Egyptian Resorts Company

ANALYST INFO PACK

Significant Accounting Policies

1. Revenue recognition

a. Revenue from Land Sales

Land is sold on installments according to the sales contract and revenue is recognized on the date of sale by discounting the installments at the prevailing interest rates (a rate of 5% for USD amounts and 13% for EGP amounts in 2010). The difference between the total value of installments and the discounted amount is recorded as income over the installment period.

Accounting treatment
(An example)

Land Plot Area = 100,000 m^2

Price = USD 200 / m^2; Sale Value = USD 20,000,000

Payment Terms: 20% down payment, 6 equal semi-annual installments

Deposit on Sale = USD 4,000,000

PV of installments (USD)

1	2,602,992
2	2,539,683
3	2,478,973
4	2,418,745
5	2,360,927
6	2,303,567

Total revenue recognized on sales = USD 18,704,887

Deferred revenue = USD 1,295,113 is recognized proportionately over the term of the installment schedule. The accounting entry is:

Debit: deferred revenue
Credit: revenue from sales of land

b. Interest income

The credit interest is recorded using the accrual basis.

c. **Revenue from Sawari Marina Property Sales**

20% of the sales contracts for Sawari properties are recognized at sale, 50% is recognized following construction and the remaining 30% at finalization of units.

Sawari revenues are a part of “Net Sales” on ERC’s income statement.

d. **Revenue from Utilities and Community Management**

Revenues from Utilities & Community Management appear within “Revenues for services rendered” on ERC’s Income Statement.

Revenues from Utilities represent what ERC earns from its sub-developers in return of providing their utilities needs from electricity, water and Communication services.

2. Estimating Cost of Goods Sold on Land Sales

The development cost of sold land is recorded as the actual cost of development to date plus the estimated future development cost in order to reach a best estimate of the full development cost of sold land. The estimated future development cost is re-evaluated periodically.

Accounting treatment
(An example)

Phase 1 (approx. 6,000,000 m²)		**% of completion**
Cost of Work-In-Progress to date	EGP 150,000,000 *(Asset)*	*75%*
+		
Estimated cost to complete	EGP 50,000,000	*25%*
Total Cost Estimate	**EGP 200,000,000**	**100%**
Phase 1 *Sellable* Land Bank	5,000,000 m²	
Assignable cost estimate for land sales	EGP 40 / m² (EGP 200,000,000 ÷ 5,000,000 m²)	

3. Projects in Progress (PIP)

Projects in Progress are recorded at cost, and include all expenditures that are directly attributable to bringing the asset to a working condition for its intended use.

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

Accounting treatment
(an example)

Main Entry Gate

Materials	EGP 1,200,000
Labor	EGP 1,600,000
Contractors	EGP 1,400,000
Other direct costs	EGP 200,000
Total	**EGP 4,400,000**

Balance on completion is transferred to fixed assets and depreciated over the asset's useful life.

4. Inventory

Inventory is stated at cost or net realizable value whichever is lower. Inventory is valued using weighted average price. The cost includes all expenditures the company bears to purchase the inventory and have it ready for use.

5. Work in Progress (WIP)

Work in Progress costs are recorded in the Work in Progress account. On sale of land WIP is reduced by the estimated cost of development for sold land. WIP costs include cost of land purchase, commissions on land sold, and all development costs not allocated to Projects in Progress (PIP).

Accounting treatment

Opening WIP

Add: WIP costs for the year
Less: Cost of sold land according to percentage of completion

= Closing WIP

6. Receivables, debtors and other debit balances

Receivables and debtors balances are stated at nominal value less any amounts expected to be uncollected. These amounts are recorded as impairment losses.

Receivables are recorded at present value of expected cash flows which are discounted at the prevailing interest rates (13% for amounts in EGP and 5% for amounts in USD in 2010 - see example in Point 1).

7. Foreign currency conversion

Transactions in foreign currencies are converted based on prevailing exchange rates at the respective transaction dates. On the balance sheet date, monetary assets and liabilities denominated in foreign currencies are converted to EGP as per the prevailing exchange rates on that date. Any difference resulting from the conversion is recognized in the income statement. In addition, nonmonetary assets and liabilities in foreign currencies are converted as at the prevailing exchange rate at the transaction date.

8. Fixed assets and depreciation

a. Recognition and measurement of Property, Plant, and Equipment (PP&E)

Items of PP&E are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures 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 PP&E have different useful lives, they are accounted for as separate items (major components) of PP&E.

b. Subsequent costs

The cost of replacing part of an item of PP&E is recognized in the carrying amount of the item if it is expected to generate economic benefits and that this cost can be measured reliably. The costs of the day-to-day servicing of PP&E are recognized in the profit and loss statement in the period incurred.

c. Depreciation

Depreciation is recognized in the Income statement on a straight-line basis over the estimated useful lives of each part of an item of PP&E. Land is not depreciated. The estimated useful lives for other assets are as follows:

Buildings	50 years
Machinery & Equipment	10 years
Furniture & Fixtures	16 years
Vehicles	5 years
Computers	5 years
Water treatment and desalination stations	
Structural works	30 years
Mechanical works	10 years
Water tanks	30 years
Warehouses	30 years

9. Cash flow statement

Cash flow statements are prepared according to the indirect method.

10. Cash and cash equivalents

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.

11. Creditors and other credit balances

Creditors and other credit liabilities are recorded at cost.

12. Expenses

Expenses are recognized on accrual basis.

13. Financial costs (net)

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

14. Interest expense

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

Useful Information

1. Principles of consolidation of ERC and its subsidiary (SHC) in financial statements

The consolidated financial statements include assets, liabilities and the results of Egyptian Resorts Company and its subsidiary Sahl Hasheesh Company (SHC) which is fully managed and controlled by ERC. ERC owns 69.38% of SHC. The basis for preparation of consolidated financial statements is as follows:

- All balances and transactions between the two companies are eliminated
- Minority interest in SHC's Owners' equity and financial results is classified in a separate item in the consolidated financial statements. The percentage of the minority interest in assets and liabilities of the subsidiary is calculated as at the end of each reporting period
- Cost of acquiring assets is classified at the fair value of owned assets and liabilities at acquisition date, is equivalent to the book value and is limited to the percentage the holding company obtained on that date.

2. Calculation of footprint

As a general rule construction is permitted on a maximum of 20% of the total area of land plots and the maximum height is three floors above the ground floor, with nine meters of maximum building height plus parapets.

3. Land sales

ERC strategically releases plots of land for sale; these releases, based on the board's decision, could be as low as zero in some quarters and up to four or five plots in other quarters. Land phasing and release of districts for sale are planned to rationalize infrastructure development costs and cash outflows.

4. Interest on installments

Developers pay no additional interest on installments; however they are charged a simple interest rate on late installments at the prevailing rates (5% on outstanding USD amounts and 10% on EGP amounts in 2010).

5. Cash discounts

Sales are generally made on a 20% - 30% deposit with the remainder on six to eight equal semi-annual installments.

6. Payments to the Tourism Development Authority (TDA)

According to the contract ERC pays the price of land to the Tourism Development Authority (TDA) on 7 annual installments with 3 years grace period and 5% interest. The payment status is as follows:

Phases	Cost / m2 (USD)	Phase Cost (LE)	Status	Outstanding as of 31/12/2010
1	1.00	22,513,812	Paid	-
2	1.25	53,276,468	Paid	-
3 *	1.40	226,734,177	Part - Paid	EGP 201,749,423

***Egypt's Tourism Development Authority withdrew approval of phase 3 SH land sale contract, without notice. ERC is currently appealing the ruling.**

7. Community Management

a. Project Partner

ERC worked with the leading firm Ernst Body Corporate, which manages over 300 resorts and buildings worldwide. Ernst Body Corporate developed the community management schemes for Sahl Hasheesh.

b. Charges

ERC is yet to start charging community management fees to developers. ERC is expected to start charging developers towards the start of 2012 based on the following model:

- EGP 1 / m^2 / month for the total land area
- EGP 1 / m^2 / week for the BUA (20% of the land area X 4 floors)

This calculation is reduced by the circulation area to provide an estimation of fees based on the expected use of common facilities (i.e. # of tourists/residents). The fees calculated by this model are then discounted to reflect the budget for Community Expenses prepared by Ernst Body Corporate.

This model is designed to ensure that the costs of management of the Community are equitably shared between the owners (including ERC for unsold land available for sale).

c. Community fees to be charged to sub-developers starting 2012

Fees are expected to be 15% over the community operating expenses.

8. Development cost estimates (per m^2) used in 2010

- Phase I: EGP 51.8 / m^2
- Phase II: EGP 60 / m^2

9. Financial Leverage

So far, the ERC board has dictated a "zero debt" policy and relies on its cash reserves and progress payments by developers to finance the infrastructure development cost and other company expenditures.

10. Dividend

ERC currently does not plan to pay out dividends in the short term but plans to reinvest its cash flows into the future growth of the company.

11. Developers' payment

ERC works closely with its developers from the initial sales agreement and throughout the lifetime of the project. We try to ensure that developers do not face liquidity issues by reviewing project plans, development progress, as well as project funding and finances, if and when necessary.

We are able to detect slowdowns ahead of time and aim to support our developers by helping, when and if possible, to coordinate bank loans and/or invite project partners. With an appropriate level of flexibility we ensure that our developers complete their projects and commence operations successfully.

12. Development cycle and construction schedule

ERC Design guidelines help shorten a project's design lead-time. ERC also takes care of construction permits and approvals on behalf of developers and supplies infrastructure in a plug-and-play fashion.

13. Project partners

Previous

RTKL	phases I & II master planners
Bechtel	phases I & II infrastructure supervision
Sanderson Watts (SWA)	engineering consultancy
Ernst Body Corporate	Community Management and Administration

Existing

WATG	Phase III master planner
Buro Happold	Engineering consulting services
AECOM	Market analysis and feasibility
AAW	Specialist infrastructure engineer and local master planner
EDSA	Landscaping
Davis Langdon	Cost analysis
Mobility in chain	Roads, traffic, transport and mobility
Environics	Environmental / EIA consultant
XCO2 energy	Sustainability

14. ERC land bank division (in million m^2)

Sahl Hasheesh project is divided into 3 phases and entails: ERC owned land, numerous sub-developments in addition to Sahl Hasheesh Company (ERC's majority owned subsidiary) and the Sawari marina co-developed with ODM.

Sahl Hasheesh phases are highlighted in the table below:

Phases	Area	Sellable	Remains
I	5.98	4.37	0.40
II	6.02	4.17	2.59
III	28.59	18.21	18.03