

*Translated & Originally
Issued in Arabic*

Egyptian Resorts Company
“Egyptian Joint Stock Company”

The Consolidated Financial Statements
For the Financial Year Ended December 31, 2005

And Auditor's Report

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**Auditor's Report
To The Shareholders of Egyptian Resorts Company**

We have audited the consolidated financial statements of Egyptian Resorts Company S.A.E represented in the consolidated balance Sheet as at December 31, 2005 and the related consolidated statements of Income, Changes in Shareholders' Equity and Cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except for what was mentioned in following paragraph (*) we conducted our audit in accordance with the Egyptian Auditing Standards and in the light of applicable Egyptian laws and regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statements presentation. We have obtained the information and explanations which we deemed necessary for our audit. We believe that our audit provides a reasonable basis for our opinion on the consolidated financial statements.

- * The consolidated financial statements as at December 31, 2005 do not include the financial statements of subsidiary company which were audited by another auditor. The total assets of this company represent 13% of the total consolidated assets as at December 31, 2005.

Except for any likely adjustments that might have been necessary have we audited the financial statements of the subsidiary company mentioned in the previous paragraph (*), in our opinion, the financial statements referred to above together with the notes attached thereto present fairly, in all material respects, the financial position of the Company as of December 31, 2005, the results of its operations, and its cash flows for the financial year then ended, in accordance with Egyptian Accounting Standards and in compliance with applicable Egyptian laws and regulations.

Cairo, March 23, 2006

KPMG Hazem Hassan

Egyptian Resorts Company
(Egyptian Joint Stock Company)

Consolidated Balance Sheet
As at December 31, 2005

	<u>Note No.</u>	<u>12/31/2005</u> L.E	<u>12/31/2004</u> L.E
<u>Long Term Assets</u>			
Fixed assets (Net)	(2/ 4-3)	6 427 041	6 688 503
Projects in progress	(4)	27 224 175	18 943 448
Advance payments-purchase of land	(9)	3 450 000	1 855 000
Total Long Term Assets		37 101 216	27 486 951
<u>Current Assets</u>			
Work in process	(5)	162 057 283	121 397 000
Inventory		4 640	5 345
Accounts & notes receivable (net)	(6)	221 571 091	179 992 659
Suppliers& Contractors advance payments	(7)	5 993 550	3 474 080
Sundry debtors and other debit balances	(8)	4 307 727	2 998 491
Cash and cash equivalents	(10-1)	19 994 462	12 882 331
Total Current Assets		413 928 753	320 749 906
<u>Current Liabilities</u>			
Banks - credit balances	(10-2)	15 995	-
Receivables - credit balances	(12)	17 754 707	6 551 749
Suppliers, contractors and notes payable	(13)	1 535 075	2 306 983
Sundry creditors and other credit balances	(14)	49 992 820	52 239 421
Estimated cost for development of sold land	(15)	32 098 482	23 653 161
Due to Authority of Touristic development-(due within one year)	(16)	3 405 870	13 813 063
Purchase of land creditors (due within one year)	(18)	8 131 807	9 711 629
Provision for claims	(11)	250 000	-
Dividends payable		-	1 082 058
Total Current Liabilities		113 184 756	109 358 064
Working capital		300 743 997	211 391 842
Total Investments		337 845 213	238 878 793
<u>Financed as follows:</u>			
<u>Shareholders' Equity</u>			
Issued capital	(17)	210 000 000	350 000 000
Less: Unpaid amounts		-	(140 000 000)
Paid in capital		210 000 000	210 000 000
Legal reserve		7 500 716	7 500 716
Losses carried forward		(25 389 233)	(46 783 715)
Net income of the year		61 332 493	21 394 482
Total Shareholders' Equity		253 443 976	192 111 483
Minority interest		13 996 130	11 961 083
Total Shareholders' Equity & Minority interest		267 440 106	204 072 566
<u>Long-term Liabilities</u>			
Purchase of land creditors	(18)	37 273 490	4 069 943
Due to Authority of Touristic development	(19)	33 083 497	30 736 284
Deferred tax	(21)	48 120	-
Total Long-term Liabilities		70 405 107	34 806 227
Total shareholders' equity, minority interest & long-term liabilities		337 845 213	238 878 793

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

- Auditor's report attached.

(Financial Manager)

(Managing Director)

(Chairman)

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

**Consolidated Income Statement
For the Financial year from January 1, 2005 till December 31, 2005**

	<u>Note No.</u>	<u>31/12/2005</u>	<u>31/12/2004</u>
		L.E	L.E
Revenues of sales of land	(24-1)	84 492 437	47 568 342
Cost of activity	(24-2)	(22 188 172)	(15 409 375)
Marketing expenses		(2 699 270)	(1 901 728)
Gross profit		59 604 995	30 257 239
 <u>Add/(Less):</u>			
General and administrative expenses		(3 621 344)	(3 549 751)
Fixed assets depreciation	(3)	(308 356)	(381 028)
Debit interests		(47 155)	(28 211)
Banks charges		(41 278)	(54 903)
Foreign exchange differences		(948 945)	(562 663)
Provision for claims		(250 000)	-
Impairment in receivables		(1 083 000)	(6 894 207)
Bad debts		(2 128)	-
Establishment expenses (Sahl Hasheesh Co.)		-	(37 778)
Net pre-operating expenses (Sahl Hasheesh Co.)		(881 411)	(445 674)
Provisions no longer required		8 790 772	2 725 180
Other revenues		77 239	12 700
Credit bank interests		491 354	134 478
Net income before computing minority interest & income tax		61 780 743	21 175 382
Minority interest		(400 130)	219 100
Net income after computing minority interest		61 380 613	21 394 482
income tax	(20)	-	-
Deferred tax that results in an asset (Liability)	(21)	(48 120)	-
Net income after computing minority interest & income tax		61 332 493	21 394 482
Earning per share	(22)	2.92	6.11

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

Egyptian Resorts Company
(Egyptian Joint Stock Company)

Consolidated Statement of Changes in Shareholders' Equity
For the financial year from January 1, 2005 till December 31, 2005

<u>Description</u>	<u>Issued & Paid in Capital L.E.</u>	<u>Legal Reserve L.E.</u>	<u>Profit (loss) carried forward L.E.</u>	<u>Profits of the year L.E.</u>	<u>Total L.E.</u>
Balance as at January 1, 2004	192 500 000	6 519 220	(7 919 292)	(19 261 430)	171 838 498
Closing of year 2003 losses	-	-	(19 261 430)	19 261 430	-
completing the payment of issued capital	17 500 000	-	(17 500 000)	-	-
Increase of legal reserve	-	981 496	(981 496)	-	-
Paid dividends for employees and board of directors	-	-	(1 121 497)	-	(1 121 497)
Net profits of the year	-	-	-	21 394 482	21 394 482
Balance as at December 31, 2004	<u>210 000 000</u>	<u>7 500 716</u>	<u>(46 783 715)</u>	<u>21 394 482</u>	<u>192 111 483</u>
Closing of profits of year 2004	-	-	21 394 482	(21 394 482)	-
Profits of the year	-	-	-	61 332 493	61 332 493
Balance as at December 31, 2005	<u>210 000 000</u>	<u>7 500 716</u>	<u>(25 389 233)</u>	<u>61 332 493</u>	<u>253 443 976</u>

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

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

**Consolidated Cash Flows Statement
For the Financial year from January 1, 2005 till December 31, 2005**

	<u>Note No.</u>	<u>12/31/2005</u>	<u>12/31/2004</u>
		L.E	L.E
<u>Cash Flows from Operating Activities</u>			
Net profit before income tax		61 332 493	21 175 382
<u>Adjustments to Reconcile Net Profit with Net Cash Flows from Operating activities</u>			
Fixed assets depreciation	(3)	308 356	381 028
Provisions no longer required		(8 790 772)	(2 725 180)
Formed Provision		250 000	-
Impairment in receivables		1 083 000	6 894 207
Distributed dividends for employees and board of directors		(1 081 210)	-
Bad debts		2 128	-
<u>Change in working capital</u>			
Change in debtors and other debit balances		(84 649 187)	(283 563 636)
Change in creditors and other credit balances		42 275 834	273 462 759
Net cash flow available from operating activities		10 730 642	15 624 560
<u>Cash Flows from Investment Activities</u>			
Payments for purchase of fixed assets	(3)	(46 894)	(56 740)
Payments under the account of land purchase		(1 595 000)	-
Payments for projects in progress		(1 992 612)	(1 426 359)
Net cash (used in) investing activities		(3 634 506)	(1 483 099)
<u>Cash Flows from Financing Activities</u>			
Increase in banks -credit balances		15 995	(1 259 130)
Net cash flow provided by (used in) financing activities		15 995	(1 259 130)
Change in cash and cash equivalents		7 112 131	12 882 331
Cash & cash equivalent as at January 1, 2005		12 882 331	-
Cash & cash equivalent as at December 31, 2005	(10)	19 994 462	12 882 331

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

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

**Notes to the Financial Statements
For the financial year ended December 31, 2005**

1- General Background

Egyptian Resorts Company - Egyptian joint stock company – established under the provisions of Law No. 159 of 1981 and its executive regulations, 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 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 earmark them for establishing a group of hostelry, touristic, residential and entertainment projects, whether by itself or by other parties.

Egyptian Resorts Company – Egyptian joint stock company – (Holding company) owns 54.68% in Sahl Hasheesh company for touristic investment – Egyptian joint stock company – established under the internal investment system. Sahl Hasheesh activity aims to establishing and operating of 30 hostelry apartments consisted of 200 rooms (5 stars level) with its complementary utilities and entertainment services.

It was worth mentioning that Sahl Hasheesh Company for touristic did not start its activity yet. After charging consolidated income statement for the financial year ended 31/12/2005 with the establishment expenses of Sahl Hasheesh Company amounted to L.E 37 778, the increase of revenues over pre-operating expenses an amount of L.E 730 574 for the financial period from the date of establishment of Sahl Hasheesh Company at July 27, 2003 till December 31, 2005.

2- Significant Accounting Policies

2-1 Basis for preparation of consolidated 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:
 1. 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.
 2. 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.

2-2 Revenue recognition

Revenue from sale of land is recognized as these lands were handover to customers completed with its utilities for constructing buildings on them as per contract terms with the customers. The company follows the policy of payment in installments. The sales price is determined without interest as income on the date of sale, though the sales price represents the present value of the return. The sales price is determined by deducting the due installments by using the targeted interest rate, and the interest is recognized as revenue on payment of the installments as per its due dates according to the Egyptian Accounting Standard No. (11) of revenue.

2-3 Foreign Currency Transactions

The company maintains its accounts in Egyptian pound. Transactions in foreign currency are recorded at the prevailing exchange rate on the date of the transaction. Monetary assets & liabilities denominated in foreign currency other than Egyptian pound are revalued at the prevailing exchange rates as on the balance sheet date. Arising differences during the period and from the revaluation on the balance sheet date are recorded in the income statement.

2-4 Fixed Assets & Depreciation

Fixed assets are recorded at cost and depreciated using the straight line method according to the following rates:-

Buildings	2% - 12%
Machinery & equipments	10 %
Furniture & fixtures	6 %
Vehicles	20 %
Computers	20 %

2-5 Inventory

Inventory is valued at cost or net sale value which is lower and it is determined by using the weighted average method.

2-6 Provisions

The provisions are formed when any legal liabilities existed or concluded from surrounding circumstances resulting from prior events, these provisions can be probably resulting in economic utilities in flows which are used to pay this liability & a trust worthy estimation can be made for the liability amount. These provisions are audited & adjusted at the balance sheet date (if necessary) to represent the best current estimate.

2-7 Accounting estimates

As per the Egyptian Accounting Standards and according to the uncertainty factors related to the activity, though several items in the financial statements cant be accurately measured but can be only estimated. The company's management relays on the reasonable estimates which does not reduce the extent of reliance on it. The nature of forming this estimation does not require considering the adjustments resulted from amending these estimates as extraordinary items or material misstatement.

2-8 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.

2-9 Cash Flow statement

For the purpose of preparing the cash flow statement, cash and cash equivalents are represented in cash at banks and on hand. Cash flow statement is prepared according to the indirect method.

3- Fixed Assets (net)

The item of fixed assets (net) shown in the balance sheet as at December 31, 2005 amounted to LE. 6 427 041 is represented in the following:

Description	Land		Buildings		Machinery & Equipment		Furniture		Transportation vehicles		Computers		Total	
	L.E.		L.E.		L.E.		L.E.		L.E.		L.E.		L.E.	
Cost as at 1/1/2005	521 610		5 886 518		734 060		601 085		1 158 741		1 360 111		10 262 125	
Additions of the period	-		-		30 614		320		3 950		12 010		46 894	
Cost as at 31/12/2005	521 610		5 886 518		764 674		601 405		1 162 691		1 372 121		10 309 019	
Accumulated Depreciation as at 1/1/2005	-		578 605		416 403		219 268		1 099 865		1 259 481		3 573 622	
Depreciation of the year	-		126 135		75 261		36 078		26 240		44 642		308 356	
Accumulated Depreciation as at 31/12/2005	-		704 740		491 664		255 346		1 126 105		1 304 123		3 881 978	
Net book value as at 31/12/2005	521 610		5 181 778		273 010		346 059		36 586		67 998		6 427 041	
Net book value as at 31/12/2004	521 610		5 307 913		317 657		381 817		58 876		100 630		6 688 503	

4- Projects in Progress

The balance of this item shown in the balance sheet as at December 31, 2005 as the following:

Egyptian Resorts Company

	<u>31/12/2005</u>	<u>31/12/2004</u>
	L.E	L.E
Sewage treatment plant	9 757 632	9 146 302
Call center	498 192	405 640
*The primary gateway	2 420 847	1 750 631
Water tank	1 840 805	1341 908
Warehouses	119 617	-
	<u>14 637 093</u>	<u>12 644 481</u>

Sahl Hasheesh Company

Work processed by Sahl Hasheesh Company	7 130 402	2 872 826
Work processed by Katoo for contracting	4 978 514	2 356 347
Contractors' advance payments	478 166	1 069 794
	<u>12 587 082</u>	<u>6 298 967</u>
Balance as at December 31, 2005	<u>27 224 175</u>	<u>18 943 448</u>

- Projects in progress are capitalized to fixed assets as soon as it was executed.
- The company concluded 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) a contract to build the main gate which amounted to L.E 3 500 000, and the completed part till 31/12/2005 represent 69.16% of total contract amounted to L.E 2 420 847.

5- Work in progress

The actual cost for the work in progress account shown in the balance sheet as at December 31, 2005 is represented as follows:-

	<u>Balance at</u>	<u>Work during</u>	<u>Balance at</u>
	<u>31/12/2004</u>	<u>the year</u>	<u>31/12/2005</u>
	L.E	L.E	L.E
5-1 Cost of the project's lands haven't been sold yet 2,175,736 meters square- Phase 1	71 280 024	2 274 427	73 554 451
5-2 Cost of the project's lands haven't been sold yet 3,264,153 meters square - Phase 2	19 733 422	46 603 401	66 336 823
5-3 Cost of project's lands 20 million meters square – Phase 3	30 383 554	(8 217 545)	22 166 009
	<u>121 397 000</u>	<u>40 660 283</u>	<u>162 057 283</u>

Work in progress balances are recorded as cost in the income statement when the lands are sold.

5-1 The estimated cost for Phase 1 of the project according to the study prepared by the technical department and the cost of constructions, infrastructure, engineering supervision approved by the project's consultant on September 30, 2001 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 as per contracts submitted by the company.

5-2 Second Phase Lands

- The company rented the second phase's lands 6 million meter squared as a zone extension for the Touristic Development for ten years from the contract's execution date.
- 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 for the project from the second phase (6 million m²) and the meter squared to be sold for US\$ 1.25. The General Authority for Touristic Development sent a letter on January 5, 2006 asked the company to complete the payment of the 27% of phase two lands in order to take the necessary procedures, though the company already paid to General Authority for Touristic development 27% mentioned above which amounted to L.E 8 870 260 and the procedures related to this acquisition and obtaining the final approval from The General Authority for Touristic Development are currently being undertaken. the balance of the work in progress amounted to L.E 46 603 400 includes an amount of L.E 46 134 750 equivalent to \$ 8 025 000 represented as follows:

	<u>USD \$</u>	<u>L.E</u>
- The value of second phase land (6 million m ² - US\$ 1.25 each)	7 500 000	43 125 000
- Allocation expenses	150 000	862 500
- contracting expenses	375 000	2 156 250
	<u>8 025 000</u>	<u>46 143 750</u>

The estimated cost for the project's second phase according to the study prepared by the technical department and the cost of constructions, infrastructure, engineering supervision approved by the project's consultant on December 2005 amounted to L.E 237 894 903 (estimated cost L.E 69.35/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. submitted to the company.

5-3 Third phase lands

The company's third phase lands (20 million m²) is an extension for 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. In 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.

On January 5, 2006 we received a letter from the General Authority for Touristic Development which stated that the company is obliged to settle its obligations regarding the rent for the third phase (Note No. 16) due to the authority which amounted to US\$ 154 630 equivalent to L.E 889 123 in order to take the necessary procedures regarding the third phase. This letter stated that the company paid an amount of L.E 3 450 000 equivalent to US\$ 600 000 represent 2% of total land's value. This amount is represented in allocation expenses amounted to US\$ 540 000 and the remaining which is amounted to US\$ 60 000 represent part of the contracting expenses (Note No. 9) and also the letter stated that the company submitted a time table for the due dates for payment of contracting expenses and also submitting a detailed plan for the lands' usage.

It was worth mentioning that the company continued on charging its accounts during the financial period till June 30, 2004 by the rent related to the third phase and on January 5, 2006 the company received a letter from the General Authority for Touristic Development which stated that the total amount due for the third phase till January 5, 2006 amounted to L.E 154 630 equivalent to L.E 889 123 though the company settled the difference between what was already charged to the accounts as a rent for the third phase and the amounts due as per this letter mentioned above by reducing this difference which amounted to L.E 8 539 801 from work in progress and amounts due to the Authority of Touristic Development (Note No. 16).

6- Accounts & Notes receivable

The balance of Accounts & Notes receivable shown in the balance sheet as at December 31, 2005 is represented as follows:

	<u>31/12/2005</u>	<u>31/12/2004</u>
	<u>L.E</u>	<u>L.E</u>
Land receivables- first phase	159 505 558	163 052 753
Land receivables- second phase	32 277 643	-
Land receivables- Villas zone (1)	8 555 070	4 392 969
Land receivables- Villas zone (2)	11 280 530	8 473 255
Total accounts and notes receivable	<u>211 618 801</u>	<u>175 918 977</u>
<u>Add:</u> Notes receivables	11 035 290	4 073 682
	<u>222 654 091</u>	<u>179 992 659</u>
<u>Less:</u> Impairment in receivables	(1 083 000)	-
Balance	<u><u>221 571 091</u></u>	<u><u>179 992 659</u></u>

* The balance of accounts & notes receivables shown in the balance sheet as at December 31, 2005 includes the following:

- L.E 27 224 478 balance of Pyramisa Hotels Company (shareholder – Note No. 23)
- L.E 121 052 037 balance of El Ganoub For Tourism Construction (Main customer).

7- Suppliers and contractors advance payments

The balance of suppliers and contractors advance payments shown in the balance sheet as at December 31, 2005 is represented as follows:

	<u>31/12/2005</u>	<u>31/12/2004</u>
	<u>L.E</u>	<u>L.E</u>
Elqanah company for electricity distribution	3 267 847	-
Egyptian company for communications	1 125 000	1 125 000
Samcreat (bridge process)	39 197	39 197
Taba for engineering company (sewage project)	268 000	-
United international for architecture (sank city)	313 595	-
Sundry suppliers and contractors advance payments	979 911	2 309 883
Balance	<u>5 993 550</u>	<u>3 474 080</u>

8- Sundry debtors & Other debit balances

The balance of sundry debtors & other debit balances shown in the balance sheet as at December 31, 2005 is represented as follows:

	<u>31/12/2005</u>	<u>31/12/2004</u>
	<u>L.E</u>	<u>L.E</u>
Letters of guarantees covers	50 000	50 000
8-1 Letters of credit	472 716	-
Cash imprests and loans	1 519 005	349 990
Prepaid expenses	14 876	15 589
Deposits with others	73 375	65 325
Accrued interest	33 707	16 883
8-2 Contractors (debit balances)	1 836 856	2 369 920
Debit balances (paid under the account of dividends)	177 802	-
Sundry debtors	129 390	130 784
Balance	<u>4 307 727</u>	<u>2 998 491</u>

- 8-1 The letter of credit shown in the balance sheet as at December 31, 2005 amounting to L.E 472 716 represents the value of the letter of credit opened for the contractor responsible for the installation of water facilities for the second phase (The Egyptian American company for irrigation) in order to supply spigots for the water network.

- 8-2 The item of contractors (debit balances) represents the amounts dispensed on work by the company to be settled later with the contractors when the company receives the contractor's statement.

9- Payments under the account of land's purchase

The item of payments under the account of land's purchase shown in the balance sheet as at December 31, 2005 amounting to L.E 3 450 000 equivalent to US\$ 600 000 represents the amounts paid to the Authority for touristic development under the account of land's purchase of the third phase till obtaining the final approval on the sale contract (Note No. 5).

10- Cash at Banks & on Hand

- 10-1 This item shown in the balance sheet as at December 31, 2005 is represented in the following:-

	<u>31/12/2005</u>	<u>31/12/2004</u>
	L.E	L.E
Cash on hand	69 242	49 851
Banks – current accounts	4 745 591	909 856
* Banks-time deposit	8 917 103	7 382 327
Cheques under collection	6 262 526	4 540 297
Balance	<u>19 994 462</u>	<u>12 882 331</u>

- * Deposits Include, deposit with an amount of L.E 1 029 492 as a guarantee of the credit facilities granted to the company from Egyptian National Bank.

- 10-2 Banks credit balances shown in the balance sheet as at December 31, 2005 is represented in the following:

	<u>31/12/2005</u>	<u>31/12/2004</u>
	L.E	L.E
Egyptian National Bank - current account - LE	15 995	-

11- Provision for claims

This item shown under the current liabilities in the balance sheet as at December 31, 2005 with an amount of L.E 250 000 are formed to face the salaries tax inspection differences for year 2004.

12- Receivables – credit balances

Receivables – credit balances amounted to L.E 17 754 707 as at December 31, 2005 includes an amount of LE. 15 873 441 which represent the deposits received by the company from some of the customers under the account of purchasing villa's lands in the project's first phase and lands in the second phase.

13- Suppliers, contractors and notes payables

This item shown in the balance sheet as at December 31, 2005 is represented in the following:-

	<u>31/12/2005</u>	<u>31/12/2004</u>
	L.E	L.E
* Suppliers and contractors	1 535 075	1 679 198
Notes payable	-	627 785
Balance	<u>1 535 075</u>	<u>2 306 983</u>

* This item is represented in the amounts due to Social Insurance Authority as per the statements of projects and work done till now.

14- Sundry creditors & Other credit balances

This item shown in the balance sheet as at December 31, 2005 is represented in the following:-

	<u>31/12/2005</u>	<u>31/12/2004</u>
	L.E	L.E
Sundry creditors	1 372 040	1 630 212
Contractors' retention	3 489 146	4 564 254
Accrued expenses	113 425	795 115
Social insurance	84 524	7 597
Other credit balances	4 621 788	3 913 809
Amounts due from land interest	1 715 143	1 424 480
* Deferred revenues (note 3-2)	38 596 754	39 903 954
Balance	<u>49 992 820</u>	<u>52 239 421</u>

* This item is represented in the revenues set aside from sold lands installments which are not yet due till December 31, 2005 (Note 2-2).

15- Estimated costs for the development of sold land

The item of the estimated costs for the development of sold land in Phase I & II shown in the balance sheet as at December 31, 2005 is represented as follows:

	<u>31/12/2005</u>	<u>31/12/2004</u>
	L.E	L.E
Balance of the estimated costs for the development sold land at the beginning of the year.	23 653 161	25 748 577
<u>Add:</u> Estimated costs for the sold land from Phase I during the year	3 224 099	1 866 762
Estimated costs for the sold land from Phase II during the year	8 235 141	-
<u>Less:</u>		
Actual costs of the sold land from the first Phase during the year.	(3 013 919)	(3 962 178)
Balance at the end of the year	<u>32 098 482</u>	<u>23 653 161</u>

The item represents the part of the estimated cost which is not completed yet in the first and second phase only as the company hasn't prepared the study of the estimated cost for the third phase yet, and this balance is used to spend on that sold land from the first and second phase.

16- Due to the General Authority for Touristic Development

This item shown in the balance sheet as at December 31, 2005 is represented as follows:

	<u>31/12/2005</u>		<u>31/12/2004</u>	
	<u>L.E</u>	<u>US\$</u>	<u>L.E</u>	<u>US\$</u>
*Accrual rent for the third phase (Note 5)	889 123	154 630	12 059 122	1 964 026
Liabilities due to the authority	2 516 747	-	1 753 941	-
Balance	<u>3 405 870</u>	<u>154 630</u>	<u>13 813 063</u>	<u>1 964 026</u>

17- Capital

The company's authorized capital amounted to L.E 700 000 000 and the issued capital amounted to L.E 350 000 000 divided over 3 500 000 share at par value of L.E 100, and the shareholders fully paid one fourth of the par value of the shares. And as per the decision of the General Assembly Meeting held on 30/3/2000 which authorized using an amount of L.E 43 750 000 - represents part of the company's profits - (only forty three million seven hundred fifty thousand Egyptian pounds) to complete what's equivalent to half of the second forth of the par value and the capital became L.E 131 250 000 (one hundred thirty one million two hundred fifty thousand Egyptian pounds) and it was annotated in the commercial register.

And as per the decision of the General Assembly Meeting held on 17/5/2001 related to distribution of dividends which authorized using an amount of L.E 8 750 000 - represents part of the company's realized profits during year 2000 – (only eight million seven hundred fifty thousand Egyptian pounds) to complete part of the second forth of the par value by virtue L.E 2.5 for each share and the capital became L.E 140 000 000 (one hundred forty million Egyptian pounds) and it was annotated in the commercial register.

And as per the decision of the General Assembly Meeting held on 4/4/2002 related to distribution of dividends which authorized using an amount of L.E 35 000 000 to complete capital payment and the issued capital became L.E 175 000 000 (one hundred seventy five million Egyptian pounds).

As per the decision of the General Assembly Meeting held on May 25, 2003 related to distribution of dividends for the profits of the financial year ended December 31, 2002 by virtue L.E 5 (five Egyptian pounds) for each share and this distribution will be used to complete the payment of a part of par value of the share by a total amount L.E 17 384 250 and there was an annotation in the commercial register by the increase on September 4, 2003.

On December 18, 2003 the due amount to be paid for the par value of sold treasury stocks was completed (five Egyptian pounds) which was deducted from employees' share in profits included in dividends payable as these treasury stocks mentioned was sold to the company's employees. And the procedures of completing the payment in the commercial register are currently being undertaken and the issued capital will become L.E 192 500 000.

As per the decision of the General Assembly Meeting held on 1/7/2004 which approved the distribution of dividends (for the payment of part of par value) by virtue L.E 5 (five Egyptian pounds) for each share for a total amount of L.E 17 500 000 from dividends for the financial year ended 31/12/2003 and this increase will be used for the issued capital increase though the total amount of issued capital is L.E 210 000 000 and the amount paid from the shares value 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, with amendment of articles No. (6,7,13) from the company's articles of associations related to company's authorized and issued capital then the company's issued and fully paid in capital will be L.E 210 millions divided over 21 million shares at a par value of L.E 10.

18- Purchase of Land Creditors

The company purchased lands in the first phase of the project from the Authority of touristic development at price US\$ 1.31 per meter squared and paid 20% of total amount on signing the contract and the remaining 80% to be paid on seven equal annual installments and the first installment will be due after three years from executing the contract on 24/10/1995. There is a simple rate of 5% due each year on the deferred part to be paid on the 15th of January each year. This sale contract will be registered after the full payment.

	<u>31/12/2005</u>	<u>31/12/2004</u>
	<u>L.E</u>	<u>L.E</u>
Total installments due on purchasing lands of the first phase (3 installments due on three years from 16/3/2004)	8 131 807	13 781 572
Second phase land (note no. 5) total installments due on purchasing lands of the second phase (6 installments due on six years from January 2009)	46 143 750	
Less: amounts paid	(8 870 260)	-
	<u>37 273 490</u>	<u>-</u>
Balance	<u>45 405 297</u>	<u>13 781 572</u>

These installments shown in the balance sheet as follows:

	<u>31/12/2005</u>	<u>31/12/2004</u>
	<u>L.E</u>	<u>L.E</u>
Total short – term installments (phase one)	8 131 807	9 711 629
Total short – term installments (phase two)	-	-
Total short tem installments	<u>8 131 807</u>	<u>9711 629</u>
Total long – term installments (phase one)	-	4 069 943
Total long – term installments (phase two)	<u>37 273 490</u>	<u>-</u>
Total long – term installments	<u>37 273 490</u>	<u>4 069 943</u>
Total installments due to the Authority	<u><u>45 405 297</u></u>	<u><u>13 781 572</u></u>

19- Due to the Authority of touristic development

Due to the Authority of touristic development is classified as short and long according to the customers' payment of sale of land installments. This item shown in the balance sheet as at December 31, 2005 (long –term) which amounted to L.E 33 083 497 is represented in the amounts due to the Authority of Touristic Development from sale of land.

20- Adjustments to compute the actual income tax rate

Egyptian Resorts Company

	<u>31/12/2005</u>
	<u>L.E</u>
Accounting profit before tax	60 522 565
<u>Add:</u>	
Fixed assets depreciation as per accounting point of view	308 356
Provisions effect	1 335 128
Board of directors and general assembly meeting attendance allowance	84 750
<u>Less:</u>	
Fixed assets depreciation as per tax point of view	(548 954)
Provisions no longer required	(8 790 772)
Tax pool – profits	<u>52 911 073</u>
Income tax rate	<u>20 %</u>
Income tax due (Note No. 25)	<u>--</u>

21- Deferred tax in which asset or (liability) resulted from it

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

	<u>31/12/2005</u>
	<u>L.E</u>
Fixed assets depreciation as per accounting point of view	308 356
Fixed assets depreciation as per tax point of view	(548 954)
	<u>(240 598)</u>
Tax rate	<u>20%</u>
Deferred tax in which asset or (liability) resulted from it	<u>(48 120)</u>

22- Earning per share

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

	<u>31/12/2005</u>	<u>31/12/2004</u>
	<u>L.E</u>	<u>L.E</u>
Net profit for the year (L.E)	61 332 493	21 394 482
Average number of shares during the year	<u>21 000 000</u>	<u>3 500 000</u>
Earning per share	<u>2.92</u>	<u>6.11</u>

The weighted average number of shares amounted to 3 500 000 share as at December 31, 2004 and during year 2005 the share's nominal value was splitted and the number of shares became 21 000 000 share.

23- Related parties

- There was a contract concerning the sale of a piece of land its area is 118 941 (meter squared) concluded to Pramiza for Hotels Company. This land was in the first phase of the project for building a hotel and the remaining balance due is included in the receivables by an amount of L.E 12 613 093 (Note 6).
- There was a contract concerning the sale of a piece of land its area is 15 265 (meter squared) concluded to Pramiza for Hotels Company on 14/6/2005. This land was in the first phase of the project for building hotel's employees housing by a total amount L.E 2 289 750 and the remaining balance due is included in the receivables by an amount of L.E 2 060 775 (Note 6).

24- Revenues and costs of sale of land

24-1 Revenues from sale of land

	<u>31/12/2005</u>	<u>31/12/2004</u>
	<u>L.E</u>	<u>L.E</u>
<u>Revenues from sale of land</u>		
Phase one	20 242 884	45 946 730
Phase two	40 750 728	-
<u>Revenues from sale of villas</u>		
First zone	10 656 713	-
Second zone	<u>12 770 735</u>	<u>1 443 859</u>
Total revenues from sale of land and villas	<u>84 421 060</u>	<u>47 390 589</u>
Accrued revenues from previously sold land	<u>71 377</u>	<u>177 753</u>
Total	<u>84 492 437</u>	<u>47 568 342</u>

24-2 Cost of land

	<u>31/12/2005</u>	<u>31/12/2004</u>
	<u>L.E</u>	<u>L.E</u>
<u>Cost of land</u>		
Phase one	5 320 770	15 351 207
Phase two	14 403 334	-
<u>Cost of sale of villas</u>		
First zone	1 102 110	-
Second zone	1 361 958	58 168
Total	<u>22 188 172</u>	<u>15 409 375</u>

25- Tax position

25-1 Corporate tax

The tax position of the company as at 31/12/2005 as per the certificate of the tax consultant is represented in:

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 not informed by any tax forms for this financial period.

25-2 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 the company was informed by a claim amounted to L.E 506 818 and the company objected to this assessment and an internal committee is currently being organized and its predictable to become L.E 400 000 out of which an amount L.E 150 000 was already paid.

25-3 Sales tax

The company was inspected by the Tax Authority from the activity inception till year 1999 and years from 2000 till 2005 were not inspected yet by the Tax Authority.

25-4 Stamp tax

The company was inspected from the activity inception till year 2005.

25-5 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 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 company was not informed by any tax forms for this financial period.

25-6 Tax position for Sahl Hasheesh Company

The company is subject to the provisions of law no. 8/1997 issued by guarantee and incentive investment law and its executive regulations. The company is temporarily exempted from corporate tax till determining the date of activity inception by the investment authority.

26- Financial Instruments and Risk Management

The Company's financial instruments are represented in financial assets which include cash on hand and at banks and other debit balances and the financial liabilities include creditors, receivables credit balances and banks over draft.

26-1 Financial Instruments' Fair Value

As per the basis for valuation of assets and liabilities mentioned in notes to the financial statements, the book values of financial assets and liabilities do not materially differ from their fair market values as of December 31, 2005.

26-2 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 46 263 824 and L.E 43 460 364 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	469 700
Euro	14 947

As mentioned in Note (3-2) "foreign currency translation" the assets and liabilities in foreign currency were revaluated at the prevailing exchange rate at the balance date.

26-3 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 and also by forming provision for doubtful accounts.

27- **Comparative figures**

Comparative figures have been reclassified to comply with the current classification of the figures in the financial statements.