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

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30 September 2012

Allied for Accounting & Auditing
Ernst & Young
Initialled for identification purpose only

INTERM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For The Nine Months Ended 30 September 2012

Allied for Accounting & Auditing
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	For the nine months ended 30 September	
	2012	*2011*
	(Unaudited)	
	EGP	*EGP*
Revenues	**206,897,214**	429,044,467
Cost of revenues	**(202,867,625)**	(466,564,939)
GROSS PROFIT (LOSS)	**4,029,589**	(37,520,472)
Selling and administrative expenses	**(120,407,542)**	(157,612,829)
Interest income	**153,565,303**	201,022,166
Finance costs	**(128,436,846)**	(132,145,343)
Other income	**6,306,924**	27,019,782
(LOSS) BEFORE INCOME TAX	**(84,942,572)**	(99,236,696)
Income tax expense	**(375,453)**	(602,961)
(LOSS) FOR THE PERIOD	**(85,318,025)**	(99,839,657)
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**(85,318,025)**	(99,839,657)
(Loss) attributable to:		
Equity holders of the parent	**(83,272,136)**	(99,114,396)
Non-controlling interests	**(2,045,889)**	(725,261)
	(85,318,025)	(99,839,657)
Basic and diluted (losses) per share for (losses) attributable to the equity holders of the parent (expressed in EGP per share)	**(0. 081)**	(0. 095)

The attached notes from 1 to 6 are an integral part of these condensed interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2012

Allied for Accounting & Auditing
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	Notes	30 September 2012 (Unaudited) EGP	31 December 2011 (Audited) EGP
ASSETS			
Non-current assets			
Investment property		**2,370,794,097**	2,393,218,303
Property and equipment		**380,735,008**	420,901,441
Advance payments for investments acquisition		**164,899,143**	163,398,143
Investment in an associate		**54,114,479**	56,259,339
Notes receivable		**1,499,755,191**	2,292,118,181
		4,470,297,918	5,325,895,407
Current assets			
Notes receivable		**1,246,238,021**	1,361,731,641
Accounts receivable and prepayments		**2,016,244,585**	1,587,237,384
Bank balances and cash		**71,429,037**	71,642,180
Financial assets at fair value through profit or loss – Held for trading		**52,666,033**	53,317,474
Development properties		**3,623,928,306**	3,514,304,404
		7,010,505,982	6,588,233,083
TOTAL ASSETS		**11,480,803,900**	11,914,128,490
EQUITY AND LIABILITIES			
Equity			
Share capital	3	**2,096,640,000**	2,096,640,000
Statutory reserve	4	**557,947,383**	557,788,709
Special reserve	4	**524,200,467**	524,200,467
Retained earnings		**215,032,861**	464,226,627
Equity attributable to equity holders of the parent		**3,393,820,711**	3,642,855,803
Non-controlling interests		**261,203,171**	287,685,384
Total equity		**3,655,023,882**	3,930,541,187
Non-current liabilities			
Term loans		**576,715,287**	341,073,374
Land purchase liabilities		**821,591,971**	959,567,264
Notes payable		**1,390,295,697**	1,958,663,150
Other non-current liabilities		**313,541,187**	320,020,900
Deferred tax liability		**5,123,090**	4,823,853
		3,107,267,232	3,584,148,541
Current liabilities			
Bank overdrafts		**123,755,979**	118,476,743
Current portion of term loans		**294,132,344**	429,240,531
Current portion of land purchase liabilities		**108,851,109**	37,435,023
Accounts payable and accruals		**1,454,786,058**	1,269,185,139
Notes payable		**584,993,515**	208,516,074
Advances from customers		**168,602,678**	259,098,585
Billings in excess of costs		**1,917,988,699**	2,011,889,660
Income tax payable		**65,402,404**	65,597,007
		4,718,512,786	4,399,438,762
Total liabilities		**7,825,780,018**	7,983,587,303
TOTAL EQUITY AND LIABILITIES		**11,480,803,900**	11,914,128,490

Khaled Emam
(Finance Director)

Ali Thabet
(Chief Executive Officer for Finance)

The attached notes from 1 to 6 are an integral part of these condensed interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Nine Months Ended 30 September 2012 (Unaudited)

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	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***
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**
Comprehensive income							
(loss) for the period	-	-	-	(83,272,136)	(83,272,136)	(2,045,889)	(85,318,025)
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for September 2012	-	-	-	(83,272,136)	(83,272,136)	(2,045,889)	(85,318,025)
Transfer to statutory reserve	-	158,674	-	(158,674)	-	-	-
Adjustment to equity	-	-	-	(165,762,956)	(165,762,956)	(24,436,324)	(190,199,280)
Balance at 30 September 2012	**2,096,640,000**	**557,947,383**	**524,200,467**	**215,032,861**	**3,393,820,711**	**261,203,171**	**3,655,023,882**

The attached notes from 1 to 6 are an integral part of these condensed interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Nine Months Ended 30 September 2011
(Unaudited)

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	Attributable to equity holders of the parent					
	Share capital	***Statutory Reserve***	***Retained earnings***	***Total***	***Non-controlling interests***	***Total***
	EGP	***EGP***	***EGP***	***EGP***	***EGP***	***EGP***
Balance as at 1 January 2011	**2,096,640,000**	**541,290,651**	**1,749,765,004**	**4,387,695,655**	**480,584,553**	**4,868,280,208**
Comprehensive income						
(losses) for the period	-	-	(99,114,396)	(99,114,396)	(725,261)	(99,839,657)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for September 2011	-	-	(99,114,396)	(99,114,396)	(725,261)	(99,839,657)
Transfer to statutory reserve	-	16,498,058	(16,498,058)	-	-	-
Disposal loss of treasury stocks of a subsidiary	-	-	(7,865,156)	(7,865,156)	(5,243,475)	(13,108,631)
Non-controlling interests arising from business combination	-	-	-	-	2,875	2,875
Non-controlling interests arising from capital increase of subsidiaries	-	-	-	-	4,500	4,500
Adjustment to equity	-	-	(265,301,265)	(265,301,265)	(73,203,654)	(338,504,919)
Balance at 30 September 2011	**2,096,640,000**	**557,788,709**	**1,360,986,129**	**4,015,414,838**	**401,419,538**	**4,416,834,376**

The attached notes from 1 to 6 are an integral part of these condensed interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
For The Nine Months Ended 30 September 2012

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	For the nine months ended 30 September	
	2012	*2011*
	(Unaudited)	
	EGP	*EGP*
OPERATING ACTIVITIES		
(Loss) before income tax	**(84,942,572)**	(99,236,696)
Depreciation of property and equipment	**19,776,866**	29,081,938
Amortization of intangible assets	**-**	3,975,000
Interest income	**(153,565,303)**	(203,513,324)
Finance cost	**128,436,845**	132,145,343
Share of loss of an associate	**2,144,860**	3,611,970
Adjustment on equity	**(190,199,280)**	(338,504,919)
Disposal loss of treasury stock of a subsidiary	**-**	(13,108,619)
	(278,348,584)	(485,549,307)
Working capital adjustments:		
Decrease in notes receivable	**1,055,494,116**	1,492,016,950
Decrease in financial assets at fair value through profit or loss – held for trading	**651,441**	283,308,707
(Increase) in accounts receivable and prepayments	**(429,007,201)**	(288,623,653)
(Increase) in development properties	**(460,192,563)**	(154,676,237)
Increase (decrease) in notes payable	**44,615,521**	(23,186,177)
Increase in accounts payable and accruals	**183,095,626**	522,587,566
(Decrease) in advances from customers	**(90,495,907)**	(190,898,986)
(Decrease) in billings in excess of costs	**(93,900,961)**	(873,122,662)
(Decrease) in other non-current liabilities	**(6,479,713)**	(20,866,559)
Cash (used in) from operations	**(72,665,105)**	260,989,642
Interest paid	**(29,390,549)**	(13,845,955)
Tax paid	**(270,819)**	(19,183,970)
Net cash flows (used in) from operating activities	**(104,229,593)**	227,959,717
INVESTING ACTIVITIES		
Purchase of properties and equipment	**(2,843,697)**	(19,087,724)
Proceeds from sale of properties and equipment	**163,682**	-
Purchase of investment properties	**(3,543,294)**	(30,961,758)
Advance payments for investments acquisition	**(1,501,000)**	-
Purchase of investment in an associate	**-**	(62,244)
Interest received	**5,927,797**	2,491,158
Net cash flows (used in) investing activities	**(1,796,512)**	(47,620,568)
FINANCING ACTIVITIES		
Proceeds from borrowings	**191,256,474**	102,721,481
Repayments of borrowings	**(90,722,748)**	(137,972,614)
Non-controlling interests arising from business combination	**-**	2,875
Non-controlling interests arising from capital increase of subsidiaries	**-**	4,500
Net cash flows from (used in) financing activities	**100,533,726**	(35,243,758)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(5,492,379)**	145,095,391
Cash and cash equivalents at 1 January	**(46,834,563)**	(2,140,202)
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	**(52,326,942)**	142,955,189

Investing and financing activities that did not require the use of cash and cash equivalents are excluded from the cash flow statement. The group did not enter into such transactions during 2012 and 2011.

The attached notes from 1 to 6 are an integral part of these condensed interim consolidated financial statements.

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1 ACTIVITIES

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

The company 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 got 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 and the statutory consolidated financial statements were authorised for issue by the board of directors on 14 November 2012.

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 fourteen 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.

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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.

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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 under the provisions of the Companies' law No. 159 of 1981 for the purpose of establishing and operating hotels, motels and touristic units.

14- ***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.

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.

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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 nature of expense.

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

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

Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the group's voting rights relative to the size and description of holdings of other shareholders give the group the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

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2.1 BASIS OF PREPARATION - continued

Basis of consolidation – continued

(a) Subsidiaries - continued

The group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquire is re-measured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a charge to other comprehensive income.

Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

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

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2.1 BASIS OF PREPARATION - continued

Basis of consolidation – continued

(d) Associates
Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition.

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

The group's share of post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/ (loss) of an associate' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

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2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

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

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the group.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2012 and not early adopted:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.

IFRS 10, Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

(c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2012 and not relevant to the group :

IAS 19, 'Employee benefits' was amended in June 2011. The impact on the group will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in OCI as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).

IFRS 13 ' Fair value measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. .

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

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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.

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

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

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

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

Borrowing cost
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily take a substantial period of time to get ready for its intended use or sale are 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.

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2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

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

Buildings	5%
Tools & Equipments	25%
Vehicles	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.

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

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

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

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

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2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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.

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2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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.

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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.

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.

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3 SHARE CAPITAL

Date	*Authorised*	*No. of shares*	*Par value*	*Issued and fully paid (EGP)*
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 31 March 2009, the Share Capital was increased from EGP 931,840,000 to EGP 1,397,760,000 based on the Company's General Assembly Meeting approval dated 31 March 2009. The Company distributed 232,960,000 share dividends (one share for each two shares).The new shares were listed in Cairo Stock exchange on 18 June 2009.

** On 28 January 2010, the Share Capital was increased from EGP 1,397,760,000 to EGP 2,096,640,000 based on the Company's Extraordinary General Assembly Meeting approval dated 28 January 2010. The Company issued 349,440,000 shares. The new shares were listed in Cairo Stock exchange on 13 May 2010.

4 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.

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5 GROUP ENTITIES

	2012 %	2011 %
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	**99.95%**	99.95%
subsidiary, Middle East Company for Real Estate and Touristic Investment S.A.E	**87.5%**	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 SAE	**60%**	60%
Gawda for trade services SAE	**100%**	100%
East New Cairo for Real Estate Development. SAE	**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:	**98%**	98%
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 SAE	**65%**	65%
Baltan Group – Saudi Joint stock company	**51%**	51%
Gamsha for Tourist Development S.A.E (59% subsidiary)	**1%**	1%
United Engineering Company S.A.E	**98%**	-

6 COMPARATIVE FIGURES

Certain comparative figures in the interim consolidated financial statements have been reclassified to conform to the current period presentation.