0.00% |
| United Development | Qatar | 2 077 | 0.00% | -- | 0.00% |
| Vodafone | Egypt | -- | 0.00% | 1 206 348 | 1.61% |
| **Total Listed Securities** | | **92 102 369** | **95.84%** | **71 207 376** | **94.88%** |

As of December 31, 2005, the aggregate cost of investments amounted to US$ 66 299 443 (against US$ 53 306 718 as of June 30, 2005).

## 5- Other Assets:

| | December 31, 2005 U.S.$ | June 30, 2005 U.S.$ |
|---|---|---|
| Sales awaiting settlement | 783,262 | 222,352 |
| Prepaid expenses | 9,075 | 4,996 |
| | **792,337** | **227,348** |

## 6- Accrued Expenses:

| | December 31, 2005 U.S.$ | June 30, 2005 U.S.$ |
|---|---|---|
| Accrued management fees | 329,751 | 247,505 |
| Accrued custodian fees | 18,805 | 13,612 |
| Incentive fees | 999,653 | 2,400,733 |
| Other accruals | 16,713 | 9,108 |
| | **1,364,922** | **2,670,958** |

## 7- 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 June 28, 1999 the authorized share capital of the Company was increased to reach 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 period were as follows:

| | No. of shares |
|---|---|
| Number of shares outstanding as of June 30, 2005 | 3 905 907 |
| Shares redeemed during the period | (77 942) |
| Shares sold during the period | 414 496 |
| **Number of shares outstanding as of December 31, 2005** | **4,242,461** |

## 8- 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. This agreement was terminated, and on April 11, 2003 EFG–Hermes 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 in respect of each share in issue, a performance fee (incentive fees) of 20% of any 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. Such fees shall be an annual fee and shall be payable within 14 days following the valuation day in June every year. The Manager is also entitled to be reimbursed for all reasonable out of pocket and third party expenses incurred in the performance of 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$ 623 219 for the period ended December 31, 2005, against US$ 91 238 for the period ended December 31, 2004. Incentive fees amounted to US$ 999 653 for the period ended December 31, 2005.

**9- 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$ 69 890 for the period ended December 31, 2005 (US$ 15 763 for the period ended December 31, 2004).

**10- 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$ 19 893 for the period ended December 31, 2005 (US$ 6 073 for the period ended December 31, 2004).

**11- 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. The Board decided to resume payment of Directors fees starting 2004. Board of Directors fees and expenses amounted to US$ 7 952 for the period ended December 31, 2005 (US$ 8 916 for the period ended December 31, 2004).

**12- Other Expenses:**

Other Expenses are summarized as follows:

| | December 31, 2005 U.S.$ | December 31, 2004 U.S.$ |
|---|---|---|
| Bank charges | 6 594 | 1 421 |
| Insurance | 4 211 | 6 178 |
| Legal fees | 888 | 2 828 |
| Audit fees | 3 016 | 3 016 |
| Others | 42 012 | 9 561 |
| | **56 721** | **23 004** |

**13- 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.

**14- 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.

**15- Related Party Transactions:**

Due to the widespread operations undertaken by the 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 5.85 % (ordinary transactions) for the period ended December 31, 2005, the said deals represented 4 % (ordinary transactions) of total transactions for the period ended December 31, 2004.

**16- Beneficial Interests**

On December 31, 2005, out of the outstanding shares of 4 242 461 in EFG-Hermes Middle East and Developing Africa Fund Limited, the investment Manager(s) and affiliates held the following beneficial interests in the shares of the Fund:

| | Shares Held | Percentage of Outstanding Share |
|---|---|---|
| Maha Baleigh | 1445 | 0.034% |

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