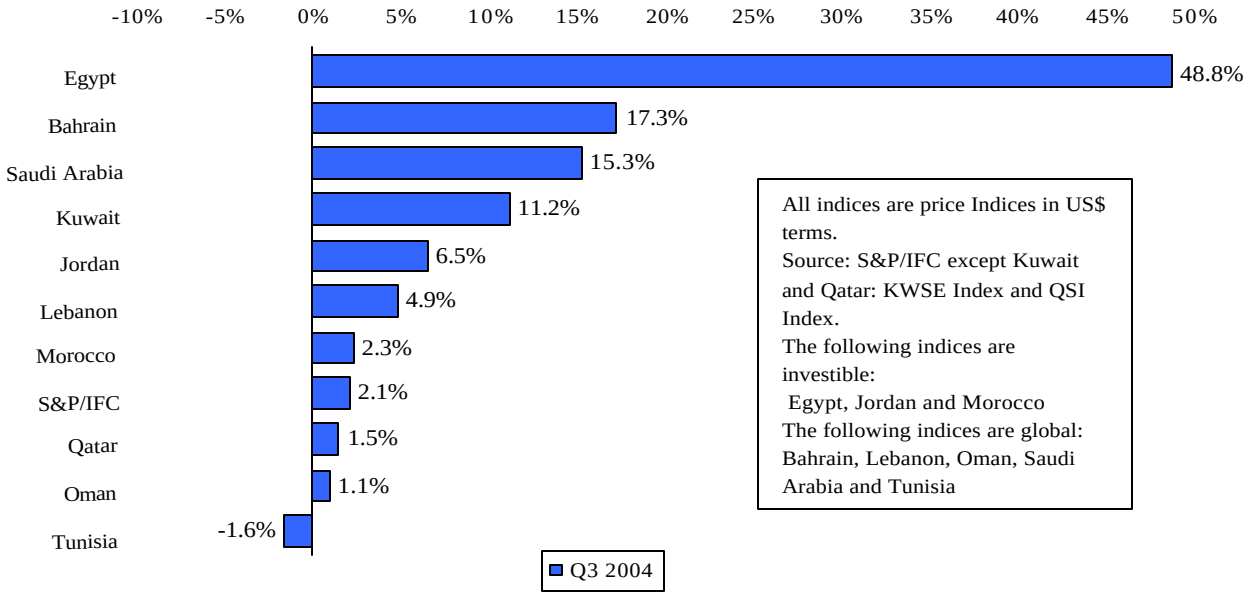
Investment Manager's Commentary:

The MEDA Fund has enjoyed another excellent quarter, rising by 13.7% and cumulatively by 37.5% since the beginning of the year. This performance marks a sharp out performance relative to the more pedestrian gains of major global emerging markets, as measured by the IFCI Global. This index rose by 8.2% over the quarter and has now risen by 8.9% since the beginning of the year. Our Fund performance can be attributed to a steady rise in Gulf markets in the wake of higher oil prices and a stunning upward rating of the Egyptian market following the introduction of more reformist policy program. The lacklustre performance of mainstream markets and hedge funds this year places the MEDA fund as one of the best performing funds in the region and globally this year.

MEDA Region Stock Market Performance (US$):



The region continues to be dominated by the same macro themes; higher oil prices, low interest rates and generally negative political news flow. The media is dominated by Iraq and Palestine, which have contributed towards a higher risk premium in the oil markets. Developments in Saudi and Iran also cast a shadow over perceived future risks to oil supplies, during a period of robust demand from India and China. As a consequence, oil prices have been on an upward path during the quarter resulting in strong excess cash flows into the GCC government coffers. In addition to higher prices, OPEC has been raising production above defined quotas, with Saudi Arabia a particular beneficiary in this respect. Total GCC revenues this year are expected to be in the region of $180Bn, more than double the level of 1998. Despite surplus revenues, governments generally remain prudent in their spending policies, with debt reduction and non-inflationary spending the clear priorities.

The economies across the region are generally performing well, with GCC governments pushing ahead with major infrastructure projects and property demand running at a high level. The Dubai and Doha skylines change virtually on a monthly basis, and the demand for residential property has been given a further impetus by the relocation of expatriates from Saudi. However, it is difficult to assess the level of real as opposed to speculative demand, given the easier access to bank finance and rapidly developing mortgage markets. Building material prices and availability have been a constraint on growth, with price caps and export limits being imposed in many countries. We have taken some profits in **Oman Cement** on this basis. It is clear, however, that the hospitality sectors are performing very well, despite, or indeed as a consequence of the political developments in the region. September, a traditionally a rather slow period, has seen full occupancy in many hotels across the region.

One of the most visible results of strong oil revenues and liquidity growth has been the resurgent demand for IPOs across the GCC region. This cycle is still early in its development and issues have failed to absorb latent demand, resulting in heavy oversubscription and a virtually guaranteed profit on new issues. One of the worrying aspects of low borrowing costs and limited large-scale privatisations is that investors hunt the next IPO opportunity often through leverage. Improving market accessibility also is resulting in rising cross border fund flows. This has been evident in the Amlak Finance (UAE) and Sahara Petrochemical (Saudi)

issues where, for example, Kuwaiti investors have shown considerable interest. Inevitably with heavy oversubscriptions, excess funds are often channelled into alternative, more liquid shares after allocation. The phenomenal rise in **Emaar** in the UAE, which has traded on volumes of $200m on certain days can be partly attributed to the limited allocations in the IPO markets. Given **Emaar's** ambitious financing plans, a potential slowdown in earnings growth next year and a forecast of over-supply of beach condominiums in 2005-06, we reduced our position during the summer.

One of the pleasing developments over the period has been further evidence that Governments are seeking to make their markets more accessible to international investors. In Qatar, it seems that the government is hoping to open the market to mutual funds and direct foreign investors, prior to the important Qatar Gas Transport IPO. In Dubai, many companies are being requested by the authorities to open their shareholder registers to both GCC and foreign investors, and the new Dubai International Financial Centre (DIFC) has now formally opened. This will be the location of a new regional exchange. The Abu Dhabi exchange is now electronically linked to Dubai, and here strict new insider-trading and market access norms are being introduced. In Saudi, the new Capital Markets Law has been introduced which will formalise the exchange and its regulation.

Corporate profits continue to surprise positively. Many banks are benefiting from a slightly tighter lending environment, with their local currency loan portfolios repricing at a reduced discount to dollar rates. Traditionally, banks with a favourable mix of low-cost deposits tend to see improving spreads as US interest rates rise. Many finance companies like **BCFC** in Bahrain have hedged their cost of funds to protect spreads in a rising interest rate environment. In parallel with favourable core banking businesses, growing asset management and cross border activities are benefiting banks like **AUB** in Bahrain and **Bank Muscat** in Oman. The latter remains on a bold expansion track, and has recently acquired arch rival NBO, to secure it's position as one of the leading commercial bank in the southern Gulf region. **Alliance Housing Bank** remains the pick of the niche banks operating in the housing sector, with surprisingly limited competition being brought to bear by it's public sector equivalent. During the third quarter the bank's net profit grew at over 60%.

In the Telecom sector, mobile/internet growth and cross border expansions remain the leading themes. **QTel** has finally secured a foothold outside its domestic market, by winning the 2nd mobile licence in Oman. The threat of a royalty payment this year to the Government and potential opening of the domestic market to limited competition in certain services has not impaired the share price performance as investors have recognised the PE discount to the Qatari market. NMTC and **MTC** in Kuwait have underperformed an underperforming market. Both companies have announced satisfactory operating performance, but de-leveraging of investors and the threat of further capital increases has capped share price performance. There has been speculation that **MTC** is attempting to acquire **Orascom Telecom**, which would be damaging in the short term to it's balance sheet.

Beyond the Gulf region, Egypt has been the main focus of attention. Changes to the cabinet and a stabilisation in the currency on the back of a rapidly improving balance of payments position have provided a platform for a more reformist agenda. Tariff and tax reform, including significant cuts in income and corporate tax have been introduced alongside a more proactive privatisation program. We have successfully added to **Commercial International Bank** and **Eastern Tobacco** based on the more realistic prospect that Foreign Direct Investment will materialise in these sectors. Both stocks have underperformed the market and stand at a significant discount to their regional counterparts. Opportunistically, based on relative valuation we also added to **Vodafone** following a placing in the shares which had acted as an overhang in the market. The Orascom group has been a particular feature with **OCI** and **OT**, rising by 48% and 65% respectively over the quarter. Both companies are seeing upward earnings revisions, but still stand at a discount to the local and regional market in terms of comparative valuations. We trimmed **OCI** when the holding size rose above 10% in the portfolio.

By comparison, Morocco and Tunisia have been a rather quiet backwater. Both are seeing a improvement in economic performance based on tourism, manufacturing and agriculture. We were shocked by a profit warning by **Managem**, the base and precious metal producer. Management had failed to understand the inherent risk in their gold hedging contracts, and the benefits of higher cobalt and zinc prices have been all but eliminated. Lack of transparency and earnings visibility has forced us to sell this position. It has been replaced by **BCP**, the recently privatised commercial bank. We participated at the IPO, based on the bank's relative valuation within the peer group in Morocco.

Against the backdrop of rather subdued international markets, the outlook for the regional markets in the Middle East and North Africa for the foreseeable future is favourable. The prospect of peaking global interest rates and structurally higher oil prices, looks set to sustain interest in regional markets, despite the increasing lack of real value across the GCC. International Investors are even starting to take interest, attracted by the strong momentum absent in other markets. Abundant liquidity should ensure forthcoming IPOs and privatisations will be received well, but investors should be aware that the supply/demand relationship may change at some point during 2005, should the frequency and scale of these new issues increase. Valuations are certainly less demanding across North Africa, and we would argue that high growth regional players such as the Orascom Group quoted on an undervalued exchange like Cairo, still probably represent the best opportunity until the economic cycle starts to peak out.

Performance to date:

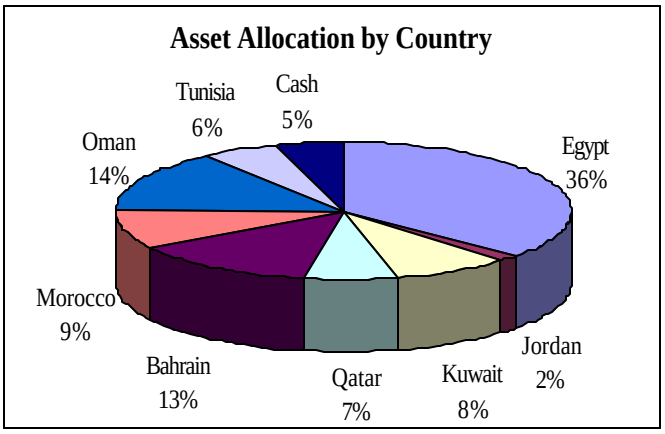
Value	31-12-03	30-03-04	30-06-04.	30-09-04.
MEDA	9.22	9.88	11.15	12.68
S&P/IFCI*	419.92	463.59	422.82	457.60

Return	Q1 2004	Q2 2004	Q3 2004	YTD 2004
MEDA	7.2%	12.9%	13.7%	37.5%
S&P/IFCI	10.4%	-8.8%	8.2%	9.0%
Relative **	-3.2%	21.6%	5.5%	28.6%

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

** Relative Performance of MEDA NAV to Benchmark

Top 10 Holdings	% Net Assets
OCI	10.8%
OT	9.0%
Eastern Tobacco	7.4%
Qtel	6.5%
Alliance Housing Bank	5.1%
Bank Muscat	4.9%
Bahrain Commercial Facilities	4.2%
CIB	4.1%
National Bank of Bahrain	3.4%
Vodafone	3.3%



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 Str eet, 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 September 2004: US$ 12.68

ENQUIRIES:

Tristan Clube Investment Advisor
Tel: 971-4-3300335 Fax: 971-4-3300336
Tel: 44-131-6237800 Fax: 44-131-6237804
E-mail: tclube@wwmail.co.uk

EFG-Hermes Asset Management

Karim Nehma Vice President
Tel: 202-3365960 Fax: 202-3365589
E-mail: knehma@efg-hermes.com

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