

PALM HILLS DEVELOPMENTS COMPANY
(An Egyptian Joint Stock Company)
Consolidated Financial Statements
For The Six Months Ended 30 June 2017
Together With Review Report

PALM HILLS DEVELOPMENTS COMPANY S.A.E
CONSOLIDATED FINANCIAL POSITION

As of 30 June 2017

	<u>Note no.</u>	<u>31/03/2017</u> <u>EGP</u>	<u>31/12/2016</u> <u>EGP</u>
<u>Non-current assets</u>			
Investments in associates	(8c,11b,29)	79 857 771	79 225 699
Investment property	(11f, 30)	887 631 080	888 506 292
Notes receivable - long term	(16-32)	8 928 717 318	7 300 039 694
Projects under construction	(12-33)	880 483 724	877 766 742
Advance payments for investments acquisition	(41)	184 335 633	184 335 633
Fixed assets (net)	(13-34)	347 396 864	351 608 405
Deferred tax assets	(22b)	11 333 440	10 302 108
Employee stock ownership plan (ESOP)		73 156 132	81 286 779
Other long term assets		1 390 733	1 390 733
Total non-current assets		11 394 302 695	9 774 462 085
<u>Current assets</u>			
Works in process	(14-35)	8 769 808 221	6 410 745 955
Held-to-maturity investments	(11d -31)	242 243 275	153 328 081
Cash and cash equivalents	(28-36)	619 471 377	808 516 570
Notes receivable - short term	(16-32)	3 552 893 640	3 295 528 203
Investments at fair value through profit and loss	(11e)	49 461 434	58 471 043
Accounts receivable	(37)	856 542 360	757 056 711
Suppliers - advance payments		562 907 295	489 064 327
Debtors and other debit balances	(38)	386 931 414	218 476 677
Guaranteed payments – joint arrangement	(39)	48 331 289	40 000 000
Due from related parties	(25-40-60)	257 346 564	244 124 840
Total current assets		15 345 936 869	12 475 312 407
<u>Current liabilities</u>			
Banks - credit balances	(42)	111 350 979	42 176 487
Bank- over draft	(43)	171 755 026	79 410 353
Advances from customers	(44)	8 743 999 533	7 744 755 120
Completion of infrastructure liabilities	(20)	95 083 416	95 083 418
Provisions	(18)	174 677 437	169 386 850
Current portion of land purchase liabilities	(19-45)	136 678 512	60 651 029
Investment purchase liabilities	(47)	44 256 746	44 256 746
Notes payable - short term	(48a)	1 064 715 829	974 301 860
Current portion of term loans	(49)	444 095 762	541 014 619
Suppliers & contractors		556 472 611	448 465 529
Income tax payable	(22a)	109 592 829	126 628 749
Creditors & other credit balances	(50)	682 542 763	522 256 001
Joint arrangement share		165 558 266	160 424 409
Due to related parties	(25-46-60)	89 027 941	131 333 860
Total current liabilities		12 589 807 649	11 140 145 030
Working capital		2 756 129 225	1 335 167 377
Total investment		14 150 431 916	11 109 629 462
<u>Financed as follows:</u>			
<u>Shareholders' equity</u>			
Share capital	(51)	4 617 899 452	4 617 899 452
Legal reserve	(53a)	680 014 751	630 142 410
Special reserve	(53b)	524 212 885	524 212 885
ESOP Re-Measurement Reserve		27 776 841	31 492 645
Retained earnings		184 410 796	(222 478 993)
Net profit for the period / year		349 338 792	639 795 380
Equity attributable to equity holders of the parent		6 383 653 517	6 221 063 779
Non-controlling interest		503 324 170	412 151 516
Total shareholders' equity		6 886 977 687	6 633 215 295
<u>Non-current liabilities</u>			
Land purchase liabilities	(19-45)	367 469 677	169 799 525
Notes payable - long term	(48b)	2 206 209 342	612 700 591
Other long term liabilities – Residents' Association	(52)	886 176 136	736 444 356
Loans	(49)	3 340 277 517	2 957 469 695
Joint arrangement share		463 321 557	--
Total non-current liabilities		7 263 454 228	4 476 414 167
Total equity and non-current liabilities		14 150 431 916	11 109 629 462

- The accompanying notes from (1) to (64) form an integral part of these financial statements and are to be read therewith

Chief Financial Officer

Ali Thabet

Chairman

Yasseen Mansour

PALM HILLS DEVELOPMENTS COMPANY S.A.E
CONSOLIDATED STATEMENT OF INCOME (PROFIT OR LOSS)
For The Period Ended 30 June 2017

	<u>Note No.</u>	<u>Financial period from 1/1/2017 to 30/6/2017 EGP</u>	<u>Financial period from 1/1/2016 to 30/6/2016 EGP</u>	<u>Financial period from 1/4/2017 to 30/6/2017 EGP</u>	<u>Financial period from 1/4/2016 to 30/6/2016 EGP</u>
Revenues	(27a, 54)	<u>3 228 251 898</u>	<u>2 161 839 089</u>	<u>1 639 291 307</u>	<u>1 082 229 045</u>
Deduct:-		3 228 251 898	2 161 839 089	1 639 291 307	1 082 229 045
Cost of revenues	(26, 55)	<u>2 241 166 945</u>	<u>1 536 346 369</u>	<u>1 170 773 020</u>	<u>783 955 364</u>
Cash discount		<u>41 829 327</u>	<u>28 566 036</u>	<u>11 676 993</u>	<u>12 780 748</u>
Gross profit		<u>2 282 996 272</u>	<u>1 564 912 405</u>	<u>1 182 450 013</u>	<u>796 736 112</u>
Deduct:-		<u>945 255 626</u>	<u>596 926 684</u>	<u>456 841 294</u>	<u>285 492 933</u>
Deduct:-					
General administrative, selling and marketing expenses	(56)	<u>316 394 968</u>	<u>263 711 414</u>	<u>152 137 478</u>	<u>142 921 050</u>
Administrative depreciation		<u>9 843 613</u>	<u>5 383 769</u>	<u>5 062 243</u>	<u>2 742 899</u>
Finance costs & interests		<u>74 854 939</u>	<u>1 853 804</u>	<u>39 287 097</u>	<u>1 246 443</u>
Securitization of receivables interest		<u>91 726 158</u>	<u>--</u>	<u>--</u>	<u>--</u>
Provision	(18)	<u>4 742 030</u>	<u>16 598 277</u>	<u>1 756 962</u>	<u>11 474 930</u>
Interest on land purchase liabilities		<u>53 125 381</u>	<u>56 315 396</u>	<u>42 954 357</u>	<u>31 164 371</u>
Recoverable interest on land purchase liabilities		<u>(82 824 383)</u>	<u>--</u>	<u>--</u>	<u>--</u>
		<u>467 862 160</u>	<u>343 862 660</u>	<u>241 198 137</u>	<u>189 549 692</u>
<u>Add:</u>					
Gains on investments in fair value through profit or loss	(57)	<u>2 924 223</u>	<u>2 709 448</u>	<u>1 380 152</u>	<u>1 294 247</u>
Interest income – amortization of discount on notes receivables		<u>33 595 630</u>	<u>23 030 589</u>	<u>16 797 815</u>	<u>11 515 294</u>
Interest income on held-to-maturity investments		<u>29 969 437</u>	<u>59 501 325</u>	<u>16 368 301</u>	<u>33 753 765</u>
		<u>66 489 289</u>	<u>85 241 362</u>	<u>345 546 268</u>	<u>46 563 306</u>
Net profit for the year before income tax & non-controlling interest		<u>543 882 755</u>	<u>338 305 386</u>	<u>250 189 424</u>	<u>142 506 548</u>
Deduct:-					
Income tax expense	(22a)	<u>98 091 929</u>	<u>80 118 044</u>	<u>38 162 689</u>	<u>34 210 117</u>
Deferred tax	(22b)	<u>(1 059 353)</u>	<u>362 182</u>	<u>(1 131 374)</u>	<u>362 182</u>
Net profit for the period before & non-controlling interest		<u>446 850 179</u>	<u>257 825 160</u>	<u>213 158 110</u>	<u>107 934 249</u>
Deduct:-					
Non-controlling interest share-subsidiaries		<u>97 511 387</u>	<u>88 493 912</u>	<u>76 127 640</u>	<u>44 030 179</u>
Net profit for the period after income tax & non-controlling interest		<u>349 338 792</u>	<u>169 331 248</u>	<u>137 030 470</u>	<u>63 904 070</u>
Earnings per share	(24, 59)	<u>0.129</u>	<u>0.063</u>	<u>0.051</u>	<u>0.024</u>

- The accompanying notes from (1) to (64) form an integral part of these financial statements and are to be read therewith.

Chief Financial Officer
Ali Thabet

Chairman
Yasseen Mansour

PALM HILLS DEVELOPMENTS COMPANY S.A.E
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For The Period Ended 30 June 2017

	Financial period from 1/1/2017 to 30/6/2017 <u>EGP</u>	Financial period from 1/1/2016 to 30/6/2016 <u>EGP</u>	Financial period from 1/4/2017 to 30/6/2017 <u>EGP</u>	Financial period from 1/4/2016 to 30/6/2016 <u>EGP</u>
Net profit for the year	349 338 792	169 331 248	137 030 470	63 904 070
Other comprehensive income	--	--	--	--
Total comprehensive income for the year, net of tax	<u>349 338 792</u>	<u>169 331 248</u>	<u>137 030 470</u>	<u>63 904 070</u>
Attributable to:				
Equity holders of the parent	349 338 792	169 331 248	137 030 470	63 904 070
Non-controlling interests	97 511 387	88 493 912	76 127 640	44 030 179
	<u>446 850 179</u>	<u>257 825 160</u>	<u>213 158 110</u>	<u>107 934 249</u>

- The accompanying notes from (1) to (64) form an integral part of these financial statements and are to be read therewith.

Chief Financial Officer
Ali Thabet

Chairman
Yasseen Mansour

**PALM HILLS DEVELOPMENTS COMPANY S.A.E
CONSOLIDATED STATEMENT OF CASH FLOWS**

For The Period Ended 30 June 2017

	<u>Note No.</u>	<u>31/03/2017</u>	<u>31/03/2016</u>
		<u>EGP</u>	<u>EGP</u>
Net profit for the year before income tax & non-controlling interest		543 882 755	338 305 386
<u>Adjustments to reconcile net profit to net cash from operating activities</u>			
Administrative depreciation	(34)	17 746 362	12 505 795
Provision formed		4 742 030	1 853 804
Securitization of receivables interest		91 726 158	--
Interest on land purchase liabilities		53 125 381	56 315 396
Finance costs & interests		74 854 393	16 598 277
Gain on disposal of fixed assets		--	(35 222)
Share of profit / loss of associates	(29)	(632 072)	2 975 390
Gains on investments in fair value through profit or loss		(2 924 223)	(2 709 448)
Interest income on held to maturity investments		(29 969 437)	(59 501 325)
Recoverable interest on land purchase liabilities		(82 824 383)	--
Interest income – amortization of discount on notes receivables	(32)	(33 595 630)	(23 030 589)
Operating profit before changes in working capital items		636 131 335	343 277 464
<u>Changes in working capital items</u>			
Change in work in process	(14-35)	(1 998 866 382)	(336 796 413)
Change in notes receivables	(16-32)	(1 852 447 431)	(1 169 755 005)
Change in investments in fair value through profit or loss	(11e)	9 009 609	5 232 675
Change in held-to-maturity investments		(88 915 194)	461 974 023
Change in accounts receivable	(37)	(99 485 649)	(184 203 977)
Change in suppliers - advance payments		(73 842 969)	35 603 148
Change in debtors & other debit balances	(38)	(168 454 737)	(53 391 915)
Change in due from related parties	(25-40)	(13 221 725)	(45 871 737)
Change in guaranteed payments – joint arrangement	(39)	(8 331 289)	(90 000 000)
Change in advances from customers	(44)	999 244 413	613 096 635
Change in completion of infrastructure liabilities	(20)	--	(80 766 767)
Provisions		548 557	(142 609)
Change in due to related parties	(25-46)	(42 305 919)	(27 131 255)
Change in suppliers & contractors		108 007 082	(58 119 347)
Change in notes payable	(48)	1 630 797 338	409 522 424
Income tax paid		(115 127 849)	(46 602 961)
Change in creditors and other credit balances	(50)	160 286 762	181 131 121
Change in due to joint arrangement partners		468 455 414	--
Change in other long term – Residents' Association		149 731 779	99 764 449
Net cash (used in) provided by operating activities		(298 786 855)	56 819 953
<u>Cash flows from investing activities</u>			
Payments for purchase of fixed assets	(34)	(16 333 477)	(14 053 113)
Proceeds from sale of fixed assets	(34)	--	42 200
payments for projects under construction	(12-33)	(2 716 982)	(80 580 385)
Proceeds from investments in fair value through profit or loss		2 924 223	2 709 448
Interest income		29 969 437	59 501 325
Net cash provided by (used in) investing activities		13 843 202	(32 380 525)
<u>Cash flows from financing activities</u>			
Banks - credit balances	(42)	69 174 491	895 147
Banks – overdraft		92 344 673	(9 545 965)
Dividends		--	(368 630 379)
Adjustments to retained earnings		(183 033 249)	(146 821 889)
Proceeds from ESOP		4 414 843	--
Non-controlling interest – dividends		(6 338 733)	(4 089 109)
Deferred tax		28 021	42 730
Proceeds from loans	(49)	(191 071 256)	--
Repayment of borrowings		476 960 221	510 942 925
Securitization of receivables interest		(91 726 158)	--
Finance costs & interests paid		(74 854 393)	(16 598 277)
Net cash (used in) provided by financing activities		95 898 460	(33 804 817)
Net increase in cash and cash equivalents during the period		(189 045 193)	(9 365 389)
Cash and cash equivalents at beginning of the period		808 516 570	965 669 547
Cash and cash equivalents as at 30 June 2017	(28-36)	619 471 377	956 304 158

- Non- Cash transactions are excluded from the cash flow statement.
- The accompanying notes from (1) to (...) form an integral part of these financial statements and are to be read therewith.

Chief Financial Officer
Ali Thabet

Chairman
Yasseen Mansour

PALM HILLS DEVELOPMENTS COMPANY S.A.E
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For The Period Ended 30 June 2017

<u>Note No.</u>	<u>Share capital</u>	<u>Legal reserve</u>	<u>Special reserve</u>	<u>Reserve for ESOP re-measurement</u>	<u>Retained earnings</u>	<u>Net profit for the period</u>	<u>Total</u>	<u>Non-controlling interest</u>	<u>Total Shareholders' equity</u>
Balance as at 1 January 2016	4 344 640 000	585 103 921	524 212 885	--	(171 750 887)	1 031 492 706	6 313 698 625	270 774 426	6 584 473 051
Cumulative impact for adoption of new accounting policies	--	--	--	--	(40 640 236)	(115 929 426)	(156 569 662)	--	(156 569 662)
Balance as at 1 January 2016	4 344 640 000	585 103 921	524 212 885	--	(212 391 123)	915 563 280	6 157 128 963	270 774 426	6 427 903 389
Transferred to retained earnings	--	--	--	--	915 563 280	(915 563 280)	--	--	--
Capital increase	217 232 002	--	--	--	(217 232 002)	--	--	--	--
Transferred to legal reserve	56 027 450	--	--	--	--	--	56 027 450	--	56 027 450
Amounts set aside for Employee stock ownership plan (ESOP)	--	39 798 483	--	--	(39 798 483)	--	--	--	--
Reserve for ESOP re-measurement	--	--	--	6 163 020	--	--	6 163 020	--	6 163 020
Adjustments to retained earnings	--	--	--	--	(146 821 889)	--	(146 821 889)	--	(146 821 889)
Dividends	--	--	--	--	(368 630 379)	--	(368 630 379)	(4 089 109)	(372 719 488)
Net profit for the period	--	--	--	--	--	169 331 248	169 331 248	88 493 912	257 825 160
Balance as at 30 June 2016	<u>4 617 899 452</u>	<u>624 902 404</u>	<u>524 212 885</u>	<u>6 163 020</u>	<u>(69 310 597)</u>	<u>169 331 248</u>	<u>5 873 198 412</u>	<u>355 179 229</u>	<u>6 228 377 641</u>
Balance as at 1 January 2017	4 617 899 452	630 142 410	524 212 885	31 492 645	(222 478 993)	639 795 380	6 221 063 799	412 151 516	6 633 215 294
Transferred to retained earnings	--	--	--	--	639 795 380	(639 795 380)	--	--	--
Transferred to legal reserve	--	49 872 341	--	--	(49 872 341)	--	--	--	--
Reserve for ESOP re-measurement	--	--	--	(3 715 804)	--	--	(3 715 804)	--	(3 715 804)
Adjustments to retained earnings	--	--	--	--	(183 033 249)	--	(183 033 249)	--	(183 033 249)
Dividends	--	--	--	--	--	--	--	(6 338 733)	(6 338 733)
Net profit for the period	--	--	--	--	--	349 338 792	349 338 792	97 511 387	446 850 179
Balance as at 30 June 2017	<u>4 617 899 452</u>	<u>680 014 751</u>	<u>524 212 885</u>	<u>27 776 841</u>	<u>184 410 796</u>	<u>349 338 792</u>	<u>6 383 653 517</u>	<u>503 324 170</u>	<u>6 886 977 687</u>

-The accompanying notes from (1) to (64) form an integral part of these financial statements and are to be read therewith

Chief Financial Officer
Ali Thabet

Chairman
Yasseen Mansour

Palm Hills Developments Company
(S.A.E)
Notes to the Consolidated
Financial Statements as of 30 June 2017

1. BACKGROUND

Palm Hills for Developments 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 Capital Market Law No. 95 of 1992 and its executive regulations.

2. COMPANY'S PURPOSE

The company's purpose is to invest in real estate in the New Cities and New Urban Communities including building, constructing, owning and managing residential compounds, resorts, villas and touristic villages, selling and the resale and associated services and facilities, leasing and the construction of integrated projects along with managing the entertainment activities associated with the company's in activities. All such activities are subject to the approval of appropriate authorities.

3. The Company's Location

The 6th of October City in the Giza Governorate and the main branch is located in the Smart Village.

4. COMMERCIAL REGISTER

The company is registered in the Commercial Register under No. 6801 dated 10 January 2005.

5. FINANCIAL YEAR

The company's financial year begins on 1 January and ends on 31 December, except for the first financial year which began as from the date of commencement of activity and ended on December 31, 2012.

6. AUTHORIZATION OF THE FINANCIAL STATEMENTS

The standalone financial statements were authorized for issue by the board of directors on 9 August 2017.

7. STOCK EXCHANGE LISTING

The company was listed in the unofficial schedule no. (2) of the Cairo and Alexandria Stock Exchange on 27 December 2006 and then listed in the official schedule no. (1) of the Cairo and Alexandria Stock Exchange on April 2008.

8. EXISTING PROJECTS

The company has several major activities for the development of new urban communities and tourist compounds through:

a) Building and constructing residential compounds

The objective of the company is to contribute in building integrated residential units, providing associated services, and entertainment complexes, while the Company possesses a large land bank which includes land with a total area of 1,390.80 acres approx. located at 6th October City, land with a total area of 456.84 acres approx. located at New Cairo City, land measuring a total area of .323749 acres approx. which is located at Sidi Abdel Rahman, El Alamin, Marsa Matrouh Governorate, land with a total area of 22. 68 acres approx. located at Hurghada.

b) Other activity

According to a preliminary contract with a related party, the Company obtained a plot of land measuring approximately 1702.79 acres situated 49 Kms from the beginning of the Cairo-Alexandria Road to be transformed into Botanical Gardens by reclamation and cultivation using modern irrigation methods.

c) Investments in associates and subsidiaries

1- Direct investments in associates and subsidiaries

	<u>Percentage share</u>
	<u>%</u>
Palm Hills Middle East Company for Real Estate Investment S.A.E	% 99.99
Gawda for Trade Services S.A.E	%99.996
New Cairo for Real Estate Developments S.A.E	%99.985
Rakeen Egypt for Real Estate Investment S.A.E	%99.9454
Palm for Real Estate Development S.A.E	%99.4
Palm for Investment & Real Estate Development S.A.E	%99.4
Palm Hills Development of Tourism and Real Estate S.A.E	%99.4
Palm Hills for Tourism Investment S.A.E	%99.4
Palm Hills Resorts S.A.E	%99.4
Palm for Urban Development S.A.E	%99.4
Palm Hills Properties S.A.E	%99.2
Palm for Club Management S.A.E	%99.2
Palm Alexandria for Real Estate	%99.2
United Engineering for Construction S.A.E	%98.88
Palm Hills Hospitality S.A.E	%98
East New Cairo for Real Estate Development S.A.E	%89
Palm Hills for Education S.A.E	%71.04
Macor for Securities Investment Company S.A.E	%60
Al Naeem for Hotels and Touristic Villages S.A.E	%60
Gamsha for Tourist Development S.A.E	%59
Royal Gardens for Real Estate Investment Company S.A.E	%51
Nile Palm Al-Naeem for Real Estate Development S.A.E	%51
Saudi Urban Development Company S.A.E	%51
Coldwell Banker Palm Hills for Real Estate	%49
Six of October for Hotels and Touristic Services Company S.A.E	%00.24

- **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. is 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 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.

- **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 at 66 Gameat El-Dewal El Arabia Street-Mohandessin- Cairo. The company is engaged in real estate investment in new cities, urban communities, remote areas and regions.

- **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 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, diving and sale of land.

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

Rakeen 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, diving and constructing villas, residential units and offices malls and the marketing thereof.

- Palm Hills Hospitality S.A.E

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.

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

East New Cairo for Real Estate Development S.A.E 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.

- Macor for Securities Investment Company S.A.E

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 the establishment or investment in the companies' securities especially the companies engaged in owning, renting and managing the hotels, motels and resorts.

- 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.

- 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.

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

Royal Gardens for Real Estate Investment Company S.A.E. is registered in Egypt under commercial registration number 21574 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 setup, 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.

- **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.

- **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- Mohandessin- Cairo. The company is engaged in the construction of advanced residential projects.

- **Coldwell Banker Palm Hills for Real Estate S.A.E**

Coldwell Banker Palm Hills for Real Estate S.A.E is registered in Egypt under commercial registration number 15970 on 17 August 2005 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 engaged in real estate investment.

- **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 at 11 El Nakhil Street- Dokki- Giza. The company is engaged in establishing and operating hotels, motels, resorts and residential compounds.

- **United Engineering for Construction S.A.E**

United Engineering for Construction S.A.E is registered in Egypt under commercial registration number 56910 under the provisions of the Companies' Law No. 159 of 1981 and the statutes of the Capital Market Law No. 95 of 1992. The company is located at 40 Lebanon Street-Mohandessin-Giza. The company is engaged in construction.

- **Palm for Real Estate Development S.A.E**

Palm for Real Estate Development S.A.E is registered in Egypt under commercial registration number 83974 under the provisions of the Companies' Law No. 159 of 1981 and the statutes of the Capital Market Law No. 95 of 1992. The company is engaged in real estate investment.

- **Palm Investment & Real Estate Development S.A.E**

Palm for Investment & Real Estate Development S.A.E is registered in Egypt under commercial registration number 85861 under the provisions of the Companies' Law No. 159 of 1981 and the statutes of the Capital Market Law No. 95 of 1992. The company is engaged in real estate investment and real estate marketing.

- **Palm Hills Properties S.A.E**

Palm Hills Properties S.A.E is registered in Egypt under commercial registration number 88228 under the provisions of the Companies' Law No. 159 of 1981 and the statutes of the Capital Market Law No. 95 of 1992. The company is engaged in real estate investment and real estate marketing.

The Company has not started its business yet.

- **Palm for Club Management S.A.E**

Palm for Club Management S.A.E is registered in Egypt under commercial registration number **101134** under the provisions of the Companies' Law No. 159 of 1981 and the statutes of the Capital Market Law No. 95 of 1992. The company is engaged in real estate marketing, establishing, managing, ownership, sale and rental of apartments and commercial malls and establishing and operating of hotels, motels, apartments, hotel suites and tourist villages.

- **Palm Alexandria for Real Estate S.A.E**

Palm Alexandria for Real Estate S.A.E is registered in Egypt under commercial registration number **101133** under the provisions of the Companies' Law No. 159 of 1981 and the statutes of the Capital Market Law No. 95 of 1992. The company is engaged in real estate investment in new cities and urban communities.

The Company has not started its business yet.

- **Palm Hills Education S.A.E**

Palm Hills Education S.A.E is registered in Egypt under commercial registration number **103987** under the provisions of the Companies' Law No. 159 of 1981 and the statutes of the Capital Market Law No. 95 of 1992. The company is engaged in establishing, managing, rental and equipping of schools.

The Company has not started its business yet.

- **Palm Hills Development of Tourism and Real Estate (PHTR)**

Palm Hills Development of Tourism and Real Estate S.A.E is registered in Egypt under commercial registration number 92998 under the provisions of the Companies' Law No. 159 of 1981 and the statutes of the Capital Market Law No. 95 of 1992. The company is engaged in real estate investment and real estate marketing.

- **Palm Hills for Tourism Investment (PHTI)**

Palm Hills for Tourism Investment S.A.E is registered in Egypt under commercial registration number 93156 under the provisions of the Companies' Law No. 159 of 1981 and the statutes of the Capital Market Law No. 95 of 1992. The company is engaged in real estate investment and real estate marketing.

The Company has not started its business yet.

Palm Hills Resorts (PHR)

Palm Hills Resorts S.A.E is registered in Egypt under commercial registration number 93163 under the provisions of the Companies' Law No. 159 of 1981 and the statutes of the Capital Market Law No. 95 of 1992. The company is engaged in real estate investment and real estate marketing.

The Company has not started its business yet.

Palm for Urban Development

Palm for Urban Development S.A.E is registered in Egypt under commercial registration number 99183 under the provisions of the Companies' Law No. 159

of 1981 and the statutes of the Capital Market Law No. 95 of 1992. The company is engaged in real estate investment.

The Company has not started its business yet.

- Middle East Company for Real Estate and Touristic Investment S.A.E

Middle East Company for Real Estate and Touristic Investment S.A.E is registered in Egypt under commercial registration number 25016 under the provisions of the Investment Guarantees and Incentives law No. 8 of 1997 and the Companies' Law No. 159 of 1981.

The company is engaged in real estate investment in cities and new urban communities and the setup, execution, acquisition, and management of urban communities, hotel apartment and tourist villages.

2- Indirect investments in associates and subsidiaries

	<u>Percentage</u> <u>share %</u>
Palm North Coast Hotels S.A.E	%97.412
Palm Gamscha Hotels S.A.E	%96.04
Middle East Company for Real Estate and Touristic Investment S.A.E	%87.50
East New Cairo for Real Estate Development S.A.E	%10.998

- Palm Gamscha Hotels S.A.E

Palm October 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.

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

East New Cairo for Real Estate Development S.A.E 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.

9. STATEMENT OF COMPLIANCE

These consolidated financial statements of Palm Hills Developments and its subsidiaries (the 'group') were prepared in accordance with Egyptian Accounting Standards and following the same accounting policies applied for the preparation of the previous financial statements.

10. SIGNIFICANT ACCOUNTING POLICIES APPLIED

a) Basic of consolidated financial statements preparation

The Company's management is responsible for the preparation the financial statements. The consolidated financial statements are prepared in accordance with Egyptian Accounting Standards and related Egyptian Laws and regulations.

b) Basic of consolidation

The consolidated financial statements comprise the financial statements of Palm Hills Developments Company and its subsidiaries which are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group.

The consolidated financial statements of Palm Hills Developments Company include its subsidiaries with the exception of the following:

	<u>Percentage</u>	<u>Nature</u>
	<u>share %</u>	
Coldwell Banker Palm Hills for Real Estate	49%	Associate

c) Consolidation procedures

In preparing consolidated financial statements, the Company combines the financial statements of the parent company and its subsidiaries line-by-line by adding together like items of assets, liabilities, equity, income and expenses the following steps are then taken:

- 1- Consolidated financial statements shall be prepared using uniform accounting policies. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

- 2- The carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated. The difference between the cost of acquisition and the Company share in the fair value of the assets and liabilities of the investee is accounted for as a positive goodwill or as a negative goodwill and to be recognized on the consolidated income statement.
- 3- Combining balances and items of balance sheet as well as statements of income, changes in equity and cash flows, taking into account the acquisition date of subsidiaries, appropriate adjustments are made to cost of revenue, work in process and projects under construction which resulting from applying the acquisition method to account for resultant goodwill.
- 4- Intergroup balances, transactions shall be eliminated in full.
- 5- Profits and losses resulting from intergroup transactions are eliminated in full unless such transactions were eliminated or transferred to a third party.
- 6- Non-controlling interests in the net equity and in net earnings of subsidiary companies are included in a separate item "non-controlling interest" in the consolidated financial statements.
- 7- A subsidiary company is not included in the consolidated financial statements if the holding company loses its control over the financial and operational policies in this subsidiary starting from the date that control ceases.

d) Business combination

The group applies the acquisition method 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 to the former owners of the acquiree 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree

is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in 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 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

e) Intangible assets

1- Goodwill

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 reassessment 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.

Where goodwill has been allocated to a cash-generating unit (CGU) 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 of the operation. 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.

2- Other intangible assets

Intangible assets are non-monetary assets which are without physical substantive. Intangible assets arise from contractual or other legal rights and from which future economic benefits (inflows of cash or other assets) are expected to flow and can be measured reliably. Intangible assets are initially measured at cost and to be re-measured at each financial year-end at cost of

acquisition less accumulated amortization and accumulated impairment losses, which represents the fair value of those assets at that date.

f) Use of estimates and judgments

The preparation of the financial statements in conformity with Egyptian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on a going basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in the following notes:

- Revenue
- Estimated cost to complete projects
- Assets impairment
- Usufruct
- Investment Property
- Deferred tax
- Fair value of financial instruments

g) Changes in accounting policies

Changes in accounting policies are changes in the specific principles, bases, conventions, rules and practices applied by the Company in preparing and presenting financial statements. A change in accounting policy may be a voluntary change from one accepted policy to another in the Framework of the Egyptian Accounting Standards, where such changes result in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the Group's financial position, financial performance or cash flows. The change in accounting policy is applied retrospectively as an adjustment to the beginning balance of retained earnings as a component of equity.

h) Bookkeeping

1- Functional and presentation currency

These consolidated financial statements are presented in Egyptian pound, which is the currency of the primary economic environment in which the Group operates (the functional currency). Foreign currency transactions are translated into Egyptian pound using the exchange rates prevailing at the date of the transaction.

2- Foreign currency transactions and balances

Monetary assets and liabilities in foreign currencies are retranslated at the end of each year at the exchange rates then prevailing. Foreign exchange gains and losses resulting from valuation differences are recognized in the income statement.

i) Operating segment

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

The Group has one operating segment which is real estate of all types and other operating segments are not identified according to EAS 41.11

11. INVESTMENTS

a) Investments in subsidiaries

Subsidiaries are all companies that are controlled by the Company in that the Company owns more than half of the voting rights of a subsidiary, and Control is the power to govern the financial and operating policies of a subsidiary.

Investments in subsidiaries are stated at cost method. According to this method, investments recorded at cost- cost of acquisition- at the purchase order date less permanent impairment losses, if any, such impairment losses are recognized in income statement.

b) Investments in associates

Subsidiaries are all companies over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Investments in associates are stated at equity method, under the equity method the investments in associates are initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the associates after the date of acquisition. Distributions received

from associates reduce the carrying amounts of the investments. As an exception, investments in associates are initially recognized at cost based on preparing the consolidated financial statements available for public use.

c) Financial investments available for sale

Available-for-sale financial assets are any non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are initially recognized at fair value plus directly attributable costs of acquisition or issue.

Gains and losses arising from changes in the fair value of available for sale financial investments are recognized as equity until the financial asset is derecognized, or impaired, at which time, the cumulative gain or loss previously recognized in equity should be recognized in profit or loss.

The fair value for available-for-sale investments is identified based on the quoted price of the exchange market at the balance sheet date, except for investments which are not quoted in a stock exchange in an active market and whose fair value cannot be measured reliably in this case they are measured at cost.

d) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Held-to-maturity investments are initially recognize at fair value plus directly attributable costs of acquisition or issue, after initial recognition held-to-maturity investments are measured at amortized cost using the effective interest method less impairment losses.

Gains and losses are recognized in income statement when the investments are derecognized or impaired, as well as through the amortization process.

e) Investments at fair value through profit and loss

Investments at fair value through profit and loss includes financial assets acquired principally for the purpose of selling or repurchasing it in the near term or are designated as such upon initial recognition. Investments at fair value through profit and loss initially recognize at fair value plus directly attributable costs of acquisition, after initial recognition investments at fair

value through profit and loss are measured at fair value and any changes therein are recognized in income statement.

f) Investments properties

Investment property is property (land or a building or both) held to earn rentals or for capital appreciation or both, rather than for use in the ordinary course of business. Investment property includes lands held for sale on long term. Investment property does not include property acquired exclusively with a view to subsequent disposal in the near future or for development and resale. Investment property is initially measured at cost, including transaction costs, subsequent to initial recognition Investment property is measured at cost less accumulated depreciation and any impairment in value. Investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

12. PROJECTS UNDER CONSTRUCTION

Include the direct and indirect cost of land allocated to the Company for engaging in its main activity which had been allocated to build golf courses and hotels in Palm Hills Residential Compound in 6th of October City, as well infrastructure and construction costs of such projects. Projects under construction also include acquisition of commercial shops from an associate company.

13. FIXED ASSETS

Fixed assets are stated at historical cost –cost of acquisition-and to be depreciated by straight line method over the estimated useful life of the asset starting from the date of using the asset. Cost of acquisition does not include subsequent expenditure relating to routine maintenance or to ensure that a fixed asset maintains its original assessed standard of performance and useful life and should be charged to the income statement. Carrying amount of fixed assets after initial measurement is stated at historical cost less accumulated depreciation and cumulative impairment losses (if any). The estimated useful lives are as follows:

<u>Asset</u>	<u>Rate</u>
Buildings	%5
Tools & Equipment	% 25
Furniture & Fixtures	% 25 – %33
Vehicles	% 25

The carrying amount of a fixed asset should be derecognized on disposal or when no future economic benefits are expected to be earned from its disposal. The gain

or loss on the disposal of an asset is the difference between the proceeds and the carrying amount and should be in profit and loss.

The residual value, the useful life and the depreciation method of an asset should be reviewed at least at each financial year-end.

An asset is impaired when its carrying amount exceeds its recoverable amount, At the end of each reporting period, an entity is required to assess whether there is any indication that an asset may be impaired and therefore the asset should be written down to its recoverable amount and the impairment loss shall be recognized in the income statement.

An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years. Any impairment loss is recognized in the income statement.

14. WORK IN PROCESS

Work in process includes direct and indirect cost of land allocated to the Company for it to carry out its main activity whether the Company started the marketing activates for such lands or not, as well as construction and infrastructure costs and other indirect construction costs, that are related to contracted units, in which the required criteria of percentage of completion to be achieved has is not met yet to be recognized in income statement.

15. COMPLETED UNITS READY FOR SALE

Completed units ready for sale represent those units the Company started to build before or in conjunction with their marketing strategy and in accordance with the Master Plan.

All costs (cost of land, cost of developments and other indirect costs) attributable to such units are accumulated in the Work in Process Account until all units are completed for each phase. The cost is determined based on the outcome of multiplying the total area of the remaining completed units ready for sale at the date of consolidated balance sheet by the average meter cost of these units. Revenue from completed units ready for sale is recognized and matched to the cost of such units upon delivery. Completed units ready for sale are re-measured at each reporting period at the lower of cost or net realizable value.

16. NOTES RECEIVABLE

Notes receivable represent the checks which have certain maturity dates which the Company received as bank guarantees for the contractual values of the contracted units. Notes receivable are initially recognized at fair value at the date of contract and subsequently measured at amortized cost based on discounted future cash flow using the effective interest method.

17. IMPAIRMENT

An asset is impaired when its carrying amount or cash-generating unit exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use while value in use is the present value of estimated cash flow expected to be derived from an asset or cash-generating unit. An impairment loss is recognized in income statement. If there is an indication that there is an increasing in recoverable amount for an asset that increase is a reversal of the impairment. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

18. PROVISION

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that a flow of economic benefits will be required to settle the obligation; and the amount can be estimated reliably. Provision is charged to income statement. The provisions balances are reviewed on a going basis at the reporting date to disclose the best estimate on the current year, and reflect the present value of expenditures required to settle the obligation where the time value of money is material.

19. LAND PURCHASE LIABILITY

Land purchase liability represents the obligations which incurred for purchase lands at certain amount and on certain maturity dates. Land purchase liability is recognized initially at the fair value. Land purchase liability is subsequently stated at amortized cost using the effective interest method.

20. COMPLETION OF INFRASTRUCTURE LIABILITIES

Completion of infrastructure liabilities presents the difference between the estimated cost and actual cost of the infrastructure in respect of the contracted units and to be deducted from earned revenue from plot of land of the contacted units.

21. CAPITALIZATION OF BORROWING COST

Capitalization of borrowing costs represents interest and other costs that the Company incurs in connection with the borrowing of funds which directly attributable to the acquisition, construction or production of a qualifying asset and would have been avoided if the expenditure on the qualifying asset had not been

made. Capitalization should commence when expenditures are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress while capitalization should be suspended during periods in which active development is interrupted. Capitalization should cease when substantially all of the activities necessary to prepare the asset for its intended use or sale are complete. Other indirect borrowing costs are recognized as expenses.

22. INCOME TAX

Taxation is provided in accordance with the Income Tax Law No. 91 of 2005.

(A) Current income tax

Current tax assets and liabilities are measured at the amount expected to be paid to (recovered from) the taxation authorities.

Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

23. SHARE PREMIUM

Share premium is the amount received by a company over and above the face value of its shares. After deducting the issuance expenses attributable to the issuance, a part of share premium is credited to the legal reserve with limits of half of the Company's issued share capital, while the remaining balance of share premium is credited to special reserve, general assembly is responsible for determining the uses of such reserve, and it cannot be used for dividends.

24. EARNINGS PER SHARE

Basic EPS is calculated by dividing profit or loss from continuing operations and net profit or loss (after deducting employee share and board of directors remuneration – if any) attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

25. RELATED PARTY TRANSACTIONS

Related party transactions present the direct and indirect relationship between the Company and its associates, subsidiaries or an interest in a joint venture, also the

relationship between the Company and key management personnel or employees who exercise direct or indirect strong influence on the Company's decision making. A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

26. MATCHING OF REVENUES AND COSTS

The accounting treatment of signed contracts of villas and townhouses is based on the recognized revenue of the elements of the contact as follows:

a) Villas and townhouses

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting.

The recognition of revenue and expenses by reference to the stage of completion of a contract is often referred to as the percentage of completion method. Under this method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed.

Under the percentage of completion method, contract revenue is recognized as revenue in profit or loss in the accounting periods in which the work is performed. Contract costs are usually recognised as an expense in profit or loss in the accounting periods in which the work to which they relate is performed.

Cost of revenues includes the direct and indirect cost of land and the cost of construction and infrastructure, in addition to the indirect costs of construction.

- Completed units ready for sale

Completed units ready for sale represent those units the Company started to build before or in conjunction with their marketing process and in accordance with the Master Plan. Completed units ready for sale (apartments of Palm Hills 7th Phase) are recognized at cost.

All costs (cost of land, cost of developments and other indirect costs) attributable to such units are accumulated in the Work in Process Account until all units are completed for each phase. The cost is determined based on the outcome of multiplying of the total area of the remaining completed units ready for sale at the date of consolidated balance sheet by the average meter cost of these units. Revenue from completed units ready for sale is

recognized and matched to the cost of such units upon delivery. Completed units ready for sale are re-measured at each reporting period at the lower of cost or net realizable value.

- **Provision of completion**

When the estimated contractual costs exceeded or it is probable that will exceed the contractual values, in such cases, any expected excess is recognized as an expense immediately.

27. REVENUE RECOGNITION

(A) Sales revenues

1- Villas and townhouses

Revenue from the Company's main activity is recognized in the income statement over time based on percentage of completion for each contracted unit.

2- Completed units ready for sale

Completed units ready for sale represent the contractual values of contracted units Revenue is recognized in income statement at the point in time at which the entity transfers control of the asset to the customer

(B) Investments in associates and subsidiaries

Revenue from investments in associates recognized based on equity method and in accordance with the company's share of the net profit or loss of the associate which is determined on the basis of current ownership interests, in addition to changes in the associate's other comprehensive income that have not been included in profit or loss.

Revenues from investments in subsidiaries are recognized based on cost method on the date the Company's right to receive such revenues is established or actually received which is more determinable.

(C) Gain (loss) on sale of investments in securities

Gains (losses) from sale of investments in securities are recognized when a sale is consummated and the Company has transferred to the buyer the usual risks and rewards of ownership. Such gains (losses) are measured by the difference between cost of acquisition and selling price less selling commission and expenses and to be recognized in profit or loss.

Revenues resulting from equity method application and revenues from cash dividends are eliminated in preparing the consolidated income statement.

(D) Revenues from investment property

Revenues from investment in real estate are recognized when a sale is consummated and the Company has in principle transferred to the buyer the usual risks of ownership. Such revenues are measured by the difference between cost of acquisition and selling price.

(E) Revenues from mutual funds

Revenues from mutual fund are measured by the difference between cost of acquisition and selling price. Such revenues are recognized in profit or loss.

(F) Interest income

Interest income is recognized in the profit or loss as it accrues using the effective interest rate method.

28. 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.

29. INVESTMENTS IN ASSOCIATES

	<u>30 June</u> <u>2017</u> <u>EGP</u>	<u>31 December</u> <u>2016</u> <u>EGP</u>
Naema for Touristic & Real Estate Investments S.A.E	59 246 371	58 614 299
Villamora for Real Estate Development Company S.A.E	20 366 400	20 366 400
Coldwell Banker -Palm Hills for Real Estate S.A.E	245 000	245 000
Balance as at 31 December 2016	<u>79 857 771</u>	<u>79 225 699</u>

30. INVESTMENT PROPERTY

	<u>Acre</u>	<u>30 June</u> <u>2017</u> <u>EGP</u>	<u>31 December</u> <u>2016</u> <u>EGP</u>
<u>Lands</u>			
Palm Hills Development Company S.A.E	1759	212 027 278	212 027 278
Palm Hills Middle East Company for Real Estate Investment S.A.E *	2434	529 111 484	529 111 484
Gamsha for Tourist Development S.A.E	22.679	113 526 025	113 526 025
	<u>4215.679</u>	<u>854 664 787</u>	<u>854 664 787</u>

Buildings

Commercial shops - Palm Hills Resort

Cost of shops of 88 Street Mall.		35 008 453	35 008 454
Accumulated depreciation		<u>(2 042 160)</u>	<u>(1 166 949)</u>
Net cost of shops		<u>32 966 293</u>	<u>33 841 505</u>
Balance as at 30 June 2017		<u>887 631 080</u>	<u>888 506 292</u>

31. HELD-TO-MATURITY INVESTMENTS

	<u>Face value</u> <u>EGP</u>	<u>Unrecognized</u> <u>investment</u> <u>return</u> <u>EGP</u>	<u>Average</u> <u>return</u> <u>rate</u> <u>%</u>	<u>Purchase</u> <u>price</u> <u>EGP</u>
Palm Hills Development	59 800 000	4 273 956	%14	55 526 044
Palm Hills Middle East Company for Real Estate Investment	49 175 000	4 225 675	%14	44 949 325
East New Cairo for Real Estate Development	35 275 000	3 171 144	%14	32 103 856
Gawda for Trade Services	4 400 000	436 769	%14	3 963 231
Middle East Company for Real Estate and Touristic Investment	9 125 000	753 036	%14	8 371 964
Royal Gardens for Real Estate Investment Company	45 800 000	4 156 204	%14	41 643 796
New Cairo for Real Estate Development	22 125 000	190 347	%14	21 934 653
Rakeen Egypt for Real Estate Investment	6 625 000	1 226 112	%14	5 398 888
Saudi Urban Development Company	30 625 000	2 273 482	%14	28 351 518
Balance as at 30 June 2017	<u>273 575 000</u>	<u>20 706 725</u>		<u>242 243 275</u>

32. NOTES RECEIVABLE

	<u>30 June</u> <u>2017</u> <u>EGP</u>	<u>31 December</u> <u>2016</u> <u>EGP</u>
Short term notes receivable	3 648 911 299	3 415 881 491
Deduct:		
Notes receivable of joint venture	56 201 593	53 162 030
Unamortized discount	<u>39 816 066</u>	<u>67 191 258</u>
	<u>3 552 893 640</u>	<u>3 295 528 203</u>
Long term notes receivable	9 258 210 415	7 679 774 091
Deduct:		
Notes receivable of joint venture	251 795 927	242 524 406
Unamortized discount	<u>77 697 171</u>	<u>137 209 991</u>
	<u>8 928 717 317</u>	<u>7 300 039 694</u>
Balance as at 30 June 2017	<u>12 481 610 958</u>	<u>10 595 567 897</u>

According to the Central Bank of Egypt's Board of Directors No.1906 of 2008 concerning the regulations and rules governing banking finance to real estate development companies operating in the field of housing units and construction for the purpose of their sale, Bank cannot discount trade and notes receivable, unless contracted units be delivered to customers.

33. PROJECTS UNDER CONSTRUCTION

	<u>30 June</u> <u>2017</u> <u>EGP</u>	<u>31 December</u> <u>2016</u> <u>EGP</u>
Land	340 104 665	340 104 665
Construction of Golf Club and Hotel in 6th of October City	495 317 793	495 317 793
Constructions, Consultation and designs fees	9 413 646	10 126 782
Mall (8)	<u>35 647 621</u>	<u>32 217 502</u>
Balance as at 30 June 2017	<u>880 483 725</u>	<u>877 766 742</u>

34. FIXED ASSETS

	<u>Cost as of January 1,2017</u>	<u>Additions during the period</u>	<u>Cost as of June 30,2017</u>	<u>Accumulated depreciation as of January 1, 2017</u>	<u>Depreciation for the period</u>	<u>Accumulated depreciation as of June 30,2017</u>	<u>Net book value as of June 30,2017</u>	<u>Net book value as of December 31,2016</u>
	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>
Land	18 920 662	--	18 920 662	--	--	--	18 920 662	18 920 662
Buildings	509 774 162	131 250	509 905 412	195 468 196	7 715 676	203 183 872	306 721 540	314 305 966
Machinery & equipment	138 804 890	6 264 175	145 069 065	97 121 702	4 767 206	101 888 908	43 180 157	41 683 188
Vehicles	17 194 882	3 451 840	20 646 722	14 669 685	684 128	15 353 813	5 292 909	2 525 197
Computer equipment	54 273 849	3 192 676	57 466 525	32 448 079	5 099 348	37 547 427	19 919 098	21 825 770
Leasehold improvements	17 701 066	1 971 222	19 672 288	17 092 507	114 753	17 207 260	2 465 028	608 559
Furniture	60 638 724	1 322 314	61 961 038	41 860 174	2 163 907	44 024 081	17 936 957	18 778 550
Total cost	<u>817 308 235</u>	<u>16 333 477</u>	<u>833 641 712</u>	<u>398 660 343</u>	<u>20 545 018</u>	<u>419 205 361</u>	<u>414 346 351</u>	<u>418 647 892</u>
Impairment of Macor							(2 500 000)	(2 500 000)
Impairment of assets							(64 539 487)	(64 539 487)
Balance as at 30 June 2017							<u>347 396 864</u>	<u>351 608 405</u>

- Fixed assets depreciation for the period ended 30 June 2017 was allocated as follows:

	<u>EGP</u>
Operating assets-work in process	3 673 867
Administrative depreciation (income statement)	8 968 402
Depreciation expense of hotel operations	3 113 161
Depreciation expense of Palm Hills Club's assets - club's operating statement	4 789 588
	<u>20 545 018</u>

Fixed assets (net) balance as at 31 December 2016 amounted to EGP 351 608 405 represented as follows:

	<u>Cost as of January 1,2016</u>	<u>Additions during the year</u>	<u>Disposals during the year</u>	<u>Cost as of December 31,2016</u>	<u>Accumulated depreciation as of January 1, 2016</u>	<u>Depreciation for the year</u>	<u>Accumulated depreciation of disposals</u>	<u>Accumulated depreciation as of December 31,2016</u>	<u>Net book value as of December 31,2016</u>	<u>Net book value as of December 31,2015</u>
	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>
Land	18 920 662	--	--	18 920 662	--	--	--	--	18 920 662	18 920 662
Buildings	509 623 460	150 702	--	509 774 162	179 792 340	15 675 856	--	195 468 196	314 305 966	335 129 970
Machinery & equipment	114 730 811	24 098 820	24 741	138 804 890	89 420 963	7 725 480	24 741	97 121 702	41 683 188	18 252 390
Vehicles	15 623 582	1 676 300	105 000	17 194 882	14 297 422	477 263	105 000	14 669 685	2 525 197	833 000
Computer equipment	37 849 806	16 808 839	384 796	54 273 849	26 190 974	6 630 757	373 652	32 448 079	21 825 770	5 673 700
Leasehold improvements	17 686 292	14 774	--	17 701 066	16 851 733	240 774	--	17 092 507	608 559	962 100
Furniture	52 304 194	8 468 944	134 414	60 638 724	38 523 267	3 467 507	130 600	41 860 174	18 778 550	5 045 100
Total cost	<u>766 738 807</u>	<u>51 218 379</u>	<u>648 951</u>	<u>817 308 235</u>	<u>365 076 699</u>	<u>34 217 637</u>	<u>633 993</u>	<u>398 660 343</u>	<u>418 647 892</u>	<u>384 817 100</u>
Impairment of Macor									(2 500 000)	(2 500 000)
Impairment of assets									(64 539 487)	(64 539 487)
Balance as at 31 December 2016									<u>351 608 405</u>	<u>334 622 600</u>

- Fixed assets depreciation for the year ended 31 December 2016 was allocated as follows:

	<u>EGP</u>
Operating assets-work in process	6 493 564
Administrative depreciation (income statement)	12 824 256
Depreciation expense of hotel operations	6 245 862
Depreciation expense of Palm Hills Club's assets - club's operating statement	8 724 146
	<u>34 287 828</u>

- Capital Gains for the year ended 31 December 2016 amounted to EGP 32 642 as follows:

	<u>EGP</u>	<u>EGP</u>
Proceed from sale of fixed assets		47 600
Deduct:		
Cost of assets sold	648 951	
Accumulated depreciation of assets sold	633 993	
Carrying amount of assets sold		<u>14 958</u>
		<u>32 642</u>

35. WORK IN PROCESS

	<u>Cost of sales recognized in income statement</u>				
	<u>Total as at 30 June 2017 EGP</u>	<u>As at 31 December 2016 EGP</u>	<u>For the period ended 30 June 2017 EGP</u>	<u>30 June 2017 EGP</u>	<u>31 December 2016 EGP</u>
Land acquisition cost	7 263 569 879	2 703 693 588	466 297 185	4 093 579 106	1 998 407 897
Cost of construction	13 751 205 518	7 601 940 679	1 476 157 278	4 673 107 561	4 397 216 503
Completed units ready for sale	<u>187 907 169</u>	<u>172 785 614</u>	<u>12 000 000</u>	<u>3 121 555</u>	<u>15 121 555</u>
Balance as at 30 June 2017	<u>21 202 682 566</u>	<u>10 478 419 881</u>	<u>1 954 454 464</u>	<u>8 769 808 221</u>	<u>6 410 745 955</u>

* Borrowing cost capitalized on work in process for the year ended 30 June 2017 amounted to EGP 227 019 471 The capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 11.56%.

36. CASH AND CASH EQUIVALENTS

	<u>30 June</u> <u>2017</u> <u>EGP</u>	<u>31 December</u> <u>2016</u> <u>EGP</u>
Banks-current accounts- EGP	285 580 157	405 401 961
Banks-current accounts- foreign currency	7 855 091	20 135 726
Banks – Deposits- EGP	284 735 476	350 101 394
Cash on hand- EGP	41 300 653	32 877 489
Balance as at 30 June 2016	619 471 377	808 516 570

37. ACCOUNTS RECEIVABLE

	<u>30 June</u> <u>2017</u> <u>EGP</u>	<u>31 December</u> <u>2016</u> <u>EGP</u>
Palm Hills Developments Company customers	257 318 471	248 358 902
Palm Hills Middle East Company for Real Estate Investment customers	165 140 017	134 409 736
Royal Gardens for Real Estate Investment Company customers	19 857 214	23 854 680
New Cairo for Real Estate Developments customers	2 261 055	2 432 862
Gawda for Trade Services customers	2 734 651	4 906 414
Saudi Urban Development Company customers	44 584 776	50 229 087
Rakeen Egypt for Real Estate Investment customers	96 266 482	115 164 240
East New Cairo for Real Estate Development customers	100 619 162	101 801 380
Middle East Company for Real Estate and Touristic Investment customers	15 572 850	28 179 947
United Engineering for Construction S.A.E	3 304 225	3 800 381
Palm Real Estate Development S.A.E	43 434 943	43 879 972
Palm For Investment And Real Estate Development	105 433 226	39 112
Palm for Clubs Management	15 289	—
Balance as at 30 June 2017	856 542 360	757 056 711

38. DEBTORS AND OTHER DEBIT BALANCES

	<u>30 June</u> <u>2017</u> <u>EGP</u>	<u>31 December</u> <u>2016</u> <u>EGP</u>
Investments debtors	5 016 955	5 011 455
Deposits with others	51 969 522	5 641 802
Prepaid expenses	68 280 823	18 833 154
Loans to employee & custodies	25 807 760	8 315 790
Due from City for Real Estate Development Company	5 522 741	5 522 741
Advance payments for land acquisition	169 786 148	118 982 019
Residents' Association	44 717 567	32 050 330
Other debit balances	15 829 898	24 119 386
Balance as at 30 June 2017	386 931 414	218 476 677

39. GUARANTEED PAYMENTS – JOINT ARRANGEMENT

This item represents payments made to partners in accordance with the contracts in this regard as part of their share in the contractual values of contracted implementation units or net operating profit of these projects, to be settled in the form of quotas as entitled as soon as marketing procedures are commenced and the sale of these units planned for the implementation in accordance with the Master Plan as follows:

	<u>30 June</u> <u>2017</u> <u>EGP</u>	<u>31 December</u> <u>2016</u> <u>EGP</u>
Palm Hills for Tourist & Real Estate Development	48 331 289	40 000 000
Balance as at 30 June 2017	48 331 289	40 000 000

40. DUE FROM RELATED PARTIES

	<u>30 June</u> <u>2017</u> <u>EGP</u>	<u>31 December</u> <u>2016</u> <u>EGP</u>
Al Ethadia for Real Estate S.A.E	197 438 398	185 563 424
Al Naeem for investments	48 755 256	48 755 256
Coldwell Banker -Palm Hills for Real Estate S.A.E	20 480	20 480
Novotel Cairo 6th Of October S.A.E	1 978 451	2 510 272
Palm Hills Education S.A.E	--	184 125
Mercure Ismailia Hotel	8 884 659	6 821 963
Palm Hills – Saudi	269 320	269 320
Balance as at 30 June 2017	257 346 564	244 124 840

41. ADVANCE PAYMENTS FOR INVESTMENTS ACQUISITION

	<u>Nature of</u> <u>transaction</u>	<u>30 June</u> <u>2017</u> <u>EGP</u>	<u>31 December</u> <u>2016</u> <u>EGP</u>
Palm Hills – Saudi	Establishment	135 121 743	135 121 743
Villamora for Real Estate Development Company S.A.E	Acquisition	3 900 000	3 900 000
Gamsha for Tourist Development S.A.E	Acquisition	4 010 000	4 010 000
Al Naeem for Hotels and Touristic Villages	Acquisition	41 303 890	41 303 890
Balance as at 30 June 2017		184 335 633	184 335 633

42. BANKS- CREDIT BALANCES

	<u>30 June</u>	<u>31 December</u>
	<u>2017</u>	<u>2016</u>
	<u>EGP</u>	<u>EGP</u>
Banks –EGP	108 144 256	40 248 216
Banks-foreign currencies	3 206 723	1 928 271
Balance as at 30 June 2017	<u>111 350 979</u>	<u>42 176 487</u>

43. BANK OVERDRAFT

	<u>30 June</u>	<u>31 December</u>
	<u>2017</u>	<u>2016</u>
	<u>EGP</u>	<u>EGP</u>
Banks –EGP	171 755 026	79 410 353
Balance as at 30 June 2017	<u>171 755 026</u>	<u>79 410 353</u>

44. ADVANCES FROM CUSTOMERS

	<u>Down</u>	<u>Advances for</u>	<u>June 30</u>
	<u>payments</u>	<u>contracting</u>	<u>2017</u>
	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>
Palm Hills Developments Company	60 493 196	2 157 249 169	2 217 742 365
Palm Hills Middle East Company for Real Estate Investment	6 147 900	1 239 493 395	1 245 641 295
Royal Gardens for Real Estate Investment Company	--	39 153 387	39 153 387
New Cairo for Real Estate Developments	--	3 477 438	3 477 438
Gawda for Trade Services	--	251 212	251 212
Saudi Urban Development Company	1 113 225	510 890 023	512 003 248
Rakeen Egypt for Real Estate Investment	20 752 578	1 234 287 292	1 255 039 870
East New Cairo for Real Estate Development	2 316 343	540 070 347	543 020 690
Middle East Company for Real Estate and Touristic Investment	149 244	46 286 848	46 436 092
United Engineering for Construction	86 155 300	--	86 155 300
Palm for Real Estate Development S.A.E	1 421 950	764 995 029	766 416 979
The company's share in Capital Gardens Compound)			
Palm Hills Club	--	169 385	169 385
Palm for Investment & Real Estate Development	49 597 070	1 928 787 480	1 978 384 550
Palm Hills Development of Tourism and Real Estate	48 521 340	--	48 521 340
Palm for Clubs Management	--	1 586 383	1 586 383
Balance as at 30 June 2017	<u>276 668 146</u>	<u>8 467 331 388</u>	<u>8 743 999 533</u>

45. LAND PURCHASE LIABILITIES

	<u>30 June</u> <u>2017</u> <u>EGP</u>	<u>31 December</u> <u>2016</u> <u>EGP</u>
Land purchase liabilities - short term	136 678 512	60 651 029
Land purchase liabilities - long term	367 469 677	169 799 525
Balance as at 30 June 2017	<u>504 148 189</u>	<u>230 450 554</u>

46. DUE TO RELATED PARTIES

	<u>30 June</u> <u>2017</u> <u>EGP</u>	<u>31 December</u> <u>2016</u> <u>EGP</u>
El Mansour & El Maghraby Investment and Development Villamora for Real Estate Development Company S.A.E	47 103 462	92 112 385
Due to shareholders	21 762 848	19 873 650
Balance as at 30 June 2017	<u>20 161 631</u>	<u>19 347 824</u>
	<u>89 027 941</u>	<u>131 333 859</u>

47. INVESTMENT PURCHASE LIABILITIES

	<u>30 June</u> <u>2017</u> <u>EGP</u>	<u>31 December</u> <u>2016</u> <u>EGP</u>
Shareholders of Saudi Urban Development Company	44 256 746	44 256 746
Balance as at 30 June 2017	<u>44 256 746</u>	<u>44 256 746</u>

48. NOTES PAYABLE

A) Short Term Notes Payable

	<u>30 June</u> <u>2017</u> <u>EGP</u>	<u>31 December</u> <u>2016</u> <u>EGP</u>
Notes payable- Land (New Urban Communities Authority)	940 203 714	615 260 497
Deduct:- Delayed installments interest	385 033 322	93 486 582
	555 170 392	521 773 915
Add:- Other notes payable	738 463 672	554 818 902
Deduct:- Unamortized discount	228 918 236	102 290 957
Balance as at 30 June 2017	<u>1 064 715 829</u>	<u>974 301 860</u>

B) Long Term Notes Payable

	<u>30 June</u> <u>2017</u> <u>EGP</u>	<u>31 December</u> <u>2016</u> <u>EGP</u>
Notes payable- Land (New Urban Communities Authority)	2 295 327 229	28 991 768
Deduct:- Delayed installments interest	866 712 515	5 882 861
	1 428 614 714	23 108 907
Add:- Other notes payable	1 255 011 762	1 106 203 723
Deduct:- Delayed installments interest	477 417 135	516 612 039
Balance as at 30 June 2017	<u>2 206 209 341</u>	<u>612 700 591</u>

49. LOANS This item is represented as follows:

	June 2017 30		31 December 2016	
	<u>Short term</u> <u>EGP</u>	<u>long term</u> <u>EGP</u>	<u>Short term</u> <u>EGP</u>	<u>long term</u> <u>EGP</u>
<u>Misr Bank</u>				
Revolving medium term loan with Misr Bank in the amount of EGP 750 million to finance projects of Palm Hills Middle East for Real Estate Investment.	28 125 000	712 666 647	18 750 000	721 249 980
Arab African International Bank (AAIB)				
A medium loan with Arab African International Bank (AAIB) amounted to EGP 100 million for United Engineering for Construction	39 672 000	24 567 011	35 621 000	36 848 117
Arab African International Bank (AAIB)				
A medium term loan with the Arab African International Bank (AAIB) amounted to EGP 2.4 billion to finance projects of Palm Hills Developments and Rakeen Egypt for Real Estate Investment secured by the assignment of projects' cash and bears an interest rate of 3.25% above deposit corridor rate.	324 000 000	1 903 907 811	230 400 000	2 038 657 312
Arab African International Bank (AAIB)				
A medium term loan with Arab African International Bank (AAIB) amounted to EGP 225 million to finance projects of East New Cairo for Real Estate Development secured by the assignment of projects' cash flow and bears an interest rate of 2.75% above deposit corridor rate and is repayable on quarterly installments from 30 September 2013 to September 2018.	28 198 000	64 286 252	32 142 857	160 714 286
Abu Dhabi Islamic Bank (ADIB)				
Mudaraba Contract with Abu Dhabi Islamic Bank (ADIB) amounted to EGP 96 403 044 for 3 years for Saudi Urban Development Company.	24 100 762	--	24 100 761	--
Arab Bank				
A loan secured by notes receivable of delivered units		298 508 445	200 000 000	--
National Bank of Egypt				
Medium Term Loan of up to EGP852 million with the purpose of partially financing the recently acquired 190 feddan.	--	336 341 352	--	--
Balance as at 30 June 2017	444 095 762	3 340 277 518	541 014 619	2 957 469 695

50. CREDITORS AND OTHER CREDIT BALANCES

	<u>30 June</u>	<u>31 December</u>
	<u>2017</u> <u>EGP</u>	<u>2016</u> <u>EGP</u>
Other credit balances	279 804 744	210 058 404
Increase in construction area liabilities	95 500 000	95 500 000
Accounts receivable under settlement	279 438 158	170 605 682
Accrued expenses	27 799 861	46 091 915
Balance as at 30 June 2017	682 542 763	522 256 001

51. CAPITAL

The Company's authorized capital amounts EGP 6 000 000 000. The Company's issued and paid in capital amounts to EGP 4 617 899 452 representing 2 308 949 726 shares with a par value of EGP 2 per share as follows:

<u>Issued capital</u>	<u>EGP</u>
The Company's issued capital was determined at EGP 121 500 000 representing 1 215 000 shares with a par value of EGP 100 per share.	<u>121 500 000</u>
On 20 December 2006, the Company's Extra-ordinary General Assembly Meeting approved the issued Capital increase amounting to EGP 185,500,000 to be after such increasing amounted EGP 307,000,000 representing 3,070,000 shares with a par value of EGP 100 per share.	<u>307 000 000</u>
On 13 May 2007, the Company's Board of Directors approved the issued Capital increase amounting to EGP 93,000,000 to be after such increasing amounted EGP 400,000,000 representing 4,000,000 shares with a par value of EGP 100 per share.	<u>400 000 000</u>
On 15 July 2007, the Company's Board of Directors approved the issued Capital increase amounting to EGP 200,000,000 to be after such increasing amounted EGP 600,000,000 representing 6,000,000 shares with a par value of EGP 100 per share.	<u>600 000 000</u>
On 6 November 2007, the Company's Board of Directors approved the issued Capital increase amounting to EGP 200,000,000 to be after such increasing amounted EGP 800,000,000 representing 8,000,000 shares with a par value of EGP 100 per share. The Company's Extra-ordinary General Assembly Meeting held in March 2009 approved a 50-for-1 stock split and the par value of the Company's share reduced to EGP 2 per share.	<u>800 000 000</u>
On 27 March 2008, the Company's Board of Directors approved the issued Capital increase amounting to EGP 32,000,000 to be after such increasing amounted EGP 832,000,000 representing 416,000,000 shares with a par value of EGP 2 per share.	<u>832 000 000</u>
On 8 May 2008, the Company's Board of Directors approved the issued Capital increase amounting to EGP 99,840,000 to be after such increasing amounted EGP 931,840,000 representing 465,920,000 shares with a par value of EGP 2 per share.	<u>931 840 000</u>
On 30 June 2009, the Company's Board of Directors approved the issued Capital increase amounting to EGP 465,880,000 to be after such increasing amounted EGP 1,397,760,000 representing 698,880,000 shares with a par value of EGP 2 per share.	<u>1 397 760 000</u>
On 28 January 2010, the Company's Extra-ordinary General Assembly Meeting approved the issued Capital increase amounting to EGP 698,880,000 to be after such increasing amounted EGP 2,096,640,000 representing 1,048,320,000 shares with a par value of EGP 2 per share.	<u>2 096 640 000</u>
On 22 September 2013, the Company's Extra-ordinary General Assembly Meeting approved the issued Capital increase amounting to EGP 600,000,000 to be after such increasing amounted EGP 2,696,640,000 representing 1,348,320,000 shares with a par value of EGP 2 per share.	<u>2 696 640 000</u>
On 8 February 2015, the Company's Extra-ordinary General Assembly Meeting approved the issued Capital increase amounting to EGP 1 648 000 000 to be after such increasing amounted EGP 4 344 640 000 representing 2 172 320 000 shares with a par value of EGP 2 per share.	<u>4 344 640 000</u>
On 29 November 2015, the Company's Extra-ordinary General Assembly Meeting approved the issued Capital increase out of retained earnings amounting to EGP 53 359 478 to be after such increasing amounted EGP 4 397 999 478 representing 2 198 999 739 shares with a par value of EGP 2 per share.	<u>4 397 999 478</u>
On 13 March 2016, the Company's Extra-ordinary General Assembly Meeting approved the issued Capital increase out of retained earnings via the issuance of bonus shares amounting to EGP 53 359 478 to be after such increasing amounted EGP 4 397 999 478 representing 2 308 949 726 shares with a par value of EGP 2 per share.	<u>4 617 899 452</u>

52. OTHER LONG TERM LIABILITIES- RESIDENTS' ASSOCIATION

Other long term liabilities represent time deposit checks received from residents or customers due on the sold units to finance the maintenance and other running expenses, such time deposit checks are temporarily invested in favor of residents until the compound has separate legal personality and separate assets and liabilities, then the compound's management and its General Assembly will be responsible for running the compound's assets and liabilities according to the Buildings & Housing Law No.119 for 2008. Other long term liabilities balance as at 30 June 2017 amounted to EGP **886 176 136**.

53. RESERVES

a) Legal reserve

	<u>30 June</u> <u>2017</u> <u>EGP</u>	<u>31 December</u> <u>2016</u> <u>EGP</u>
Beginning balance	630 142 410	585 103 921
Transferred from the prior year's profit	49 872 341	45 038 489
Balance as at 30 June 2017	680 014 751	630 142 410

b) Special reserve

Special reserve is used to meet any expected impairment of some investment properties according to the Company's Ordinary General Assembly Meeting on 30 September 2012 as a deduction from retained earnings.

54. REVENUES

	<u>30 June</u> <u>2017</u> <u>EGP</u>	<u>30 June</u> <u>2016</u> <u>EGP</u>
Revenues from building and development activities	3 027 738 075	2 073 700 522
Revenues of commercial units	58 353 689	--
Revenues from the construction activity	16 824 018	16 831 843
Sale of completed units ready for sale	15 332 759	--
Revenues from the commercial activity	1 814 770	--
Revenues from hospitality activities	29 972 832	11 548 402
Other revenues	36 052 347	25 288 635
Revenues from Palm Hills Club	42 163 408	34 469 687
Total as at 30 June 2017	3 228 251 898	2 161 839 089

55. COST OF REVENUES

	<u>30 June</u> <u>2017</u> <u>EGP</u>	<u>30 June</u> <u>2016</u> <u>EGP</u>
Cost of building and development activities	2 191 652 672	1 510 868 574
Cost of commercial units	8 860 595	--
Cost of completed units ready for sale	12 000 000	--
Depreciation of Fixed Assets – hospitality operations	3 113 161	2 980 333
Cost of the construction activity	8 384 726	11 825 395
Cost of the commercial activity	391 427	--
Operation cost -Palm Hills Club	11 974 776	6 530 374
Depreciation of Fixed Assets – Palm Hills Club	4 789 588	4 141 693
Total as at 30 June 2017	<u><u>2 241 166 945</u></u>	<u><u>1 536 346 369</u></u>

56. General Administrative, Selling And Marketing Expenses

	<u>30 June</u> <u>2017</u> <u>EGP</u>	<u>30 June</u> <u>2016</u> <u>EGP</u>
Wages and salaries	164 670 756	114 347 039
Selling and marketing expenses	73 283 902	65 855 166
Communications expenses	1 343 251	857 676
Utilities	11 400 133	11 449 933
Professional and Government fees	24 785 415	32 979 710
Maintenance and Insurance	18 765 733	11 300 566
Travel and transportation	2 090 176	1 415 527
Bank charges	7 388 335	869 585
Other administrative expenses	12 667 267	24 636 212
Total as at 30 June 2017	<u><u>316 394 968</u></u>	<u><u>263 711 414</u></u>

57. GAINS ON INVESTMENTS IN FAIR VALUE THROUGH PROFIT OR LOSS

	<u>30 June</u> <u>2017</u> <u>EGP</u>	<u>30 June</u> <u>2016</u> <u>EGP</u>
Gains on sale of mutual funds certificates	2 924 223	2 709 448
Total as at 30 June 2017	<u><u>2 924 223</u></u>	<u><u>2 709 448</u></u>

58. OTHER REVENUES

<u>30 June</u>	<u>30 June</u>
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	<u>2017</u>	<u>2016</u>
	<u>EGP</u>	<u>EGP</u>
E-compound revenues	6 898 376	6 077 350
Gain on disposal of fixed assets	35 222	--
Miscellaneous revenues	18 355 037	29 974 997
Total as at 30 June 2017	<u>25 288 635</u>	<u>36 052 347</u>

59. EARNINGS PER SHARE

	<u>30 June</u>	<u>30 June</u>
	<u>2017</u>	<u>2016</u>
	<u>EGP</u>	<u>EGP</u>
Net profit for the year	349 338 792	169 331 248
Deduct:	33 187 185	16 086 469
estimated remuneration of the board of directors and employees' profit-sharing		
Weighted average number of shares	<u>2 308 949 726</u>	<u>2 308 949 726</u>
Earnings per share	<u>0.129</u>	<u>0.063</u>

TRANSACTION WITH RELATED PARTIES

Summary of significant transactions concluded and the resulting balances at the balance sheet date were as follows: -

a- Transaction with related parties

<u>Party</u>	<u>Relationship</u>	<u>Nature of transaction</u>	<u>Amount of transaction EGP</u>
Palm Hills Middle East Company for Real Estate Investment S.A.E	A subsidiary	Finance	862 810 336
Royal Gardens for Real Estate Investment Company S.A.E	A subsidiary	Finance	16 228 667
Middle East Company for Real Estate and Touristic Investment S.A.E	A subsidiary	Finance	47 003 779
Gawda for Trade Services S.A.E	A subsidiary	Finance	19 879 614
Rakeen Egypt for Real Estate Investment S.A.E	A subsidiary	Finance	51 325 610
Saudi Urban Development Company S.A.E	A subsidiary	Finance	31 493 164
Nile Palm Al-Naem for Real Estate Development S.A.E			144 950
Al Ethadia for Real Estate S.A.E	A Related party	Finance	39 684 340
East New Cairo for Real Estate Development S.A.E	A subsidiary	Finance	2 295 231 814
Palm October for Hotels S.A.E	A subsidiary	Finance	54 950
New Cairo for Real Estate Development S.A.E	A subsidiary	Finance	75 447 246
Al Naem for Hotels and Touristic Villages S.A.E	A subsidiary	Finance	150 869
Gemsha for Tourist Development S.A.E	A subsidiary	Finance	157 483
United Engineering for Construction S.A.E	A subsidiary	Finance	12 426 291
El Mansour & El Maghraby Investment and Development	A main shareholder	Finance	106 996 001
Palm Gemsha for Hotels S.A.E	A subsidiary	Finance	59 945
Palm North Coast Hotels S.A.E	A subsidiary	Finance	59 945
Palm for Real Estate Development	A subsidiary	Finance	33 561 430
Palm For Investment And Real Estate Development	A subsidiary	Finance	276 888 432
Palm Hills Properties	A subsidiary	Finance	560 428
Palm Hills Development of Tourism and Real Estate	A subsidiary	Finance	6 500
Palm Hills for Investment Tourism	A subsidiary	Finance	270 309
Palm Hills Resorts S.A.E	A subsidiary	Finance	30 000
Palm Hills Hospitality S.A.E	A subsidiary	Finance	54 950
Palm Alexandria for Real Estate	A subsidiary	Finance	501 000
Palm for Club Management	A subsidiary	Finance	71 902 173
Palm Hills Education S.A.E	A subsidiary	Finance	501 000

b- Resulting balances from these transactions

<u>Party</u>	<u>Item as in balance sheet</u>	<u>30 June 2017 EGP</u>
Palm Hills Middle East Company for Real Estate Investment S.A.E	Due from related parties	1 173 067 188
Royal Gardens for Real Estate Investment Company S.A.E	Due from related parties	276 474
Rakeen Egypt for Real Estate Investment S.A.E	Due from related parties	215 801 453
Saudi Urban Development Company S.A.E	Due from related parties	185 036 013
Al Ethadia for Real Estate S.A.E	Due from related parties	181 315 502
East New Cairo for Real Estate Development S.A.E	Due from related parties	391 081 829
Palm October for Hotels S.A.E	Due from related parties	11 442 168
New Cairo for Real Estate Developments S.A.E	Due from related parties	16 246 178
Gemsha for Tourist Development S.A.E	Due from related parties	68 677 175
Palm for Real Estate Development S.A.E	Due from related parties	9 010 204
Palm For Investment And Real Estate Development	Due from related parties	91 707 120
Palm Hills Properties	Due from related parties	590 928
Palm Hills Development of Tourism and Real Estate	Due from related parties	40 209 954
Palm Hills for Investment Tourism	Due from related parties	62 752 226
Palm Hills Resorts	Due from related parties	178 149

Palm Hills Hospitality S.A.E	Due from related parties	100 281 154
Palm Hills Education S.A.E	Due from related parties	185 125
Palm Hills – Saudi	Due from related parties	269 320
Coldwell Banker Palm Hills for Real Estate	Due from related parties	20 480
Palm for Urban Development	Due from related parties	1 000
Palm Alexandria for Real Estate	Due from related parties	1 000
Nile Palm Al-Naeem for Real Estate Development S.A.E	Due to related parties	(44 661 137)
Al Naeem for Hotels and Touristic Villages S.A.E	Due to related parties	(127 379 606)
Gawda for Trade Services S.A.E	Due to related parties	(50 063 967)
El Mansour & El Maghraby Investment and Development	Due to related parties	(12 417 297)
Palm Gemsha for Hotels S.A.E	Due to related parties	(24 090)
Palm North Coast Hotels S.A.E	Due to related parties	(27 282)
Middle East Company for Real Estate and Touristic Investment S.A.E	Due to related parties	(131 856 053)
United Engineering for Construction S.A.E	Due to related parties	(11 205 667)
Palm for Club Management S.A.E	Due to related parties	(29 222 325)
Shareholders	Due to related parties	(6 513 707)

60. TAX STATUS

The Company was exempted from income tax for ten years to end on 31 December 2015 while several companies within the group are subject to corporate tax and others are exempted.

a) Corporate tax

- The Company started its operations on 13 March 2005
- The Company is exempted from income tax for ten years to end on 31 December 2015
- Years 2005 to 2009
These years have been inspected and settled with the Tax Authority.
- Years 2010 to 2012
These years are currently being inspected.
- Years 2013 to 2015
Tax returns were provided for this period.

b) Payroll tax

- From inception till 2010
This period has been inspected and differences were paid.
- Years 2011 to 2016
The company pays the deducted income tax of the employees on regularly basis within the legal dates.

c) Stamp tax

- The company is subject to the Law No. 111 of 1980 and its amendments and executive regulations.
- From inception till 31/7/2006
The company was notified by tax forms and the taxes due were paid according to / as per these forms.
- From 1/8/2006 till 31/12/2009
This period has been inspected and the resulting disputes have not been settled.
- Years 2010 to 2016

The company pays the taxes due on regularly basis within the legal dates.

61. FINANCIAL INSTRUMENTS & FAIR VALUE

- Financial instruments

The financial instruments of the Company are represented in the financial assets and liabilities. The Company's financial assets include cash on hand and at banks, notes receivable, checks under collection and debtors and other debit balances, financial liabilities include bank overdraft, advances from customers and creditors & other credit balances.

- Financial instruments fair value

The financial instruments of the Company are represented in the financial assets and liabilities. The Company's financial assets include cash on hand and at banks, notes receivable, checks under collection and debtors & other debit balances, financial liabilities include bank overdraft, advances from customers and creditors & other credit balances.

62. RISK MANAGEMENT

- Interest rate risk

The interest risk is represented in the interest rates changes and its affect on the current and future financial liabilities, represented in interests and commissions on bank overdraft, which may have a negative impact on the results of operations. The Company uses long-term financing sources with no interest represented in advances from customers.

- Credit risk

Credit risk is represented in the inability of credit customers to pay their dues. The Company has no significant consternation of credit risk, it has policies to ensure that contract are made with customers with an appropriate credit history, also according contracts concluded with the Company's customers, the ownership of the sold units is not transferred unless the full payments for these units are made.

63. EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

On 29 November 2015 The Company's Extraordinary General Assembly Meeting approved issued capital increase out of retained earnings balance as at 31 December 2014 of EGP 53 359 478 for an employee stock ownership plan (ESOP) representing 28 013 725 shares

Only 4 184 366 shares have been exercised and the Company re-measured the fair value of granted options and recognized EGP 27 776 841 in the ESOP re-measurement reserve, therefore the fair value of the granted options amounted EGP 73 156 132 as at 30 June 2017 and these granted options have not been exercised yet.

