EFG – Hermes Middle East and Developing Africa Fund Limited

Financial Statements and Review Report
for the period from July 1, 2006
to December 31, 2006

Deloitte.

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Independent Accountant's review report

To: The Poard of Directors 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, 2006, and the related statements of operations and changes in net assets for the period from July 1, 2006 to December 31, 2006. 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 2400. 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 are not presented fairly, in all material respects, in accordance with International Financial Reporting Standards.

Cairo, March 1, 2007

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, 2006

	Note	December 31, 2006 USD	30 June 2006 USD
Assets			
Cash at banks	(3)	11 513 979	5 733 647
Investments in equity securities	(4)	94 438 893	67 848 949
Sales awaiting settlement		2 719 532	–
Other assets	(5)	222 390	100 452
Total Assets		**108 894 794**	**73 683 048**
Liabilities			
Purchases awaiting settlement		1 303 451	2 766 800
Accrued expenses	(6)	1 384 315	1 269 577
Proceeds under purchase of fund's shares		33 820	–
Total Liabilities		**2 721 586**	**4 036 377**
Net Assets		**106 173 208**	**69 646 671**
Number of shares outstanding	(7)	4 414 986	3 245 404
Net asset value per share		24.05	21.46

- The attached notes (1) to (15) 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, 2006 to December 31, 2006

	Note	2006 USD	2005 USD
Investment Income			
Interest income		99 354	15 532
Dividend income		102 063	197 344
		201 417	212 876
Expenses			
Management fees	(8)	613 899	623 219
Custody fees	(9)	74 951	69 890
Administrator's fees	(10)	5 423	19 893
Board of Directors' fees and expenses	(11)	5 950	7 952
Incentive fees	(8)	975 407	999 653
Other expenses		1 206	56 721
		1 676 836	1 777 328
Net Investment (loss) Income		(1 475 419)	(1 564 452)
Redemption fees		17 317	8 208
Net realized gains on sale of investments		4 291 710	8 197 885
Net unrealized appreciation of investments		6 336 583	7 781 068
Gains (Losses) from foreign currency translation		325 706	(57 021)
Net Increase in Net Assets Resulting from Operations		9 495 897	14 365 688

- The attached notes (1) to (15) 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, 2006 to December 31, 2006

	2006 USD	2005 USD
Changes in Net Assets from Operations		
Net investment (loss) income	(1 475 419)	(1 564 452)
Redemption fees	17 317	8 208
Net realized gains on sale of investments	4 291 710	8 197 885
Net unrealized appreciation of investments	6 336 583	7 781 068
Gains (Losses) from foreign currency translation	325 706	(57 021)
Net Increase in Net Assets Resulting from Operations	**9 495 897**	**14 365 688**
Change in Net Assets from Capital Transactions		
Proceeds from sale of shares	37 051 499	8 324 828
Payments on redemption of shares	(10 020 859)	(1 641 610)
Net Increase in Net Assets Resulting from Capital Transactions	**27 030 640**	**6 683 218**
Total Increase in Net Assets	36 526 537	21 048 906
Net assets at the beginning of the period	**69 646 671**	**75 047 029**
Net assets at the end of the period	**106 173 208**	**96 095 935**

- The attached notes (1) to (15) 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, 2006 to December 31, 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

	31 December 2006	30 June 2006
	USD	USD
Current accounts	11 513 979	4 521 330
Time Deposits	--	1 212 317
	11 513 979	**5 733 647**

4- **Investments in Equity Securities**

The composition of the equity investments portfolio is summarized below:

		December 31, 2006		June 30, 2006	
	Country	Book Value USD	Percentage of Net Assets Value	Book Value USD	Percentage of Net Assets Value
Listed securities					
AL Ahly United Bank BSC	Bahrain	6 189 446	5.83%	4 518 954	6.49%
Al Anwar Ceramics	Oman	310 789	0.29%	113 381	0.16%
Alliance Housing Bank	Oman	-	0.00%	259 357	0.37%
Amco	Egypt	2 933 214	2.76%	2 789 264	4.00%
Arab Banking Corporation	Bahrian	618 301	0.58%	852 891	1.22%
Arab Technical Construction Company	UAE	3 215 122	3.03%	1 262 336	1.81%
Bank Audi (GDR)	Lebanon	409 554	0.39%	2 107 179	3.03%
Bank of Muscat	Oman	1 383 999	1.30%	2 558 268	3.67%
Banque Centrale Populaire	Oman	-	0.00%	344 886	0.50%
BCFC	Bahrain	-	0.00%	55 386	0.08%
B H Bank	Tunisia	1 006 406	0.95%	728 845	1.05%
Blom bank GDR	Lebanon	1 710 072	1.61%	2 351 115	3.38%
Burqan Bank	Kuwait	3 967 945	3.74%	2 572 444	3.69%
Byblos Bank oriorty shares listed	Lebanon	1 086 000	1.02%	2 502 077	3.59%
Byblos Bank S.A.L	Lebanon	1 000 986	0.94%	-	0.00%
CIB	Egypt	3 132 046	2.95%	-	0.00%
El-Sweedy Cabels	Egypt	2 645 058	2.49%	1 660 359	2.38%
EMAAR	UAE	5 269 525	4.96%	2 252 399	3.23%
Global Investment House	Kuwait	-	0.00%	2 223 448	3.19%
Gulf Cement		2 445 338	2.30%	-	0.00%
Ithmaar Bank	Bahrain	2 647 118	2.49%	2 094 676	3.01%
Lafarge Ciments	Morocco	-	0.00%	399 394	0.57%
Misr Bani Swaif Cement	Egypt	1 191 073	1.12%	-	0.00%
M T C	Kuwait	5 398 807	5.08%	3 206 346	4.60%
Nasr city housing	Egypt	-	0.00%	799 098	1.15%
Nass Corporation B.S.C	Bahrain	627 744	0.59%	653 076	0.94%
National Bank of Kuwait	Kuwait	3 168 880	2.98%	1 501 517	2.16%
NSGB	Egypt	315 066	0.30%	-	
O C I GDR	Egypt	1 798 319	1.69%	1 665 436	2.39%
Olympic Group	Egypt	3 110 077	2.93%	1 722 106	2.47%
ONA	Morocco	-	0.00%	1 300 994	1.87%
OPTD	Egypt	-	0.00%	1 554 998	2.23%
Orascom Construction Ind.	Egypt	1 375 286	1.30%	1 405 479	2.02%
Orascom Telecom GDS	Egypt	1 860 727	1.75%	1 760 920	2.53%
Orascom Telecom LE	Egypt	3 063 357	2.89%	2 060 919	2.96%
Oriental Weaver	Egypt	2 405 142	2.27%	3 040 532	4.37%
P. Warehousing Co.	Kuwait	4 270 245	4.02%	3 110 674	4.47%
P. Warehousing Co. (Right issue)	Kuwait	339 202	0.32%	378 412	0.54%
PALTEL	Plastien	-	0.00%	295 180	0.42%
Qatar Shipping	Qatar	-	0.00%	2 322 019	3.33%
Qatar Industries	Qatar	4 454 368	4.20%	-	0.00%
Qatar Telecom	Qatar	4 594 944	4.33%	117	0.00%
Raysut Cement Co.	Oman	2 824 869	2.66%	2 109 539	3.03%
Raysut Cement Co. (Right issue)	Oman	538 703	0.51%	721 230	1.04%
Renaissance Services	Oman	1 808 900	1.70%	766 885	1.10%
Sodic	Egypt	3 944 109	3.71%	-	0.00%
Sodic Right issue	Egypt	1 830 407	1.72%	-	0.00%
Solidere Type A	Lebanon	2 530 800	2.38%	1 895 457	2.72%
Solidere Type B	Lebanon	718 929	0.68%	1 083 101	1.56%
Suez Cement	Egypt	1 732 635	1.63%	1 473 564	2.12%
Telecom Egypt	Egypt	-	0.00%	391 404	0.56%
Telecom Egypt GDRs	Egypt	-	0.00%	322 500	0.46%
United Development	Qatar	565 385	0.53%	660 787	0.95%
Total Listed Securities		**94 438 893**	**88.95%**	**67 848 949**	**97.42%**

5- Other Assets

	31 December 2006	30 June 2006
	USD	USD
Equity dividends receivable	118	97 733
Interest receivable on time deposits	--	375
Other debit balances	213 395	--
Prepaid expenses	8 877	2 344
	222 390	**100 452**

6- Accrued Expenses

	31 December 2006	30 June 2006
	USD	USD
Accrued management fees	356 673	249 066
Accrued custodian fees	23 535	30 216
Incentive fees	975 407	902 827
Other accruals	28 700	87 468
	1 384 315	**1 269 577**

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 Period:

	No. of shares
Number of shares outstanding as of 1 July 2006	3 245 404
Shares redeemed during the Period	(436 777)
Shares issued during the Period	1 606 359
Number of shares outstanding as of 31 December 2006	**4 414 986**

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 613 899 for the period ended December 31, 2006, against USD 623 219 for the period ended December 31, 2005. Incentive fees amounted to USD 975 407 for the period ended December 31, 2006, against USD 999 653 for the period ended December 31, 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 0.03% per annum of the net asset value of the Company up to USD 50 million, and 0.015% 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 74 951 for the period ended December 31, 2006 (USD 69 890 for the period ended December 31, 2005).

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 USD 5 423 for the period ended December 31, 2006 (USD 19 893 for the period ended December 31, 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 5 950 for the period ended 31 December 2006 (USD 7 952 for the period ended 31 December 2005).

12 - 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.

13 - 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.

14 - 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 15.74 % (ordinary transactions) for the period ended 31 December 2006, while they represented 5.85 % (ordinary transactions) of total transactions for the period ended 31 December 2005.

15 - Beneficial Interests

On December 31, 2006 out of the outstanding shares of 4 414 986 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.