

*Translated & Originally
Issued in Arabic*

**Egyptian Resorts Company
“Egyptian Joint Stock Company”**

The Consolidated Financial Statements
&
Review Report
for the nine months ended at September 30, 2008

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Issued in Arabic*

**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 September 30, 2008 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the nine 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.

Except for what was mentioned in paragraph (*) 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 inquiries 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.

- (*) 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 11.81 %.

Based on our review of the consolidated financial statements of Egyptian Resorts Company for the the nine months ended September 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 paragraph (*), 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, November 25, 2008

Egyptian Resorts Company
(Egyptian Joint Stock Company)

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

	<u>Note No.</u>	<u>30/9/2008</u> L.E.	<u>31/12/2007</u> L.E.
<u>Long Term Assets</u>			
Fixed assets (Net)	(3-2,4)	35 321 215	34 801 206
Projects in progress	(3-3, 5)	90 228 660	58 211 601
Accounts & notes receivable (Net)	(3-7, 7,2)	251 050 974	204 181 833
Total Long Term Assets		376 600 849	297 194 640
<u>Current Assets</u>			
Work in process	(3-5,6)	347 557 758	122 938 205
Inventory	(3-4)	51 031	51 031
Accounts & notes receivable (Net)	(3-7, 7-1)	274 654 317	305 241 084
Suppliers & Contractors advance payments		10 793 609	9 526 204
Sundry debtors and other debit balances	(8)	8 318 627	3 774 344
Advance payments-purchase of land		-	43 285 294
Reservations' advances		-	8 990 000
Cash on hand & at banks	(9)	446 173 475	462 279 870
Total Current Assets		1087 548 817	956 086 032
<u>Current Liabilities</u>			
Provision for claims	(3-11,10)	420 000	420 000
Receivables - advance payments	(11)	34 670 109	7 007 375
Reservations' advances		-	8 990 000
Sundry creditors and other credit balances	(12)	32 778 129	22 213 492
Purchase of land creditors - (due within one year)		34 142 790	-
Dividends payable		393 499	535 251
Estimated cost for development of sold land	(3-6)	35 618 854	61 138 596
Due to Authority of Touristic development-(due within one year)	(13/1)	19 027 019	33 946 335
Income tax		65 918 271	2 232 949
Total Current Liabilities		222 968 671	136 483 998
Working capital		864 580 146	819 602 034
Total Investments		1241 180 995	1116 796 674
<u>Financed as follows:</u>			
<u>Shareholders' Equity</u>			
Issued and fully paid in capital	(14)	1050 000 000	840 000 000
Legal reserve	(22)	113 279 929	99 394 633
Retained earnings	(23)	(334 862 240)	18 895 430
Net profit of the period / year		222 841 975	274 919 335
Less: Distributed periodical dividends		-	(142 713 967)
Shareholders' Equity of holding company		1051 259 664	1090 495 431
Minorities' interest	(18)	78 540 615	15 919 630
Total shareholders' equity		1129 800 279	1106 415 061
<u>Long-term Liabilities</u>			
Purchase of land creditors - Long term		104 385 600	-
Due to Authority of Touristic development- Long term	(13/2)	6 300 155	9 914 226
Deferred tax liability	(21)	694 961	467 387
Total Long-term Liabilities		111 380 716	10 381 613
Total shareholders' equity & Long-term Liabilities		1241 180 995	1116 796 674

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

- Review report attached.

Financial Controller
Mr. Stephen Hunter

Managing Director
Mr. Richard Turner

Chairman
Dr. 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 September 30, 2008

	Note No.	2008		2007	
		From 1/1/2008 to 30/9/2008	From 1/7/2008 to 30/9/2008	From 1/1/2007 to 30/9/2007	From 1/7/2007 to 30/9/2007
		L.E	L.E	L.E	L.E
Net sales of sold lands	(16-1)	333 105 184	107 302 256	256 613 358	4 186 754
Revenues from services rendered		7 224 133	3 467 475	1 318 107	944 268
Total revenues		340 329 317	110 769 731	257 931 465	5 131 022
Less:					
Cost of sales	(16-2)	(22 499 437)	(6 816 593)	(36 209 369)	-
operating costs		(5 649 312)	(2 849 042)	(2 555 682)	(1 722 899)
operating assets depreciation		(1 240 882)	(413 641)	(758 887)	(409 749)
Gross profit		310 939 686	100 690 455	218 407 527	2 998 374
Add/(Less):					
Selling & Marketing expenses		(1 319 435)	(589 150)	(2 626 349)	(618 027)
General and administrative expenses	(17)	(23 628 622)	(4 721 934)	(7 834 987)	(954 765)
Impairment in receivables		(7 421 691)	(7 421 691)	(40 000 000)	(40 000 000)
Fixed assets depreciation	(4)	(333 582)	(130 916)	(247 429)	(91 227)
Banks charges		(115 627)	(24 694)	(45 214)	(16 983)
Other revenues		2 288 450	1 726 891	66 000	57 000
Profits resulted from operating activity		280 409 179	89 528 961	167 719 548	(38 625 628)
Interest income		13 317 202	4 040 818	5 111 537	4 436 238
Foreign exchange differences		(2 889 346)	13 990 753	(8 657 635)	(8 224 816)
Financial costs (net)		10 427 856	18 031 571	(3 546 098)	(3 788 578)
Net profit before income tax		290 837 035	107 560 532	164 173 450	(42 414 206)
Current income tax	(3-19, 24-1)	(65 918 271)	(24 674 912)	-	-
Deferred tax that results in an Asset (Liability)	(3-19,26)	(227 574)	(45 042)	(411 526)	(132 858)
Net profit after income tax		224 691 190	82 840 578	163 761 924	(42 547 064)
Shareholders' of the holding company share in the period profits		222 841 975	83 691 421	163 789 287	(42 686 068)
Minorities' share in the profits (losses) of the subsidiary		1 849 215	(850 843)	(27 363)	139 004
		224 691 190	82 840 578	163 761 924	(42 547 064)
Earning per Share	(15)	0.25	0.10	0.18	0.05

* 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 September 30, 2008

<u>Description</u>	<u>Issued & Paid in Capital L.E.</u>	<u>Legal Reserve L.E.</u>	<u>Profits (losses) carried forward L.E.</u>	<u>Net Profit of the period / year L.E.</u>	<u>Distributed periodical dividends L.E.</u>	<u>Minorities' interest L.E.</u>	<u>Total L.E.</u>
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' share 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
1/1/2007 till 30/6/2007	-	-	-	-	(1 823 304)	-	(1 823 304)
Board of directors remuneration	-	-	-	-	(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 periodical 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	<u>840 000 000</u>	<u>99 394 633</u>	<u>18 895 430</u>	<u>274 919 335</u>	<u>(142 713 967)</u>	<u>15 919 630</u>	<u>1106 415 061</u>
Transferred to Retained earnings	-	-	274 919 335	(274 919 335)	-	-	-
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	-	-	(1 591 535)	-	-	-	(1 591 535)
Board of directors' remuneration	-	-	(505 579)	-	-	-	(505 579)
Minorities' interests	-	-	-	-	-	62 620 985	62 620 985
Adjustments on retained earnings	-	-	(91 980 627)	-	-	-	(91 980 627)
Net profit for the period	-	-	-	222 841 975	-	-	222 841 975
Balance as at September 30, 2008	<u>#####</u>	<u>113 279 929</u>	<u>(334 862 239)</u>	<u>222 841 975</u>	<u>-</u>	<u>78 540 615</u>	<u>1129 800 280</u>

- 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 September 30, 2008

	<u>Note No.</u>	<u>From 1/1/2008</u> <u>to 30/9/2008</u> L.E.	<u>From 1/1/2007</u> <u>to 30/9/2007</u> L.E.
<u>Cash Flows from Operating Activities</u>			
Net profit before income tax		290 837 035	164 173 450
<u>Adjustments to Reconcile Net Profit with Net Cash Flows from Operating activities</u>			
Impairment in receivables		7 421 691	40 000 000
Fixed assets depreciation	(4)	1 574 464	1 014 730
		299 833 190	205 188 180
<u>Change in working capital</u>			
(Increase) in receivables (net)		(159 136 749)	(107 176 659)
(Increase) in inventory		-	(26 989)
(Increase) in debtors & other debit balances		(4 544 315)	(2 360 954)
(Increase) in suppliers advance payments		(1 267 405)	(2 573 043)
(Increase) decrease in work in process		(15 283 614)	11 840 187
(Decrease) in receivables advance payments		(3 326 741)	(4 577 289)
Increase in creditors and other credit balances		15 914 956	3 095 288
Increase (decrease) in estimated cost for development of sold land		1 212 268	(4 739 796)
(Decrease) increase in due to Authority of Touristic development		(3 696 467)	3 148 154
Payments under the account of land purchase		-	(32 474 494)
(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		188 244 004	35 022 585
<u>Cash Flows from Investing Activities</u>			
Payments for purchase of fixed assets		(2 094 473)	(707 964)
Payments for projects in progress		(32 017 059)	(9 200 236)
Net cash (used in) investing activities		(34 111 532)	(9 908 200)
<u>Cash Flows from Financing Activities</u>			
Paid for capital increase		-	262 500 000
paid for issuance premium of capital increase shares		-	65 625 000
Paid dividends		(170 238 867)	(6 282 562)
Net cash flow (used in) provided by financing activities		(170 238 867)	321 842 438
Net cash available during the period		(16 106 395)	346 956 823
Cash & cash equivalent as at January 1, 2008		462 279 870	76 019 092
Cash & cash equivalent as at September 30, 2008	(9)	446 173 475	422 975 915

- 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 September 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 23/11/2008).

(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 69.38 % 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. This account is charged by advertising expenses, part of the chief executive salary, experts' bonuses, consultancy costs but not technical consultancy and travel expenses considering that these costs are related to work in progress.

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 and handing over to customers, 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 consolidated balance sheet as at September 30, 2008 amounted to L.E 35 321 215 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	-	174 886	430 284	480 213	-	-	-	-	-	-	1 009 090	2 094 473
Cost as at 30/9/2008	521 610	6 604 942	1 372 288	1 185 482	1 286 841	11 514 253	4 801 902	2 177 545	1 514 767	9 040 637	2 568 532	42 588 799
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 period	-	91 313	65 514	36 617	22 968	466 183	120 048	54 439	37 869	600 212	79 301	1 574 464
Accumulated Depreciation as at 30/9/2008	-	1 047 037	709 327	367 961	1 209 427	1 035 938	226 757	90 061	63 117	1 064 323	1 453 636	7 267 584
Net book value as at 30/9/2008	521 610	5 557 905	662 961	817 521	77 414	10 478 315	4 575 145	2 087 484	1 451 650	7 976 314	1 114 896	35 321 215
Net book value as at 31/12/2007	521 610	5 474 332	298 191	373 925	100 382	10 944 498	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 2 752 109 as at September 30, 2008 as follows:

	<u>L.E</u>
Transportation vehicles	1 093 541
Machinery & equipment	249 198
Buildings (Caravans)	82 831
Computers	1 326 539
	<u>2 752 109</u>

Depreciations were classified as follows:

Operating fixed assets depreciation	1 240 882
Administrative fixed assets depreciation	333 582
	<u>1 574 464</u>

5- Projects in Progress

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

	<u>30/9/2008</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	31 033 941	22 159 455
Work processed by Katoos for contracting	-	5 237 426
Contractors' advance payments	12 466	12 466
<u>Egyptian Resorts Company</u>		
Water tank	5 849 094	-
Water treatment station	5 799 634	-
Irrigation and tree-planting works	2 006 393	-
Electrical supplies	634 131	-
Advance payments for supplies	898 880	-
Roads and path floors works	1 459 500	-
Warehouses	34 944	-
Falling line	220 864	-
Arrival piazza	942 763	-
Sank city	242 130	-
Water bridge	277 204	-
Employee housing	970 798	-
Maintenance works (Sunarck)	2 159 849	-
Other costs (to be distributed)	4 063 947	-
Balance as at September 30, 2008	<u>90 228 660</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 September 30, 2008 is represented as follows:-

	<u>Balance as</u> <u>at</u> <u>30/9/2008</u>	<u>Balance as</u> <u>at</u> <u>31/12/2007</u>
	<u>L.E.</u>	<u>L.E.</u>
6-1 Cost of the project's lands haven't been sold yet 797 553 m ² - Phase 1	36 785 692	24 633 015
6-2 Cost of the project's lands haven't been sold yet 4 290 098 m ² -Phase 2	77 221 188	67 290 685
6-3 Cost of project's lands 20 million m ² – Phase 3	233 550 878	31 014 505
	<u>347 557 758</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 March 30, 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 equivalent 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	375 000	2 156 250
	<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 March 17, 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.
- (**) During the period from July 2008 till September 2008 work in process included 50% of the Chief executive officer salary in return for his technical supervision on work done in Sahl Hasheesh at Hurghada, and also included administrative consultancy costs of Mr. Stephen Hunter (chief community administrator at Sahl Hasheesh).

7- Accounts & Notes Receivable (Net)

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

	<u>30/9/2008</u>	<u>31/12/2007</u>
	L.E.	L.E.
<u>7/1 Accounts & Notes receivable (short term)</u>		
Land receivables- first phase	107 368 066	257 938 009
Land receivables- second phase	164 256 812	52 760 285
Villas receivables- first zone	5 586 268	7 144 067
Villas receivables- second zone	11 518 549	11 725 569
	<u>288 729 695</u>	<u>329 567 930</u>
<u>Add:</u> Short term – deferred interests	(6 075 378)	(23 748 537)
<u>Less:</u> Impairment in receivables	(8 000 000)	(578 309)
	<u>274 654 317</u>	<u>305 241 084</u>
<u>7/2 Accounts & Notes receivable(Long term)</u>		
	<u>30/9/2008</u>	<u>31/12/2007</u>
	L.E.	L.E.
Land receivables- first phase	59 864 015	184 496 709
Land receivables- second phase	217 346 915	38 885 028
Villas receivables- first zone	1 774 464	3 529 894
Villas receivables- Second zone	35 682	5 393 918
	<u>279 021 076</u>	<u>232 305 549</u>
*<u>Less:</u> Long term – deferred interests	(27 970 102)	(28 123 716)
	<u>251 050 974</u>	<u>204 181 833</u>

8- Sundry Debtors & Other Debit Balances

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

	<u>30/9/2008</u>	<u>31/12/2007</u>
	L.E.	L.E.
Letters of guarantee covers	50 000	50 000
Cash imprests and loans	527 182	151 256
Prepaid expenses	64 419	37 747
Withholding tax	3 332	1 419
Deposits with others	89 975	82 525
Accrued interest	757 453	399 621
Contractors (debit balances)	2 083 943	1 448 437
Sundry debtors	4 742 323	1 603 339
	<u>8 318 627</u>	<u>3 774 344</u>

9- Cash on Hand and at Banks

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

	<u>30/9/2008</u>	<u>31/12/2007</u>
	L.E	L.E
Cash on hand	166 232	60 285
Banks – current accounts-L.E	29 926 125	29 149 008
Banks – current accounts-US\$	55 477 088	8 822 374
Banks – current accounts-EURO	533 302	562 577
Banks-time deposit-L.E	248 500 199	344 785 646
Banks-time deposit-US\$	71 651 546	52 732 447
Cheques under collection	39 918 983	26 167 533
Balance	<u>446 173 475</u>	<u>462 279 870</u>

10- Provision for Claims

This item shown in the consolidated balance sheet as at September 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 September 30, 2008 amounted to L.E 34 670 109 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).	31 976 300
B- Advance payments from receivables – rentals of Sahl Hasheesh company (subsidiary company)	2 693 809
	<u>34 670 109</u>

12- Sundry Creditors & Other Credit Balances

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

	<u>30/9/2008</u>	<u>31/12/2007</u>
	L.E	L.E
Sundry creditors	15 432 126	9 055 761
Contractors' retention	6 624 413	5 896 754
Contractors-social insurance	2 714 679	2 491 961
Accrued expenses	799 553	655 742
Due to governmental authorities	3 355 491	1 220 562
Other credit balances	2 703 804	2 232 712
Villas' maintenance deposits	1 148 063	660 000
	<u>32 778 129</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 September 30, 2008 is represented as follows:

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

	<u>30/9/2008</u>	<u>31/12/2007</u>
	L.E.	L.E.
Accrual rent for the third phase	884 931	865 928
Liabilities due to the authority for the sale of the project's land	18 142 088	33 080 407
Balance	<u>19 027 019</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 September 30, 2008 are as follows:

	<u>30/9/2008</u>	<u>31/12/2007</u>
	L.E.	L.E.
Due to General Authority for Touristic Development – Long Term	<u>6 300 155</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 pounds) 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.

As per the board of directors meeting decision issued on 29/9/2008, the company decided to purchase 25 million shares as a treasury shares. This purchase was done during October 2008 by an amount of L.E 51 640 333.

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>30/9/2008</u>	<u>From</u> <u>1/7/2008 to</u> <u>30/9/2008</u>	<u>From</u> <u>1/1/2007 to</u> <u>30/9/2007</u>	<u>From</u> <u>1/7/2007 to</u> <u>30/9/2007</u>
	L.E.	L.E.	L.E.	L.E.
Net profit for the period	222 841 975	83 691 421	163 789 287	(42 686 068)
Less:				
Employees' share in proposed appropriation profit	--	--	(1 823 304)	--
Board of directors remuneration	--	--	(890 663)	--
	<u>222 841 975</u>	<u>83 691 421</u>	<u>161 075 320</u>	<u>(42 686 068)</u>
(*)Average number of shares during the period	876 246 575	876 246 575	876 246 575	876 246 575
Earning per share	<u>L.E.</u> <u>0.25/share</u>	<u>L.E.</u> <u>0.10/share</u>	<u>L.E.</u> <u>0.18/share</u>	<u>L.E.</u> <u>(0.05)/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 30/9/2008 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 876 246 575 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>30/9/2008</u>	<u>From</u> <u>1/7/2008 to</u> <u>30/9/2008</u>	<u>From</u> <u>1/1/2007 to</u> <u>30/9/2007</u>	<u>From</u> <u>1/7/2007 to</u> <u>30/9/2007</u>
	L.E.	L.E.	L.E.	L.E.
<u>Revenues from sale of land</u>				
(**) Phase one	46 378 685	39 507 593	230 972 639	--
Phase two	262 938 868	53 159 972	--	--
<u>Revenues from sale of villas (*)</u>				
First zone	--	--	4 017 349	--
Second zone	--	--	3 924 026	--
Total revenues from sale of land and villas	309 317 553	92 667 565	238 914 014	--
Accrued revenues from previously sold land	23 787 631	14 634 691	17 699 344	4 186 754
Total	333 105 184	107 302 256	256 613 358	4 186 754

(*) 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 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>30/9/2008</u>	<u>From</u> <u>1/7/2008 to</u> <u>30/9/2008</u>	<u>From</u> <u>1/1/2007 to</u> <u>30/9/2007</u>	<u>From</u> <u>1/7/2007 to</u> <u>30/9/2007</u>
	L.E.	L.E.	L.E.	L.E.
<u>Cost of land</u>				
Phase one	8 143 050	3 136 370	35 654 019	--
Phase two	14 356 387	3 680 223	--	--
<u>Cost of sale of villas</u>				
First zone	--	--	334 524	--
Second zone	--	--	220 826	--
Total	22 499 437	6 816 593	36 209 369	--

(*) The cost of first phase sales included an amount 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>30/9/2008</u>	<u>From</u> <u>1/7/2008 to</u> <u>30/9/2008</u>	<u>From</u> <u>1/1/2007 to</u> <u>30/9/2007</u>	<u>From</u> <u>1/7/2007 to</u> <u>30/9/2007</u>
	<u>L.E.</u>	<u>L.E.</u>	<u>L.E.</u>	<u>L.E.</u>
Salaries, wages and related expenses	2 499 682	853 724	1 482 977	430 359
Other expenses	4 223 614	1 881 558	1 909 015	537 070
Allowances and salaries of top management	13 649 941	799 391	2 821 185	465 547
Employees' orientation and training fund	3 255 385	1 187 261	1 621 810	(478 211)
Total	<u><u>23 628 622</u></u>	<u><u>4 721 934</u></u>	<u><u>7 834 987</u></u>	<u><u>954 765</u></u>

(*) Allowances and salaries of top management includes 50% from salary of both current and previous chief executive officer for the period from July 1, 2008 till September 30, 2008 and the other 50% was charged to work in process considering that it is a direct cost on the projects.

18- Minority Interest

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

Balance as at 1/1/2008	L.E 15 919 630
Less:	
Minority's share in the profits of the financial year ended as at September 30, 2008	1 849 215
Minority's share in capital increase	60 771 770
Balance as at September 30, 2008	<u><u>78 540 615</u></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 30/9/2008 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 September 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 828 014 234 and L.E 52 167 300 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	132 004 752
Euro	74 388

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>30/9/2008</u>	<u>31/12/2007</u>
	<u>L.E.</u>	<u>L.E.</u>
Fixed assets	(728 961)	(515 387)
Provisions	34 000	48 000
Net tax that results in (Liability) Asset	<u>(694 961)</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- Adjustments on Retained Earnings

Adjustments on retained earnings as at September 30, 2008 resulted from reversing sales and cost of sales which were recorded during year 2006 related to the contract of land sale to one of the clients considering that there are legal problems which hinder the company from executing its obligations towards the client as per the sales contract. These legal problems are represented mainly in the difficulty of obtaining the necessary licenses for the client from the sovereign authorities till this date as per the company's legal consultant statement dated June 22, 2008 though it is necessary to take these difficulties into consideration before preliminary recording of sales and cost of sales of that contract. This affected on the accounts as follows:

	<u>30/9/2008</u> <u>Before sales</u> <u>reverse</u> <u>L.E</u>	<u>30/9/2008</u> <u>After sales</u> <u>reverse</u> <u>L.E</u>	<u>Sales reverse</u> <u>effect (credit)</u> <u>debit</u> <u>L.E</u>
Accounts and notes receivable	899 813 355	755 663 371	(144 149 984)
Deferred interests	(56 342 242)	(45 102 145)	11 240 097
Work in process	320 035 503	347 557 758	27 522 255
Receivables advance payments	(986 825)	(31 976 300)	(30 989 475)
Sundry creditors – training fund	(32 899 225)	(31 970 128)	929 097
Estimated cost for development of sold land	(62 350 864)	(35 618 854)	26 732 010
Due to Authority of Touristic Development (commission due on sales of land)	(40 164 094)	(25 327 174)	14 836 920
Income tax balance	(66 297 961)	(65 918 271)	379 690
Recalled deferred revenue	(34 721 127)	(30 087 272)	4 633 855
Foreign exchange differences (recorded during the period)	8 975 847	6 240 445	(2 735 402)
Income tax expense	66 297 961	65 918 271	(379 690)
Effect on Profits (losses) carried forward			<u>91 980 627</u>

24- Capital Commitments

Capital commitments as at September 30, 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.	121 873 200	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- Comparative figures

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