

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013



Building a better
working world

Allied for Accounting & Auditing
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Years in MENA

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PALM HILLS DEVELOPMENTS COMPANY S.A.E.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Palm Hills Developments Company S.A.E and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

The group has recorded sales returns of EGP 349,379,250 as an adjustment to retained earnings and non-controlling interests instead of recognising them in the current year consolidated statement of comprehensive income. This constitutes a departure from International Financial Reporting Standards. Had management recorded this amount in the consolidated statement of comprehensive income, net sales would have decreased by EGP 349,379,250 and the net profit would have decreased by the same amount.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Date: 20 March 2014

Allied for Accounting & Auditing (EY)
Cairo, Egypt

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 31 December 2013

	<i>Notes</i>	<i>2013</i> <i>EGP</i>	<i>2012</i> <i>EGP</i>
Revenues	3	1,222,027,066	402,674,185
Cost of revenues	3	(923,287,885)	(429,642,363)
GROSS PROFIT (LOSS)		298,739,181	(26,968,178)
Selling and administrative expenses	4	(165,121,044)	(156,628,184)
Interest income	5	223,344,585	197,652,375
Finance costs	6	(146,712,175)	(165,535,331)
Other income	7	37,970,596	17,785,895
Other expenses	8	-	(1,000,000)
PROFIT (LOSS) BEFORE INCOME TAX		248,221,143	(134,693,423)
Income tax expense	9	(509,302)	(583,685)
PROFIT (LOSS) FOR THE YEAR		247,711,841	(135,277,108)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		247,711,841	(135,277,108)
Profit (loss) attributable to:			
Equity holders of the parent		236,835,300	(134,634,582)
Non-controlling interests		10,876,541	(642,526)
		247,711,841	(135,277,108)
Basic and diluted earnings (loss) per share for profit (loss) attributable to the equity holders of the parent (expressed in EGP per share)	29	0.226	(0.128)

The attached notes from 1 to 35 are an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

		2013	2012
	Notes	EGP	(restated) EGP
ASSETS			
Non-current assets			
Investment property	10	1,439,137,315	2,359,802,971
Property and equipment	11	332,177,820	370,690,700
Advance payments for investment acquisitions	12	178,173,143	167,091,893
Investment in associates	13	53,700,017	55,170,885
Notes receivable	14	1,429,408,400	1,411,352,226
		<u>3,432,596,695</u>	<u>4,364,108,675</u>
Current assets			
Notes receivable	14	1,273,423,714	1,192,566,299
Accounts receivable and prepayments	15	2,128,915,375	2,024,788,558
Bank balances and cash	16	111,052,325	55,650,953
Financial assets at fair value through profit or loss – Held for trading	17	69,433,887	59,338,641
Development properties	18	3,667,553,764	3,721,960,032
		<u>7,250,379,065</u>	<u>7,054,304,483</u>
TOTAL ASSETS		<u><u>10,682,975,760</u></u>	<u><u>11,418,413,158</u></u>
EQUITY AND LIABILITIES			
Equity			
Share capital	19	2,096,640,000	2,096,640,000
Statutory reserve	20	558,122,261	557,947,383
Special reserve	20	524,200,467	524,200,467
Retained earnings		42,444,342	152,344,111
Equity attributable to equity holders of the parent		<u>3,221,407,070</u>	<u>3,331,131,961</u>
Non-controlling interests		284,722,793	254,615,311
Total equity		<u>3,506,129,863</u>	<u>3,585,747,272</u>
Non-current liabilities			
Term loans	21	801,517,010	407,072,612
Land purchase liabilities	22	403,156,448	1,176,836,119
Notes payable	23	762,178,151	760,379,793
Other non-current liabilities	24	334,404,537	314,600,593
Deferred tax liability	9	5,836,241	5,368,520
		<u>2,307,092,387</u>	<u>2,664,257,637</u>
Current liabilities			
Bank overdrafts	25	283,678,904	135,091,843
Term loans	21	215,084,338	422,661,367
Land purchase liabilities	22	197,799,213	111,037,238
Accounts payable and accruals	26	1,594,889,125	1,712,985,029
Notes payable	23	726,608,158	920,959,499
Advances from customers	27	89,095,996	131,298,330
Billings in excess of costs	28	1,697,271,588	1,669,009,737
Income tax payable	9	65,326,188	65,365,206
		<u>4,869,753,510</u>	<u>5,168,408,249</u>
Total liabilities		<u>7,176,845,897</u>	<u>7,832,665,886</u>
TOTAL EQUITY AND LIABILITIES		<u><u>10,682,975,760</u></u>	<u><u>11,418,413,158</u></u>

Ali Thabet
(Chief Executive Officer for Finance)

Yasseen Mansour
(Chairman)

The attached notes from 1 to 35 are an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2013

Attributable to equity holders of the parent

	Share capital		Statutory reserve		Special reserve		Retained earnings		Total		Non-controlling interests		Total	
	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP
Balance as at 1 January 2013	2,096,640,000	557,947,383	524,200,467	152,344,111	3,331,131,961	254,615,311	3,585,747,272	-	-	-	-	-	-	-
Adjustment to equity (note 35)	-	-	-	(346,560,191)	(346,560,191)	(2,819,059)	(349,379,250)	-	-	-	-	-	-	-
Balance as at 1 January 2013 (restated)	2,096,640,000	557,947,383	524,200,467	(194,216,080)	2,984,571,770	251,796,252	3,236,368,022	-	-	-	-	-	-	-
Comprehensive income	-	-	-	236,835,300	236,835,300	10,876,541	247,711,841	-	-	-	-	-	-	-
Profit for the year	-	-	-	236,835,300	236,835,300	10,876,541	247,711,841	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for 2013	-	-	-	236,835,300	236,835,300	10,876,541	247,711,841	-	-	-	-	-	-	-
Transfer to statutory reserve	-	174,878	-	(174,878)	-	-	-	-	-	-	-	-	-	-
Non-controlling interests in the capital increase of a subsidiary	-	-	-	-	-	22,050,000	22,050,000	-	-	-	-	-	-	-
Balance at 31 December 2013	2,096,640,000	558,122,261	524,200,467	42,444,342	3,221,407,070	284,722,793	3,506,129,863	-	-	-	-	-	-	-

The attached notes from 1 to 35 are an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 December 2012

Attributable to equity holders of the parent

	Share capital		Statutory reserve		Special reserve		Retained earnings		Total		Non-controlling interests		Total	
	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP
Balance as at 1 January 2012	2,096,640,000	557,788,709	524,200,467	464,226,627	3,642,855,803	287,685,384	3,930,541,187							
Adjustment to equity (note 35)	-	-	-	(177,089,260)	(177,089,260)	(32,427,547)	(209,516,807)							
Balance as at 1 January 2012 (restated)	2,096,640,000	557,788,709	524,200,467	287,137,367	3,465,766,543	255,257,837	3,721,024,380							
Comprehensive income														
Loss for the year	-	-	-	(134,634,582)	(134,634,582)	(642,526)	(135,277,108)							
Other comprehensive income	-	-	-	-	-	-	-							
Total comprehensive income for 2012	-	-	-	(134,634,582)	(134,634,582)	(642,526)	(135,277,108)							
Transfer to statutory reserve	-	158,674	-	(158,674)	-	-	-							
Balance at 31 December 2012	2,096,640,000	557,947,383	524,200,467	152,344,111	3,331,131,961	254,615,311	3,585,747,272							

The attached notes from 1 to 35 are an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2013

	Notes	2013 EGP	2012 EGP
OPERATING ACTIVITIES			
Profit (loss) before income tax		248,221,143	(134,693,423)
Depreciation and impairment of property and equipment	11	26,496,313	24,372,779
Interest income	5	(223,344,585)	(197,652,375)
Finance cost	6	146,712,175	165,535,331
Share of loss of associates		1,470,868	1,088,454
Gain from financial assets at fair value through profit or loss – held for trading	7	(5,762,051)	(6,807,714)
Gain on disposal of property and equipment		(8,386,703)	-
		<u>185,407,160</u>	<u>(148,156,948)</u>
Working capital adjustments:			
(Increase) decrease in notes receivable		(328,406,702)	1,024,742,188
Increase in accounts receivable and prepayments		(104,126,817)	(437,551,174)
Decrease (increase) in development properties		414,854	(428,223,499)
Decrease in notes payable		124,389,702	86,512,900
(Decrease) increase in accounts payable and accruals		(118,095,904)	339,310,894
Decrease in advances from customers		(42,202,334)	(127,800,255)
Increase (decrease) in billings in excess of costs		28,261,851	(342,879,923)
Increase (decrease) in other non-current liabilities		19,803,944	(5,420,307)
Cash used in operations		<u>(234,554,246)</u>	<u>(39,466,124)</u>
Interest paid		(58,604,555)	(36,813,978)
Tax paid		(80,599)	(270,819)
Net cash flows used in operating activities		<u>(293,239,400)</u>	<u>(76,550,921)</u>
INVESTING ACTIVITIES			
Purchase of properties and equipment	11	(6,443,620)	(5,337,252)
Proceeds from sale of properties and equipment		14,979,716	245,387
Purchase of investment properties		(2,948,431)	(8,278,779)
Advance payments for investments acquisition	12	(11,081,250)	(3,693,750)
Purchase of financial assets at fair value through profit or loss – held for trading		(49,176,426)	(45,596,439)
Proceeds from sale of financial assets at fair value through profit or loss – held for trading		44,843,231	46,382,986
Interest received		963,122	802,367
Net cash flows used in investing activities		<u>(8,863,658)</u>	<u>(15,475,480)</u>
FINANCING ACTIVITIES			
Proceeds from borrowings		291,434,497	311,830,972
Repayments of borrowings		(104,567,128)	(252,410,898)
Non-controlling interests arising from capital increase of subsidiaries		22,050,000	-
Net cash flows from financing activities		<u>208,917,369</u>	<u>59,420,074</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		<u>(93,185,689)</u>	<u>(32,606,327)</u>
Cash and cash equivalents at 1 January	16	(79,440,890)	(46,834,563)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	16	<u>(172,626,579)</u>	<u>(79,440,890)</u>

Investing and financing activities that did not require the use of cash and cash equivalents are excluded from the cash flow statement.

The attached notes from 1 to 35 are an integral part of these consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

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 headquarters is located in 6th of October City in 6th of October Governorate, where the main branch is located in Smart Village.

The company was 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 was listed in the official schedule no. (1) Of the Cairo and Alexandria Stock Exchange on April 2008 and on the 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 in activities. All such activities are subject to the approval of appropriate authorities.

These group consolidated financial statements were authorised for issue by the board of directors on 28 January 2014.

All the company 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 thirteen direct 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.

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.

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.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

1 ACTIVITIES – continued

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'.

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.

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.

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.

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 6th 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..

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 6th of October City. The company is engaged in construction and operation of hotels in Hamata.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

1 ACTIVITIES – continued

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 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.

12- 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 has the following 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 star Hotel in Six of October City operated by Accor for Hotels.

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 hotels and touristic units and provide all its facilities.

Ismailia for Tourism Company S.A.E

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

13- Palm Hills Hospitality S.A.E and its subsidiaries:

Palm Hills Hospitality S.A.E. is registered in Egypt under commercial registration number 45441 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 hotels, motels, resorts and residential compounds.

The company has the following subsidiaries:

Palm October for Hotels S.A.E.

Palm October for Hotels S.A.E. is registered in Egypt under commercial registration number 38357 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 hotels, motels, resorts and residential compounds.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

1 ACTIVITIES – continued

Palm Gamsha Hotels S.A.E

Palm October for Hotels S.A.E. is registered in Egypt under commercial registration number 46193 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.

Palm North Coast Hotels S.A.E

Palm October for Hotels S.A.E. is registered in Egypt under commercial registration number 48189 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 financial year end for each of the entities in the Group is 31 December.

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 function 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

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2013. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

2.1 BASIS OF PREPARATION - continued

Basis of consolidation – continued

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

2.1 BASIS OF PREPARATION - continued **Business combinations and goodwill – continued**

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of profit of an associate and gain in the statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies used in the preparation of the financial statements are consistent with those used in the preparation of the financial statements for the year ended 31 December 2012, except for the adoption of the following new standards and interpretation effective as of 1 January 2013:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES - continued

New and amended standards and interpretations

IAS 1 Financial Statement Presentation: Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 require that an entity presents separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments also suggest changing the title of the "statement of comprehensive income" to the "statement of profit or loss and other comprehensive income" which was not adopted by the Group. The amendments affect presentation only and has no impact on the Group's financial position or performance.

IFRS 13 Fair value measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

The following new accounting standards and amendments to accounting standards, which are effective from 1 January 2013, did not have any impact on the Group's financial statements:

- Amendment to IAS 1 – Presentation of Financial Statements: Clarification of the requirement for comparative information,
- IAS 19 – Employee benefits (revised 2011),,
- IAS 27 – Separate financial statements (revised 2011), IFRS 10 and IAS 27 (revised 2011) supersede IAS 27 – Consolidated and separate financial statements (as amended in 2008),
- IAS 28 – Investments in associates and joint ventures (revised 2011). This IAS supersedes IAS 28 – Investments in associates (as revised in 2003),
- Amendments to IFRS 7 – Financial instruments – Disclosures: offsetting financial assets and financial liabilities (issued in December 2011),
- IFRS 10 – Consolidated financial statements (issued in May 2011),,
- IFRS 11 – Joint arrangements (issued in May 2011),
- IFRS 12 – Disclosures of interests in other entities (issued in May 2011),
- Amendments to transitional guidance in IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012),
- IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine,, and
- Annual improvements to IFRSs (2009-2011) (issued in May 2012). The document contains amendments to certain standards such as IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34.

IASB Standards and Interpretations issued but not yet effective

The Group has not adopted the following new accounting standards, amendments or interpretations that have been issued but are either not yet effective or not early adopted. Management is currently assessing the impact of these standards and interpretations on the Group in the period of their initial application.

- IFRS 9 – Financial instruments: classification and measurement (issued in October 2010), effective for annual periods beginning 1 January 2018,
- Amendment to IFRS 9 – Financial instruments: mandatory effective date of IFRS 9 and transition disclosures (issued in December 2011), effective for annual periods beginning 1 January 2018,
- Amendments to IAS 32 – Financial instruments – Presentation: offsetting financial assets and financial liabilities (issued in December 2011), effective for annual periods beginning 1 January 2014,
- Amendments to IAS 36 – Impairment of assets: recoverable amount disclosures for non-financial assets (issued in May 2013), effective for annual periods beginning 1 January 2014,
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting - Amendments to IAS 39, effective for annual periods beginning 1 January 2014,
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), effective for annual periods beginning 1 January 2014, and
- IFRIC Interpretation 21 – Levies (issued in May 2013), effective for annual periods beginning 1 January 2014.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

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 in contracts where 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 has 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 treated as a sale of goods. (see sale of apartments below).

Under the 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).

Sale of apartments and chalets

Where the Group transfers risks and rewards of ownership of the property in its entirety at a single point of time, revenue and the associated costs are recognised at that point of time. Although this trigger is determined by reference to the sales contract and the relevant local laws, and so may differ from transaction to transaction, in general the Group determines the point of recognition to be the time at which the buyer takes possession of the property.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 capitalised 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.

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	20 - 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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. 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;
- 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 recognised 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 three 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 recognised initially at the fair value. Land purchase liability is subsequently stated at amortised 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 amortised to interest expense using the effective interest method.

Notes payable

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

Borrowings

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

Provisions

Provisions for legal claims are recognised 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 recognised as a liability in the Group's financial statements in the period in which the dividends are approved.

Fair value measurements

The fair values of financial instruments measured at amortised cost are disclosed in Note 33. There are no financial or non-financial assets and liabilities that are measured and carried in the statement of financial position at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Company.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

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 recognised 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.

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. Were 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 58,158,499 if the proportion performed were increased, or would be decreased by EGP 58,158,499 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 recognises 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.

Impairment of non-financial assets

The group tests annually whether non-financial assets have suffered any impairment, in accordance with the accounting policy stated in Note 2.3. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 11).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES – continued

Estimation used in discounting of non-current receivables

In determining the appropriate discount rate for non-current receivables, management considers the average depositing corridor rate announced by the Central Bank of Egypt.

3 REVENUES AND COST OF REVENUES

	2013 EGP	2012 EGP
Revenues:		
Sale of land attributable to villas and town houses	579,486,718	225,480,790
Revenue from construction contracts	619,042,977	159,553,064
Revenue from club activities	12,814,530	10,648,719
Revenue from hospitality activities	10,682,841	6,991,612
	<u>1,222,027,066</u>	<u>402,674,185</u>
Cost of revenues:		
Cost of land attributable to villas and town houses	297,654,444	104,664,246
Cost of land – infrastructure and other cost attributable to villas and town houses	28,809,491	41,390,555
Cost of construction contracts (note 18)	571,800,057	259,421,834
Cost of revenue from club activities	17,963,672	17,262,003
Cost of revenue from hospitality activities	7,060,221	6,903,725
	<u>923,287,885</u>	<u>429,642,363</u>

4 SELLING AND ADMINISTRATIVE EXPENSES

	2013 EGP	2012 EGP
Marketing and selling expenses	45,412,617	77,781,756
Salaries and wages	51,930,418	30,607,294
Professional and governmental fees	39,828,148	20,384,668
Rent and insurance expenses	5,719,539	2,471,796
Travel	648,351	604,986
Bank charges	1,604,971	810,925
Other expenses	9,514,355	9,498,062
Depreciation expense (note 11)	10,462,645	14,468,697
	<u>165,121,044</u>	<u>156,628,184</u>

5 INTEREST INCOME

	2013 EGP	2012 EGP
Interest income - amortisation of discount on long-term notes receivable	222,381,463	196,850,008
Interest income on time deposits	963,122	802,367
	<u>223,344,585</u>	<u>197,652,375</u>

6 FINANCE COSTS

	2013 EGP	2012 EGP
Interest on borrowings	58,604,555	36,813,978
Interest on land purchase liabilities	88,107,620	128,721,353
	<u>146,712,175</u>	<u>165,535,331</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

7 OTHER INCOME

	<i>2013</i> <i>EGP</i>	<i>2012</i> <i>EGP</i>
Gain from financial assets at fair value through profit or loss – held for trading	5,762,051	6,807,714
Gain on disposal of property and equipment	8,386,703	-
Late payment charges	7,012,748	937,845
Other income	16,809,094	10,040,336
	<u>37,970,596</u>	<u>17,785,895</u>

8 OTHER EXPENSES

	<i>2013</i> <i>EGP</i>	<i>2012</i> <i>EGP</i>
Impairment of property and equipment (note 11)	-	1,000,000
	<u>-</u>	<u>1,000,000</u>

9 INCOME TAX

Income tax expense consists of:

	<i>2013</i> <i>EGP</i>	<i>2012</i> <i>EGP</i>
Current tax expense	41,581	39,018
Deferred tax expense arising from the origination and reversal of temporary differences	467,721	544,667
	<u>509,302</u>	<u>583,685</u>

The relationship between the tax expense and the accounting profit can be explained as follows:

	<i>2013</i> <i>EGP</i>	<i>2012</i> <i>EGP</i>
Accounting profit (loss)	248,221,143	(134,693,423)
Adjustments in determining taxable profit *	(248,054,819)	134,888,514
Taxable profit	<u>166,324</u>	<u>195,091</u>
Statutory income tax rate	25%	20%
Tax expense	<u>41,581</u>	<u>39,018</u>

* Adjustments in determining taxable profit represent the net result from the non-deductible expenses and the exempt revenue in accordance with Egyptian tax law as follows:

	<i>2013</i> <i>EGP</i>	<i>2012</i> <i>EGP</i>
Items added to accounting profit (losses):		
Depreciation	38,363,487	54,302,606
Interest on land purchase liabilities	88,107,620	128,721,353
Impairment of property and equipment	-	1,000,000
Other non-deductible expenses	144,487,713	293,713,955
Items deducted from accounting profits (losses) :		
Depreciation	(89,217,412)	(128,445,076)
Prior years losses	(195,954,932)	(7,943,496)
Interest income - amortisation of discount on long term notes receivable	(222,381,463)	(196,850,008)
Exempt revenue	<u>(11,459,832)</u>	<u>(9,613,820)</u>
Net adjustments in determining taxable profit	<u>(248,054,819)</u>	<u>134,888,514</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

9 INCOME TAX - Continued

Movements in provision during the year

The movement in the current and deferred tax provisions for the year were as follows:

	2013 EGP	2012 EGP	2013 EGP	2012 EGP
	Current tax		Deferred tax	
At beginning of the year	65,365,206	65,597,007	5,368,520	4,823,853
Paid during the year	(80,599)	(270,819)	-	-
Provided during the year	41,581	39,018	467,721	544,667
At end of the year	<u>65,326,188</u>	<u>65,365,206</u>	<u>5,836,241</u>	<u>5,368,520</u>

* The deferred liability comprises the following types of temporary differences:

	2013 EGP	2012 EGP
Property and equipment qualifying for accelerated tax relief	5,836,241	5,368,520

Tax Status of the Group

The tax situation of the group is as follows:

(a) *The following companies enjoy income tax holidays on revenues derived from their operating activities:*

- Palm Hills Development Company S.A.E, from 14 March 2005 to 31 December 2015.
- New Cairo for Real Estate Developments S.A.E, from 13 June 2007 to 31 December 2017.
- Gawda for trade services S.A.E, from 12 February 2008 to 11 February 2018.
- Saudi Urban Development Company S.A.E, from 1 April 2008 to 31 March 2018.
- Six of October for Hotels and Touristic Services Company S.A.E, from 15 February 2005 to 31 December 2015.

(b) *The following companies submitted their income tax returns regularly and have not yet received any notice from the Tax Authority regarding their income tax inspection:*

- Palm Hills Development Company S.A.E
- New Cairo for Real Estate Developments S.A.E
- Royal Gardens for Real Estate Investment Company S.A.E
- Palm Hills Middle East Company for Real Estate Investment S.A.E
- Middle East Company for Real Estate and Touristic Investment S.A.E
- Middle East for Development and Investment Touristic S.A.E
- Saudi Urban Development Company S.A.E
- Gamsha for Tourist Development S.A.E
- Nile Palm Al-Naeem for Real Estate Development S.A.E
- Rakeen Egypt for Real Estate Investment S.A.E
- Al Naeem for the hotels and touristic Villages S.A.E
- Gawda for trade services S.A.E
- East New Cairo for Real Estate Development S.A.E
- Palm Hills Hospitality S.A.E
- Palm Gamsha Hotels S.A.E
- Palm North Coast Hotels S.A.E
- Palm October for Hotels S.A.E

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

9 INCOME TAX - Continued

(c) The following companies were inspected by the tax authority and the taxes due were settled and paid as follows:

- Macor for Securities Investment Company S.A.E (inspected until the year ended 31 December 2004)
- Hotels & Touristic Floating Restaurants Company S.A.E (inspected until the year ended 31 December 2008)
- El Nema for Touristic & Real Estate Company S.A.E (inspected until the year ended 31 December 2010)
- Ismailia for Tourism Company S.A.E (inspected until the year ended 31 December 2004)

The companies submitted their income tax returns regularly and have not yet received any notice from the Tax Authority regarding their income tax inspection for the years after the financial years inspected.

10 INVESTMENT PROPERTY

	2013 EGP	2012 EGP
Balance at beginning of year	2,359,802,971	2,393,218,303
Transferred from (to) development properties	188,609,415	(15,726,573)
Additions through subsequent expenditure	2,948,431	8,278,779
Cancellation of investment property	(1,112,223,502)	(25,967,538)
Balance at end of year	<u>1,439,137,315</u>	<u>2,359,802,971</u>

- In 2013 and 2012, lands under investment / development were transferred from (to) development properties based on the change in use of these lands.
- In 2013 and 2012, the company cancelled an extension in a property project and returned its land to the Government. The carrying value of this land extension at the acquisition date amounted to EGP 1,112,223,502 (2012: EGP 25,967,538) had been reversed against land purchase liability. No gain or loss resulted from such cancellation.
- As of 31 December 2013 all investment property were still under construction. No fair value disclosure is provided for property under construction as it cannot be reliably measured.
- There was no interest capitalised on property and equipments in 2012 and 2013.

11 PROPERTY AND EQUIPMENT

2013

	<i>Land</i> EGP	<i>Buildings</i> EGP	<i>Tools & equipment</i> EGP	<i>Vehicles</i> EGP	<i>Furniture & fixtures</i> EGP	<i>Total</i> EGP
Cost:						
-At 1 January 2013	18,920,662	431,184,683	133,457,645	22,694,129	87,342,616	693,599,735
-Additions	-	734,470	3,722,376	1,253,530	733,244	6,443,620
-Disposals	-	-	(24,597,807)	(1,012,850)	(333,093)	(25,943,750)
At 31 December 2013	<u>18,920,662</u>	<u>431,919,153</u>	<u>112,582,214</u>	<u>22,934,809</u>	<u>87,742,767</u>	<u>674,099,605</u>
Depreciation and Impairment:						
-At 1 January 2013	-	134,507,566	100,997,197	17,822,763	69,581,509	322,909,035
-Depreciation charge for the year	-	15,766,252	10,998,478	2,922,730	8,676,027	38,363,487
-Deprecation related to disposals	-	-	(18,426,907)	(707,500)	(216,330)	(19,350,737)
At 31 December 2013	<u>-</u>	<u>150,273,818</u>	<u>93,568,768</u>	<u>20,037,993</u>	<u>78,041,206</u>	<u>341,921,785</u>
Net carrying amount:						
At 31 December 2013	<u>18,920,662</u>	<u>281,645,335</u>	<u>19,013,446</u>	<u>2,896,816</u>	<u>9,701,561</u>	<u>332,177,820</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

11 PROPERTY AND EQUIPMENT - Continued

2012	<i>Land</i>	<i>Buildings</i>	<i>Tools & equipment</i>	<i>Vehicles</i>	<i>Furniture & fixtures</i>	<i>Total</i>
	<i>EGP</i>	<i>EGP</i>	<i>EGP</i>	<i>EGP</i>	<i>EGP</i>	<i>EGP</i>
Cost:						
-At 1 January 2012	18,920,662	429,326,563	133,647,915	25,880,485	85,481,423	693,257,048
-Additions	-	1,858,120	1,318,947	123,500	2,036,685	5,337,252
-Disposals	-	-	(1,509,217)	(3,309,856)	(175,492)	(4,994,565)
At 31 December 2012	18,920,662	431,184,683	133,457,645	22,694,129	87,342,616	693,599,735
Depreciation and Impairment:						
-At 1 January 2012	-	117,823,707	80,335,717	17,772,323	56,423,860	272,355,607
-Depreciation charge for the year	-	15,683,859	22,122,616	3,202,360	13,293,771	54,302,606
-Impairment (note 8)	-	1,000,000	-	-	-	1,000,000
-Deprecation related to disposals	-	-	(1,461,136)	(3,151,920)	(136,122)	(4,749,178)
At 31 December 2012	-	134,507,566	100,997,197	17,822,763	69,581,509	322,909,035
Net carrying amount:						
At 31 December 2012	18,920,662	296,677,117	32,460,448	4,871,366	17,761,107	370,690,700

- In 2012 and 2013, no collateral was given as security against term loans.
- There was no interest capitalised on property and equipments in 2012 and 2013.
- In 2012, impairment loss of EGP 1,000,000 represents the write-down of certain buildings to the recoverable amount. This has been recognised in the income statement in the line item, other expenses (note 8). The recoverable amount was based on value-in-use calculation as this was determined to be higher than fair value less costs to sell. These calculations use cash flow projections based on financial budgets approved by management for a five year period. Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long term average growth rate for the manufacturing business in which the CGU operates. The following are key assumptions used in the value in use calculation: Gross margin 17% , Growth rate 1.5% and discount rate of 10% .
- The depreciation charge has been allocated in the consolidated statement of income as follows:

	<i>2013</i>	<i>2012</i>
	<i>EGP</i>	<i>EGP</i>
Cost of revenue	16,033,668	8,904,082
Selling and administrative expenses (note 4)	10,462,645	14,468,697
Development properties	11,867,174	30,929,827
	38,363,487	54,302,606

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

12 ADVANCE PAYMENTS FOR INVESTMENT ACQUISITION

	2013 EGP	2012 EGP
Villamora For Real Estate Development Co. S.A.E	24,266,400	24,266,400
Baltan Group – Saudi Joint Stock Company	135,121,743	135,121,743
Gamsha For Touristic Development Co. S.A.E.	4,010,000	4,010,000
United Engineering Company for Construction S.A.E	14,775,000	3,693,750
	<u>178,173,143</u>	<u>167,091,893</u>

The above mentioned advance payments for investment acquisition represents amounts paid by the company to acquire 20.36% of Villamora for Real Estate Development Company S.A.E, 51% of Baltan Group – Saudi Joint Stock Company and 98.5% of United Engineering Company for Construction S.A.E which were still under incorporation with the legal formalities not being complete as at 31 December 2013. Legal formalities were not completed as at 31 December 2013 for the increase in the Group's share in net assets from 59% to 60% of Gamsha for Touristic Development Company S.A.E.

13 INVESTMENT IN ASSOCIATES

Palm Hills Developments Company S.A.E. and its subsidiaries have the following investments in associate:

	<i>Country of Incorporation</i>	<i>Ownership</i>		
		2013	2012	2011
Coldwell Banker–Palm Hills for Real Estate Investments – S.A.E	<i>Egypt</i>	49%	49%	49%
Naema for Touristic & Real Estate Investments SAE	<i>Egypt</i>	49,99%	49,99%	49,99%

- The group's share of aggregated assets and liabilities is as follows:

	2013 EGP	2012 EGP
Share of associates' balance sheets:		
Current assets	4,201,532	3,528,059
Non- current assets	78,725,030	86,490,741
Current liabilities	(2,459,867)	(469,432)
Non-current liabilities	(26,766,678)	(34,378,483)
Net assets	<u>53,700,017</u>	<u>55,170,885</u>

- Coldwell Banker–Palm Hills for Real Estate Investments – S.A.E, which is unlisted, did not start its operation as of 31 December 2013.

14 NOTES RECEIVABLE

	2013 EGP	2012 EGP
Less than one year	1,409,673,847	1,370,471,469
Unamortised discount	(136,250,133)	(177,905,170)
	<u>1,273,423,714</u>	<u>1,192,566,299</u>
More than one year	1,584,952,047	1,624,591,974
Unamortised discount	(155,543,647)	(213,239,748)
	<u>1,429,408,400</u>	<u>1,411,352,226</u>
	<u>2,702,832,114</u>	<u>2,603,918,525</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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

15 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<i>2013</i> <i>EGP</i>	<i>2012</i> <i>EGP</i>
Accounts receivable	1,456,050,650	1,355,917,065
Due from related parties (note 30)	169,863,525	101,636,261
Due from hotel management companies	1,390,734	1,464,734
Advances to suppliers	340,304,710	313,255,336
Advance payment for land purchase	27,286,499	122,096,995
Deposits with others	2,237,192	2,015,203
Prepaid expenses	4,581,550	1,261,158
Other receivables	127,200,515	127,141,806
	<u>2,128,915,375</u>	<u>2,024,788,558</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.

16 CASH AND CASH EQUIVALENTS

	<i>2013</i> <i>EGP</i>	<i>2012</i> <i>EGP</i>
Bank balances and Cash	111,052,325	55,650,953
Bank overdrafts (note 25)	(283,678,904)	(135,091,843)
Cash and cash equivalents	<u>(172,626,579)</u>	<u>(79,440,890)</u>

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – HELD FOR TRADING

Represents investments in mutual funds in Egyptian pounds. The fair value is based on their current redemption prices in an active market (level two in fair value hierarchy) (note 33).

Financial assets at fair value through profit or loss are presented within 'operating activities' as part of changes in working capital in the cash flow statement. Changes in fair values of financial assets at fair value through profit or loss are recorded in 'other income' (note 7) in the consolidated statement of comprehensive income.

18 DEVELOPMENT PROPERTIES

	<i>2013</i> <i>EGP</i>	<i>2012</i> <i>EGP</i>
Land acquisition cost – Apartments and chalets lands	2,196,733,843	2,367,054,683
Land acquisition cost – Villas lands	825,562,978	850,734,981
Construction cost	1,543,520,935	909,647,003
Less: cost of construction contracts (note 3)	(571,800,057)	(259,421,834)
Less: cost of sales	(326,463,935)	(146,054,801)
	<u>3,667,553,764</u>	<u>3,721,960,032</u>

- At 31 December 2013 development properties with a carrying amount of EGP 3,667,553,764 (2012 EGP 3,721,960,032) are subject to a register debenture to secure the land purchase liability (note 22). 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 163,007,134 (2012: EGP 106,100,423). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 11.56%.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

19 SHARE CAPITAL

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

On 22 September 2013, the Company's Extraordinary General Assembly Meeting approved the Share Capital increase amounting to EGP 600,000,000 representing 300,000,000 shares . The public offering had been covered in full in January 2014 and the Company is in the process of completing the official approvals in order to list the shares in Cairo and Alexandria Stock exchange.

20 RESERVES

STATUTORY RESERVE

As required by the Egyptian company law and Group's Articles of Association 5% of the net profit for the year has to be transferred to statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of the issued capital.

SPECIAL RESERVE

As permitted by the Egyptian company law and the Group's Article of Association, The Board of Directors of Palm Hills development and its subsidiary Palm Hills Middle East Company for Real Estate Investment S.A.E decided to transfer an amount of EGP 524,200,467 from retained earnings to a special reserve to be used in the future expenditures. The decision has been approved by the General Assembly Meeting of these companies.

21 TERM LOANS

	<i>2013 EGP</i>	<i>2012 EGP</i>
Less than one year	215,084,338	422,661,367
Between one and five years	801,517,010	407,072,612
	<u>1,016,601,348</u>	<u>829,733,979</u>
Analysed as follows:		
	<i>2013 EGP</i>	<i>2012 EGP</i>
Loan 1	21,931,000	62,331,344
Loan 2	60,485,708	73,074,749
Loan 3	369,099,286	382,819,981
Loan 4	56,508,000	71,507,905
Loan 5	217,142,858	240,000,000
Loan 6	200,000,000	-
Loan 7	91,434,496	-
	<u>1,016,601,348</u>	<u>829,733,979</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

21 TERM LOANS - continued

Loan 1:

The term loan is a syndicated loan with Commercial International Bank (CIB) secured over notes receivables and bears an interest of a floating rate of the average corporate deposit rate for 6 months announced from central bank of Egypt plus 3.5% annually. The loan is repayable on monthly instalments from 31 October 2012 to 31 December 2014.

Loan 2:

The medium term loan with Export Development Bank of Egypt (EDBE) amounted to EGP 180 million secured by the assignment of projects' cash flow and bears an interest rate of 4.5% above deposit corridor rate and is repayable on quarterly instalments from 30 September 2012 to 31 December 2014.

Loan 3:

This is a revolving medium term loan with Misr Bank (MB) amounted to EGP 500 million to be settled with a minimum of 100 million EGP annually in case of full utilisation of the facility with an interest rate 2% plus Libor at the three month rate.

Loan 4:

The term loan is a syndicated loan with Commercial International Bank (CIB) amounted to EGP 155 million secured by the assignment of projects' cash flow and bears an interest rate of 3.75% above deposit corridor rate and is repayable on quarterly instalments from 1 January 2011 to 1 October 2014.

Loan 5:

The medium term loan with Arab African International Bank (AAIB) amounted to EGP 240 million secured by the assignment of projects' cash flow and bears an interest rate of 1.5% above deposit corridor rate and is repayable on quarterly instalments from 30 June 2013 to June 2018.

Loan 6:

The medium term loan with Arab African International Bank (AAIB) amounted to EGP 200 million secured by the assignment of projects' cash flow and bears an interest rate of 2% above deposit corridor rate and is repayable on quarterly instalments from 31 March 2014 to 31 December 2018.

Loan 7:

The medium term loan with Arab African International Bank (AAIB) amounted to EGP 225 million secured by the assignment of projects' cash flow and bears an interest rate of 2.75% above deposit corridor rate and is repayable on quarterly instalments from 31 March 2014 to 31 December 2018.

22 LAND PURCHASE LIABILITIES

	<i>2013</i> <i>EGP</i>	<i>2012</i> <i>EGP</i>
Gross land purchase liabilities:		
Less than one year	205,306,398	127,222,307
More than one year	426,368,167	1,323,501,231
	631,674,565	1,450,723,538
Unamortised discount	(30,718,904)	(162,850,181)
Present value of land purchase liabilities	600,955,661	1,287,873,357
The present value of the land purchase liability is as follows:		
Less than one year	197,799,213	111,037,238
More than one year	403,156,448	1,176,836,119
	600,955,661	1,287,873,357

- Land purchase liabilities are secured over development properties with a carrying amount of EGP 3,667,533,764 (2012 EGP 3,721,960,032) (note 18). 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 11.56%.

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

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At 31 December 2013

23 NOTES PAYABLE

	<i>2013</i> <i>EGP</i>	<i>2012</i> <i>EGP</i>
Less than one year – Land	472,800,418	970,200,038
Less than one year – Others	274,085,087	169,493,484
Unamortised discount	<u>(20,277,347)</u>	<u>(218,734,023)</u>
	<u>726,608,158</u>	<u>920,959,499</u>
More than one year – Land	1,046,638,496	874,868,070
More than one year – Others	107,475,895	87,677,796
Unamortised discount	<u>(391,936,240)</u>	<u>(202,166,073)</u>
	<u>762,178,151</u>	<u>760,379,793</u>
	<u>1,488,786,309</u>	<u>1,681,339,292</u>

24 OTHER NON – CURRENT LIABILITIES

Those comprise deposits received from units' owners to finance the maintenance, security, and other running expenses related to Palm Hills compounds management.

25 BANK OVERDRAFTS

Bank overdrafts granted to Palm Hills Development Company S.A.E. based on the commercial reputation of the Company and bearing market interest rates.

26 ACCOUNTS PAYABLE AND ACCRUALS

	<i>2013</i> <i>EGP</i>	<i>2012</i> <i>EGP</i>
Due to related parties (note 30)	521,145,944	498,509,100
Suppliers – contractors	305,559,040	466,436,603
Tax authority – withholding tax	2,805,031	16,819,165
Tax authority – salary tax	26,826,285	29,804,758
Customers credit balances *	218,813,623	132,365,362
Accrued expenses	40,735,339	28,956,486
Social Insurance Authority	26,650,116	18,082,071
Agriculture Development Authority **	95,500,000	100,500,000
Creditors of investments acquisition	125,108,586	140,364,795
Other payables	231,745,161	281,146,689
	<u>1,594,889,125</u>	<u>1,712,985,029</u>

* Customer credit balances represent customers' payment for un-contracted units until the contracts are signed.

** Agriculture Development balance represents fees to increase the construction area of Botanica project from 2% to 7%.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

27 ADVANCES FROM CUSTOMERS

	<i>2013</i> <i>EGP</i>	<i>2012</i> <i>EGP</i>
CASCADE Palm – Sixth Phase	19,239,556	19,239,556
Al Golf customers	9,384,366	21,513,308
Al Katamaya customers	7,520,584	7,213,773
BAMBOO customers	-	1,641,014
New Cairo Co. for Real Estate Development customers	84,000	52,500
Rakeen phase (A-B-C-D-HW2)	3,640,056	3,972,496
Royal Garden customers	638,750	1,625,720
Palm Hills Middle East customers	5,981,373	9,666,472
Saudi for urban development customers	5,247,646	5,556,961
Palm Hills Development customers (Botanica)	22,634,726	28,729,114
Eastern New Cairo for real estate development customers	11,559,422	26,190,934
Middle East Co. for Real Estate & Touristic Inv. Customers	-	1,265,113
Middle East for Dev. & Inv. Touristic customers	3,165,517	4,631,369
	<u>89,095,996</u>	<u>131,298,330</u>

28 BILLINGS IN EXCESS OF COSTS

	<i>2013</i> <i>EGP</i>	<i>2012</i> <i>EGP</i>
Construction cost to date	3,028,625,460	2,721,370,917
Add attributable profit (loss)	47,242,920	(99,868,769)
Less progress billings	<u>(4,773,139,968)</u>	<u>(4,290,511,885)</u>
Billings in excess of costs and estimated earnings on uncompleted contracts	<u>1,697,271,588</u>	<u>1,669,009,737</u>

29 EARNINGS (LOSSES) PER SHARE

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

	<i>2013</i> <i>EGP</i>	<i>2012</i> <i>EGP</i>
Net profits (losses) attributable to ordinary equity holders of the parent	236,835,300	(134,634,582)
Weighted average number of ordinary shares outstanding during the year	<u>1,048,320,000</u>	<u>1,048,320,000</u>
	<u>0.226</u>	<u>(0.128)</u>

- No figure for dilutive earnings per share has been given as the company has not issued any instruments that might be potentially diluted.

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

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30 RELATED PARTY TRANSACTIONS

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

<i>Related party</i>	<i>Nature of transaction</i>	Amount of transaction		Balance	
		2013 EGP	2012 EGP	2013 EGP	2012 EGP
Affiliates	Current accounts – receivable	68,227,264	36,339,805	169,863,525	101,636,261
Shareholders	Current account – payable	22,636,844	81,202,227	(521,145,944)	(498,509,100)
	Due from related parties (note 15)			169,863,525	101,636,261
	Due to related parties (note 26)			(521,145,944)	(498,509,100)

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31 RISK MANAGEMENT

The group's activities expose it to a variety of financial risks; price risks, credit risk, liquidity risk and interest rate risk.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies and evaluates financial risks in close co-operation with the company's operating units. The Board provides written principles for overall risk management as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of non derivative financial instruments and investing excess liquidity.

Market risk

Foreign exchange risk

The group operates locally and therefore is not exposed to significant foreign exchange that might arise from various currency exposures.

Price risk

The group is exposed to property price risk. Factors that apply generally to the real estate development industry, many of which are macroeconomic in nature and beyond the control of Palm Hills, may affect the economic performance and value of Palm Hills' properties, some of which may include:

- National, regional and local economic climate;
- cyclical nature of the real estate market;
- oversupply of similar properties or a reduction in demand for the properties;
- changes in interest rates and inflation and the limited availability of financing;
- governmental laws, rules and regulations, including in relation to financing, environmental usage, tax and insurance; and
- acts of nature that may damage the properties.

Any negative change in one or more of these general factors listed above, as well as in the factors described in further detail below, could adversely affect Palm Hills' business, results of operations and financial condition.

Credit risk

The group has no significant concentration of credit risk. It has policies to ensure that contracts are made with customers with an appropriate credit history. Cash transactions are limited to high-credit-quality financial institutions. The group has policies that limit the amount of credit exposure to any financial institution. The Company sells its products to a large number of customers. Its 5 largest customers account for 2.42 % of outstanding accounts receivable at 31 December 2013 amounting to EGP 107,968,962 (2012: 2.35% - EGP 102,145,871). The Group's exposure to credit risk is not materially different from the carrying amounts of its financial assets.

Liquidity risk

The Group monitors its risk to a shortage of funds using liquidity planning tool.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. The Group's policy is that not more than 55% of borrowings should mature in the next 12 month period. 53% of the Group's debt will mature in less than one year at 31 December 2013 (2012: 53%) based on the carrying value of borrowings reflected in the financial statements.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

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At 31 December 2013

31 RISK MANAGEMENT – continued

Year ended 31 December 2013

	On Demand		Less than 3 months		3 to 12 months		1 to 5 years		More than 5 years		Total	
	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP
Accounts payables	-	305,559,040	-	1,289,330,085	-	-	-	-	-	-	-	1,594,889,125
Income tax payable	-	-	-	75,349	-	-	65,250,839	-	-	-	-	65,326,188
Bank overdrafts	283,678,904	-	-	-	-	-	-	-	-	-	-	283,678,904
Term loans and interest	-	225,285,964	-	232,127,540	-	-	660,102,286	-	-	-	-	1,117,515,790
Notes payable - Others	-	205,586,495	-	68,498,592	-	-	107,475,895	-	-	-	-	381,560,982
Notes payable – Lands	-	166,708,814	-	306,091,604	-	-	1,046,638,496	-	-	-	-	1,519,438,914
Land purchase liabilities	-	135,472,864	-	69,833,534	-	-	255,289,909	-	-	171,078,258	-	631,674,565
Total	283,678,904	1,038,613,177	1,965,956,704	2,134,757,425	171,078,258	5,594,084,468						

Year ended 31 December 2012

	On Demand		Less than 3 months		3 to 12 months		1 to 5 years		More than 5 years		Total	
	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP
Accounts payables	-	566,989,935	-	1,145,995,094	-	-	-	-	-	-	-	1,712,985,029
Income tax payable	-	-	-	8,921,983	-	-	56,443,223	-	-	-	-	65,365,206
Bank overdrafts	135,091,843	-	-	-	-	-	-	-	-	-	-	135,091,843
Term loans and interest	-	201,983,253	-	224,061,748	-	-	493,543,234	-	-	-	-	919,588,235
Notes payable - Others	11,802,790	35,435,804	-	122,254,890	-	-	87,677,796	-	-	-	-	257,171,280
Notes payable – Lands	-	250,342	-	969,949,696	-	-	970,200,038	-	-	-	-	1,940,400,076
Land purchase liabilities	-	82,515,116	-	44,707,191	-	-	755,934,853	-	-	567,566,378	-	1,450,723,538
Total	146,894,633	887,174,450	2,515,890,602	2,363,799,144	567,566,378	6,481,325,207						

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

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31 RISK MANAGEMENT – continued

Interest rate risk management

The Group is exposed to interest rate risk because entities in the Group borrow funds at floating interest rates. The risk is managed by the Group by monitoring the interest risk and assesses the possible change in interest rates.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2013 would decrease/increase by EGP 5,550,091 (2012: decrease/increase by EGP 4,243,937). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has increased during the current period mainly due to the increase in the interest rate of debt instruments.

Capital Management

The primary objective of the group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2013, or 31 December 2012. Capital comprises share capital, retained earnings, reserves and non-controlling interests, and is measured at EGP 3,506,129,863 as at 31 December 2013 (2012: EGP 3,585,747,272).

32 CAPITAL COMMITMENTS

There were no capital commitments contracted as at 31 December 2013 (2012: nil), The commitments contracted related to development properties as at 31 December 2013 is EGP 1,316,709,766 (2012: EGP 1,077,168,053).

33 FAIR VALUES 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 recognised at amortised cost in the financial statements approximate their fair values.

	Level 1	Level 2	Level 3	2013 Total
	EGP	EGP	EGP	EGP
Financial assets at FVTPL				
Non-derivative financial assets held for trading	-	69,433,887	-	69,433,887
Total	-	69,433,887	-	69,433,887

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

33 FAIR VALUES OF FINANCIAL INSTRUMENTS - continued

				2012
	Level 1	Level 2	Level 3	Total
	EGP	EGP	EGP	EGP
Financial assets at FVTPL				
Non-derivative financial assets held for trading	-	59,338,641	-	59,338,641
Total	-	59,338,641	-	59,338,641

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

34 GROUP ENTITIES

	2013	2012
	%	%
Subsidiaries:		
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% 87.5%	99.95% 87.5%
Middle East for Development and Investment Touristic S.A.E	51%	51%
Gamsha for Tourist Development S.A.E	59%	59%
Nile Palm Al-Naeem 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 Naeem for the hotels and touristic Villages S.A.E	60%	60%
Gawda for trade services SAE	100%	100%
East New Cairo for Real Estate Development S.A.E	89%	89%
Macor for Securities Investment Co. S.A.E and its subsidiaries and associates:	60%	60%
Subsidiaries:		
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%
Associate:		
El Nema for Touristic & Real Estate Company S.A.E	49.99%	49.99%
Palm Hills Hospitality S.A.E and its subsidiaries:		
Palm October for Hotels S.A.E	99.75%	99.75%
Palm Gamsha Hotels S.A.E	98%	98%
Palm North Coast Hotels S.A.E	99.4%	99.4%
Associate:		
Coldwell Banker – Palm Hills for Real Estate Investments – S.A.E	49%	49%
Advance payments for investments acquisition		
Villamora for Real Estate Development Company S.A.E	20.36%	20.36%
Baltan Group – Saudi Joint stock company	51%	51%
Gamsha for Tourist Development S.A.E (59% subsidiary)	1%	1%
United Engineering Company for Construction S.A.E	98.5	98.5

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

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35 ADJUSTMENT TO EQUITY

As a result of the political situation in Egypt, certain buyers requested the group to return their land back to the company and refund their payments. In order to avoid any reputational risks, the group has agreed to return the land for a refund to be paid back to buyers on installments.

The group booked the sales return with an amount of EGP 349,379,250 (2012: EGP 209,516,807) as an adjustment to retained earnings and non-controlling interests in order to match the revenue recognised with the relevant sales return as follows:

	<i>2013</i> <i>EGP</i>	<i>2012</i> <i>EGP</i>
Revenues:		
Sale of land attributable to villas and town houses	(426,740,658)	(304,693,832)
Cost of revenues		
Cost of land attributable to villas and town houses	78,609,988	83,497,807
Cost of land – infrastructure and other cost attributable to villas and town houses	23,885,338	33,513,499
Interest income		
Interest income - amortisation of discount on long- term notes receivable	(25,133,918)	(21,834,281)
	<u>(349,379,250)</u>	<u>(209,516,807)</u>