The EFG-Hermes Middle East and Developing Africa Fund Limited

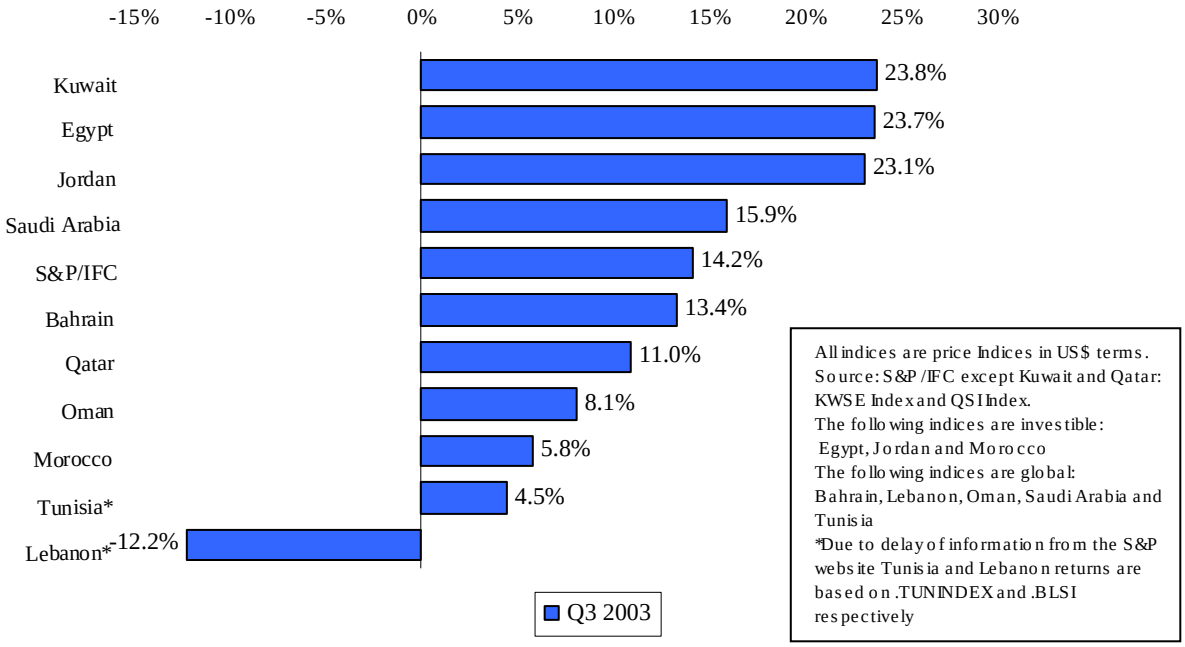
September 2003 *Quarterly Report* *Q3 2003*

Investment Manager's Commentary:

The MEDA fund has continued to post positive gains during the third quarter and has now experienced a full year of consecutive monthly and quarterly gains. This twelve-month period has seen significant volatility in global markets and all the uncertainties related to the Iraqi conflict and regional terrorist incidents. Once again, this consistent performance demonstrates that at least in capital market terms, this is an attractive region to diversify portfolio risk and smooth volatility. Over the quarter the MEDA fund was up 5.3%, and year to date the MEDA fund is now up 23.3%. Although the IFCI Global index is up 33.7% since the beginning of the year, it has shown far greater volatility than our fund.

The table below reflects the performance of markets in our region over the period.

MEDA Region Stock Market Performance (US$):



Performance to date:

Value	31-12-01.	31-3-02.	30-6-02.	30-9-02.	31-12-02**	31-3-03.	30-6-03.	30-9-03.
NAV in $	6.61	6.94	7.34	6.98	6.92	6.95	8.10	8.53
S&P/IFCI*	278.14	314.09	289.05	244.01	267.21	249.99	312.92	357.39

Return	Q1 2002	Q2 2002	Q3 2002	Q4 2002	2002	Q1 2003	Q2 2003	Q3 2003	YTD03
NAV	5.0%	5.8%	-4.9%	2.1%	7.9%	0.4%	16.5%	5.3%	23.3%
S&P/IFCI	12.9%	-8.0%	-15.6%	9.5%	-3.9%	-6.4%	25.2%	14.2%	33.7%
Relative **	-7.9%	13.7%	10.7%	-7.4%	11.8%	6.9%	-8.6%	-8.9%	-10.5%

*** S&P/IFC Composite Investible Total Return US$ Index** **** Relative Performance of MEDA NAV to Benchmark**

**** Distributed a dividend of USD 0.19 on 30-11-00 and USD 0.21 on 17-12-02**

The period has been characterised by an improvement in economic activity across the whole region, with even Egypt showing some evidence of growth. Interest rates have been low and stable across the Middle East and in North Africa have been on a gradual declining trend. Low interest rates, favourable government spending and private sector housing demand have tended to underpin improving consumer confidence and spending patterns across the region. Regional tourism has also been recovering, with North Africa and the Near East seeing a renewed influx of Gulf tourists during the summer. In Egypt's case, negative real interest rates and a depreciating currency have encouraged spending on real assets, with real estate and the stock market being the primary beneficiaries.

All of these factors have tended to outweigh the negative developments in Iraq and Palestine. There has been an ongoing security clampdown in Saudi Arabia against Al Qaeda suspects and sporadic low-level demonstrations against government policies in Morocco, Egypt and Jordan.

This year has seen an improving correlation between the Gulf markets, although Saudi Arabia and Kuwait continue to lead in terms of market trading activity and volatility. Trading volumes in Saudi Arabia and Kuwait have reached heady

levels of over $1Bn and $400m per day. The wide difference between risk free rates and dividend yields has been an important factor in attracting investors into the stock market. Towards the end of the quarter there has been particularly high volatility in leading companies such as **Saudi Telecom**, **Saudi Electricity** and **SABIC**, which on occasion have seen daily share price moves of up to 10%.

The Fund's exposure to these markets has been minimal since the first quarter, but we took the decision to raise exposure to the Kuwaiti market having recognised that performance had become quite polarised towards Real Estate and Investment Companies. We have added **Burgan Bank** and **Commercial Facilities**, both of which have significantly underperformed this year. The former has been neglected by the market due to a surprise off-balance sheet investment provision and a change in management. The bank is trading at least a 40% 03 PE discount and 60% 03 P/B discount to the sector, and is expected to show a sharp rise in earnings and dividend growth this year. The Bank has been given permission to buy 10% of its shares back in the market over the next six months. **Commercial Facilities** is a leader in consumer lending. With low interest rates and some limits on consumer credit growth being imposed by the Central Bank on Commercial Banks, Commercial Facilities is in a good position to expand its loan book. A valuation of around 15x this year's earnings and a more than 4% dividend yield seems attractive. Following a similar strategy, we also successfully added to **Al Ahli United Bank (AUB)** in Bahrain after we recognised that it was trading at a significant discount to the sector in Bahrain.

This decision to increase weightings in the northern Gulf was prompted by a sharp reversal in our position in the Omani banking sector. During the Iraqi War we believed that this sector was a safe haven for funds given the geographical distance to the War Zone and very attractive relative valuations in a regional context. This proved to be a reasonable call given the positive share price performance of **Bank Muscat**, **National Bank of Oman (NBO)** and **Alliance Housing Bank** during the first six months. Following the announcement of second quarter figures we believed it was prudent to reduce our exposure to the sector. Many of the leading banks have shown some pressure on underlying growth and spreads in their core banking activity. Although we agree with the principle, the appetite for long term funding may be damaging for profitability if the Central bank continues to reduce the ceiling on consumer lending rates. In the case of **NBO**, provisioning has also continued to weigh heavily on profitability. We continue to like the niche bank, **Alliance Housing Bank**, but have trimmed our position after strong gains.

Elsewhere in the Gulf, there have been few changes to the portfolio. **QTel** in Qatar remains a core holding, and is certainly benefiting from the booming Qatari economy and stock market. Population growth and consumer demand are driving the economy and demand for telecom services. **QTel** is at a discount to the market and has a very high quality of earnings relative to many other companies in Qatar. Gulf Telecom companies such as **QTel**, **Batelco** and **MTC** are all seeking to participate in high growth- low penetration rate assets elsewhere in the region and are actively seeking opportunities in North Africa and Iraq. Investors have from time to time have speculated on regional expansion plans beyond their more predictable domestic businesses.

A prominent theme that has been developing in our portfolio has been the increased weighting of building material companies. Helped by increased government infrastructure spending and lower mortgage rates the supply/demand balance for cement and other building materials have been improving. The impact of increased demand from Iraq and reduced dumping from Asia and India has been material. **Oman Cement**, for example, has raised prices on four occasions this year. The government in Oman placed a stake, in which we participated, at over a 40% discount to the regional replacement value per tonne. Also, following a visit to **Lafarge** in Morocco, we added to our position in response to increased spending by the Hassan II Fund on Social Housing and an emerging demand surge in the north of the country. The company experienced a 28.3% rise in first half profits and is only standing on around 10x this year's earnings.

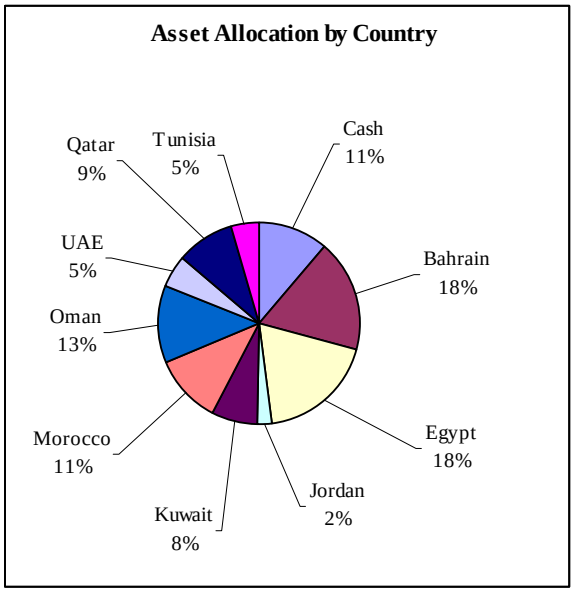
We have also significantly increased our exposure to **Orascom Construction Industries (OCI)** in Egypt. This is now the second largest equity holding in the portfolio. This company is benefiting from increased cement prices in Gulf and Egypt, and will see a leap in earnings as Algerian operations come on stream in the second half. The company's contracting division is enjoying a strong build-up in order backlog from US-Security based expenditure in Afghanistan, Qatar and in due course one would presume, Iraq. Importantly the earnings growth is coming from a dollar based revenue flow and thus the company is a major beneficiary of the depreciation of the Egyptian pound. Based on very conservative forecasts, the 2004 PE is less than 10x with strong potential for dividend growth.

This 'building' theme has also apparent in the ongoing strong performance of **Sonasid** in Morocco. Rising European steel prices and falling tariffs on steel billets into Morocco has enabled margins to stay at healthy levels. During the period, **Sonasid** paid an 8% dividend. Following a company visit, we also added **Jordan Steel**, in anticipation of a strong pickup in demand from Saudi Arabia and Iraq. Based on forecast earnings, the shares are trading on 10x with a prospective yield of 6%.

Excluding **OCI**, our weighting in Egypt has actually fallen, as we have become more concerned about the ongoing impact of ebbing confidence in economic management, as reflected in the weakness of the currency. Low interest rates have helped the stock market, but the deteriorating budget deficit will in due course lead to a crowding out effect, which probably can only be addressed through faster privatisation. On this basis we retain residual holdings in companies like **Eastern Tobacco**, which are trading at a discount of 88% to the recently privatised Regie de Tabac in Morocco.

Despite the performance year to date, the outlook for the region remains positive. Provided oil prices remain 'in the range' and international stock markets consolidate as we expect, regional investor's attention is likely to revert to the dividend season approaching at the end of the first quarter of next year. More stretched valuations in Saudi Arabia and Kuwait could lead to greater volatility in specific sectors, but steady progress should be possible for a value-driven investor in an improving regional economic climate.

Top 10 Holdings	% Net Assets
Qatar Telecom- Qatar	9.5%
Orascom Construction Industries- Egypt	8.0%
Sonasid- Morocco	6.7%
Bahrain Telecom- Bahrain	5.0%
National Bank of Bahrain- Bahrain	5.0%
Emaar- UAE	4.9%
Bahrain Commercial Facilities- Bahrain	4.7%
Bank Muscat Convertible Bonds- Oman	4.3%
Lafarge Ciments- Morocco	4.0%
Alliance Housing Bank- Oman	3.9%



BACKGROUND:
The EFG-Hermes Middle East and Developing Africa Fund Limited is an investment company incorporated in Bermuda for the purpose of providing Shareholders with the opportunity of investing indirectly in the Middle East and Developing Africa.
EFG-Hermes Financial Management (Egypt) Limited (HFM), a wholly owned subsidiary of EFG Hermes Holding Company, is the investment manager. EFG-Hermes (UK) acts as investment advisor to HFM.

ADMINISTRATION, SECRETARY AND REGISTRAR:
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SEDOL Code:
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BLOOMBERG TICKER: EFGMEAF BH

THE FOLLOWING MAKE A MARKET IN THE FUND'S SHARES:

UBS Warburg / Mr. David Bliff	Tel: 44-207-568-4587	**REUTERS PAGE:** WDRIFMEA1
Jefferies International Limited / Mr. Norman C. Crighton	Tel: 44-207-618-3620	**REUTERS PAGE:** JEF03
LCF Rothschild Securities/ Ms. Claire Heathfield	Tel: 44-207-845-5960	**REUTERS PAGE:** EDRG
JP Morgan/ Securities/ Mr. Richard Crawford/ Simon Ronan	Tel: 44-207-742-8463/8497	**REUTERS PAGE:** RSJA55
ABN-AMRO/ Mr. Andrew Cade	Tel: 44-207-678-5413	**REUTERS PAGE:** ABNFUND15

Shares can be redeemed on a quarterly basis and subscribed for on a monthly basis from June 2000. The subscription price is the last published NAV for the month plus a front-end charge of up to 2%. The redemption price is the last published NAV for the month less a charge of up to 4%. During the life of the Fund redemption charges ranged between 0 and 2% and are a function of the liquidity of the portfolio at time of redemption. Redemption requests have to be submitted to MQ Services 14 working days before month end. Subscription requests have to be submitted to MQ Services 7 working days before month end.

FACT FILE:
First launched: August 1999
Fund restructured to MENA Fund in 2002

NAV as of end of September 2003: US$ 8.53
The Company distributed dividends of:
US$ 0.19 per share as of 30 November 2000
US$ 0.21 per share as of 17 December 2002

ENQUIRIES:

EFG-Hermes Asset Management

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