EFG – Hermes Middle East and Developing Africa Fund Limited

Financial Statements

For the Year Ended June 30, 2006

Together With the Auditors' Report

Deloitte.

Saleh, Barsoum & Abdel Aziz

95c Merghany Street,
Heliopolis, Cairo, Egypt
Tel : +(20-2) 290 3278
Fax: +(20-2) 290 3276

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, 2006 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, 2006 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, 24 August, 2006

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

Original 5 of 5

EFG - Hermes Middle East and Developing Africa Fund Limited

Balance Sheet

As of June 30, 2006

	Note	30 June 2006 USD	30 June 2005 USD
Assets			
Cash and cash equivalents	(3)	5 733 647	8 778 116
Investments in equity securities	(4)	67 848 949	71 207 376
Other Assets	(5)	100 452	227 348
Total Assets		**73 683 048**	**80 212 840**
Liabilities			
Proceeds under purchase of fund's certificates		--	579 149
Purchase awaiting settlement		2 766 800	1 915 704
Accrued Expenses	(6)	1 269 578	2 670 958
Total Liabilities		**4 036 378**	**5 165 811**
Net Assets		**69 646 670**	**75 047 029**
Number of shares outstanding	(7)	3 245 404	3 905 907
Net asset value per share		21.46	19.21

- 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, 2005 to June 30, 2006

	Note	30 June 2006 USD	30 June 2005 USD
Investment Income			
Interest income		67 492	46 908
Dividend income		1 667 362	1 053 039
Other revenues		13 796	1 704
		1 748 650	**1 101 651**
Expenses			
Management fees	(8)	1 179 873	449 734
Custody fees	(9)	161 873	55 790
Administrator fees	(10)	50 443	11 409
Board of Directors fees and expenses	(11)	21 713	20 725
Audit fees		6 000	6 000
Incentive fees	(8)	902 827	2 400 733
Other expenses	(12)	159 694	83 926
		2 482 423	**3 028 317**
Net Investment (Loss) Income		**(733 773)**	**(1 926 666)**
Redemption fees		213 217	2 797
Net realized gains on sale of investments		28 983 958	1 988 202
Net unrealized (loss) gain on investments		(15 194 055)	15 651 353
Gain (Loss) from foreign currency translation		(65 830)	(166 805)
Net Increase in Net Assets Resulting from Operations		**13 203 517**	**15 548 881**

- 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, 2005 to June 30, 2006

	30 June 2006 USD	30 June 2005 USD
Changes in Net Assets from Operations		
Net investment (loss) income	(733 773)	(1 926 666)
Redemption fees	213 217	2 797
Net realized gains on sale of investments	28 983 958	1 988 202
Net unrealized (loss) gain on investments	(15 194 055)	15 651 353
Gain (Loss) from foreign currency translation	(65 830)	(166 805)
Net Increase in Net Assets Resulting from Operations	**13 203 517**	**15 548 881**
Change in Net Assets from Capital Transactions		
Proceeds from sale of shares	24 039 475	48 300 461
Payments on redemption of shares	(42 643 351)	(189 617)
Net Increase (Decrease) in Net Assets Resulting from Capital Transactions	**(18 603 876)**	**48 110 844**
Total Increase (Decrease) in Net Assets	(5 400 359)	63 659 725
Net assets - Beginning of the Year	**75 047 029**	**11 387 304**
Net Assets - End of the Year	**69 646 670**	**75 047 029**

- 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 Ended June 30, 2006

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. The company's shares are listed in Dubai Financial Market.

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. Monetary 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.

The company uses the trade date of accounting method to recognize the purchase or sale of the financial assets. The trade date is the date that an entity commits itself to purchase or sell an asset. Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognizing of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date. Generally, interest does not start to accrue on the asset and corresponding liability until the settlement date when title passes.

Financial liabilities

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

3- Cash and cash equivalents

	30 June 2006	30 June 2005
	USD	USD
Current accounts	4 521 330	8 778 116
Time Deposits	1 212 317	--
	5 733 647	**8 778 116**

4- **Investments In Equity Securities**

The composition of the equity investments portfolio is summarized below:

	Country	June 30, 2006 Book Value USD	June 30, 2006 Percentage of Net Assets Value	June 30, 2005 Book Value USD	June 30, 2005 Percentage of Net Assets Value
Listed securities					
AL Ahly United Bank BSC	Bahrain	4 518 954	6.49%	421 726	0.56%
Al Anwar Ceramics	Oman	113 381	0.16%	388 932	0.52%
Alliance Housing Bank	Oman	259 357	0.37%	953 939	1.27%
Amco	Egypt	2 789 264	4.00%	-	0.00%
Arab Banking Corporation	Bahrian	852 891	1.22%	1 695 000	2.26%
Arab Technical Construction Company	UAE	1 262 336	1.81%	1 385 492	1.85%
Bank Audi (GDR)	Lebanon	2 107 179	3.03%	1 415 068	1.89%
Bank of Muscat	Oman	2 558 268	3.67%	2 570 159	3.42%
Banque Centrale Populaire	Oman	344 886	0.50%	325 369	0.43%
Batelco	Bahrain	-	0.00%	602 828	0.80%
BCFC	Bahrain	55 386	0.08%	595 663	0.79%
Bank Internatinal Arab De Tunisie	Tunisia	-	0.00%	660 448	0.88%
B H Bank	Tunisia	728 845	1.05%	495 473	0.66%
Blom bank GDR	Lebanon	2 351 115	3.38%	-	0.00%
Burqan Bank	Kuwait	2 572 444	3.69%	684 094	0.91%
Byblos Bank S.A.L	Lebanon	2 502 077	3.59%	-	0.00%
CIB	Egypt	-	0.00%	2 729 631	3.64%
Commercial Facilities Co.	Kuwait	-	0.00%	4 369 121	5.82%
EAB	Egypt	-	0.00%	1 771 037	2.36%
El-Sweedy Cabels	Egypt	1 660 359	2.38%	-	0.00%
EMAAR	Egypt	2 252 399	3.23%	-	0.00%
Eastern Tobacco	Egypt	-	0.00%	1 355 638	1.81%
Egyptian Financial & Indu.	Egypt	-	0.00%	76 123	0.10%
EIPI Co.	Egypt	-	0.00%	550 608	0.73%
Global Investment House	Kuwait	2 223 448	3.19%	4 957 364	6.61%
Ithmaar Bank	Bahrain	2 094 676	3.01%	-	0.00%
Jordan Phosphate Mines	Jordan	-	0.00%	466 642	0.62%
Lafarge Ciments	Morocco	399 394	0.57%	860 823	1.15%
Maroc Telecom	Morocco	-	0.00%	1 947 115	2.59%
Misr Bani Swaif Cement	Egypt	-	0.00%	841 612	1.12%
Mobinil	Egypt	-	0.00%	2 167 082	2.89%
M T C	Kuwait	3 206 346	4.60%	7 117 011	9.48%
Nasr city housing	Egypt	799 098	1.15%	-	0.00%
Nass Corporation B.S.C	Bahrain	653 076	0.94%	-	0.00%
National Bank of Bahrain	Bahrain	-	0.00%	353 421	0.47%
National Bank of Kuwait	Kuwait	1 501 517	2.16%	129 448	0.17%
Natinal Mobile Telecom	Kuwait	-	0.00%	5 348 104	7.13%
O C I GDR	Egypt	1 665 436	2.39%	1 462 734	1.95%
Olympic Group	Egypt	1 722 106	2.47%	-	0.00%
Oman Cement	Oman	-	0.00%	2 275 296	3.03%
ONA	Morocco	1 300 994	1.87%	-	0.00%
OPTD	Egypt	1 554 998	2.23%	-	0.00%
Orascom Construction Ind.	Egypt	1 405 479	2.02%	1 429 656	1.91%
Orascom Telecom GDS	Egypt	1 760 920	2.53%	5 397 274	7.19%
Orascom Telecom LE	Egypt	2 060 919	2.96%	2 270 865	3.03%
Oriental Weaver	Egypt	3 040 532	4.37%	-	0.00%
P. Warehousing Co.	Kuwait	3 110 674	4.47%	5 088 730	6.78%
P. Warehousing Co. (Right issue)	Kuwait	378 412	0.54%	-	0.00%
PALTEL	Plastien	295 180	0.42%	-	0.00%
Port Services Corporation	Oman	-	0.00%	222 815	0.30%
Qatar Shipping	Qatar	2 322 019	3.33%	-	0.00%
Qatar Telecom	Qatar	117	0.00%	1 261 474	1.68%
Raya	Egypt	-	0.00%	403 702	0.54%
Raysut Cement Co.	Oman	2 109 539	3.03%	2 169 847	2.89%
Raysut Cement Co. (Right issue)	Oman	721 230	1.04%	482 188	0.64%
Renaissance Services	Oman	766 885	1.10%	-	0.00%
Sonasid	Morocco	-	0.00%	301 477	0.40%
Solidere Type A	Lebanon	1 895 457	2.72%	-	0.00%
Solidere Type B	Lebanon	1 083 101	1.56%	-	0.00%
Suez Cement	Egypt	1 473 564	2.12%	-	0.00%
Telecom Egypt	Egypt	391 404	0.56%	-	0.00%
Telecom Egypt GDRs	Egypt	322 500	0.46%	-	0.00%
United Development	Qatar	660 787	0.95%	-	0.00%
Vodafone	Egypt	-	0.00%	1 206 347	1.61%
Total Listed Securities		67 848 949	97.42%	71 207 376	94.88%

5- Other Assets

	30 June 2006	30 June 2005
	USD	USD
Sales awaiting settlement	--	222 352
Equity dividends receivable	97 733	--
Interest receivable on time deposits	375	--
Prepaid expenses	2 344	4 996
	100 452	**227 348**

6- Accrued Expenses

	30 June 2006	30 June 2005
	USD	USD
Accrued management fees	249 066	247 505
Accrued custodian fees	30 216	13 612
Incentive fees	902 827	2 400 733
Other accruals	87 469	9 108
	1 269 578	**2 670 958**

7- Share Capital Transactions

The Company was incorporated with an authorized share capital of USD 12 000 divided into 1 200 000 shares of a par value of USD 0.01 each. On 28 June, 1999 the authorized share capital of the Company was increased to USD 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 on June 2000. The following transactions took place on share capital during the year:

	No. of shares
Number of shares outstanding as of 1 July 2005	3 905 907
Shares redeemed during the year	(1 775 561)
Shares issued during the year	1 115 058
Number of shares outstanding as of 30 June, 2006	**3 245 404**

8- Management Fees

The manager is entitled to receive from the company a management fee accruing monthly at the annual rate of 1.4 percent of the net assets value of the company on each valuation day and payable quarterly in arrears (calculated prior to deduction of management fees).

In addition, the manager is entitled to receive from the company in respect of each share in issue a performance fee of 15 per cent 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 per cent. Such fee is an annual fee, and is payable within 14 days following the valuation day in June of each year (save that, 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 performance fee or annual management fee to any person who assists in the placing of shares in company.

Management fees amounted to USD 1 179 873 for the year ended 30 June 2006, against USD 449 734 for the year ended 30 June 2005. Incentive fees amounted to USD 902 827 for the year ended 30 June 2006 (USD 2 400 733 for the year ended 30 June 2005).

9 - Custody Fees

According to an agreement dated July 1, 1999, State Street Bank and Trust Company 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 USD 50 million, and .015% per annum on any balance, with minimum annual fees of USD 24 000, together with the reimbursement of proper expenses. The custodian also receives a multi–managed portfolio fee of USD 1 000 per month and up to USD 175 fee per transaction. The Company is also responsible for the fees of any sub–custodian.

The company entered into 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 USD 161 873 for the year ended 30 June 2006 (USD 55 790 for the year ended 30 June 2005).

10 - Administrator 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 fees amounted to USD 50 443 for the year ended 30 June 2006 (USD 11 409 for the year ended 30 June 2005).

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. 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 USD 21 712 for the year ended 30 June 2006 (USD 20 725 for the year ended 30 June 2005).

12 - Other Expenses

Other expenses are summarized as follows:

	30 June 2006	30 June 2005
	USD	USD
Bank charges	31 635	7 926
Insurance	10 944	11 845
Legal fees	887	5 384
Pre-starting expense	--	3 357
Other expenses	116 228	55 414
	159 694	**83 926**

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 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 13.10 % (ordinary transactions) for the year ended 30 June 2006, while they represented 4 % (ordinary transactions) of total transactions for the year ended 30 June 2005.

16 – Financial Instruments:

16.1 Use of Financial Instruments

The Company's financial instruments consist primarily of cash at banks and investments in equity securities.

16.2 Market risk

Market risk is the potential adverse change in security value caused by unfavorable movements in interest rates, foreign exchange rates, or market prices of other financial instruments. However, the risk to the company is limited to the amount of the company's investment in each security.

16.3 Credit Risk

Credit risk arises from the failure of the counterparty to perform according to the terms of the contract. The Fund's counterparties are generally major brokerage firms.

17- Beneficial Interests

On June 30, 2006 out of the outstanding shares of 3 245 404 in EFG-Hermes Middle East and Developing Africa Funds Limited, the investment Manager(s) and affiliates don't held any beneficial interests in the shares of the Fund.