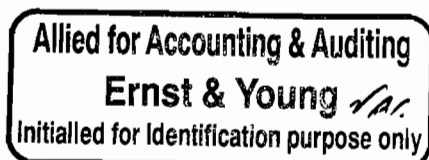


**PALM HILLS DEVELOPMENTS COMPANY  
S.A.E AND ITS SUBSIDIARIES**

**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

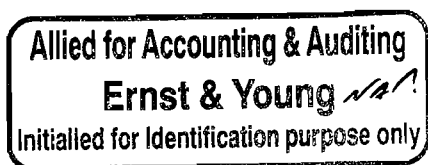
**30 JUNE 2011**



Palm Hills Developments Company S.A.E and its Subsidiaries

INTERM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Six Months Ended 30 June 2011



For the six months ended 30 June

		2011	2010
		(Unaudited)	
	Notes	EGP	EGP
Revenues	3	290,722,877	529,839,199
Cost of revenues	3	(334,746,799)	(215,193,008)
<b>GROSS (LOSS) PROFIT</b>		<b>(44,023,922)</b>	314,646,191
Selling and administrative expenses		(103,646,644)	(129,543,549)
Interest income		134,014,778	106,368,141
Finance costs		(88,280,650)	(123,410,732)
Other income		22,524,726	82,895,065
<b>(LOSS) PROFIT BEFORE INCOME TAX</b>		<b>(79,411,712)</b>	250,955,116
Income tax expense		(337,462)	(38,583,183)
<b>(LOSS) PROFIT FOR THE PERIOD</b>		<b>(79,749,174)</b>	212,371,933
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>(79,749,174)</b>	212,371,933
(Loss) profit attributable to:			
Equity holders of the parent		(81,398,034)	191,419,986
Non-controlling interests		1,648,860	20,951,947
		<b>(79,749,174)</b>	212,371,933
<b>Basic and diluted (losses) earnings per share for (losses) profit attributable to the equity holders of the parent (expressed in EGP per share)</b>	13	<b>(0.078)</b>	0.243

The attached notes from 1 to 17 are an integral part of these interim consolidated financial statements.

Palm Hills Developments Company S.A.E and its Subsidiaries

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

		30 June 2011 (Unaudited) EGP	31 December 2010 (restated)(Audited) EGP
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment property		356,015,614	326,455,173
Property and equipment		517,291,728	534,317,139
Advance payments for investments acquisition		167,313,413	168,538,413
Investment in an associate		57,539,538	59,520,612
Intangible assets		34,450,000	37,100,000
Notes receivable	5	2,643,049,985	3,511,808,127
		<u>3,775,660,278</u>	<u>4,637,739,464</u>
<b>Current assets</b>			
Notes receivable	5	1,426,430,901	1,585,134,998
Accounts receivable and prepayments	6	1,209,029,380	1,030,444,370
Bank balances and cash		92,170,027	143,788,631
Financial assets at fair value through profit or loss – Held for trading	15	84,146,179	332,577,237
Development properties	7	5,366,624,279	5,354,425,370
		<u>8,178,400,766</u>	<u>8,446,370,606</u>
<b>TOTAL ASSETS</b>		<u><u>11,954,061,044</u></u>	<u><u>13,084,110,070</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	8	2,096,640,000	2,096,640,000
Statutory reserve		557,307,301	541,290,651
Retained earnings		1,399,991,709	1,749,786,757
<b>Equity attributable to equity holders of the parent</b>		<u>4,053,939,010</u>	<u>4,387,717,408</u>
Non-controlling interests		340,993,228	421,247,154
<b>Total equity</b>		<u>4,394,932,238</u>	<u>4,808,964,562</u>
<b>Non-current liabilities</b>			
Term loans	9	436,032,157	444,421,171
Land purchase liabilities	10	265,068,579	630,631,280
Notes payable	11	1,510,166,743	1,798,266,793
Other non-current liabilities		319,066,883	341,274,665
Deferred tax liability		4,457,463	4,252,219
		<u>2,534,791,825</u>	<u>3,218,846,128</u>
<b>Current liabilities</b>			
Bank overdrafts		125,864,619	145,928,833
Current portion of term loans	9	431,933,259	417,479,828
Current portion of land purchase liabilities	10	572,612,542	198,394,926
Accounts payable and accruals		639,449,414	406,154,837
Notes payable	11	713,754,003	482,980,017
Advances from customers		339,177,530	496,505,095
Billings in excess of costs	12	2,126,922,087	2,823,565,112
Income tax payable		74,623,527	85,290,732
		<u>5,024,336,981</u>	<u>5,056,299,380</u>
<b>Total liabilities</b>		<u>7,559,128,806</u>	<u>8,275,145,508</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>11,954,061,044</u></u>	<u><u>13,084,110,070</u></u>

Khaled Emam  
(Chief Financial Officer)

Ali Thabet  
(Chief Executive Officer for Finance)

The attached notes from 1 to 17 are an integral part of these interim consolidated financial statements.

Palm Hills Developments Company S.A.E and its Subsidiaries

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Six Months Ended 30 June 2011  
(Unaudited)

**Allied for Accounting & Auditing**  
**Ernst & Young**  
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	Attributable to equity holders of the parent					Non-controlling interests	Total
	Share capital	Statutory Reserve	Retained earnings	Total			
	EGP	EGP	EGP	EGP	EGP	EGP	EGP
Balance as at 1 January 2011	2,096,640,000	541,290,651	1,749,786,757	4,387,717,408	421,247,154	4,808,964,562	
Adjustment on equity	-	-	(244,515,220)	(244,515,220)	(76,666,642)	(321,181,862)	
Balance as at 1 January 2011 (restated)	2,096,640,000	541,290,651	1,505,271,537	4,143,202,188	344,580,512	4,487,782,700	
<b>Comprehensive income</b> (losses) for the period	-	-	(81,398,034)	(81,398,034)	1,648,860	(79,749,174)	
Other comprehensive income	-	-	-	-	-	-	
Total comprehensive income for March 2011	-	-	(81,398,034)	(81,398,034)	1,648,860	(79,749,174)	
Transfer to statutory reserve	-	16,016,650	(16,016,650)	-	-	-	
Disposal loss of treasury stocks of subsidiaries	-	-	(7,865,144)	(7,865,144)	(5,243,475)	(13,108,620)	
Non-controlling interests arising from business combination (note 4)	-	-	-	-	2,875	2,875	
Non-controlling interests arising from capital increase of subsidiaries	-	-	-	-	4,500	4,500	
<b>Balance at 30 June 2011</b>	<b>2,096,640,000</b>	<b>557,307,301</b>	<b>1,399,991,709</b>	<b>4,053,939,010</b>	<b>340,993,228</b>	<b>4,394,932,238</b>	

The attached notes from 1 to 17 are an integral part of these interim consolidated financial statements.

Palm Hills Developments Company S.A.E and its Subsidiaries

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Six Months Ended 30 June 2010  
(Unaudited)

*Attributable to equity holders of the parent*

**Allied for Accounting & Auditing**  
**Ernst & Young**  
Initiated for Identification purpose only

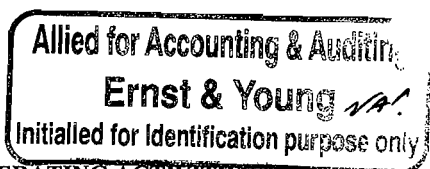
	Share capital			Statutory Reserve			Retained earnings			Total			Non-controlling interests			Total		
	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	
Balance as at 1 January 2010	1,397,760,000	516,095,272	1,248,522,262	3,162,377,534	247,981,463	3,410,358,997												
Comprehensive income																		
Profit for the period	-	-	191,419,986	191,419,986	20,951,947	212,371,933												
Other comprehensive income	-	-	-	-	-	-												
Total comprehensive income for March 2010	-	-	191,419,986	191,419,986	20,951,947	212,371,933												
Proceeds from shares issued	698,880,000	-	-	698,880,000	-	698,880,000												
Transfer to statutory reserve	-	25,195,379	(25,195,379)	-	-	-												
Non-controlling interests arising from business combination	-	-	-	-	159,665,871	159,665,871												
Acquisition by non-controlling interests	-	-	72,551	72,551	3,027,449	3,100,000												
Balance at 30 June 2010	2,096,640,000	541,290,651	1,414,819,420	4,052,750,071	431,626,730	4,484,376,801												

The attached notes from 1 to 17 are an integral part of these interim consolidated financial statements.

Palm Hills Developments Company S.A.E and its Subsidiaries

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For The Three Months Ended 30 June 2011



For the six months ended 30 June

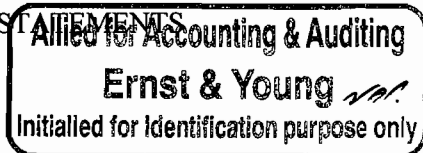
	2011	2010
	(Unaudited)	
	EGP	EGP
<b>OPERATING ACTIVITIES</b>		
(Loss) profit before income tax	(79,411,712)	250,955,116
Depreciation of property and equipment	19,682,309	9,489,964
Amortization of intangible assets	2,650,000	2,650,000
Interest income	(136,061,560)	(106,368,141)
Finance cost	88,280,650	123,410,732
Share of net (loss) of associate	2,048,799	-
Adjustment on equity	(321,181,862)	-
Disposal loss of treasury stocks of subsidiaries	(13,108,620)	-
	<u>(437,101,996)</u>	<u>280,137,671</u>
Working capital adjustments:		
Decrease (increase) in notes receivable	1,161,477,017	(348,022,499)
Decrease (increase) in financial assets at fair value through profit or loss – held for trading	248,431,058	(224,183,486)
(Increase) in accounts receivable and prepayments	(177,360,010)	(630,248,038)
(Increase) in development properties	(111,859,159)	(462,077,587)
(Decrease) in notes payable	(9,573,357)	(164,413,044)
Increase in accounts payable and accruals	233,295,396	308,407,437
(Decrease) increase in advances from customers	(157,327,565)	46,887,234
(Decrease) increase in billings in excess of costs	(696,643,025)	365,901,454
(Decrease) increase in other non-current liabilities	(22,207,782)	299,221,282
	<u>31,130,577</u>	<u>(528,389,576)</u>
Cash (used in) from operations	(13,636,183)	(16,346,407)
Interest paid	(10,800,285)	(41,880,892)
Tax paid		
Net cash flows from (used in) operating activities	<u>6,694,109</u>	<u>(586,616,875)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of properties and equipment	(16,738,907)	(208,798,842)
Purchase of investment in associates	(67,725)	(54,806,806)
Purchase of financial assets available-for-sale	-	(13,986,977)
Purchase of investment properties	(29,560,441)	(17,348,042)
Advance payment for investments acquisition	-	62,500
Purchase of intangible assets	-	(2,430,710)
Interest received	2,046,782	3,390,729
	<u>(44,320,291)</u>	<u>(293,918,148)</u>
Net cash flows (used in) investing activities		
<b>FINANCING ACTIVITIES</b>		
Proceed from shares issued	-	698,880,000
Proceeds from borrowings	21,130,332	348,378,285
Repayments of borrowings	(15,065,915)	(236,537,694)
Non-controlling interests arising from business combination	2,875	159,665,871
Acquisition by non-controlling interests	-	3,100,000
Non-controlling interests arising from capital increase of subsidiaries	4,500	-
	<u>6,071,792</u>	<u>973,486,462</u>
Net cash flows from financing activities		
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(31,554,390)</u>	<u>92,951,439</u>
Cash and cash equivalents at 1 January	(2,140,202)	(11,074,822)
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<u>(33,694,592)</u>	<u>81,876,617</u>

Investing and financing activities that did not require the use of cash and cash equivalents are excluded from the cash flow statement. The group did not enter into such transactions during 2011 and 2010.

The attached notes from 1 to 17 are an integral part of these interim consolidated financial statements.

# Palm Hills Developments Company S.A.E and its Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
At 30 June 2011



## 1 ACTIVITIES

Palm Hills for Development Company (S.A.E) was established according to the Investment Incentives and Guarantees Law No. (8) of 1997 and the Companies Law No.159 of 1981 and their executive regulations, taking into consideration the statutes of the Capital Market Law No. 95 of 1992 and its executive regulations. The company's headquarter is located in 6th of October City in 6th of October Governorate, where the main branch is located in Smart Village.

The company is registered in the Commercial Register under No. (6801) on 10 January 2005, and was listed in the unofficial schedule no. (2) Of the Cairo and Alexandria Stock Exchanges on 27 December 2006. The company got listed in the official schedule no. (1) Of the Cairo and Alexandria Stock Exchange on April 2008 and in London stock exchange on 8 May 2008.

The company was established to invest in real estate in the New Cities and New Urban Communities including building, constructing, possessing and managing residential compounds, resorts, villas and tourist villages, sale or lease as well as all the services, facilities, leasing and construction of integrated projects and managing the entertainment activities associated with the company's activities. All such activities are subject to the approval of appropriate authorities.

These group consolidated financial statements were authorized for issue by the board of directors on 7 March 2011.

All the company's operations are located in Egypt; it has only one identifiable operating reportable segment which is real estate development, club and hospitality do not meet the criteria of reportable segment neither separately nor in aggregate.

The company participated in the capital of fourteen subsidiary companies as follows:

### ***1-New Cairo for Real Estate Developments S.A.E***

New Cairo for Real Estate Development S.A.E. is registered in Egypt under commercial registration number 12613 under the provisions of the Investment Guarantees and Incentives law No. 8 of 1997 and the Companies' Law No 159 of 1981 and the statutes of Capital Market Law No 95 of 1992. The company is located in plot 36 South investors' area in new Cairo. The company is engaged in construction, management, and the sale of hotels, motels, buildings and residential compounds and the purchase, development, dividing and sale of land.

The company's fiscal year ended 31 December of each year.

### ***2-Royal Gardens for Real Estate Investment Company S.A.E***

Royal Gardens for Real Estate Investment Company S.A.E. is registered in Cairo under commercial registration number 21574 under the provisions of under the provisions of the Investment Guarantees and Incentives law No. 8 of 1997 and the Companies' Law No 159 of 1981 and the statutes of Capital Market Law No 95 of 1992. The company is located in 11 El-Nakhil Street – Dokki-Giza. The company is engaged in real estate investment in cities and new urban communities and the set up, execution, acquisition, and management of urban communities, resorts, villas and tourist villages through sale or lease. The company is also involved in all other types of related services such as finance leasing and construction.

The company's fiscal year ended 31 December of each year.

### ***3-Palm Hills Middle East Company for Real Estate Investment S.A.E and Its Subsidiary***

Palm Hills Middle East Company for Real Estate Investment S.A.E and its subsidiary, **Middle East Company for Real Estate and Touristic Investment S.A.E** are engaged in real estate investment in new cities and urban communities, and also the construction, ownership and management of residential compounds, resorts, and villas. The company and its subsidiary are also involved in the sale and lease and other related services for managing integrated projects and entertainment activities.

# Palm Hills Developments Company S.A.E and its Subsidiaries

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2011

Allied for Accounting & Auditing  
**Ernst & Young**  
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### 1 ACTIVITIES – continued

The company is registered in Egypt under commercial registration number 21091. The company's subsidiary is registered in Egypt under commercial registration number 25016. Both companies are registered under the provisions of under the provisions of the Investment Guarantees and Incentives law No. 8 of 1997 and the Companies' Law No 159 of 1981 and the statutes of Capital Market Law No 95 of 1992.

The companies' fiscal year ended 31 December of each year.

#### **4- Middle East for Development and Investment Touristic S.A.E**

Middle East for Development and Investment Touristic S.A.E. is registered in Egypt under commercial registration number 25015 under the provisions of the Investment Guarantees and Incentives law No. 8 of 1997 and the Companies' Law No 159 of 1981 and the statutes of Capital Market Law No 95 of 1992. The company is located in 40 Lebanon Street – Mohandessin- Giza.

The company is engaged in real estate investment in cities and new urban communities and the set up, execution, acquisition, and management of urban communities, resorts, villas and tourist villages through sale or lease. The company is also involved in all other types or relevant services such as finance lease and construction of the company's projects or others'.

The company's fiscal year ended 31 December of each year.

#### **5- Gamsha for Tourist Development S.A.E**

Gamsha for Tourist Development S.A.E. is registered in Egypt under commercial registration number 33955 under the provisions of the Companies' Law No 159 of 1981. The company is located in 11 El Nakhil Street-Dokki-Giza. The company is engaged in real estate investments in new cities, urban communities, remote areas and regions outside the old valley.

The company's fiscal year ended 31 December of each year.

#### **6- Nile Palm Al-Naeem for Real Estate Development S.A.E**

Nile Palm Al-Naeem for Real estate Development S.A.E. is registered in Egypt under commercial registration number 27613 under the provisions of the Investment Guarantees and Incentives law No. 8 of 1997 and the Companies' Law No 159 of 1981 and the statutes of Capital Market Law No 95 of 1992. The company is located in 40 Lebanon Street – Mohandessin- Giza. The company is engaged in real estate investment in new cities and urban communities, and also in the construction, ownership and management of residential compounds, resorts, and villas.

The company's fiscal year ended 31 December of each year.

#### **7- Saudi Urban Development Company S.A.E**

Saudi Urban Development Company S.A.E. is registered in Egypt under commercial registration number 1971 under the provisions of the Companies' Law No 159 of 1981. The company is located in 72 Gamet El-Dewal El Arabia Street-Mohandeseen-Cairo. The company is engaged in the construction of advanced residential projects.

The company's fiscal year ended 31 December of each year.

#### **8- Rakeen Egypt for Real Estate Investment S.A.E**

Rakeem Egypt for Real Estate Investment S.A.E. is registered in Egypt under commercial registration number 34611 under the provisions of the Investment Guarantees and Incentives law No. 8 of 1997 and the Companies' Law No 159 of 1981 and the statutes of Capital Market Law No 95 of 1992. The company is located in 6<sup>th</sup> of October City. The company is engaged in leasing, construction and operation of hotels, motels, resorts and residential compounds, construction, generation of electricity, desalination of water, land acquisition, dividing and constructing villas, residential units and offices malls and the marketing thereof.

The company's fiscal year ended 31 December of each year.



At 30 June 2011

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**1 ACTIVITIES – continued**

**9- Al Naeem for Hotels and Touristic Villages S.A.E**

Al Naeem for Hotels and Touristic Villages S.A.E. is registered in Egypt under commercial registration number 32915 under the provisions of the Investment Guarantees and Incentives law No. 8 of 1997 and the Companies' Law No 159 of 1981 and the statutes of Capital Market Law No 95 of 1992. The company is located in 6<sup>th</sup> of October City. The company is engaged in construction and operation of hotels in Hamata.

The company's fiscal year ended 31 December of each year.

**10- Gawda for Trade Services S.A.E**

Gawda for Trade Services S.A.E. is registered in Egypt under commercial registration number 10242 under the provisions of the Companies' Law No 159 of 1981. The company is located in 66 Gamet El-Dewal El Arabia Street-Mohandeseen-Cairo. The company is engaged in real estate investments in new cities, urban communities, remote areas and regions.

The company's fiscal year ended 31 December of each year.

**11- East New Cairo for Real Estate Development S.A.E**

East New Cairo for Real Estate Development was established under the name of Kappci Company for Real Estate and Touristic Development -S.A.E according to Law No. 159 of 1981 and its executive regulation and the company was registered under commercial registration No. 1429 of Ismailia at 20 March 2007.

The company's name was modified at 25 June 2008 to East New Cairo for Real Estate Development and the company's location was changed to 35 Abo Bakr El Sedik St., - Heliopolis and it was registered under the commercial registration No. 35539 on 13/11/2008.

The company is established to operate in all the fields of Real Estate investments, construction, and development of residential areas.

The company's fiscal year ended 31 December of each year.

**12- City for Real Estate Development S.A.E**

City for Real Estate Development –S.A.E. – was established in 2007 according to the laws applicable in Egypt under the provisions of the Companies' Law No 159 of 1981. On 23 October 2007, the company was registered in commercial registration no. 27962.

The company is engaged in the development of land construction (at all governorates except North and South Sinai and North El Kantara need the permission of the association) and provides these lands with all facilities and services.

The company's fiscal year ended 31 December of each year.

**13- Macor for Securities Investment Company S.A.E and its subsidiaries**

Macor for Securities Investment Company S.A.E. was established in Egypt on 8 March 2000 under the provisions of Capital Market law No. 95 of 1992. The objective of the Company is to contribute in establishment or investment in the companies' securities especially the companies engaged in owning, renting and managing the hotels, motels and resorts.

The company's fiscal year ended 31 December of each year.

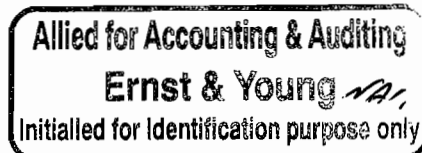
The company has the following subsidiaries and an associate:

**An associate:**

**El Nema for Touristic & Real Estate Company S.A.E**

El Nema for Touristic & Real Estate Company S.A.E was established in Egypt on 2 May 1996 under the provisions of the Companies' law No. 159 of 1981 for the purpose of constructing, owning, renting, managing and establishing hotels and participating in all hotel activities.

The company's fiscal year ended 31 December of each year.



**1 ACTIVITIES – continued**

***Subsidiaries:***

***Six of October for Hotels and Touristic Services Company S.A.E***

Six of October Company for Hotels and Touristic Services Company S.A.E was established in Egypt on 15 December 1998 under the provisions of the Investment Guarantees and Incentives law No. 8 of 1997 for the purpose of establishing and operating a four stars Hotel in Six of October City operated by Accor for Hotels.

The company's fiscal year ended 31 December of each year.

***Hotels & Touristic Floating Restaurants Company S.A.E***

Hotels and Touristic Floating Restaurants Company SAE was established in Egypt on 10 August 1988 under the provisions of the Companies' law No. 159 of 1981 for the purpose of establishing and operating the hotels and touristic units and providing all its facilities.

The company's fiscal year ended 31 December of each year.

***Ismailia for Tourism Company S.A.E***

Ismailia for Tourism Company S.A.E was established in Egypt on 1979 under the provisions of the Companies' law No. 159 of 1981 for the purpose of establishing and operating the hotels, motels and touristic units.

The company's fiscal year ended 31 December of each year.

***14- Palm Hills for Hospitality and its subsidiaries***

Palm Hills for Hospitality S.A.E. was established in Egypt on 27 April 2010 under the provisions of the Companies' law No. 159 of 1981. The company is located in 11 El Nakhil Street-Dokki-Giza. The company is engaged in owning, renting, managing and establishing hotels and participating in all hotel activities.

The company's fiscal year ended 31 December of each year.

The company has the following subsidiaries:

***Gamsha for Hotels***

Gamsha for Hotels S.A.E. was established in Egypt on 3 June 2010 under the provisions of the Companies' law No. 159 of 1981. The company is located in 11 El Nakhil Street-Dokki-Giza. The company is engaged in establishing and operating the hotels, motels, resorts and residential compounds.

The company's fiscal year ended 31 December of each year.

***Palm North Coast for Hotels S.A.E***

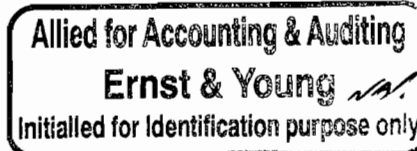
Palm North Coast for Hotels S.A.E. was established in Egypt on 26 September 2010 under the provisions of the Companies' law No. 159 of 1981. The company is located in 11 El Nakhil Street-Dokki-Giza. The company is engaged in establishing and operating the hotels, motels, resorts and residential compounds. It is also engaged in Export and Import activities.

The company's fiscal year ended 31 December of each year.

***Palm October for Hotels S.A.E.***

Palm October for Hotels S.A.E. was established in Egypt on 19 April 2009 under the provisions of the Companies' law No. 159 of 1981. The company is located in 11 El Nakhil Street-Dokki-Giza. The company is engaged in establishing and operating the hotels, motels, resorts and residential compounds. It is also engaged in Export and Import activities.

The company's fiscal year ended 31 December of each year.



## 2.1 BASIS OF PREPARATION

### Preparation of consolidated financial statements

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss that have been measured at fair value. The consolidated financial statements are presented in Egyptian Pound (EGP).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.4.

### Statement of compliance

The consolidated financial statements of Palm Hills Developments S.A.E and its subsidiaries ('the group') have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### Income and cash flow statements

The Group presents its statement of comprehensive income by nature of expense.

The Group reports cash flows from operating activities using the indirect method.

Cash flows from investing and financing activities are determined using the direct method.

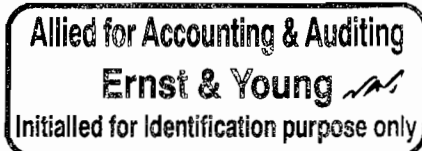
### Basis of consolidation

#### (a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases. The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.



**2.1 BASIS OF PREPARATION - continued**

**(b) Transactions and non-controlling interests**

The group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

**(c) Associates**

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The group's share of its associates' post-acquisition profits or losses is recognized in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

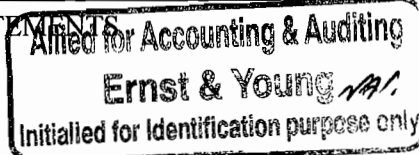
Unrealized gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group. Dilution gains and losses arising in investments in associates are recognized in the statement of comprehensive income.

The group has changed its accounting policy for transactions with non-controlling interests and its accounting for loss of control or significant influence from 1 January 2010 when revised IAS 27, "Consolidated and separate financial statements", became effective. The version to IAS 27 contained consequential amendments to IAS 28, "Investments in associates", and "Interest in joint ventures"

Previously transactions with non-controlling interests were treated as transactions with parties external to the group. Disposals therefore resulted in gains or losses in profit or loss and purchase resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously, when the group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date of control or significant influence became its cost of the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The group has applied the new policy prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.



## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except as follows:

(a) New and amended standards adopted by the group:

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011.

Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on 1 January 2011. Earlier application, in whole or in part, is permitted.

The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The group will apply the revised standard from 1 January 2011. When the revised standard is applied, the group and the parent will need to disclose any transactions between its subsidiaries and its associates. The group is currently putting systems in place to capture the necessary information. It is, therefore, not possible at this stage to disclose the impact, if any, of the revised standard on the related party disclosures.

'Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer.

Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The group applied the amended standard from 1 January 2011. No impact on the group or the parent entity's financial statements.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The group applied the interpretation from 1 January 2011. No impact on the group or the parent entity's financial statements.

'Prepayments of a minimum funding requirement' (amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The group applied these amendments for the financial reporting period commencing on 1 January 2011. No impact on the group or the parent entity's financial statements.

**2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES - continued**

(b) New standards, amendments and its interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted.

The group's parent entity's assessment of the impact of these new standards and interpretations is set out below:

IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption.

The group is yet to assess IFRS 9's full impact. However, initial indications are that it may not have an effect the group's accounting, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. In the current reporting period, the group does not have investments other than those that are held for trading.

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Revenue recognition**

Provided it is probable that the economic benefits will flow to the group and the revenue and costs can be measured reliably, revenue is recognised in the statement of comprehensive income as follows: -

***Sale of plots of land attributable to villas and town houses***

Revenue on sale of plots is recognised as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The Group's receivable is not subject to future subordination;
- The Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property; and
- If acquired on deferred terms, the buyer's investment, to the date of the financial statements, is adequate (at least 25%)

***Construction of villas***

Revenue on construction of villas is recognised based on percentage of completion as and when the buyer is able to specify the major structural elements of the design of the real estate before construction begins; and/or major structural changes once construction is in progress (whether it exercised that ability or not).

In contrast, if construction could take place independently of the agreement and buyers have only limited ability to influence the design of the real estate (e.g. to select a design from a range of options specified by the entity, or to specify only minor variations to the basic design), the agreement will be for the sale of goods (see sale of apartments below).

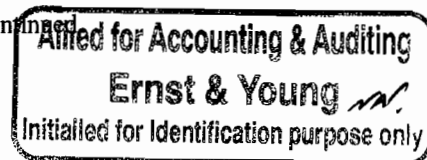
Under percentage of completion method contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured.

The group uses the 'percentage-of-completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

The group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within notes receivable. The group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued



***Sale of apartments and chalets***

Revenue on sale of apartments and chalets are recognized upon handover.

***Revenue from club and hospitality activities***

Service and management charges are recognised in the accounting period in which the services are rendered.

***Interest***

Interest income is recognised as the interest accrues using the effective interest method, under which the rate used exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

***Cost of revenues***

Cost of revenues includes the cost of land and development costs. Development costs include the cost of infrastructure and construction. The cost of revenues in respect of apartments and villas is based on the estimated proportion of the development cost incurred to date to the estimated total development costs for each project.

The cost of revenues in respect of land sales is based on the total estimated cost of the land site over the total usable land area in a particular development.

***Borrowing cost***

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily take a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

***Development properties***

Properties acquired, constructed or in the course of construction for sale are classified as development properties. Development properties are stated at cost plus attributable profit/loss less progress billings or, if lower, net realisable value. The cost of development properties includes the cost of land and other related expenditure, which are capitalised as and when activities that are necessary to get the properties ready for sale are in progress. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

***Income tax***

Taxation is provided in accordance with Egyptian fiscal regulations.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the balance sheet date.

Deferred income tax assets are recognised for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

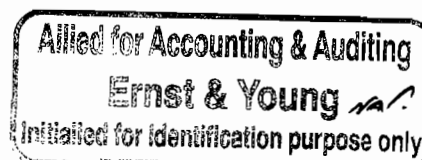
2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

**Property and equipment**

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Land and projects under construction are not depreciated.

Depreciation is calculated on a straight-line basis using the following depreciation rates:

Buildings	5%
Tools & Equipments	25%
Vehicles	25%
Furniture & Fixtures	25 – 33%



Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

**Investment property**

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. As from 1 January 2009, investment property also includes property that is being constructed or developed for future use as investment property. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and any impairment in value. Land and projects under construction are not depreciated. If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

**Impairment of non- financial assets**

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Whenever the carrying amount of these assets exceeds their recoverable amount, an impairment loss is recognised in the statement of comprehensive income. The recoverable amount is the higher of an asset's net selling price and the value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**Impairment and uncollectibility of financial assets**

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of comprehensive income. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of comprehensive income;



**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

**Financial assets at fair value through profit or loss – Held for trading**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term. Assets in this category are classified as current assets. Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Financial assets carried at fair value through profit or losses are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in the statement of comprehensive income within ‘other (losses)/income – net’ in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of other income when the group’s right to receive payments is established.

**Accounts receivable**

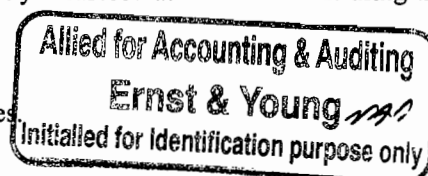
Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

**Notes receivable**

Notes receivable are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

**Prepayments**

Prepayments are carried at cost less any accumulated impairment losses.



**Intangible assets**

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

**Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of six months or less, net of outstanding bank overdrafts.

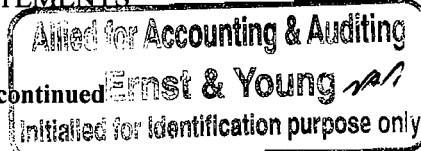
**Accounts payable and accruals**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**Land purchase liability**

Land purchase liability is recognized initially at fair value. Land purchase liability is subsequently stated at amortized cost using the effective interest method.

When a liability is incurred for the purchase of land. Liability is to be recorded at the fair market value of the land received or at an amount that reasonably approximates the market value of the liability, whichever is more clearly determinable. If the fair value of the land or liability is not determinable, the present value of the liability is determined using a market interest rate to discount all future payments. The difference between present and face value of the liability is recorded as a discount and amortized to interest expense using the effective interest method.



**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Notes payable**

Notes payable are recognized initially at fair value. Notes payable is subsequently stated at amortised cost using the effective interest method.

**Borrowings**

Borrowings are recognized initially at fair value, net of transaction cost incurred. Borrowings are subsequently stated at amortized cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

**Provisions**

Provisions for legal claims are recognized when the group has a present legal or constructive obligations as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

**Share capital**

Shares are classified as equity when there is no obligation to transfer cash or other assets.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

**Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of comprehensive income.

**Dividends distribution**

Dividend distribution to the Group's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved.

**2.4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

**Judgments**

In the process of applying the group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant impact on the amounts recognized in the financial statements.

*Revenue recognition*

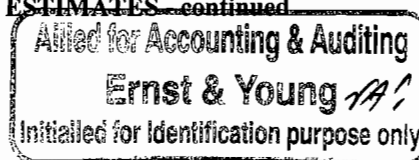
The group has entered into a number of contracts with buyers for the sale of land and villas. Determining whether an agreement for the construction of real estate falls within the scope of IAS 11 or IAS 18 depends on the terms of the agreement and all the surrounding facts and circumstances, and judgment is made with respect to each agreement.

If the contract under consideration meets the definition of a 'construction contract' in IAS 11, then the accounting for the contract is determined in accordance with that Standard. An agreement for the construction of real estate meets the definition of a construction contract when the buyer is able to specify:

- the major structural elements of the design of the real estate before construction begins; and/or
- major structural changes once construction is in progress (whether it exercises that ability or not).

In contrast, if construction could take place independently of the agreement and buyers have only limited ability to influence the design of the real estate (e.g. to select a design from a range of options specified by the entity, or to specify only minor variations to the basic design), the agreement will be for the sale of goods and within the scope of IAS 18.

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES - continued



**Estimation uncertainty**

*Cost of revenues*

The cost of revenues in respect of land sales is based on the total estimated cost of the land site over the total usable land area in a particular development.

*Costs to complete the projects*

The group uses the percentage-of-completion method in accounting for its fixed-price contracts to construct villas and townhouses. Use of the percentage-of-completion method requires the group to estimate the construction executed to date as a proportion of the total construction to be executed. Where the proportion of construction executed to total construction to be executed to differ by 10% from management's estimates, the amount of revenue recognised in the period would be increased by EGP 20,914,921 if the proportion performed were increased, or would be decreased by EGP 20,914,921 if the proportion performed were decreased.

*Income tax*

Certain subsidiaries of the group are subject to income tax. Significant estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The group recognizes liabilities for anticipated tax audit issues based on estimates whether additional tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

*Estimate of fair values of properties and development properties acquired in a business combination*

When acquiring subsidiaries whose primary asset is property it is assumed that the difference between the price paid and net tangible assets acquired relates to the value of the property.

**3 REVENUES AND COST OF REVENUES**

	<i>30 June 2011</i> <i>(Unaudited)</i> <i>EGP</i>	<i>30 June 2010</i> <i>(Unaudited)</i> <i>EGP</i>
<b>Revenues:</b>		
Sale of land attributable to villas and town houses	123,496,699	475,121,216
Revenue from construction contracts	157,524,979	47,567,508
Revenue from club activities	6,929,403	-
Revenue from hospitality activities	2,771,796	7,150,475
	<u>290,722,877</u>	<u>529,839,199</u>
<b>Cost of revenues:</b>		
Cost of land attributable to villas and town houses	41,979,834	145,075,519
Cost of land – infrastructure and other cost attributable to villas and town houses	31,332,335	31,509,766
Cost of construction contracts (note 7)	250,707,639	38,607,723
Cost of revenue from club activities	7,978,903	-
Cost of revenue from hospitality activities	2,748,088	-
	<u>334,746,799</u>	<u>215,193,008</u>



**4 BUSINESS COMBINATIONS**

**30 June 2011**

On 1 January 2011 Palm Hills Developments Company S.A.E. ('the company') acquired 98% of Palm Hills for Hospitality S.A.E and its subsidiaries mentioned in (Note 1).

At the date of acquisition, management determined that the acquired entity should be accounted for as a business in accordance with IFRS 3, "Business Combinations".

The group recognised the non-controlling interest in Palm Hills for Hospitality S.A.E and its subsidiaries at the non-controlling interest's proportionate share of the acquirer's net assets.

**31 December 2010**

- On 1 March 2010, Palm Hills Developments Company S.A.E. ('the company') acquired 60% of Macor for Securities Investment Company S.A.E and its subsidiaries mentioned in (Note 1). The subsidiary contributed a profit of EGP 38,161,288 to the Group for the period from date of acquisition to 31 December 2010. If the acquisition had occurred on 1 January 2010 with all other variables held constant, Group revenue for 2010 would have been increased by EGP 10,366,482, and profit for 2010 would have been increased by EGP 6,289,078.

At the date of acquisition, management determined that the acquired entity should be accounted for as a business in accordance with IFRS 3, "Business Combinations".

The valuation of property and equipments at the acquisition date was performed by an independent professional appraiser with experience of the relevant market. The valuation of cash and cash equivalents was considered to equal the carrying value representing the entities bank deposits. Carrying values of borrowings and trade and other payable was considered to approximate their fair values.

The group recognised the non-controlling interest in Macor acquisition at fair value by applying a discounted cash flows approach using a discount rate equal 13%.

- On 1 January 2010 Palm Hills Developments Company S.A.E. ('the company') acquired 99.5% of Palm October for Hotels S.A.E.

At the date of acquisition, management determined that the acquired entity should be accounted for as a business in accordance with IFRS 3, "Business Combinations".

The group recognised the non-controlling interest in Palm October for Hotels S.A.E. at the non-controlling interest's proportionate share of the acquirer's net assets.

Palm Hills Developments Company S.A.E and its Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
At 30 June 2011

4 BUSINESS COMBINATIONS – Continued

The assets and liabilities as of the date of acquisition arising from the acquisition are as follows:

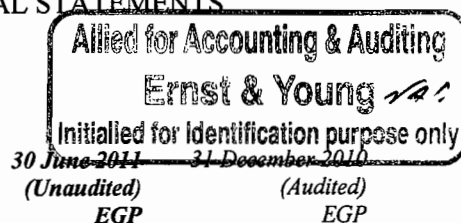
	30 June 2011 (Unaudited)		31 December 2010 (Audited)	
	Fair value recognized on acquisition		Fair value recognized on acquisition	
	Palm Hills for Hospitality and its subsidiaries	Total	Acquirees' carrying amount	Acquirees' carrying amount
	EGP	EGP	EGP	EGP
Property and equipment	-	-	-	250,092,185
Accounts receivable and prepayments	-	-	-	21,051,111
Cash and cash equivalents	373,750	373,750	373,750	129,487,623
Total assets	373,750	373,750	373,750	400,630,919
Accounts payable and accruals	-	-	-	(38,562,771)
Deferred tax liability	-	-	-	(4,416,473)
Term loans	-	-	-	(84,537,698)
Non-controlling interests	(2,875)	(2,875)	(2,875)	(150,813,933)
	(2,875)	(2,875)	(2,875)	(278,330,875)
Net assets acquired	370,875	370,875	370,875	122,300,044
Gain from bargain purchase	-	-	-	(36,557,679)
Total purchase consideration	370,875	370,875	370,875	147,665,032



# Palm Hills Developments Company S.A.E and its Subsidiaries

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2011



### 4 BUSINESS COMBINATIONS – Continued

	30 June 2011 (Unaudited) EGP	31 December 2010 (Audited) EGP
Purchase consideration settled in cash	370,875	147,665,032
Cash and cash equivalents in subsidiaries acquired	(373,750)	(129,487,623)
Cash (inflow) outflow on acquisition	<u>(2,875)</u>	<u>18,177,409</u>

### 5 NOTES RECEIVABLE

	30 June 2011 (Unaudited) EGP	31 December 2010 (Audited) EGP
Less than one year	1,691,674,132	1,866,160,477
Unamortized discount	<u>(265,243,231)</u>	<u>(281,025,479)</u>
	<u>1,426,430,901</u>	<u>1,585,134,998</u>
More than one year	3,193,766,465	4,176,934,419
Unamortized discount	<u>(550,716,480)</u>	<u>(665,126,292)</u>
	<u>2,643,049,985</u>	<u>3,511,808,127</u>
	<u>4,069,480,886</u>	<u>5,096,943,125</u>

- Although the notes are not rated and generally from individuals, they are secured on the underlying properties and accordingly are thought to be recoverable in full.

- None of the group's notes receivable is past due.

### 6 ACCOUNTS RECEIVABLE AND PREPAYMENTS

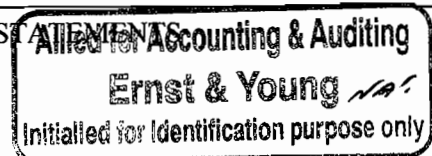
	30 June 2011 (Unaudited) EGP	31 December 2010 (Audited) EGP
Accounts receivable	766,277,850	722,993,034
Unamortized discount	<u>(18,976,476)</u>	<u>(18,976,476)</u>
	747,301,374	704,016,558
Due from related parties (note 14)	44,820,057	39,608,970
Due from hotel management companies	1,850,623	3,643,862
Advances to suppliers	252,659,421	112,657,254
Advance payment for land purchase	26,091,095	25,661,097
Deposits with others	2,162,541	2,202,629
Prepaid expenses	6,558,930	7,515,823
Other receivables	<u>127,585,339</u>	<u>135,138,177</u>
	<u>1,209,029,380</u>	<u>1,030,444,370</u>

- The group's accounts receivable did not include past dues or receivables impaired. The management consider receivables to be fully recoverable.

- The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The group does not hold any collateral as security.

# Palm Hills Developments Company S.A.E and its Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
At 30 June 2011



## 7 DEVELOPMENT PROPERTIES

	30 June 2011 (Unaudited) EGP	31 December 2010 (Audited) EGP
Land acquisition cost – Apartments and chalets lands	4,096,013,765	4,324,485,764
Land acquisition cost – Villas lands	1,476,540,143	1,558,915,952
Construction cost	131,006,648	129,051,716
Cost of construction contracts (note 3)	(250,707,639)	(383,634,558)
Less Cost of sales	(86,228,638)	(274,393,504)
	<u>5,366,624,279</u>	<u>5,354,425,370</u>

- At 30 June 2011 development properties with a carrying amount of EGP 5,366,624,279 (2010 EGP 5,354,425,370) are subject to a register debenture to secure the land purchase liability (note 10). According to the land purchase agreement, the ownership of the land will not be transferred to the company until the full settlement of the purchase liability.

- Borrowing cost capitalised on the development properties is EGP 52,185,982 (2010: EGP 84,923,019). The capitalization rate used to determine the amount of borrowing costs eligible for capitalisation is 10%.

## 8 SHARE CAPITAL

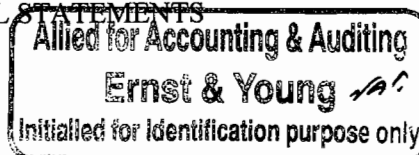
<i>Date</i>	<i>Authorised</i>	<i>No. of shares</i>	<i>Par value</i>	<i>Issued and fully paid (EGP)</i>
<b>Establishment date</b>	350,000,000	1,215,000	100	121,500,000
<b>20 December 2006</b>	350,000,000	3,070,000	100	307,000,000
<b>13 May 2007</b>	1,500,000,000	4,000,000	100	400,000,000
<b>15 May 2007</b>	1,500,000,000	6,000,000	100	600,000,000
<b>6 November 2007</b>	1,500,000,000	8,000,000	100	800,000,000
<b>27 March 2008</b>	3,500,000,000	416,000,000	2	832,000,000
<b>10 April 2008</b>	3,500,000,000	465,920,000	2	931,840,000
<b>31 March 2009</b>	3,500,000,000	698,880,000	2	1,397,760,000
<b>28 January 2010</b>	3,500,000,000	1,048,320,000	2	2,096,640,000

## 9 TERM LOANS

	30 June 2011 (Unaudited) EGP	31 December 2010 (Audited) EGP
Less than one year	431,933,259	444,421,171
Between one and five years	436,032,157	417,479,828
	<u>867,965,416</u>	<u>861,900,999</u>

# Palm Hills Developments Company S.A.E and its Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
At 30 June 2011



## 9 TERM LOANS – Continued

Analysed as follows:

	<i>30 June 2011</i> <i>(Unaudited)</i> <i>EGP</i>	<i>31 December 2010</i> <i>(Audited)</i> <i>EGP</i>
Loan 2 – Commercial International Bank	139,831,343	139,831,343
Loan 3 – Export Development Bank of Egypt	105,551,985	115,700,000
Loan 5 – Bank Misr	470,896,263	449,765,931
Loan 6 – AAIB	71,038,825	71,038,825
Loan 7 – Commercial International Bank	80,647,000	80,647,000
Loan 8 – Commercial International Bank	-	4,917,900
	<u>867,965,416</u>	<u>861,900,999</u>

## 10 LAND PURCHASE LIABILITIES

	<i>30 June 2011</i> <i>(Unaudited)</i> <i>EGP</i>	<i>31 December 2010</i> <i>(Audited)</i> <i>EGP</i>
Gross land purchase liabilities:		
Less than one year	725,063,663	254,893,501
More than one year	302,524,038	789,327,416
	<u>1,027,587,701</u>	<u>1,044,220,917</u>
Unamortized discount	(189,906,580)	(215,194,711)
Present value of land purchase liabilities	<u>837,681,121</u>	<u>829,026,206</u>

The present value of the land purchase liability is as follows:

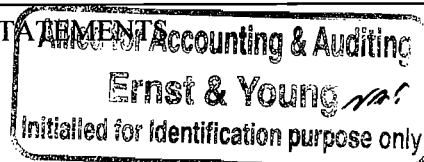
Less than one year	572,612,542	198,394,926
More than one year	265,068,579	630,631,280
	<u>837,681,121</u>	<u>829,026,206</u>

- Land purchase liabilities are secured over development properties with a carrying amount of EGP 5,366,624,279 (2010 EGP 5,354,425,370) (note 7). According to the land purchase agreement, the ownership of the land will not be transferred to the company until the full settlement of the purchase liability.
- The effective interest rate used on land purchase liabilities is 10%.



Palm Hills Developments Company S.A.E and its Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
At 30 June 2011



**11 NOTES PAYABLE**

	<i>30 June 2011</i> <i>(Unaudited)</i> <i>EGP</i>	<i>31 December 2010</i> <i>(Audited)</i> <i>EGP</i>
Less than one year – Land	796,323,854	463,785,262
Less than one year – Others	143,497,518	149,141,049
Unamortized discount	<u>(226,067,369)</u>	<u>(129,946,294)</u>
	<u>713,754,003</u>	<u>482,980,017</u>
More than one year – Land	2,000,683,035	2,406,273,982
More than one year – Others	114,562,469	123,389,000
Unamortized discount	<u>(605,078,761)</u>	<u>(731,396,189)</u>
	<u>1,510,166,743</u>	<u>1,798,266,793</u>
	<u>2,223,920,746</u>	<u>2,281,246,810</u>

**12 BILLINGS IN EXCESS OF COSTS**

	<i>30 June 2011</i> <i>(Unaudited)</i> <i>EGP</i>	<i>31 December 2010</i> <i>(Audited)</i> <i>EGP</i>
Construction cost to date	2,391,833,714	2,110,651,444
Add: attributable (loss) profit	(93,182,660)	47,962,807
Less: progress billings	<u>(4,425,573,141)</u>	<u>(4,982,179,363)</u>
Billings in excess of costs and estimated earnings on uncompleted contracts	<u>2,126,922,087</u>	<u>2,823,565,112</u>

**13 (LOSSES) EARNINGS PER SHARE**

Basic (losses) earnings per share amounts are calculated by dividing net (loss) profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

	<i>30 June 2011</i> <i>(Unaudited)</i> <i>EGP</i>	<i>30 June 2010</i> <i>(Unaudited)</i> <i>EGP</i>
Net (loss) profit attributable to ordinary equity holders of the parent	(81,398,034)	191,419,986
Weighted average number of ordinary shares outstanding during the period	<u>1,048,320,000</u>	<u>786,240,000</u>
	<u>(0.078)</u>	<u>0.243</u>

Palm Hills Developments Company S.A.E and its Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
At 30 June 2011



14 RELATED PARTY TRANSACTIONS

The following are the details of major related party transactions during the period and the related balances at the period end:

Related party	Nature of transaction	Amount of transaction		Balance	
		30 June 2011 EGP	31 December 2010 EGP	30 June 2011 EGP	31 December 2010 EGP
Affiliates					
	Current account – payable	-	-	-	(882,157)
	Current accounts – receivable	5,211,087	17,346,392	44,820,057	39,608,970
	Investment acquisitions	-	-	-	-
Directors and senior management					
	Sale of villas and town houses	-	-	-	-
	Management compensation	-	-	-	-
Shareholders					
	Current accounts – receivable	-	-	-	-
	Current account – payable	-	-	-	-
	Purchase of Macor for Securities Investment Company S.A.E and its subsidiaries	-	25,476,197	-	-
	Creditors investments acquisitions *	-	-	(44,256,746)	(44,256,746)
	Due from related parties (note 6)			44,820,057	39,608,970
	Due to related parties			(44,256,746)	(45,138,903)

\* Creditors investment acquisition represents payments by the shareholders of Palm Hills Developments Company ('the Company') on its behalf to finance the acquisition of Saudi Urban Developments Company S.A.E ('a subsidiary').

# Palm Hills Developments Company S.A.E and its Subsidiaries

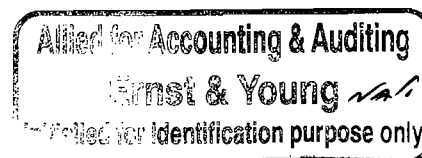
## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2011

### 15 FAIR VALUES OF FINANCIAL INSTRUMENTS

*Fair value of financial instruments*

*Fair value of financial instruments carried at amortised cost*



The directors consider that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the financial statements approximate their fair values.

Valuation techniques and assumptions are applied for the purposes of measuring fair value.

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Fair value measurements are recognized in the balance sheet

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	<i>30 June 2011 (Unaudited)</i>			
	Level 1	Level 2	Level 3	Total
	<i>EGP</i>	<i>EGP</i>	<i>EGP</i>	<i>EGP</i>
Financial assets at FVTPL				
Non-derivative financial assets held for trading	-	84,146,179	-	84,146,179
Total	-	<b>84,146,179</b>	-	<b>84,146,179</b>

There were no transfers between Level 1, 2 and 3 in the period.

# Palm Hills Developments Company S.A.E and its Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
At 30 June 2011

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## 15 FAIR VALUES OF FINANCIAL INSTRUMENTS – Continued

	31 December 2010 (Audited)			
	Level 1	Level 2	Level 3	Total
	EGP	EGP	EGP	EGP
Financial assets at FVTPL				
Non-derivative financial assets held for trading	-	332,577,237	-	332,577,237
<b>Total</b>	<b>-</b>	<b>332,577,237</b>	<b>-</b>	<b>332,577,237</b>

There were no transfers between Level 1, 2 and 3 in the period.

## 16 GROUP ENTITIES

	30/6/2011	31/12/2010
	%	%
<u>Subsidiaries:</u>		
New Cairo for Real Estate Developments S.A.E	99.99%	99.99%
Royal Gardens for Real Estate Investment Company S.A.E	51%	51%
Palm Hills Middle East Company for Real Estate Investment S.A.E and its subsidiary, Middle East Company for Real Estate and Touristic Investment S.A.E	99.95%	99.95%
Middle East for Development and Investment Touristic S.A.E	51%	51%
Gamsha for Tourist Development S.A.E	59%	59%
Nile Palm Al-Naem for Real Estate Development S.A.E	51%	51%
Saudi Urban Development Company S.A.E	51%	51%
Rakeen Egypt for Real Estate Investment S.A.E	99.95%	99.95%
Al Naem for the hotels and touristic Villages S.A.E	60%	60%
Gawda for trade services S.A.E	100%	100%
East New Cairo for Real Estate Development. S.A.E	59%	59%
City for Real Estate Development S.A.E	51%	51%
Palm October for Hotels SAE *	0.24%	98%
Macor for Securities Investment Company S.A.E and its associate and subsidiaries:	60%	60%
Six of October for Hotels and Touristic Services Company S.A.E	79.95%	79.95%
Hotels & Touristic Floating Restaurants Company S.A.E	99.99%	99.99%
Ismailia for Tourism Company S.A.E	55.12%	55.12%
El Nema for Touristic & Real Estate Company S.A.E	49.99%	49.99%
Palm Hills for Hospitality S.A.E and its subsidiaries:	98%	-
Gamsha for Hotels S.A.E	98%	-
Palm North Coast for Hotels S.A.E	99.4%	-
Palm October for Hotels S.A.E *	99.75%	-
<u>Associate:</u>		
1-Coldwell Banker – Palm Hills for Real Estate Investments – S.A.E	49%	49%
<u>Advance payments for investments acquisition</u>		
Palm October for Hotels S.A.E	-	-
Villamora for Real Estate Development Company S.A.E	65%	65%
Baltan Group – Saudi Joint stock company	51%	51%
United Group for Real Estate Development S.A.E	49%	49%
Gamsha for Tourist Development S.A.E (59% subsidiary)	1%	1%

\* On 27 February 2011, Palm October for Hotels S.A.E increased its issued capital. Palm Hills Development Company which previously owned 98% direct investment in this company was invested indirectly in the capital increase of Palm October for Hotels S.A.E by its subsidiary Palm Hills for Hospitality SAE. The total direct and indirect investments equal the same investment percentage 98%.

## Palm Hills Developments Company S.A.E and its Subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
At 30 June 2011

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### 17 SUBSTANCIAL EVENTS

During the first quarter of year 2011, some substantial events took place in Egypt that impacted on the economic environment which in turn could expose the Company to various risks including sustainability of revenues, growth of business, fluctuations in foreign currencies exchange rates and valuation / impairment of assets.

While it is difficult to quantify this effect at this point in time, the impact may become visible in the future consolidated financial statements. The significance of such an impact will depend on extent and length until which these events and its effect will end.