

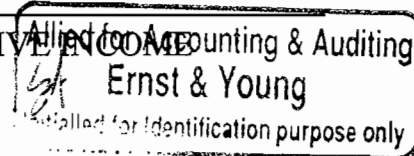
**PALM HILLS DEVELOPMENTS COMPANY
S.A.E AND ITS SUBSIDIARIES**

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2014

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

INTERM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For The Six Months Ended 30 June 2014



For the six months ended 30 June

	2014 <i>(Unaudited)</i> EGP	2013 <i>(Unaudited)</i> EGP
Revenues	852,695,398	725,511,128
Cost of revenues	(569,802,230)	(554,927,423)
GROSS PROFIT	282,893,168	170,583,705
Selling and administrative expenses	(110,152,685)	(47,042,781)
Interest income	68,125,067	91,835,138
Finance costs	(117,701,446)	(89,412,587)
Other income	24,094,697	30,680,176
PROFIT BEFORE INCOME TAX	147,258,801	156,643,651
Income tax expense	(571,597)	(172,565)
PROFIT FOR THE YEAR	146,687,204	156,471,086
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	146,687,204	156,471,086
Profit attributable to:		
Equity holders of the parent	134,438,349	137,756,968
Non-controlling interests	12,248,855	18,714,118
	146,687,204	156,471,086
Basic and diluted earnings per share for profit attributable to the equity holders of the parent (expressed in EGP per share)	0.106	0.131

The attached notes from 1 to 5 are an integral part of these condensed interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION Identification purpose only

As at 30 June 2014

	Notes	30 June 2014 (Unaudited) EGP	31 December 2013 (Audited) EGP
ASSETS			
Non-current assets			
Investment property		1,444,206,141	1,439,137,315
Property and equipment		315,341,308	332,177,820
Advance payments for investment acquisitions		183,173,143	178,173,143
Investment in associates		103,751,883	53,700,017
Notes receivable		2,316,390,146	1,429,408,400
		<u>4,362,862,621</u>	<u>3,432,596,695</u>
Current assets			
Notes receivable		995,007,265	1,273,423,714
Accounts receivable and prepayments		2,332,250,050	2,128,915,375
Bank balances and cash		170,044,610	111,052,325
Financial assets at fair value through profit or loss – Held for trading		62,142,529	69,433,887
Development properties		3,269,924,636	3,667,553,764
		<u>6,829,369,090</u>	<u>7,250,379,065</u>
TOTAL ASSETS		<u>11,192,231,711</u>	<u>10,682,975,760</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	3	2,696,640,000	2,096,640,000
Statutory reserve	4	559,052,854	558,122,261
Special reserve	4	524,200,467	524,200,467
Retained earnings		86,820,980	42,444,342
		<u>3,866,714,301</u>	<u>3,221,407,070</u>
Equity attributable to equity holders of the parent		<u>3,866,714,301</u>	<u>3,221,407,070</u>
Non-controlling interests		248,892,033	284,722,793
Total equity		<u>4,115,606,334</u>	<u>3,506,129,863</u>
Non-current liabilities			
Term loans		704,188,324	801,517,010
Land purchase liabilities		314,871,366	403,156,448
Notes payable		694,722,858	762,178,151
Other non-current liabilities		363,396,464	334,404,537
Deferred tax liability		5,956,224	5,836,241
		<u>2,083,135,236</u>	<u>2,307,092,387</u>
Current liabilities			
Bank overdrafts		107,870,740	283,678,904
Term loans		268,939,667	215,084,338
Land purchase liabilities		75,334,703	197,799,213
Accounts payable and accruals		1,939,775,981	1,594,889,125
Notes payable		745,464,449	726,608,158
Advances from customers		102,873,802	89,095,996
Billings in excess of costs		1,687,453,014	1,697,271,588
Income tax payable		65,777,785	65,326,188
		<u>4,993,490,141</u>	<u>4,869,753,510</u>
Total liabilities		<u>7,076,625,377</u>	<u>7,176,845,897</u>
TOTAL EQUITY AND LIABILITIES		<u>11,192,231,711</u>	<u>10,682,975,760</u>

Ali Thabet
(Chief Financial Officer)

Yasseen Mansour
(Chairman)

The attached notes from 1 to 5 are an integral part of these condensed interim consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Six Months Ended 30 June 2014
(Unaudited)

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 2014	2,096,640,000	558,122,261	524,200,467	42,444,342	3,221,407,070	284,722,793	3,506,129,863							
Adjustment to equity	-	-	-	(98,843,891)	(98,843,891)	(430,191)	(99,274,082)							
Balance as at 1 January 2014 (restated)	2,096,640,000	558,122,261	524,200,467	(56,399,549)	3,122,563,179	284,292,602	3,406,855,781							
Comprehensive income														
Profit for the period	-	-	-	134,438,349	134,438,349	12,248,855	146,687,204							
Other comprehensive income	-	-	-	-	-	-	-							
Total comprehensive income for June 2014	-	-	-	134,438,349	134,438,349	12,248,855	146,687,204							
Transfer to statutory reserve	-	930,593	-	(930,593)	-	-	-							
Capital increase	600,000,000	-	-	-	600,000,000	-	600,000,000							
Dividends to non-controlling interests	-	-	-	-	-	(14,003,334)	(14,003,334)							
Acquired of non-controlling interests in a subsidiary	-	-	-	-	-	6,022,031	6,022,031							
Loss of control over a subsidiary	-	-	-	9,712,773	9,712,773	(39,668,121)	(29,955,348)							
Balance at 30 June 2014	2,696,640,000	559,052,854	524,200,467	86,820,980	3,866,714,301	248,892,033	4,115,606,334							

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

The attached notes from 1 to 5 are an integral part of these condensed interim consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Six Months Ended 30 June 2013
(Unaudited)

Attributable to equity holders of the parent

	Share capital		Statutory Reserve	Special Reserve	Retained earnings	Total		Non-controlling interests	Total
	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	-	-	-	(144,405,438)	(144,405,438)	(3,307,823)	(147,713,261)		
Balance as at 1 January 2013 (restated)	2,096,640,000	557,947,383	524,200,467	7,938,673	3,186,726,523	251,307,488	3,438,034,011		
Comprehensive income									
Profit for the period	-	-	-	137,756,968	137,756,968	18,714,118	156,471,086		
Other comprehensive income	-	-	-	-	-	-	-		
Total comprehensive income for June 2013	-	-	-	137,756,968	137,756,968	18,714,118	156,471,086		
Transfer to statutory reserve	-	174,878	-	(174,878)	-	-	-		
Balance at 30 June 2013	2,096,640,000	558,122,261	524,200,467	145,520,763	3,324,483,491	270,021,606	3,594,505,097		

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The attached notes from 1 to 5 are an integral part of these condensed interim consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For The Six Months Ended 30 June 2014

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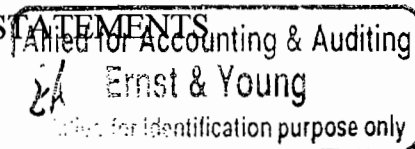
For the six months ended 30 June

	2014 (Unaudited) EGP	2013 (Unaudited) EGP
OPERATING ACTIVITIES		
Profit (before income tax)	147,258,801	156,643,651
Depreciation of property and equipment	11,926,957	13,895,936
Interest income	(70,242,281)	(89,077,358)
Finance cost	117,701,446	89,412,587
Share of loss (profit) of associates	948,134	(883,860)
Gain from financial assets at fair value through profit or loss – held for trading	(2,475,384)	(2,757,780)
Gain on disposal of property and equipment	(118,267)	(8,386,703)
	<u>204,999,406</u>	<u>158,846,473</u>
Working capital adjustments:		
Increase in notes receivable	(532,097,811)	(54,898,819)
Increase in accounts receivable and prepayments	(203,334,675)	(336,168,563)
Decrease in development properties	139,179,989	12,848,654
(Increase) decrease in notes payable	(46,706,530)	113,648,364
Increase (decrease) in accounts payable and accruals	349,312,899	(27,362,502)
Increase (decrease) in advances from customers	13,777,806	(36,432,082)
(Decrease) increase in billings in excess of costs	(154,397,734)	135,077,739
Increase in other non-current liabilities	28,991,927	9,165,865
Cash used in operations	(200,274,723)	(25,274,871)
Interest paid	(32,576,144)	(27,202,973)
Tax paid	(17)	(80,598)
Net cash flows used in operating activities	<u>(232,850,884)</u>	<u>(52,558,442)</u>
INVESTING ACTIVITIES		
Purchase of properties and equipment	(2,820,713)	(4,651,493)
Proceeds from sale of properties and equipment	1,066,924	-
Purchase of investment properties	(5,068,826)	(439,103)
Advance payments for investments acquisition	(5,000,000)	-
Purchase of financial assets at fair value through profit or loss – held for trading	(4,395,876)	(5,674,327)
Proceeds from sale of financial assets at fair value through profit or loss – held for trading	14,162,618	4,213,627
Interest received	2,117,214	124,773
Net cash flows from (used in) investing activities	<u>61,341</u>	<u>(6,426,523)</u>
FINANCING ACTIVITIES		
Proceeds from borrowings	164,558,517	154,253,252
Repayments of borrowings	(208,031,874)	(56,827,987)
Payment for investment in associates	(51,000,000)	-
Proceeds from shares issued	600,000,000	-
Dividends to non-controlling interests	(14,003,334)	-
Acquired of non-controlling interests in a subsidiary	6,022,031	-
Loss of control over a subsidiary	(29,955,348)	-
Net cash flows from financing activities	<u>467,589,992</u>	<u>97,425,265</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>234,800,449</u>	<u>38,440,300</u>
Cash and cash equivalents at 1 January	(172,626,579)	(79,440,890)
CASH AND CASH EQUIVALENTS AT 30 JUNE	<u>62,173,870</u>	<u>(41,000,590)</u>

The attached notes from 1 to 5 are an integral part of these condensed interim consolidated financial statements.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
At 30 June 2014



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 interim consolidated financial statements were authorised for issue by the board of directors on 28 August 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 twelve 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2014

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1 ACTIVITIES – continued

4- 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.

5- 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.

6- 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.

7- 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..

8- 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.

9- 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.

10- 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.

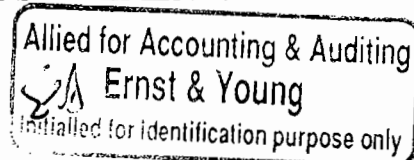
The company's name was modified at 25 June 2008 to East New Cairo for Real Estate Development and the company's location was changed to 35 Abo Bakr El Sedik St., - Heliopolis and it registered under the commercial registration No. 35539 on 13/11/2008.

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2014



1 ACTIVITIES – continued

11- 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.

12- 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 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

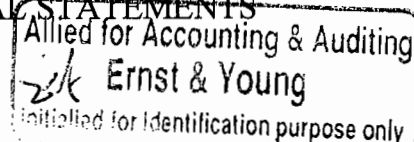
Palm October for Hotels S.A.E. is registered in Egypt under commercial registration number 48189 under the provisions of the Companies' Law No 159 of 1981. The company is located in 11 El Nakhil Street-Dokki-Giza. The company is engaged in establishing and operating the hotels, motels, resorts and residential compounds.

The financial year end for each of the entities in the Group is 31 December.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2014



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 interim condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2013.

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:

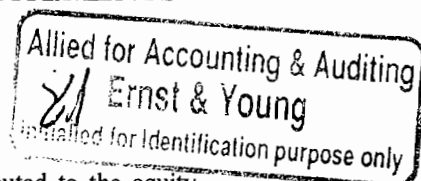
- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 30 June 2014



2.1 BASIS OF PREPARATION - continued

Basis of consolidation – continued

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.

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.

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2.2 BASIS OF PREPARATION - continued

Basis of consolidation – continued

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 ain 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.

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2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of new standards and interpretations effective as of 1 January 2014.

As required by IAS 34, the nature and the effect of these changes are disclosed below. Several other new standards and amendments apply for the first time in 2014. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

The nature and the impact of each new standard or amendment is described below:

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) :

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32:

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group.

- Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39:

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Group as the Group has no derivatives during the current or prior periods.

- Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36:

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments have no impact on the Group.

- IFRIC 21 *Levies*:

IFRIC 21 is effective for annual periods beginning on or after 1 January 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 *Income Taxes*) and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognises a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognized before the specified minimum threshold is reached. The interpretation requires these same principles to be applied in interim financial statements. IFRIC 21 have no impact on the Group.

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,

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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.

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.

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2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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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:

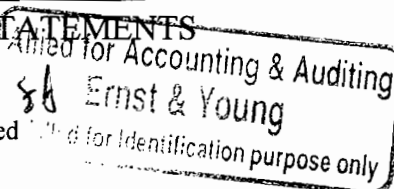
Buildings	5%
Tools & Equipments	25%
Vehicles	20 - 25%
Furniture & Fixtures	25 - 33%

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.

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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.

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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

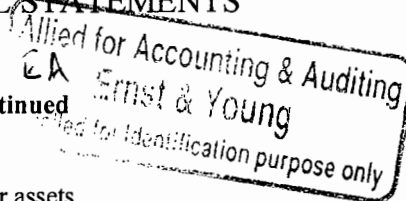
Provisions for legal claims are recognised when the group has a present legal or constructive obligations as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued



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.

Fair value measurements

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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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.

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.

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5 GROUP ENTITIES

	31 March 2014 %	31 December 2013 %
<u>Subsidiaries:</u>		
New Cairo for Real Estate Developments S.A.E	99.99%	99.99%
Royal Gardens for Real Estate Investment Company S.A.E	51%	51%
Palm Hills Middle East Company for Real Estate Investment S.A.E and its subsidiary, Middle East Company for Real Estate and Touristic Investment S.A.E	99.95%	99.95%
	87.5%	87.5%
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	99.99%	89%
Middle East for Development and Investment Touristic S.A.E	-	51%
Macor for Securities Investment Co. S.A.E and its subsidiaries and associates:	60%	60%
<u>Subsidiaries:</u>		
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%
<u>Associate:</u>		
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%
<u>Associate:</u>		
Coldwell Banker – Palm Hills for Real Estate Investments S.A.E	49%	49%
Middle East for Development and Investment Touristic S.A.E	25.5%	-
<u>Advance payments for investments acquisition</u>		
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