

*Translated & Originally
Issued in Arabic*

Egyptian Resorts Company
“Egyptian Joint Stock Company”

The Consolidated Financial Statements
&
Review Report
for the six months ended at June 30, 2008

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**Review Report
To the Board of Directors of
Egyptian Resorts Company**

We have reviewed the consolidated financial statements of Egyptian Resorts Company (Egyptian Joint Stock Company), which are represented in the consolidated financial position as at June 30, 2008 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the company's management. Our responsibility is to issue a report on these financial statements based on our review.

Expect for what was mentioned in paragraph No. (1) below, we conducted our review in accordance with the Egyptian Standard on Auditing applicable to review engagements. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquires from the Company's personnel and analytical procedures applied to financial data and thus provide less assurance than an audit which are applied in accordance with Egyptian Auditing Standards to express an opinion on the financial statements, subsequently we do not express this opinion.

- 1 We have not reviewed the financial statements of the subsidiary company which have been reviewed by another auditor. The company's total assets' percentage of total assets in the consolidated financial statements is 11.73 %
- 2 The company used a legal consultant during the current period to determine its right to terminate the contract with one of the customers who did not pay their dues; the consultant's memorandum has declared the existence of legal problems concerning this contract which might lead to a high degree of suspicion in completing this contract. And as per the Egyptian Accounting Standard no. (11) the profits for the period ended June 30, 2008 should be reduced by the previously recorded profits for year 2006 for this contract which amounted to L.E 98 708 244 and also the balances of amounts due on receivables should be reduced by an amount of L.E 141 054 475. The assets and liabilities in relation with this contract should be affected by the adjustments resulted from reducing the profit as per what was mentioned above.
- 3 The company did not record the doubtful accounts which amounted to L.E 8 million approximately as per the study prepared by the company's management which led to overstatement of net profits for the period ended June 30, 2008 and also overstatement of Owners' equity and receivables by the same amount as at June 30, 2008.

Based on our review of the consolidated financial statements of Egyptian Resorts Company for the the six months ended June 30, 2008, and except for the any likely adjustments that might have been necessary if we reviewed the financial statements of the subsidiary company mentioned above in paragraphs No. (1), and the impact of what was mentioned in paragraphs No. (2,3) above, nothing has come to our attention that causes us to believe that the accompanying financial statements do not give a true & fair view in accordance with the Egyptian Accounting Standards.

Hazem Hassan

Auditors' register

At the Money Market General Authority No. (8)

KPMG Hazem Hassan

Cairo, August 13, 2008

Egyptian Resorts Company
(Egyptian Joint Stock Company)

The Consolidated Balance Sheet of the Company and its Subsidiaries
As at June 30, 2008

	<u>Note No.</u>	<u>30/6/2008</u> <u>L.E.</u>	<u>31/12/2007</u> <u>L.E.</u>
<u>Long Term Assets</u>			
Fixed assets (Net)	(3-2,4)	34 834 787	34 801 206
Projects in progress	(3-3, 5)	69 832 675	58 211 601
Accounts & notes receivable (Net)	(3-7, 7,2)	215 613 752	180 433 296
Total Long Term Assets		320 281 214	273 446 103
<u>Current Assets</u>			
Work in process	(3-5,6)	310 693 360	122 938 205
Inventory	(3-4)	51 031	51 031
Accounts & notes receivable (Net)	(3-7, 7-1)	367 752 778	328 989 621
Suppliers & Contractors advance payments		12 223 961	9 526 204
Sundry debtors and other debit balances	(8)	7 142 431	3 774 344
Advance payments-purchase of land		-	43 285 294
Reservations' advances	(23)	1 000 000	8 990 000
Cash on hand & at banks	(9)	427 987 698	462 279 870
Total Current Assets		1126 851 259	979 834 569
<u>Current Liabilities</u>			
Provision for claims	(3-11,10)	420 000	420 000
Receivables - advance payments	(11)	3 180 059	7 007 375
Reservations' advances	(23)	1 000 000	8 990 000
Sundry creditors and other credit balances	(12)	26 087 665	22 213 492
Dividends payable		1 176 913	535 251
Estimated cost for development of sold land	(3-6)	62 350 864	61 138 596
Due to Authority of Touristic development-(due within one year)	(13/1)	23 194 208	33 946 335
Income tax		41 243 359	2 232 949
Total Current Liabilities		158 653 068	136 483 998
Working capital		968 198 191	843 350 571
Total Investments		1288 479 405	1116 796 674
<u>Financed as follows:</u>			
<u>Shareholders' Equity</u>			
Issued and fully paid in capital	(14)	840 000 000	840 000 000
Profits set aside for capital increase	(14)	210 000 000	-
Legal reserve	(22)	113 279 929	99 394 633
Retained earnings		(242 881 612)	18 895 430
Net profit of the period		139 150 553	274 919 335
Less: Distributed periodical dividends		-	(142 713 967)
Shareholders' Equity of holding company		1059 548 870	1090 495 431
Minorities' interest	(18)	79 391 518	15 919 630
Total shareholders' equity		1138 940 388	1106 415 061
<u>Long-term Liabilities</u>			
Purchase of land creditors		134 064 000	-
Due to Authority of Touristic development- Long term	(13/2)	14 825 098	9 914 226
Deferred tax liability (net)	(21)	649 919	467 387
Total Long-term Liabilities		149 539 017	10 381 613
Total shareholders' equity & Long-term Liabilities		1288 479 405	1116 796 674

- The accompanying notes form an integral part of these financial statements and to be read therewith

- Auditor report attached.

(Financial Manager)
Wael William

(Managing Director)
Richard Turner

Chairman
Ibrahim Kamel

Egyptian Resorts Company
(Egyptian Joint Stock Company)

The Consolidated Income Statement of the Company and its Subsidiaries
For the Financial period from January 1, 2008 till June 30, 2008

	<u>Note No.</u>	<u>2008</u>		<u>2007</u>	
		<u>From 1/1/2008</u>	<u>From 1/4/2008</u>	<u>From 1/1/2007</u>	<u>From 1/4/2007</u>
		<u>to 30/6/2008</u>	<u>to 30/6/2008</u>	<u>to 30/6/2006</u>	<u>to 30/6/2007</u>
		L.E	L.E	L.E	L.E
Net sales of sold lands	(16-1)	229 122 073	224 322 285	252 426 604	150 856 051
Revenues from services rendered		3 756 658	2 300 886	373 839	373 839
Total revenues		232 878 731	226 623 171	252 800 443	151 229 890
Less:					
Cost of sales	(16-2)	(15 682 844)	(15 682 844)	(36 209 369)	(22 637 123)
operating costs		(2 800 270)	(1 940 062)	(832 783)	(832 783)
operating assets depreciation		(827 241)	(413 621)	(349 138)	(349 138)
Gross profit		213 568 376	208 586 644	215 409 153	127 410 846
Add/(Less):					
Selling & Marketing expenses		(730 285)	(262 648)	(2 008 322)	(1 032 746)
General and administrative expenses	(17)	(18 906 688)	(14 649 013)	(6 880 222)	(4 299 605)
Fixed assets depreciation	(4)	(202 666)	(103 999)	(156 202)	(78 938)
Banks charges		(90 933)	(29 030)	(28 231)	(12 711)
Other revenues		561 559	491 023	9 000	-
Profits resulted from operating activity		194 199 362	194 032 976	206 345 176	121 986 846
Interest income		9 276 384	5 238 034	675 299	470 345
Notes receivables' present value reduction		(3 319 145)	(3 319 145)	-	-
Foreign exchange differences		(16 880 099)	(11 430 031)	(432 819)	(206 950)
Financial costs (net)		(10 922 860)	(9 511 142)	242 480	263 395
Net profit before income tax		183 276 502	184 521 834	206 587 656	122 250 241
Current income tax	(3-19, 24-1)	(41 243 359)	(35 454 776)	-	-
Deferred tax that results in an Asset (Liability)	(3-19,26)	(182 532)	(218 568)	(278 668)	(278 668)
Net profit after income tax		141 850 611	148 848 490	206 308 988	121 971 573
Shareholders' of the holding company share in the period profits		139 150 553	146 786 442	206 475 355	122 058 830
Minorities' share in the profits (losses) of the subsidiary		2 700 058	2 062 048	(166 367)	(87 257)
Earning per Share	(15)	0.17	0.17	0.24	0.14

* The accompanying notes represent an integral part of these financial statements and to be read therewith.
and are to be read with them.

Egyptian Resorts Company
(Egyptian Joint Stock Company)

Statement of Changes in Shareholders' Equity
For the Financial period from January 1, 2008 till June 30, 2008

Description	Issued & Paid in Capital L.E.	Legal Reserve L.E.	Retained earnings for capital increase L.E.	Losses (profits) carried forward L.E.	Net Profit of the year L.E.	Distributed periodical dividends L.E.	Minorities' interest L.E.	Total L.E.
Balance as at December 31, 2006	262 500 000	11 627 163	-	(22 106 318)	235 840 930	-	15 876 630	503 738 405
Transferred to Retained earnings	-	-	-	235 840 930	(235 840 930)	-	-	-
Transferred to capital increase	175 000 000	-	-	(175 000 000)	-	-	-	-
Transferred to legal reserve	-	11 810 375	-	(11 810 375)	-	-	-	-
Employees' shares in dividends of year 2006	-	-	-	(2 891 198)	-	-	-	(2 891 198)
Board of directors remunerations	-	-	-	(1 478 995)	-	-	-	(1 478 995)
Amounts paid for issued capital increase	262 500 000	-	-	-	-	-	-	262 500 000
Issuance premium of capital increase shares	-	65 625 000	-	-	-	-	-	65 625 000
Transferred to legal reserve from periodical dividends	-	10 332 095	-	-	(10 332 095)	-	-	-
Minorities' interest	-	-	-	-	-	-	43 000	43 000
Minorities' interest in dividends for the period from 1/1/2007 till 30/6/2007	-	-	-	-	-	(1 823 304)	-	(1 823 304)
Board of directors remunerations	-	-	-	-	-	(890 663)	-	(890 663)
Adjustments on retained earnings balance	-	-	-	(3 926 307)	-	-	-	(3 926 307)
Adjustments resulting from consolidation	-	-	-	267 693	-	-	-	267 693
Capital increase from periodic dividends as of 30/6/2007	140 000 000	-	-	-	-	(140 000 000)	-	-
Net Profits of year 2007	-	-	-	-	285 251 430	-	-	285 251 430
Balance as at December 31, 2007	840 000 000	99 394 633	-	18 895 430	274 919 335	(142 713 967)	15 919 630	1106 415 061
Transferred to Retained earnings	-	-	-	274 919 335	(274 919 335)	-	-	-
Setting aside for periodical dividends for year 2007 in retained earnings	-	-	-	(142 713 967)	-	142 713 967	-	-
Amounts set aside for issued capital increase	-	-	210 000 000	(210 000 000)	-	-	-	-
Transferred to legal reserve	-	13 885 296	-	(13 885 296)	-	-	-	-
Distributing cash dividends for shareholders	-	-	-	(168 000 000)	-	-	-	(168 000 000)
Employees' share in dividends distribution for year 2007	-	-	-	(1 591 535)	-	-	-	(1 591 535)
Board of directors' remuneration	-	-	-	(505 579)	-	-	-	(505 579)
Minorities' interests	-	-	-	-	-	-	63 471 888	63 471 888
Net profit for the period	-	-	-	-	139 150 553	-	-	139 150 553
Balance as at June 30, 2008	840 000 000	113 279 929	210 000 000	(242 881 612)	139 150 553	-	79 391 518	1138 940 388

- The accompanying notes form an integral part of these financial statements

Egyptian Resorts Company
(Egyptian Joint Stock Company)

The consolidated Cash Flows Statement for the Company and its Subsidiary
For the Financial period from January 1, 2008 till June 30, 2008

	<u>Note No.</u>	From 1/1/2008 to 30/6/2008 L.E.	From 1/1/2007 to 30/6/2007 L.E.
<u>Cash Flows from Operating Activities</u>			
Net profit before income tax		183 276 502	206 587 656
<u>Adjustments to Reconcile Net Profit with Net Cash Flows from Operating activities</u>			
Impairment in receivables		-	-
Fixed assets depreciation	(4)	1 029 907	505 340
		184 306 409	207 092 996
<u>Change in working capital</u>			
(Increase) in receivables		(74 329 573)	(138 581 159)
(Increase) in inventory		-	-
(Increase) decrease in debtors & other debit balances		(3 368 059)	42 982 826
(Decrease) in suppliers advance payments		(2 697 757)	(1 561 770)
Decrease (increase) in work in process		(10 405 861)	16 147 820
(Decrease) increase in receivables advance payments		(3 827 316)	(5 317 195)
Increase in creditors and other credit balances		4 260 104	541 265
Increase in estimated cost for development of sold land		1 212 268	137 364
Increase (decrease) in due to Authority of Touristic development		(5 841 254)	4 654 747
Payments under the account of land purchase		-	(32 398 721)
(Decrease) in purchase of land creditors		-	(34 320 000)
Paid income taxes		(2 232 949)	-
Change in minorities' interests		60 771 830	-
Net cash flow available from operating activities		147 847 841	59 378 173
<u>Cash Flows from Investment Activities</u>			
Payments for purchase of fixed assets		(1 063 487)	(1 111 541)
Payments for projects in progress		(11 621 074)	(7 112 190)
Net cash (used in) investing activities		(12 684 561)	(7 223 731)
<u>Cash Flows from Financing Activities</u>			
Paid dividends		(169 455 452)	(3 294 561)
Net cash flow provided by financing activities		(169 455 452)	(3 294 561)
Net cash available during the period		(34 292 172)	48 859 881
Cash & cash equivalent as at January 1, 2008		462 279 870	28 840 987
Cash & cash equivalent as at June 30, 2008	(10)	427 987 698	77 700 868

- The accompanying notes form an integral part of these financial statements.

**Egyptian Resorts Company
(Egyptian Joint Stock Company)**

**Notes to the Consolidated Financial Statements
For the six months ended June 30, 2008**

1- General Background

(A) General

- Egyptian Resorts Company - Egyptian joint stock Company – established under the provisions of Law No. 159 of 1981 and its executive regulations and also subject to the provisions of Law No. 95 of 1992 and its executive regulations. The company was registered in the commercial register under No. 6514 on 24/4/1996.
- The Company's duration is 50 years starting from the date of registration in the commercial registry.
- The financial year for the company starts from January 1st and ends at December 31st each year.
- The company's head office location is at Sahl Hasheesh – Hurghada – Red Sea, and the location of the company's branch at Cairo Governorate is at 4 A Aziz Abaza street – Zamalek – Cairo.
- The Chairman of the board of directors is Dr. Ibrahim Kamel Abu Eloyoon – and the Managing director is Mr. Richard Turner (and the board of directors approved these financial statements on 13/8/2008).

(B) Company's purpose

B-1 Egyptian Resorts Company

The purpose of the company is generally touristic constructions and establishing a complete touristic residential compound in Sahl Hasheesh area in the Red Sea City, through preparing the land and supplying the needed facilities and basic services; stations and networks for generating electricity, water treatment, sewage services, and roads to embark them for establishing a group of hostelry, touristic, residential and entertainment projects, whether by itself or by other parties.

B-2 Sahl Hasheesh Company for Touristic Investment

The purpose of the company is establishing 30 hostelry apartments consists of 200 rooms of a 5 stars level, fully completed with its complementary utilities and entertainment services which represented in restaurants, cafeterias, health club, swimming pools, tennis, golf, squash playgrounds, entertainment hall and disco, meeting rooms, wedding halls, gardens and playgrounds for kids, entertainment center, medical unit, marine and all kinds of marine sports. Egyptian Resorts Company owns 54.68% of Sahl Hasheesh Company for Touristic Investment.

It was worth mentioning that Sahl Hasheesh Company for touristic did not start its activity yet.

(C) The company is listed under the stock exchange market in Cairo and Alexandria.

2- Basis of preparation of the consolidated financial statement

2-1 Basis for preparation

A- Statement of compliance

The consolidated financial statements have been prepared in accordance with Egyptian Accounting Standards and in the light of applicable Laws and regulations.

B- Basis of measurement

These financial statements have been prepared on the historical cost basis.

C- Functional and presentation currency

The consolidated financial statements are presented in Egyptian pounds, which is the Company's and its subsidiaries functional currency.

D- Use of estimates and judgments

- The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and the estimates and assumptions related to them when applied are considered according to prior experience and acceptable other factors. The results of these assumptions and estimates represent the base for judgment on the net book values of assets and liabilities in a clearer way than any other source. Actual results may differ from these estimates.
- The assumptions and estimates are reviewed periodically.
- Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

2-2 Principles for consolidation of company's and its subsidiaries financial statements

The attached consolidated financial statements include assets, liabilities and the results of Egyptian Resorts Company and its subsidiaries which is called a "group" in which the holding company controls. The basis for preparation consolidated financial statements is as follows:

- All balances and transactions between the companies of the group were eliminated.
- Minority interest from Owners' equity and companies' results which the holding company controls so it was classified in a separate item in the consolidated financial statements. The percentage of the minority interest in assets and liabilities of the subsidiary companies were computed when acquired.

- Cost of acquisition was classified as follows:
 - (A) The fair value of owned assets and liabilities as at acquisition date which is equivalent in value to the book value and in the limit of the percentage the holding company obtained on that date.
 - (B) What exceeds from the acquisition cost of the holding company's share in the fair value of subsidiary company's assets and liabilities – if any – it should be recorded as goodwill and to be amortized according to the expected usefulness of this goodwill.

3- Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and these policies applied to the most recent annual financial statements issued.

3-1 Foreign currencies translation

Transactions in foreign currencies are translated based on prevailing exchange rates at the dates of the transactions. At the balance sheet date monetary assets and liabilities denominated in foreign currencies are retranslated to L.E as per the prevailing exchange rates on that date. Any differences resulting from translation are taken to the income statement.

More over the non monetary assets and liabilities which are stated at historical cost of the foreign currency are retranslated as per the prevailing exchange rate on the date of the transaction.

3-2 Fixed assets and depreciation

A- Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation (3-2-C) and impairment losses (3-10).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

B- Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

C- Depreciation

Depreciation is recognized in income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives for these assets are as follows:

Buildings	50 years
Machinery & Equipments	10 years
Furniture & Fixtures	16 years
Vehicles	5 years
Computers	5 years
<u>Water treatment station and deflation station</u>	
Structural works	30 years
Mechanical works	10 years
Water tank	30 years
Warehouses	30 years
Gateway	30 years

3-3 Projects in progress

First measurement: Projects in progress are recorded at cost. Cost includes all expenditures that are directly attributable to bringing the asset to a working condition for its intended use and to the purpose in which it was acquired for.

Projects in progress are transferred to fixed assets as soon as these projects were finished and are ready for use.

Projects in progress are evaluated on the balance sheet date deducted from it impairment losses – if any (note 3-10).

3-4 Inventory

Inventory is stated at cost or net realizable value which is lower. Net realizable value is represented in estimated sale price during the ordinary activity less the estimated completion cost and selling expenses, disbursed from inventory is valued using weighted average method. Cost includes all costs the company bears to purchase the inventory till reaching its site and its current position.

3-5 Work in progress

All Costs related to the work in progress are recorded in the work in progress account and at sale this account shall be deducted from the estimated cost account according to the actual cost of the meters sold. Work in progress is recorded at cost or the net realizable value which is lower in the consolidated balance sheet.

3-6 Estimated cost for development of sold land

The cost of development of sold land is recorded initially by the actual cost of the completed part in addition to estimated cost of the not completed part in order to reach the full cost of the accomplished of all the development and utilities works related to sold land for each phase separately, and it is restudied in the light of the technical study of the total estimated cost prepared annually by the technical department for each phase and approved by the project's consultant.

3-7 Receivables, debtors and other debit balances

Receivables, debtors balances are stated at nominal value less any amounts expected to be uncollected which is estimated when its probable not to collect all the amount and the balances of receivables and debtors are reduced by the amount of bad debts. These balances are recorded less impairment losses (note no. 3-10), Long –term receivables are measured by present value of expected cash flows which is computed by using actual return rate.

3-8 Cash flow statement

Cash flow statement is prepared according to indirect method.

3-9 Cash an cash equivalent

For the purpose of preparing the cash flow statement, cash and cash equivalents comprise cash at banks and on hand, call deposits, balance of bank overdrafts that are pre-payable on demand and form an integral part of the company's cash management.

3-10 Impairment

A- Financial assets

- A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.
- An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.
- Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.
- All impairment losses are recognized in the income statement.
- An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the income statement.

B- Non-financial assets

- The carrying amounts of the non-financial assets, other than inventory and deferred tax assets are reviewed at the balance sheet date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.
- An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in the income statement.

- The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
- An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

3-11 Provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of past events, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax to take such effect into consideration in which reflects the current estimate of the monetary value in the market and the risks related to this liability if it's suitable. Provisions are reviewed at each balance sheet date and adjusted, if required, to reflect the best current estimate.

3-12 Creditors and other credit balances

Creditors and other credit liabilities are recorded at cost.

3-13 Employees' pension plan

The company contributes in the social insurance system for the benefit of employees according to law of Social Insurance Authority. The employer and the employees contribute in the system by a fixed percentage from salaries as per this law and the company's liability is limited to this contribution. The company charges this contribution to the salaries and wages in the income statement according to the accrual basis.

3-15 Revenue recognition

Activity's revenues

Revenue from sales of land (through installments) is recognized in accordance with the contract terms, under which the payment of the corresponding installments will be recognized at the cash sales price (without interest) as income on the date of sale. The cash sales price is determined by deducting the due installments by using appropriate discount rate to show the difference between the total sale price and the cash price deducted from the customer's balances are recognized as income over its accrual period. Thus and all land sold to customers are received with full utilities ready for construction.

Financial investments' Revenue

Investment revenue is recognized in income statement, when a company's right to receive dividends from the companies invested in and realized after the date of acquisition.

Interest income

The credit interest is recorded according to the accrual basis.

3-16 Expenses

Expenses are recognized on accrual basis.

3-17 Financial costs (net)

Financial costs include all debit and credit interests on the invested money in addition to the foreign exchange differences.

3-18 Interest expenses

Interest expenses related to loans are charged to income statement using actual interest rate method.

3-19 Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in this case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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 measured using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets are reviewed at the balance sheet date and reduced to the extent that it is no longer probable that the related tax benefit will be realized during the subsequent years.

3-20 Purchase of capital's shares

The amounts paid for Company's capital shares and all costs related are included in Shareholders' equity as a change. Purchased shares are classified as treasury shares and to be presented deducted from total Shareholders' equity.

3-21 Dividends

The dividends recorded as liability in the period they are declared.

3-22 Earning per share

Earning per share is computed by dividing the profit or loss related to shareholders who represent their contribution in company's capital over the weighted average of common stock shares outstanding during the period.

4- **Fixed Assets**

The balance of this item shown in balance sheet as at June 30, 2008 amounted to L.E 34 834 786 as follows:-

	<u>Land</u>	<u>Buildings</u>	<u>Machinery & Equipment</u>	<u>Furniture & Fixtures</u>	<u>Transportation vehicles</u>	<u>Water Deflation station</u>	<u>Primary gateway</u>	<u>Water tank</u>	<u>Warehouses</u>	<u>Water desalination station</u>	<u>Computers & Air-conditioning</u>	<u>Total</u>
	L.E.	L.E.	L.E.	L.E.	L.E.	L.E.	L.E.	L.E.	L.E.	L.E.	L.E.	L.E.
Cost as at 1/1/2008	521 610	6 430 056	942 004	705 269	1 286 841	11 514 253	4 801 902	2 177 545	1 514 767	9 040 637	1 559 442	40 494 326
Additions during the year	-	151 857	273 982	203 342	1 760	-	-	-	-	-	432 547	1 063 488
Cost as at 30/6/2008	521 610	6 581 913	1 215 986	908 611	1 288 601	11 514 253	4 801 902	2 177 545	1 514 767	9 040 637	1 991 989	41 557 814
Accumulated Depreciation as at 1/1/2008	-	955 724	643 813	331 344	1 186 459	569 755	106 709	35 622	25 248	464 111	1 374 335	5 693 120
Depreciation of the year	-	63 983	39 684	22 021	16 761	310 776	80 032	36 292	25 246	400 141	34 971	1 029 906
Accumulated Depreciation as at 30/6/2008	-	1 019 707	683 497	353 365	1 203 220	880 531	186 741	71 914	50 494	864 252	1 409 306	6 723 026
Net book value as at 30/6/2008	521 610	5 562 206	532 488	555 246	85 381	10 633 723	4 615 161	2 105 631	1 464 273	8 176 385	582 684	34 834 788
Net book value as at 31/12/2007	521 610	5 474 332	298 192	373 925	100 382	10 944 497	4 695 193	2 141 923	1 489 519	8 576 526	185 107	34 801 206

* Fixed assets include assets fully depreciated, its cost amounted to L.E 3 423 220 as at June 30, 2008 as follows:

	<u>L.E</u>
Transportation vehicles	1 093 541
Machinery & equipment	249 198
Buildings (Caravans)	82 831
Computers	1 997 650
	<u>3 423 220</u>

Depreiations were classified as follows:

Operating fixed assets depretiation	827 241
Adminstrative fixed assets depretiation	202 666
	<u>1 029 907</u>

5- Projects in Progress

The balance of this item shown in the consolidated balance sheet as at June 30, 2008 represented as the follows:

	<u>30/6/2008</u>	<u>31/12/2007</u>
	L.E	L.E
<u>Sahl Hasheesh Company</u>		
Land	33 622 122	30 802 254
Work processed by Sahl Hasheesh Company	29 056 498	22 159 455
Work processed by Katoo for contracting	-	5 237 426
Contractors' advance payments	12 466	12 466
<u>Egyptian Resorts Company</u>		
Water tank – at Sahl Hasheesh zone	3 321 069	--
Water treatment station	3 820 520	--
Balance as at June 30, 2008	<u>69 832 675</u>	<u>58 211 601</u>

- Projects in progress are transferred to fixed assets as soon as it was executed.
- The company concluded a contract with KATO for contracting Co. (related party- the chairman of KATO for investments is also the chairman for ERC, and KATO for investments is the main investor in KATO for contracting).

6- Work in Progress

The actual cost for the work in progress account shown in the consolidated balance sheet as at June 30, 2008 is represented as follows:-

	<u>Balance as</u> <u>at</u> <u>30/6/2008</u>	<u>Balance as</u> <u>at</u> <u>31/12/2007</u>
	L.E.	L.E.
6-1 Cost of the project's lands haven't been sold yet 503 410 m ² - Phase 1	25 188 785	24 633 015
6-2 Cost of the project's lands haven't been sold yet 3 171 557 m ² -Phase 2	65 385 827	67 290 685
6-3 Cost of project's lands 20 million m ² – Phase 3	220 118 748	31 014 505
	<u>310 693 360</u>	<u>122 938 205</u>

6-1 The estimated cost for Phase 1 of the project as at December 31, 2007 according to the study prepared by the technical department and approved by the project's consultant amounted to L.E 182 343 522 (with estimated cost L.E 56.15 / meter) and upon the sale of any of the project's lands, 7.5% of the selling price is due to the authority with minimum payment L.E 11.25/meter according to the contracts.

According to the prime minister’s decree No. 1026 of 2005 published in the official gazette issue No.28 July 14, 2005 stating that the lands sold for the purpose of constructing a touristic project, US\$ 1.75 is due to the authority per meter sold.

The project’s first Phase is purchased by the Touristic development Authority.

6-2 Second Phase Lands

- The company rented the second phase’s lands 6 million meters as an extension to the touristic development of phase one,
- On March30, 2003 the company got an initial approval from the General Authority for touristic development (Ministry of tourism) to sell the area allocated from the touristic center for the second phase (6 million m²). The balance of the work in progress includes an amount of L.E 46 134 750 equivalents to US\$ 8 025 000 represented as follows:

	<u>USD \$</u>	<u>L.E</u>
- The value of second phase land (6 million m ²)	7 500 000	43 125 000
- Allocation expenses	150 000	862 500
- contractual expenses	<u>375 000</u>	<u>2 156 250</u>
	<u>8 025 000</u>	<u>46 143 750</u>

* The Allocation and contractual expenses and the full value of the second phase’s land (mentioned above) were paid.

The estimated cost as at December 31, 2007 for the project’s second phase according to the study prepared by the technical department and approved by the project’s consultant amounted to L.E 221 199 478 (estimated cost L.E 40.91/meter) and upon the sale of any of the project’s lands, 7.5% of the selling price is due to the authority with minimum payment L.E 11.25/meter according to the contracts, applying the prime minister’s decree No. 1026 of 2005 mentioned above in note (7-1) over the project’s second phase.

6-3 Third phase lands

The company rented the third phase’s lands (20 million m²) as an extension to touristic development of the first and second phase.

On March17, 2005 the company communicated the General Authority for Touristic Development to issue a letter confirming the company’s rights in developing the project’s third phase. On March 20, 2005 the Authority for Touristic Development replied that there are no restrictions on studying the company’s proposal as long as the company fulfills the terms of the contract and the authority will notify the company with the results of the study then, according to the authority’s letter dated February 26, 2007, the price of the meter was determined by \$ 1.40/m², the total costs of purchased land from the General Authority for Touristic Development amounted to US\$ 29 960 000 which is equivalent to L.E 162 453 294 which are included in the work in process – third phase and also in installments interest as at June 30, 2008 as per the contract. Knowing that the company did not provide us with the final schedule to determine the installments, its interest and its dates till this date, and the development of this phase is currently being undertaken.

- * The company is currently making a study for first and second phase for determination of the utility completed lands and ready for sale and also separating the completed lands from those under progress.

7- Accounts & Notes Receivable (Net)

The balance of accounts & notes receivable shown in the consolidated balance sheet as at June 30, 2008 is represented as follows:

	<u>30/6/2008</u> L.E.	<u>31/12/2007</u> L.E.
<u>7/1 Accounts & Notes receivable (short term)</u>		
Land receivables- first phase	121 083 369	248 188 009
Land receivables- second phase	184 124 602	47 559 263
Villas receivables- first zone	4 894 605	6 112 977
Villas receivables- second zone	11 554 856	11 178 849
	321 657 432	313 039 098
<u>Add:</u> Short term notes receivables	46 673 656	16 528 832
<u>Less:</u> Impairment in receivables	(578 309)	(578 309)
	367 752 778	328 989 621
<u>7/2 Accounts & Notes receivable(Long term)</u>		
	<u>30/6/2008</u> L.E.	<u>31/12/2007</u> L.E.
Land receivables- first phase	51 282 535	183 746 709
Land receivables- second phase	198 755 394	38 885 028
Villas receivables- first zone	416 976	2 172 406
Villas receivables- Second zone	775 852	5 277 876
	251 230 757	230 082 019
*<u>Less:</u> Present value	(52 646 611)	(51 872 253)
	198 584 146	178 209 766
<u>Add:</u> Long term notes receivables	17 029 606	2 223 530
	215 613 752	180 433 296

- Land receivables – first phase included delayed installments amounted to L.E 42 806 492 equivalent to US\$ 8 046 333 and this customer's balance as at June 30, 2008 amounted to L.E 141 054 475 equivalent to US\$ 26 513 999 in which the company concluded a contract with this customer on December 25, 2006. the company rescheduled the due installments as per the contract concluded with the customer on December 3, 2007 in order to be given an extra credit period for another year to settle the due installments starting from March 31, 2008. the customer was informed on April 1st to settle the delayed installments during 90 days or else the company will take back the land sold to him as per article 16-1 in the contract mentioned above. Total recorded sales on 2006 after deducting deferred interest amounted to L.E 167 799 429 and the cost of sales amounted to L.E 69 091 185.

8- Sundry Debtors & Other Debit Balances

The balance of sundry debtors & other debit balances shown in the consolidated balance sheet as at June 30, 2008 is represented as follows:

	<u>30/6/2008</u>	<u>31/12/2007</u>
	L.E.	L.E.
Letters of guarantee covers	50 000	50 000
Cash imprests and loans	55 703	151 256
Prepaid expenses	18 540	37 747
Withholding tax	2 369	1 419
Deposits with others	82 475	82 525
Accrued interest	1 258 637	399 621
Contractors (debit balances)	2 126 735	1 448 437
Sundry debtors	<u>3 547 972</u>	<u>1 603 339</u>
	<u>7 142 431</u>	<u>3 774 344</u>

9- Cash on Hand and at Banks

This item shown in the consolidated balance sheet as at June 30, 2008 is represented in the following:-

	<u>30/6/2008</u>	<u>31/12/2007</u>
	L.E	L.E
Cash on hand	72 245	60 285
Banks – current accounts-L.E	38 750 270	29 149 008
Banks – current accounts-US\$	26 267 193	8 822 374
Banks – current accounts-EURO	582 501	562 577
Banks-time deposit-L.E	244 057 945	344 785 646
Banks-time deposit-US\$	71 854 392	52 732 447
Cheques under collection	<u>46 403 152</u>	<u>26 167 533</u>
Balance	<u>427 987 698</u>	<u>462 279 870</u>

10- Provision for Claims

This item shown in the consolidated balance sheet as at June 30, 2008 with an amount of L.E 420 000 out of which L.E 250 000 are formed to face the salaries tax inspection differences for year 2004.

11- Advance Payments from Receivables

Advance payments from receivables as at June 30, 2008 amounted to L.E 3 180 059 are represented as follows:

	L.E
A- Deposits received from some of the customers of the holding company under the account of purchasing villa's lands in the project's first phase and lands in the second phase (compared to L.E 4 240 250 as at December 31, 2007).	486 250
B- Advance payments from receivables – rentals of Sahl Hasheesh company (subsidiary company)	2 693 809
	<u>3 180 059</u>

12- Sundry Creditors & Other Credit Balances

The balance shown in the consolidated balance sheet as at June 30, 2008 is represented in the following:

	<u>30/6/2008</u>	<u>31/12/2007</u>
	L.E	L.E
Sundry creditors	8 771 998	9 055 761
Contractors' retention	6 141 797	5 896 754
Contractors-social insurance	2 546 498	2 491 961
Accrued expenses	1 114 186	655 742
Due to governmental authorities	3 576 224	1 220 562
Other credit balances	3 246 961	2 232 712
Villas' maintenance deposits	690 000	660 000
	<u>26 087 664</u>	<u>22 213 492</u>

13- Due to the General Authority for Touristic Development

This item shown in the consolidated balance sheet as at June 30, 2008 is represented as follows:

13-1 Dues to the authority – due within one year

	<u>30/6/2008</u>	<u>31/12/2007</u>
	L.E.	L.E.
Accrual rent for the third phase	865 928	865 928
Liabilities due to the authority for the sale of the project's land	22 328 280	33 080 407
Balance	<u>23 194 208</u>	<u>33 946 335</u>

13-2 Dues to the authority – Long Term

The classifications of the short and long term dues to the authority is according to the customers' payments of the installments of the lands sold, thus the amounts due to the authority (long term) shown in the unconsolidated balance sheet as at June 30, 2008 are as follows:

	<u>30/6/2008</u>	<u>31/12/2007</u>
	L.E.	L.E.
Due to General Authority for Touristic Development – Long Term	14 825 098	9 914 226
	<u>14 825 098</u>	<u>9 914 226</u>

14- Capital

The company's authorized capital amounted to L.E 700 000 000 (only seven hundred million Egyptian ponds) and the issued capital amounted to L.E 350 000 000 (only three hundred and fifty million Egyptian pounds) divided over 3 500 000 share at par value of L.E 100, and the shareholders paid one fourth of the par value of the shares, the paid in capital amounted to L.E 210 000 000 (paid from the dividends declared by the General Assembly Meeting for the approved financial statements from 1999 till 2003) thus the amount paid from the share is L.E 60.

- **Reduction of the issued capital**

According to the extra ordinary general assembly meeting dated 28/11/2004 unanimously agreed upon the following:

- 1- reducing the issued capital from L.E 350 millions to L.E 210 millions, by reducing the par value of the shares from L.E 100 to L.E 60 for the same number of shares (3.5 million share) accordingly the company's issued capital is fully paid, to organize the company's position according to the procedures and continuation of the registration of the stocks in the stock exchange market.
- 2- Splitting the par value of the shares from L.E 60 to L.E 10 then the number of shares will be 21 million shares instead of 3.5 million shares, thus the company's issued and fully paid in capital amounted to L.E 210 millions divided over 21 million shares at a par value of L.E 10.

- **Increase of the issued and paid in capital**

As per the decision of General Assembly Meeting held on 11/5/2006 and the decision of the company's board of directors on 24/5/2006 which approved on retaining the shareholders share in dividends for the financial year ended 31/12/2005 under the account of increase of issued and paid in capital which amounted to L.E 52 500 000 (fifty two million five hundred thousand Egyptian pounds) which will be one free stock for each four owned stocks (these stocks amounted to 21,000,000) though the company's issued and paid in capital became L.E 262 500 000 represented in 26,250,000 shares in which the nominal value of the share is L.E 10. There was annotation in the commercial register on 18/7/2006.

- **Reduction of share's nominal value**

As per the decision of the Extraordinary General Assembly Meeting held on 23/12/2006 the nominal value of the share was amended to be L.E 1 instead of L.E 10 and the share was spitted to be ten shares though the number of issued and fully paid shares became 262,500,000 shares then issued and fully paid in capital amounted to L.E 262 500 000 distributed on 262,500,000 shares with nominal value L.E 1 for each share. There was annotation in the commercial register on 21/2/2007.

- **Authorized capital increase**

As per the decision of the General Assembly Meeting held on April 11, 2007 all the members unanimously approved on the following:

- Increase of the authorized capital which is L.E 700 000 000 (Seven hundred million Egyptian pounds) to become 2 000 000 000 (Two billion Egyptian pounds) and this was annotated in the commercial register on April 26, 2007.

- **Increase in Issued and Paid in capital**

Increase in Issued and Paid in capital by retaining the shareholders share in dividends for the financial year ended 31/12/2006 under the account of increase of issued and paid in capital which amounted to L.E 175 000 000 (fifty two million five hundred thousand Egyptian pounds) though the company's issued and paid in capital became L.E 437 500 000 represented in 437 500 000 shares in which the nominal value of the share is L.E 1. There was annotation in the commercial register on 26/4/2007.

- **Increase in Issued and Paid in capital**

Issued and paid in capital was increased by an amount of L.E 262.5 million (two hundred sixty two million and five hundred thousand Egyptian pounds) which was fully paid by the subscription of old shareholders in capital as per the decision of the board of directors on 25/3/2007. The share was issued by a nominal value of L.E 1 in addition to issuance premium of 25 piaster for each share. The total number of issued and subscribed shares is 262.5 million shares as per the certificate from Misr Iran bank dated June 20, 2007. There was annotation in the commercial register on 16/7/2007.

As per the decision of General Assembly Meeting held on 11/9/2007 there was a verification on the distribution project by an amount of L.E 140 million from the realized profits on the financial statements for the financial period for six months ended June 30, 2007 as a bonus shares for shareholders and the board of directors was delegated to take the necessary procedures for capital increase in the limit of the authorized capital amounted to L.E 2 000 000 000 and the capital after this free increase became L.E 840 million. Articles 6 and 7 of the company's articles of associations were amended by distributing one bonus share for each five outstanding share of issued capital which is amounted to L.E 700 million. There was annotation in the commercial register on 27/11/2007.

As per the decision of General Assembly Meeting held on 24/4/2008 there was a verification on the distribution project by an amount of L.E 210 million from the realized profits on the financial statements for the financial year ended December 31, 2007 as a bonus shares for shareholders and the board of directors was delegated to take the necessary procedures for capital increase in the limit of the authorized capital amounted to L.E 1 050 000 000. Articles 6 and 7 of the company's articles of associations were amended by distributing one bonus share for each four outstanding share of issued capital which is amounted to L.E 840 million. There was annotation in the commercial register on 29/7/2008.

15- Earning per share

Earning per share is computed using weighted average of number of the outstanding shares during the period as follows:

	<u>From</u> <u>1/1/2008 to</u> <u>30/6/2008</u>	<u>From</u> <u>1/4/2008 to</u> <u>30/6/2008</u>	<u>From</u> <u>1/1/2007 to</u> <u>30/6/2007</u>	<u>From</u> <u>1/4/2007 to</u> <u>30/6/2007</u>
	<u>L.E.</u>	<u>L.E.</u>	<u>L.E.</u>	<u>L.E.</u>
Net profit for the period	139 150 553	146 786 442	206 475 355	122 058 830
Less:				
Employees' share in proposed appropriation profit	--	--	(1 823 304)	(1 823 304)
Board of directors remuneration	--	--	(890 663)	(890 663)
	<u>139 150 553</u>	<u>146 786 442</u>	<u>203 761 388</u>	<u>119 344 863</u>
(*)Average number of shares during the period	840 000 000	840 000 000	840 000 000	840 000 000
Earning per share	<u>L.E.</u> <u>0.17/share</u>	<u>L.E.</u> <u>0.17/share</u>	<u>L.E.</u> <u>0.24/share</u>	<u>L.E.</u> <u>0.14/share</u>

Earning per share was computed as follows:

- 1- Earning per share was not affected by the share of employees and board of directors in profits for the period from 1/1/2008 till 30/6/2008 as its being determined by the appropriation profit proposed by the board of directors at the end of the year and till being approved by the General Assembly Meeting.
- 2- Average number of outstanding shares for comparative period was computed as follows:
The number of common stock shares which were outstanding before the capital increase during year 2007 was amended to be 840 million shares as if this event happened at the beginning of the financial period (1/1/2007) as per the Egyptian Accounting Standards.

16- Net Sales and Costs of Sale

16-1 Net sales

Company's activity is represented in one main sector which is selling lands in Sahl Hasheesh; the subsidiary company did not start its activity yet though the activity inception was not determined from the specialized managerial authority. Company's net sales can be analyzed as follows:

	<u>From</u> <u>1/1/2008 to</u> <u>30/6/2008</u> L.E.	<u>From</u> <u>1/4/2008 to</u> <u>30/6/2008</u> L.E.	<u>From</u> <u>1/1/2007 to</u> <u>30/6/2007</u> L.E.	<u>From</u> <u>1/4/2007 to</u> <u>30/6/2007</u> L.E.
<u>Revenues from sale of land</u>				
Phase one	6 871 092	6 871 092	230 972 639	143 308 500
Phase two	209 778 896	209 778 896	-	-
<u>Revenues from sale of villas *</u>				
First zone	--	--	4 017 349	2 697 924
Second zone	--	--	3 924 026	-
Total revenues from sale of land and villas	<u>216 649 988</u>	<u>216 649 988</u>	<u>238 914 014</u>	<u>146 006 424</u>
Accrued revenues from previously sold land	12 472 085	7 672 297	13 512 590	4 849 627
Total	<u>229 122 073</u>	<u>224 322 285</u>	<u>252 426 604</u>	<u>150 856 051</u>

(*) Selling Villas was stopped as per the decision of the board of directors on 22/8/2007. Decision No. 43/2007.

(**) the amount included in the revenues of first phase (after deducting deferred interest) is represented in the utilizing for an area of 100 000 meter squared in favor of Alsharkya Company for Touristic establishments as a development of first phase lands, the price per meter squared is L.E 80 as per the contract concluded between both companies. An amount of L.E 2 000 000 on June 28, 2008 and the remaining amount which is L.E 6 000 000 should be paid on semi annual installments ends on February 28, 2010.

16-2 Cost of land

	<u>From</u> <u>1/1/2008 to</u> <u>30/6/2008</u>	<u>From</u> <u>1/4/2008 to</u> <u>30/6/2008</u>	<u>From</u> <u>1/1/2007 to</u> <u>30/6/2007</u>	<u>From</u> <u>1/4/2007 to</u> <u>30/6/2007</u>
	L.E.	L.E.	L.E.	L.E.
<u>Cost of land</u>				
Phase one	5 006 680	5 006 680	35 654 019	22 358 409
Phase two	10 676 164	10 676 164	--	--
<u>Cost of sale of villas</u>				
First zone	--	--	334 524	278 714
Second zone	--	--	220 826	--
Total	<u>15 682 844</u>	<u>15 682 844</u>	<u>36 209 369</u>	<u>22 637 123</u>

(*) The cost of first phase sales is represented in the actual costs for utilizing an area of 100 000 meter squared which is owned by Alsharkya Company for Touristic Establishments in which it was agreed to utilize its lands by Egyptian resorts Company as a development of first phase lands as mentioned in note (16/1).

17- Administrative and General Expenses

	<u>From</u> <u>1/1/2008 to</u> <u>30/6/2008</u>	<u>From</u> <u>1/4/2008 to</u> <u>30/6/2008</u>	<u>From</u> <u>1/1/2007 to</u> <u>30/6/2007</u>	<u>From</u> <u>1/4/2007 to</u> <u>30/6/2007</u>
	L.E.	L.E.	L.E.	L.E.
Salaries, wages and related expenses	1 645 958	1 301 614	1 052 618	732 506
Other expenses	2 342 056	1 449 033	1 371 945	421 158
Allowances and salaries of top management	12 850 550	10 121 051	2 355 638	1 899 576
Employees' orientation and training fund	2 068 124	1 777 315	2 100 021	1 246 365
Total	<u>18 906 688</u>	<u>14 649 013</u>	<u>6 880 222</u>	<u>4 299 605</u>

18- Minority Interest

The balance shown in the consolidated balance sheet as at June 30, 2008 is represented in their share in owners' equity in the subsidiary company by the percentage of 31.56% as follows:

	L.E
Balance as at 1/1/2008	15 919 630
<u>Less:</u>	
Minority's share in the profits of the financial year ended as at June 30, 2008	2 700 058
Minority's share in capital increase	60 771 830
Balance as at June 30, 2008	<u>79 391 518</u>

19- Tax Position

First: Tax position for the holding company (Egyptian Resorts Company) as per what was presented in the consolidated financial statements which complies with the tax system of Arab Republic of Egypt in practice

The tax position of the company as at 30/6/2008 is represented in:

19-1 Corporate tax

The company is subject to the provisions of tax law no. 157/1981 till the issuance of the new tax law no. 91/2005. the company enjoys income tax exemption for ten years starting from the first financial year subsequent to the activity inception on January 1, 1998 till December 31, 2007 in application of the provisions of article no. 4 of law no. 143/1981 concerning desert land owned by the state. This law was amended by law no. 72/1996 with the same explanations which was stated previously in law no. 59/1979 concerning the new urban communities. The company's books were inspected by the Tax Authority of corporate companies since company's activity inception till year 2000 and there was an assessment as per the resolution of the appeal committee and tax due was fully paid. There was tax inspection for years from 2001 till 2004 and the company was informed by form (18) and the dispute was assigned to an internal committee by the Tax Authority which declared that there were no tax differences.

The tax returns were submitted for years 2005, 2006 and 2007 according to Law No.91 of 2005 in the due dates.

19-2 Salary tax

The salary tax for the company was inspected starting from the company's activity inception till year 2003 and there was an assessment as per the resolution of the internal committee and there were no disputes. There was Tax inspection for year 2004 and there was assessment as per the resolution of the internal committee which amounted to L.E 920 623 in which L.E 668 808 was paid and the company formed a provision by the difference.

19-3 Sales tax

The company was inspected by the Tax Authority from the activity inception till year 2005 and there was assessment by an amount of L.E 18 500 which was paid.

19-4 Stamp tax

The company was inspected by the Tax Authority from the activity inception till year 2005 and there was assessment by an amount of L.E 4 875 which was paid. The company was inspected for the period from January 1, 2006 till July 31, 2007 and there was an assessment by an amount of L.E 5 305 which was paid.

19-5 Movable tax

The company's books were inspected by the Tax Authority of corporate companies since company's activity inception till year 2000 and the dispute was assigned to estimate the tax pool by the Tax Authority and there was an assessment and all tax due were paid. There was tax inspection for years from 2001 till 2004 and the dispute was assigned to an internal committee by the Tax Authority which made a final assessment by an amount L.E 131 192 and this amount was paid.

Second: Tax position for the subsidiary company (Sahl Hasheesh for touristic investment) as per what was presented in the consolidated financial statements as at June 30, 2008 which complies with the tax system of Arab Republic of Egypt in practice

- The company is subject to the provisions of law no. 8/1997 related to the issuance of guarantee and incentive investments law and its executive regulations. The tax inspection and the final assessment for the movable taxes and salary tax was done and the due amounts paid till year 2005.
- The company also submitted its tax returns for the years 2004, 2005, 2006, 2007.

20- Financial Instruments and Risk Management

The Company's financial instruments are represented in financial assets (cash at banks and on hand, financial investments, notes receivables, debtors other debit balances) and the financial liabilities (other creditors, receivables credit balances, purchase of land creditors, suppliers and contractors, other credit balances and banks over draft).

20-1 Fair Value

Fair value of the financial instruments reflects the reciprocal value of the asset or settlement of a liability between parties has the desire and the capability to trade with a free will, the book value of the financial instruments as at the balance sheet date is almost equivalent to its fair value.

20-2 Foreign Currency Fluctuation Risk

Foreign currency risk represents the risk of fluctuation in exchange rates, which in turn affects the company's cash inflows and outflows in foreign currency as well as the value of its foreign monetary assets and liabilities as of the date of the financial position the company has foreign currency assets & liabilities equivalent to L.E 863 380 568 and L.E 32 868 752 respectively.

The Company's net balances in foreign currencies at the balance sheet date are as follows:-

<u>Foreign currencies</u>	<u>Surplus (Shortage)</u>
USD	155 545 666
Euro	64 280

As mentioned in Note (3-1) "foreign currency translation" the assets and liabilities in foreign currency were revaluated at the prevailing exchange rate at the balance sheet date.

20-3 Credit Risk

Credit risk is represented in the inability of customers who are offered credit to settle amounts due from them. But the company faces this risk by selecting customers with good reputation who have the ability to settle their obligations. The contracts of land sale in which the company conclude with its customers are preliminary contracts with keeping the ownership of the land till the customers settle the full value of the land.

21- Deferred Tax that results in an Asset (Liability)

The balance of deferred tax (whether assets or liabilities) is represented in:

	<u>30/6/2008</u>	<u>31/12/2007</u>
	<u>L.E.</u>	<u>L.E.</u>
Fixed assets	(683 919)	(515 387)
Provisions	34 000	48 000
Net tax that results in (Liability) Asset	<u>(649 919)</u>	<u>(467 387)</u>

22- Legal Reserve

As per the Company's articles of associations 5 % of the net profit for the year is set aside to form the legal reserve until the balance reaches 50% of the Company's paid-in capital. The legal reserve is used to cover any losses or to increase company's capital.

23- Reservations' Advances

The company receives cheques from the customers who want to purchase plots of lands as a down payment which were recorded in the books till having the board of directors approval upon the sale and concluding contracts, thus the total received cheques as of June 30, 2008 amounted to L.E 1 000 000.

24-Capital Commitments

Capital commitments as at 30/6/2008 are represented in the following:

	<u>L.E.</u>	<u>US\$</u>
24/1 The remaining amount of the third phase's land value which was not requested to be paid till the date of preparation of financial statements as at 30/6/2008 other than the interest due on these installments by a percentage of 5% - simple interest starting from the contract date. and we have not received final schedule for settlement of these installments and the interest due on it.	119 168 000	22 400 000
24/2 The remaining amounts due for the supplier (Pharonica company) for the prolonged warranty of the deflation station.	2 290 000	-
24/3 The remaining amounts related to the unexecuted amounts contracts from the development of first, second and third Phase lands.	45 861 981	-

25- Cash and cash equivalents balance as at June 30, 2008 for the purpose of preparing cash flows statement

The balance of this item as at June 30, 2008 is represented in the following:

	<u>30/6/2008</u>	<u>30/6/2007</u>
	<u>L.E.</u>	<u>L.E.</u>
(*) Cash at banks and on hand (note 9)	427 987 698	81 380 293
<u>Less:</u>		
Cheques under collection	--	(2 649 933)
Cash restricted as a cover for credit facilities	--	(1 029 492)
	<u>427 987 698</u>	<u>77 700 868</u>

(*) Financing activities in cash flows statement did not include the unpaid dividends amounted to L.E 1 176 913 shown in the consolidated balance sheet as at 30/6/2008 included in the dividends payable.

26- Comparative figures

The comparative figures have been reclassified to agree with the classification of the figures in the financial statements as at June 30, 2008 without any effect on the income statement.