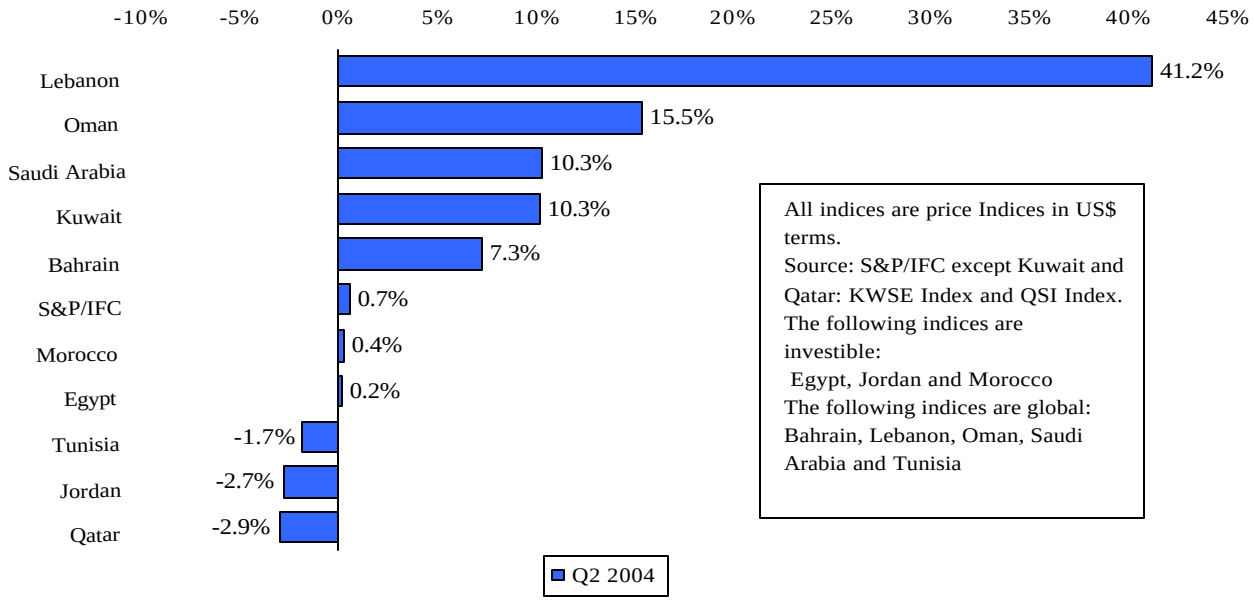
**Investment Manager's Commentary:**

During the Quarter the MEDA Fund NAV rose by 13.5%, a considerable outperformance of the IFCI Global index which inched up only 0.7% over the same period. The performance year-to-date reflects a significant outperformance relative to the global index, and this outperformance has all but eliminated the shortfall in 2003. This market resilience, against the backdrop of dramatic falls in many emerging markets, reflects the positive effects of a high oil price on bank and market liquidity across the Gulf and the underlying positive corporate performance across MENA.

The correction in global emerging markets has only impinged on the MENA region through the behaviour of offshore traded instruments such as GDRs and Sovereign Bonds. In both cases, prices have generally recovered due to the enthusiasm of regional investors. This has enabled markets to remain largely decoupled from global trends, despite the outlook for higher interest rates and the rather fragile regional political environment which has been dominating media coverage. Regional Investors have been responding to the underlying strength in the Gulf economies which are being supported by growing budget surpluses, infrastructure/property investment and buoyant consumer demand.

Although market performance has been generally positive, as reflected in the chart below, the quarter has been characterised by increased market and stock specific volatility.

**MEDA Region Stock Market Performance (US$):**




This market volatility has been the result of the impact of greater speculative activity by certain investors, who have significantly influenced market behaviour particularly in Saudi Arabia, Qatar and the UAE. Increasingly, investors from Saudi Arabia and Kuwait have been determining directional stock moves on a cross-border basis, as markets become more accessible to GCC investors. The Saudi Arabian market in particular has seen major volatility, with one of the largest companies, Saudi Electric, for example experiencing regular 5-10% price moves on a daily basis. This stock volatility partly reflects the level of leverage amongst certain investors and the narrow free float in the market. The ongoing spate of terrorist incidents has undoubtedly influenced government-related support of the market at critical times.

The level of market liquidity has been reflected in the oversubscription in IPOs such as Sahara Petroleum (Saudi), Al Maha Petroleum (Oman) and Amlak Finance (UAE). Typically, the withdrawl of funds from the broader market during the subscription period for IPOs has influenced market behaviour in the same way as occurred in the Qatari market last year. This is expected to continue to be a feature with important new listings expected over the coming months at a time when mutual fund regulations in Qatar and market opening steps in the UAE are improving accessibility.

One of the reasons why the Kuwaiti market has been disappointing this year is that leading investors have turned their attention to the new listings and other opportunities in other regional markets. **Emaar Properties** in the UAE has been a particular feature in this respect, as a management roadshow, a stock split and buyback have generated considerable interest from regional investors. The

share price has more than doubled from the first quarter, helped by the prospect of expatriates moving to Dubai in the wake of the instability in Saudi Arabia. We viewed this sharp upward move in the shares as a selling opportunity, as profit momentum and financing issues are expected to weigh on the share price later in the year. We have added to **MTC** in Kuwait after a period of share price weakness. The company continues to grow strongly in new market like Iraq, although it lost out to QTel in the 2nd mobile licence in Oman.

The volatility exhibited by many of the GCC markets has not been reflected to the same extent in Oman. **Alliance Housing Bank** and **Bank Muscat** have been particular features as investors have recognised that the P/E and P/B valuation discount relative to other regional banks is not justified. Bank Muscat continues to expand regionally outside the constraints of the Omani market and is one of the most aggressive banks in tapping into burgeoning regional liquidity. The bank raised a second ten year eurobond at a more attractive rate relative to the benchmark it set last year with the first 10yr corporate bond issue launched in the Gulf. Leading banks will be benefiting from the new issue calendar, which includes privatisation issues in the Power and Telecom sectors.

After the steep rises earlier in the year, the Egyptian market has plateaued out in the wake of rising interest rates and a less certain global investment background. Leading companies with regional activities such as **Orascom Telecom** and **Orascom Construction** have delivered very strong growth and valuations of these companies still remain compelling in both a regional and global context. We believe these companies have the capacity to show multiple expansion despite the prospect of rising domestic interest rates, as regional cement and mobile telecom demand underpin earnings. Orascom Construction is also a clear beneficiary of the reconstruction efforts in Afgahnistan and Iraq, as increased risks favour a regionally-based company with strong US connections.

We have made some small changes to the North African Portfolio. In Morocco, we have eliminated **Managem** as it became clear that the management had not fully appreciated the complexities of hedging its metal production and forward selling prices. We are considering applying for the forthcoming privatisation of **Banque Centrale Populaire** (BCP), which is attractively valued relative to the sector and recent purchases in the sector by strategic investors. In Tunisia, we have increased the exposure to the banking sector through a higher weighting in **Banque de L'Habitat**, which continues it's steady recovery in line with an improving economy.

Against the backdrop of the prospect of rising interest rates and an increased issuance of IPOs, we believe that markets may be more subdued over the summer period. The high oil price should support market liquidity and enable valuations to be sustained, but our preference is to focus on fundamental value, rather than chase short term market themes.

**Performance to date:**

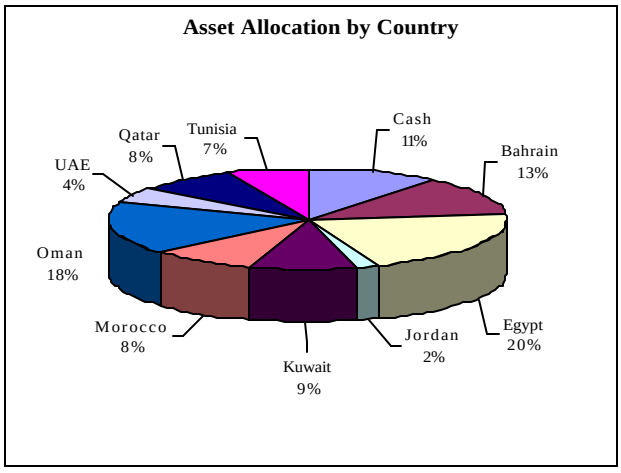
| Value | 30-06-03 | 30-09-03 | 31-12-03 | 30-03-04 | 30-06-04. |
|---|---|---|---|---|---|
| MEDA | 8.10 | 8.53 | 9.22 | 9.88 | 11.14 |
| S&P/IFCI* | 312.92 | 357.39 | 419.92 | 463.59 | 422.82 |

| Return | Q3 2003 | Q4 2003 | Q1 2004 | Q2 2004 | FY03/04 |
|---|---|---|---|---|---|
| MEDA | 5.3% | 8.1% | 7.2% | 12.8% | 37.5% |
| S&P/IFCI | 14.2% | 17.5% | 10.4% | -8.8% | 35.1% |
| Relative ** | -8.9% | -9.4% | -3.2% | 21.5% | 2.4% |

* S&P/IFC Composite Investible Total Return US$ Index

** Relative Performance of MEDA NAV to Benchmark

| Top 10 Holdings | % Net Assets |
|---|---|
| OCI | 9.28% |
| Qtel | 8.19% |
| Bank Muscat | 5.81% |
| Alliance Housing Bank | 5.79% |
| OT | 5.43% |
| Lafarge Maroc | 4.89% |
| Banque De L'Habitat | 3.72% |
| National Bank of Bahrain | 3.37% |
| Burgan Bank | 3.03% |
| BIAT | 2.96% |



**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:**
MQ Services Limited
Chancery Hall, 52 Reid Street, Hamilton, HM12, Bermuda.
Tel: 1441-295-9294 Fax: 1441-292-8899

**SEDOL Code:**
0-675-970

**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*

*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*

*NAV as of end of June 2004:* US$ 11.14

**ENQUIRIES:**

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This update does not constitute an offer of shares and should not be relied upon by any person acquiring or otherwise dealing in shares of the company. Subscription of shares in the company may only currently be made on the terms of the Placing Memorandum of the company. It should be noted that investment in the fund is only suitable for sophisticated investors who are aware of the risks of investing in The EFG-Hermes Middle East and Developing Africa Fund Limited and should be regarded as long term. Please remember that past performance is not necessarily a guide to the future. Market and currency movements may cause the value of shares and the income from them to fluctuate and you may get back less than you invested when you decide to sell your share.