

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

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

As of 30 Sep. 2017

	<u>Note no.</u>	<u>30/9/2017</u> <u>EGP</u>	<u>31/12/2016</u> <u>EGP</u>
<u>Non-current assets</u>			
Investments in associates	(8c,11b,29)	83 836 815	79 225 699
Investment property	(11f, 30)	887 193 474	888 506 292
Notes receivable - long term	(16-32)	9 844 674 199	7 300 039 694
Projects under construction	(12-33)	883 051 837	877 766 742
Advance payments for investments acquisition	(41)	184 335 633	184 335 633
Fixed assets (net)	(13-34)	346 570 538	351 608 405
Deferred tax assets	(22b)	11 071 953	10 302 108
Employee stock ownership plan (ESOP)		75 539 068	81 286 779
Other long term assets		1 390 733	1 390 733
Total non-current assets		12 317 664 250	9 774 462 085
<u>Current assets</u>			
Works in process	(14-35)	8 962 209 895	6 410 745 955
Held-to-maturity investments	(11d -31)	310 796 602	153 328 081
Cash and cash equivalents	(28-36)	590 712 564	808 516 570
Notes receivable - short term	(16-32)	3 759 570 628	3 295 528 203
Investments at fair value through profit and loss	(11e)	45 355 542	58 471 043
Accounts receivable	(37)	792 769 372	757 056 711
Suppliers - advance payments		542 350 249	489 064 327
Debtors and other debit balances	(38)	362 478 430	218 476 677
Guaranteed payments –joint arrangement	(39)	50 000 000	40 000 000
Due from related parties	(25-40-60)	262 579 708	244 124 840
Total current assets		15 678 822 990	12 475 312 407
<u>Current liabilities</u>			
Banks - credit balances	(42)	103 070 064	42 176 487
Bank- over draft	(43)	196 936 291	79 410 353
Advances from customers	(44)	9 739 910 333	7 744 755 120
Completion of infrastructure liabilities	(20)	95 083 416	95 083 418
Provisions	(18)	174 605 713	169 386 850
Current portion of land purchase liabilities	(19-45)	144 883 713	60 651 029
Investment purchase liabilities	(47)	44 256 746	44 256 746
Notes payable - short term	(48a)	1 056 504 615	974 301 860
Current portion of term loans	(49)	803 014 417	541 014 619
Suppliers & contractors		444 099 165	448 465 529
Income tax payable	(22a)	116 463 538	126 628 749
Creditors & other credit balances	(50)	511 081 790	522 256 001
Joint shares arrangement - short term		180 387 730	160 424 409
Due to related parties	(25-46-60)	104 045 311	131 333 860
Total current liabilities		13 414 342 842	11 140 145 030
Working capital		1 964 480 148	1 335 167 377
Total investment		14 282 144 398	11 109 629 462
<u>Financed as follows:</u>			
<u>Shareholders' equity</u>			
Share capital	(51)	4 617 899 452	4 617 899 452
Legal reserve	(53a)	680 728 286	630 142 410
Special reserve	(53b)	524 212 885	524 212 885
ESOP Re-Measurement Reserve		30 159 777	31 492 645
Retained earnings		127 280 235	(222 478 993)
Net profit for the period / year		466 994 926	639 795 380
Equity attributable to equity holders of the parent		6 447 275 561	6 221 063 779
Non-controlling interest		541 743 475	412 151 516
Total shareholders' equity		6 989 019 036	6 633 215 295
<u>Non-current liabilities</u>			
Land purchase liabilities	(19-45)	353 834 458	169 799 525
Notes payable - long term	(48b)	2 108 893 194	612 700 591
Other long term liabilities – Residents' Association	(52)	1 004 571 870	736 444 356
Loans	(49)	3 214 045 855	2 957 469 695
joint share arrangement– long terms		611 779 985	--
Total non-current liabilities		7 293 125 361	4 476 414 167
Total equity and non-current liabilities		14 282 144 398	11 109 629 462

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

Chief Financial Officer

Ali Thabet

Chairman

Yasseen Mansour

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

	<u>Note No.</u>	Financial period from 1/1/2017 to 30/9/2017 <u>EGP</u>	Financial period from 1/1/2016 to 30/9/2016 <u>EGP</u>	Financial period from 1/7/2017 to 30/9/2017 <u>EGP</u>	Financial period from 1/7/2016 to 30/9/2016 <u>EGP</u>
Revenues	(27a, 54)	4 757 804 546	3 628 438 459	1 529 552 648	1 485 230 662
Deduct:-		4 757 804 546	3 628 438 459	1 529 552 648	1 485 230 662
Cost of revenues	(26, 55)	3 210 664 918	2 476 144 374	969 497 973	950 470 072
Cash discount		71 351 523	46 624 531	29 522 196	18 058 495
Total cost		3 282 016 441	2 522 768 905	999 020 169	968 528 567
Gross profit		1 475 788 105	1 105 669 554	530 532 479	516 702 095
Deduct:-					
Interest of discount on Notes receivable		116 440 833	--	24 714 675	--
General administrative, selling and marketing expenses	(56)	537 530 241	406 095 021	221 135 273	150 342 832
Administrative depreciation		15 073 501	8 661 833	5 229 888	3 278 064
Finance costs & interests		157 155 958	33 354 508	82 301 564	16 756 231
Provision	(18)	4 670 307	1 203 909	(71 724)	(649 895)
Interest on land purchase liabilities		109 723 597	87 479 767	56 598 218	31 164 371
Recoverable interest on land purchase liabilities		(82 824 383)	--	--	--
		857 770 054	536 795 038	389 907 894	200 891 603
<u>Add:</u>					
Gains on investments in fair value through profit or loss	(57)	4 589 155	4 220 741	1 664 932	1 511 293
Interest income – amortization of discount on notes receivables		50 393 444	34 545 882	16 797 814	11 515 294
Interest income on held-to-maturity investments		45 071 178	74 024 591	15 101 742	14 523 266
		100 053 777	112 791 214	33 564 488	27 549 853
Net profit for the period before income tax & non-controlling interest		718 071 828	681 665 730	174 189 073	343 360 345
Deduct:-					
Income tax expense	(22a)	116 234 076	156 684 882	18 142 147	76 566 838
Deferred tax	(22b)	(797 866)	566 397	261 487	204 215
Net profit for the period before & non-controlling interest		602 635 618	524 414 451	155 785 439	266 589 292
Deduct:-					
Non-controlling interest share- subsidiaries		135 640 692	120 106 579	38 129 305	31 612 667
Net profit for the period after income tax & non-controlling interest		466 994 926	404 307 872	117 656 143	234 976 625
Earnings per share	(24, 59)	0.202	0.175	0.05	0.101

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

Chief Financial Officer
Ali Thabet

Chairman
Yasseen Mansour

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

	<u>Financial period from 1/1/2017 to 30/9/2017 EGP</u>	<u>Financial period from 1/1/2016 to 30/9/2016 EGP</u>	<u>Financial period from 1/7/2017 to 30/9/2017 EGP</u>	<u>Financial period from 1/7/2016 to 30/9/2016 EGP</u>
Net profit for the Period	466 994 926	404 307 872	117 656 134	234 976 624
Other comprehensive income	--	--	--	--
Total comprehensive income for the Period, net of tax	<u>466 994 926</u>	<u>404 307 872</u>	<u>117 656 134</u>	<u>234 976 624</u>
Attributable to:				
Equity holders of the parent	466 994 926	404 307 872	117 656 134	234 976 624
Non-controlling interests	135 640 692	120 106 579	38 129 305	31 612 667
	<u>602 635 618</u>	<u>524 414 451</u>	<u>155 785 439</u>	<u>266 589 292</u>

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

Chief Financial Officer
Ali Thabet

Chairman
Yasseen Mansour

PALM HILLS DEVELOPMENTS COMPANY S.A.E
CONSOLIDATED STATEMENT OF CASH FLOWS
For The Period Ended 30 Sep. 2017

	<u>Note No.</u>	<u>30/09/2017</u>	<u>30/09/2016</u>
		<u>EGP</u>	<u>EGP</u>
Net profit for the period before income tax & non-controlling interest		718 071 828	681 665 730
<u>Adjustments to reconcile net profit to net cash from operating activities</u>			
Administrative depreciation	(34)	27 137 722	19 588 800
Provision formed		4 670 306	1 203 909
Interest on land purchase liabilities		109 723 597	87 479 767
Finance costs & interests		157 155 958	33 354 508
Interest of discount on Notes receivable		116 440 833	--
Gain (loss) on disposal of fixed assets		3 609	(36 621)
Share of profit / loss of associates	(29)	(4 611 116)	1 573 733
Gains on investments in fair value through profit or loss		(4 589 155)	(4 220 741)
Interest income on held to maturity investments		(45 071 178)	(74 024 591)
Recoverable interest on land purchase liabilities		(82 824 383)	--
Interest income – amortization of discount on notes receivables	(32)	(50 393 444)	(34 545 882)
Operating profit before changes in working capital items		945 714 577	712 038 611
<u>Changes in working capital items</u>			
Change in work in process	(14-35)	(2 033 230 735)	(132 578 392)
Change in notes receivables	(16-32)	(2 958 283 486)	(2 019 435 039)
Change in investments in fair value through profit or loss	(11e)	13 115 501	5 496 648
Change in held-to-maturity investments		(157 468 521)	499 344 860
Change in accounts receivable	(37)	(35 712 660)	(103 465 299)
Change in suppliers - advance payments		(53 285 923)	37 762 807
Change in debtors & other debit balances	(38)	(144 001 754)	(153 756 748)
Change in due from related parties	(25-40)	(18 454 870)	(61 601 995)
Change in guaranteed payments – joint arrangement	(39)	(10 000 000)	(90 000 000)
Change in advances from customers	(44)	1 995 155 213	926 664 718
Change in completion of infrastructure liabilities	(20)	--	(78 564 711)
Provisions		548 557	(185 397)
Change in due to related parties	(25-46)	(27 288 549)	(95 979 454)
Change in suppliers & contractors		(4 366 362)	(20 841 294)
Change in notes payable	(48)	1 551 496 144	531 402 464
Income tax paid		(126 399 287)	(46 612 436)
Change in creditors and other credit balances	(50)	(11 174 212)	104 896 265
Change in due to joint arrangement partners		631 743 306	---
Change in other long term – Residents' Association		268 127 513	166 897 047
Net cash (used in) provided by operating activities		(173 765 548)	181 482 655
<u>Cash flows from investing activities</u>			
Payments for purchase of fixed assets	(34)	(26 725 234)	(31 096 108)
Proceeds from sale of fixed assets	(34)	--	43 600
payments for projects under construction	(12-33)	(5 285 093)	(87 651 321)
Proceeds from investments in fair value through profit or loss		4 589 155	4 220 741
Interest income		45 071 178	74 024 591
Net cash provided by (used in) investing activities		17 650 006	(40 458 497)
<u>Cash flows from financing activities</u>			
Banks - credit balances	(42)	60 893 576	706 000
Banks – overdraft		117 525 938	8 008 436
Dividends		--	(368 630 379)
Adjustments to retained earnings		(239 450 275)	(271 591 367)
Proceeds from ESOP		4 414 843	---
Non-controlling interest – dividends		(6 048 733)	(4 084 610)
Deferred tax		28 021	42 729
Proceeds from loans	(49)	(191 071 256)	(92 626 888)
Repayment of borrowings		465 616 213	583 134 404
Finance costs & interests paid		(157 155 958)	(33 354 508)
Interest of discount on Notes receivable		(116 440 833)	--
Net cash (used in) provided by financing activities		(61 688 464)	(178 396 183)
Net increase in cash and cash equivalents during the period		(217 804 006)	(37 372 026)
Cash and cash equivalents at beginning of the period		808 516 570	965 669 547
Cash and cash equivalents as at 30 Sep. 2017	(28-36)	590 712 564	928 297 521

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

Chief Financial Officer
Ali Thabet

Chairman
Yasseen Mansour

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

<u>Note No.</u>	<u>Share Capital</u>	<u>Legal reserve</u>	<u>Special reserve</u>	<u>Reserve for ESOP re-measurement</u>	<u>Retained earnings</u>	<u>Net profit for the period</u>	<u>Total</u>	<u>Non- controlling interest</u>	<u>Total Shareholders' equity</u>
Balance as at 1 January 2016	4 344 640 000	585 103 921	524 212 885	--	(171 750 887)	1 031 492 706	6 313 698 625	270 774 426	6 584 473 051
Cumulative impact for adoption of new accounting policies	--	--	--	--	(40 640 236)	(115 929 426)	(156 569 662)	--	(156 569 662)
Balance as at 1 January 2016	4 344 640 000	585 103 921	524 212 885	--	(212 391 123)	915 563 280	6 157 128 963	270 774 426	6 427 903 389
Transferred to retained earnings	--	--	--	--	915 563 280	(915 563 280)	--	--	--
Capital increase	217 232 002	--	--	--	(217 232 002)	--	--	--	--
Transferred to legal reserve	--	39 798 483	--	--	(39 798 483)	--	--	--	--
Amounts set aside for Employee stock ownership plan (ESOP)	56 027 450	--	--	--	--	--	56 027 450	--	56 027 450
Reserve for ESOP re-measurement	--	--	--	10 084 941	--	--	10 084 941	--	10 084 941
Adjustments to retained earnings	--	--	--	--	(271 591 367)	--	(271 591 367)	--	(271 591 367)
Dividends	--	--	--	--	(368 630 379)	--	(368 630 379)	(4 084 610)	(372 714 989)
Net profit for the period	--	--	--	--	--	404 307 872	404 307 872	120 106 579	524 414 451
Balance as at 30 Sep. 2016	4 617 899 452	624 902 404	524 212 885	10 084 941	(194 080 074)	404 307 872	5 987 327 480	386 796 395	6 374 123 875
Balance as at 1 January 2017	4 617 899 452	630 142 410	524 212 885	31 492 645	(222 478 994)	639 795 380	6 221 063 774	412 151 516	6 633 215 294
Transferred to retained earnings	--	--	--	--	639 795 380	(639 795 380)	--	--	--
Transferred to legal reserve	--	50 585 876	--	--	(50 585 876)	--	--	--	--
Reserve for ESOP re-measurement	--	--	--	(1 332 868)	--	--	(1 332 868)	--	(1 332 868)
Adjustments to retained earnings	--	--	--	--	(239 450 275)	--	(239 450 275)	--	(239 450 275)
Dividends	--	--	--	--	--	--	--	(6 048 733)	(6 048 733)
Net profit for the period	--	--	--	--	--	466 994 926	466 994 926	135 640 292	602 635 618
Balance as at 30 Sep. 2017	4 617 899 452	680 728 286	524 212 885	30 159 777	127 280 235	466 994 926	6 447 275 561	541 743 475	6 989 019 036

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

Chief Financial Officer
Ali Thabet

Chairman
Yasseen Mansour

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

1. BACKGROUND

Palm Hills for Developments Company (S.A.E) was established according to the Investment Incentives and Guarantees Law No. 8 of 1997 and the Companies Law No. 159 of 1981 and their executive regulations, taking into consideration the Capital Market Law No. 95 of 1992 and its executive regulations.

2. COMPANY'S PURPOSE

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

3. The Company's Location

The company's head office is located at the 6th of October City in the Giza Governorate and the main branch is located in the Smart Village.

4. COMMERCIAL REGISTER

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

5. FINANCIAL YEAR

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

6. AUTHORIZATION OF THE FINANCIAL STATEMENTS

The Consolidated financial statements for the Nine Months ended in 30 Sep. 2017 were authorized for issue by the board of directors on the first of November 2017.

7. STOCK EXCHANGE LISTING

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

8. EXISTING PROJECTS

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

a) Building and constructing residential compounds

The objective of the company is to contribute in building integrated residential units, providing associated services, and entertainment complexes, while the Company possesses a large land bank which includes land with a total area of 1,390.80 acres approx. located at 6th October City, land with a total area of 456.84 acres approx. located at New Cairo City, land measuring a total area of 3237.49 acres approx. which is located at Sidi Abdel Rahman, El Alamin, Marsa Matrouh Governorate, land with a total area of 22.68 acres approx. located at Hurgada.

b) Other activity

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

c) Joint Arrangement

The company and its subsidiaries adopted a new strategy as from the fiscal year ended 31 Dec. 2015 in relation to real estate development activities, through the conclusion of contracts as joint projects with some other parties, the contract provides that each contracting party to obtain a share of the contractual values of the financing, marketing and technical management of these projects as follows:-

-Palm Hills Developments

Palm Hills Developments Company (real-estate developer) has contracted with one of the owners (owner) of the plot of land with an area of 135 acres in Alexandria-Abis-Moharram Bek-Cairo Alexandria Desert Road- to develop this area and under this contract the owner and the real estate developer receives a share of the total project revenues to be paid through the proceeds of the project. the company has not started marketing and selling the project units yet.

Palm Hills Developments Company and Palm for Urban Development Company (real-estate developer) has contracted with The Urban Communities Authority (owner) for the development of integrated residential project (Oasis Of October) on an area of 3000 acres in West Cairo on the basis of a revenue sharing system in that the company (real-estate developer) gets 74% for the business of the marketing and development of the project while the Authority (owner) receives 26% in addition to an in kind shares of project units -for land and supply of external facilities for the project.

-Palm for Investment And Real Estate Development

Palm for Investment & Real Estate Development Company (real-estate developer) has contracted with The New Urban Communities Authority

(owner) to develop land with a total area of 500 acres in New Cairo for the construction of an integrated urban project -Palm New Cairo- under this contract the Authority (owner) and the Company (real-estate developer) receives a share of total project revenues that paid through the proceeds of the project. the company started developing, marketing and selling the project units as from November 2016.

-Palm Real Estate Development

Palm Real Estate Development Company (real-estate developer) has contracted with Nasr City for Housing & Development Company (owner) to develop a land with a total area of 103.25 acres in New Cairo for the construction of an integrated urban project -Capital Gardens Project- under this contract the (owner) and the (real-estate developer) receives a share of total project revenues that paid through the proceeds of the project. the company started developing, marketing and selling the project units as from the fiscal year 2016.

-Palm Hills Development of Tourism and Real Estate

Palm Hills Development of Tourism and Real Estate Company (real-estate developer) has contracted with Batterjee Development of Tourism and Real Estate Company (owner) to develop land with a total area of 134.64 acres located in 85KM of Alexandria-Matroh Road - El Fouka village - for the construction of a full-service tourist resort, under this contract the (owner) and the (real-estate developer) receives a share of total project revenues that paid through the proceeds of the project. the company has not started marketing and selling the project units yet.

d) Investments in associates and subsidiaries

1- Direct investments in associates and subsidiaries

	<u>Percentage share</u>
	<u>%</u>
Palm Hills Middle East Company for Real Estate Investment S.A.E	% 99.99
Gawda for Trade Services S.A.E	%99.996
New Cairo for Real Estate Developments S.A.E	%99.985
Rakeen Egypt for Real Estate Investment S.A.E	%99.9454
Palm for Real Estate Development S.A.E	%99.4
Palm for Investment & Real Estate Development S.A.E	%99.4
Palm Hills Development of Tourism and Real EstateS.A.E	%99.4
Palm Hills for Tourism Investment S.A.E	%99.4
Palm Hills Resorts S.A.E	%99.4
Palm for Urban Development S.A.E	%99.4
Palm Hills Properties S.A.E	%99.2
Palm for Club Management S.A.E	%99.2
Palm Alexandria for Real Estate	%99.2
United Engineering for Construction S.A.E	%98.88
Palm Hills Hospitality S.A.E	%98
East New Cairo for Real Estate Development S.A.E	%89

	<u>Percentage share</u>
	<u>%</u>
Palm Hills for Education S.A.E	%71.04
Macor for Securities Investment Company S.A.E	%60
Al Naeem for Hotels and Touristic Villages S.A.E	%60
Gamsha for Tourist Development S.A.E	%59
Royal Gardens for Real Estate Investment Company S.A.E	%51
Nile Palm Al-Naeem for Real Estate Development S.A.E	%51
Saudi Urban Development Company S.A.E	%51
Coldwell Banker Palm Hills for Real Estate	%49
Six of October for Hotels and Touristic Services Company S.A.E	%00.24

- **Palm Hills Middle East Company for Real Estate Investment S.A.E. and Its Subsidiary**

Palm Hills Middle East Company for Real Estate Investment S.A.E. is engaged in real estate investment in new cities and urban communities, and also the construction, ownership and management of residential compounds, resorts, and villas. The company and its subsidiary are also involved in the sale and lease and other related services for managing integrated projects and entertainment activities.

- The company is registered in Egypt under commercial registration number 21091. The company's subsidiary is registered in Egypt under commercial registration number 25016. Both companies are registered under the provisions of the Investment Guarantees and Incentives law No. 8 of 1997 and the Companies' Law No. 159 of 1981 and the statutes of Capital/ Market Law No. 95 of 1992.

- **Gawda for Trade Services S.A.E**

Gawda for Trade Services S.A.E is registered in Egypt under commercial registration number 10242 under the provisions of the Companies' Law No 159 of 1981. The company is located at 66 Gameat El-Dewal El Arabia Street-Mohandessin- Cairo. The company is engaged in real estate investment in new cities, urban communities, remote areas and regions.

- **New Cairo for Real Estate Developments S.A.E**

New Cairo for Real Estate Development S.A.E. is registered in Egypt under commercial registration number 12613 under the provisions of the Investment Guarantees and Incentives law No. 8 of 1997 and the Companies' Law No. 159 of 1981 and the Capital Market Law No. 95 of 1992. The company is located in plot 36 South investors' area in new Cairo. The company is engaged in construction, management, and the sale of hotels, motels, buildings and residential compounds and the purchase, development, diving and sale of land.

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

Rakeen Egypt for Real Estate Investment S.A.E is registered in Egypt under commercial registration number 34611 under the provisions of the Investment Guarantees and Incentives law No. 8 of 1997 and the Companies' Law No. 159 of 1981 and the statutes of Capital Market Law No. 95 of 1992. The company is located in 6th of October City. The company is engaged in leasing, construction and operation of hotels, motels, resorts and residential compounds, construction, generation of electricity, desalination of water, land acquisition, diving and constructing villas, residential units and offices malls and the marketing thereof.

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

Palm Hills Hospitality S.A.E is registered in Egypt under commercial registration number 45441 under the provisions of the Companies' Law No 159 of 1981. The company is located in 11 El Nakhil Street- Dokki- Giza. The company is engaged in establishing and operating hotels, motels, resorts and residential compounds.

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

East New Cairo for Real Estate Development S.A.E was established under the name of Kappci Company for Real Estate and touristic Development S.A.E. according to law No. 159 of 1981 and its executive regulation and the company was registered under commercial registration No. 1429 of Ismailia at 20 March 2007.

- **Macor for Securities Investment Company S.A.E**

Macor for Securities Investment Company S.A.E was established in Egypt on 8 March 2000 under the provisions of Capital Market law No. 95 of 1992. The objective of the company is to contribute in the establishment or investment in the companies' securities especially the companies engaged in owning, renting and managing the hotels, motels and resorts.

- **Al Naeem for Hotels and Touristic Villages S.A.E**

Al Naeem for Hotels and Touristic Villages S.A.E is registered in Egypt under commercial registration number 32915 under the provisions of the Investment Guarantees and Incentives law No. 8 of 1997 and the Companies' Law No. 159 of 1981 and the statutes of Capital Market Law No. 95 of 1992. The company is located in 6th of October City. The company is engaged in construction and operation of hotels in Hamata.

- **Gamsha for Tourist Development S.A.E**

Gamsha for Tourist Development S.A.E is registered in Egypt under commercial registration number 33955 under the provisions of the Companies' Law No 159 of 1981. The company is located in 11 El Nakhil Street- Dokki- Giza. The company is engaged in real estate investments in new cities, urban communities, remote areas and regions outside the old valley.

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

Royal Gardens for Real Estate Investment Company S.A.E. is registered in Egypt under commercial registration number 21574 under the provisions of the Investment Guarantees and Incentives law No. 8 of 1997 and the Companies' Law No. 159 of 1981 and the statutes of Capital Market Law No. 95 of 1992. The company is located in 11 El-Nakhil Street- Dokki-Giza.

The company is engaged in real estate investment in cities and new urban communities and the setup, execution, acquisition, and management of urban communities, resorts, villas and tourist villages through sale or lease. The company is also involved in all other types of related services such as finance leasing and construction.

- **Nile Palm Al-Naeem for Real Estate Development S.A.E**

Nile Palm Al-Naeem for Real Estate Development S.A.E is registered in Egypt under commercial registration number 27613 under the provisions of the Investment Guarantees and Incentives law No. 8 of 1997 and the Companies' Law No. 159 of 1981 and the statutes of Capital Market Law No. 95 of 1992. The company is located in 40 Lebanon Street-Mohandessin-Giza. The company is engaged in real estate investment in new cities and urban communities, and also in the construction, ownership and management of residential compounds, resorts, and villas.

- **Saudi Urban Development Company S.A.E**

Saudi Urban Development Company S.A.E is registered in Egypt under commercial registration number 1971 under the provisions of the Companies' Law No 159 of 1981. The company is located in 72 Gamet El- Dewal El Arabia Street- Mohandessin- Cairo. The company is engaged in the construction of advanced residential projects.

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

Coldwell Banker Palm Hills for Real Estate S.A.E is registered in Egypt under commercial registration number 15970 on 17 August 2005 under the provisions of the Investment Guarantees and Incentives law No. 8 of 1997 and the Companies' Law No. 159 of 1981 and the statutes of Capital Market Law No. 95 of 1992. The company is engaged in real estate investment.

- **Palm October for Hotels S.A.E**

Palm October for Hotels S.A.E is registered in Egypt under commercial registration number 38357 under the provisions of the Companies' Law No 159 of 1981. The company is located at 11 El Nakhil Street- Dokki- Giza. The company is engaged in establishing and operating hotels, motels, resorts and residential compounds.

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

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

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

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

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

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

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

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

The Company has not started its business yet.

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

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

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

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

The Company has not started its business yet.

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

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

The Company has not started its business yet.

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

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

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

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

The Company has not started its business yet.

Palm Hills Resorts (PHR)

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

The Company has not started its business yet.

Palm for Urban Development

Palm for Urban Development S.A.E is registered in Egypt under commercial registration number 99183 under the provisions of the Companies' Law No. 159 of 1981 and the statutes of the Capital Market Law No. 95 of 1992. The company is engaged in real estate investment.

The Company has not started its business yet.

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

Middle East Company for Real Estate and Touristic Investment S.A.E is registered in Egypt under commercial registration number 25016 under the

provisions of the Investment Guarantees and Incentives law No. 8 of 1997 and the Companies' Law No. 159 of 1981.

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

2- Indirect investments in associates and subsidiaries

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

- Palm Gamscha Hotels S.A.E

Palm October Hotels S.A.E is registered in Egypt under commercial registration number 46193 under the provisions of the Companies' Law No 159 of 1981. The company is located in 11 El Nakhil Street- Dokki- Giza. The company is engaged in establishing and operating the hotels, motels, resorts and residential compounds.

- Palm North Coast Hotels S.A.E

Palm October for Hotels S.A.E is registered in Egypt under commercial registration number 48189 under the provisions of the Companies' Law No 159 of 1981. The company is located in 11 El Nakhil Street- Dokki- Giza. The company is engaged in establishing and operating the hotels, motels, resorts and residential compounds.

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

East New Cairo for Real Estate Development S.A.E was established under the name of Kappci Company for Real Estate and touristic Development S.A.E. according to law No. 159 of 1981 and its executive regulation and the company was registered under commercial registration No. 1429 of Ismailia at 20 March 2007.

9. STATEMENT OF COMPLIANCE

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

10. SIGNIFICANT ACCOUNTING POLICIES APPLIED

a) Basic of consolidated financial statements preparation

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

b) Basic of consolidation

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

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

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

c) Consolidation procedures

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

- 1- Consolidated financial statements shall be prepared using uniform accounting policies. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.
- 2- The carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated. The difference between the cost of acquisition and the Company share in the fair value of the assets and liabilities of the investee is accounted for as a positive goodwill or as a negative goodwill and to be recognized on the consolidated income statement.

- 3- Combining balances and items of balance sheet as well as statements of income, changes in equity and cash flows, taking into account the acquisition date of subsidiaries, appropriate adjustments are made to cost of revenue, work in process and projects under construction which resulting from applying the acquisition method to account for resultant goodwill.
- 4- Intergroup balances, transactions shall be eliminated in full.
- 5- Profits and losses resulting from intergroup transactions are eliminated in full unless such transactions were eliminated or transferred to a third party.
- 6- Non-controlling interests in the net equity and in net earnings of subsidiary companies are included in a separate item "non-controlling interest" in the consolidated financial statements.
- 7- A subsidiary company is not included in the consolidated financial statements if the holding company loses its control over the financial and operational policies in this subsidiary starting from the date that control ceases.

d) Business combination

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquire and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognizes any non-controlling interest in the acquire on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquirer's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquire is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

e) Intangible assets

1- Goodwill

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests) and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2- Other intangible assets

Intangible assets are non-monetary assets which are without physical substantive. Intangible assets arise from contractual or other legal rights and from which future economic benefits (inflows of cash or other assets) are expected to flow and can be measured reliably. Intangible assets are initially measured at cost and to be re-measured at each financial year-end at cost of acquisition less accumulated amortization and accumulated impairment losses, which represents the fair value of those assets at that date.

f) Use of estimates and judgments

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

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

g) Changes in accounting policies

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

h) Bookkeeping

1- Functional and presentation currency

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

2- Foreign currency transactions and balances

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

i) Operating segment

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

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

11. INVESTMENTS

a) Investments in subsidiaries

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

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

b) Investments in associates

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

the profit or loss of the associates after the date of acquisition. Distributions received from associates reduce the carrying amounts of the investments. As an exception, investments in associates are initially recognized at cost based on preparing the consolidated financial statements available for public use.

c) Financial investments available for sale

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

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

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

d) Held-to-maturity investments

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

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

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

e) Investments at fair value through profit and loss

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

f) Investments properties

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

12. PROJECTS UNDER CONSTRUCTION

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

13. FIXED ASSETS

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

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

The carrying amount of a fixed asset should be derecognized on disposal or when no future economic benefits are expected to be earned from its disposal. The gain or loss on the disposal of an asset is the difference between the proceeds and the carrying amount and should be in profit and loss.

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

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

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

14. WORK IN PROCESS

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

15. COMPLETED UNITS READY FOR SALE

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

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

16. NOTES RECEIVABLE

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

17. IMPAIRMENT

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

18. PROVISION

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

19. LAND PURCHASE LIABILITY

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

20. COMPLETION OF INFRASTRUCTURE LIABILITIES

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

21. CAPITALIZATION OF BORROWING COST

Capitalization of borrowing costs represents interest and other costs that the Company incurs in connection with the borrowing of funds which directly attributable to the acquisition, construction or production of a qualifying asset and would have been avoided if the expenditure on the qualifying asset had not been made .Capitalization should commence when expenditures are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress while capitalization should be suspended during periods in which active development is interrupted. Capitalization should cease when substantially all of the activities necessary to prepare the asset for its intended use or sale are complete. Other indirect borrowing costs are recognized as expenses.

22. INCOME TAX

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

(A) Current income tax

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

(B) Deferred tax

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

23. SHARE PREMIUM

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

24. EARNINGS PER SHARE

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

25. RELATED PARTY TRANSACTIONS

Related party transactions present the direct and indirect relationship between the Company and its associates, subsidiaries or an interest in a joint venture, also the relationship between the Company and key management personnel or employees who exercise direct or indirect strong influence on the Company's decision making. A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

26. MATCHING OF REVENUES AND COSTS

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

a) Villas and townhouses

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

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

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

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

- **Completed units ready for sale**

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

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

- **Provision of completion**

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

27. REVENUE RECOGNITION

(A) Sales revenues

1- Villas and townhouses

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

2- Completed units ready for sale

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

(B) Investments in associates and subsidiaries

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

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

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

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

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

(D) Revenues from investment property

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

(E) Revenues from mutual funds

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

(F) Interest income

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

28. CASH AND CASH EQUIVALENTS

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash in hand, bank balances and short-term deposits with an original maturity of three months or less.

29. INVESTMENTS IN ASSOCIATES

	<u>30 Sep. 2017</u>	<u>31 Dec. 2016</u>
	<u>EGP</u>	<u>EGP</u>
Naema for Touristic & Real Estate Investments S.A.E	63 225 415	58 614 299
Villamora for Real Estate Development Company S.A.E	20 366 400	20 366 400
Coldwell Banker -Palm Hills for Real Estate S.A.E	245 000	245 000
Balance as at 30Sep. 2017	<u>83 836 815</u>	<u>79 225 699</u>

	<u>Assets</u>	<u>Liabilities</u>	<u>Shareholders'</u>	<u>Revenues</u>	<u>Expenses</u>
			<u>equity</u>		
Naema for Touristic & Real Estate Investments	148 068 529	21 602 735	126 465 793	19 518 256	10 024 895
Palm Hills for Real Estate -Coldwell Banker	500 000	--	500 000	--	--

30. INVESTMENT PROPERTY

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

Buildings

Commercial shops - Palm Hills Resort

Cost of shops of 88 Street Mall.	35 008 453	35 008 454
Accumulated depreciation	2 479 766	(1 166 949)
Net cost of shops	<u>32 528 687</u>	<u>33 841 505</u>
Balance as at 30 Sep. 2017	<u>887 193 474</u>	<u>888 506 292</u>

31. HELD-TO-MATURITY INVESTMENT

	<u>Face value</u>	<u>Unrecognized investment</u>	<u>Average return</u>	<u>Purchase price</u>
	<u>EGP</u>	<u>return</u>	<u>rate</u>	<u>EGP</u>
		<u>EGP</u>	<u>%</u>	
Palm Hills Development	88 213 008	7 269 964	%14	80 943 044
Palm Hills Middle East Company for Real Estate Investment	57 625 000	3 815 157	%14	53 809 843
East New Cairo for Real Estate Development	43 850 000	3 334 406	%14	40 515 594
Gawda for Trade Services	4 900 000	345 162	%14	4 554 838
Middle East Company for Real Estate and Touristic Investment	10 050 000	576 005	%14	9 473 995
Royal Gardens for Real Estate Investment Company	22 707 898	316	%14	22 707 582
New Cairo for Real Estate Development	18 550 000	2 578 633	%14	15 971 367
Rakeen Egypt for Real Estate Investment	51 000 000	3 032 111	%14	47 967 889
Saudi Urban Development Company	38 100 000	3 247 550	%14	34 852 451
Balance as at 30 Sep. 2017	<u>334 995 906</u>	<u>24 199 304</u>		<u>310 796 602</u>

32. NOTES RECEIVABLE

	<u>30 Sep. 2017</u>	<u>31 Dec. 2016</u>
	<u>EGP</u>	<u>EGP</u>
Short term notes receivable	3 852 745 321	3 415 881 491
Deduct:		
Notes receivable of joint venture	59 943 247	53 162 030
Unamortized discount	<u>33 231 446</u>	<u>67 191 258</u>
	<u>3 759 570 628</u>	<u>3 295 528 203</u>
Long term notes receivable	10 166 137 285	7 679 774 091
Deduct:		
Notes receivable of joint venture	268 474 106	242 524 406
Unamortized discount	<u>52 988 980</u>	<u>137 209 991</u>
	<u>9 844 674 199</u>	<u>7 300 039 694</u>
Balance as at 30 Sep. 2017	<u><u>13 604 244 827</u></u>	<u><u>10 595 567 897</u></u>

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

33. PROJECTS UNDER CONSTRUCTION

	<u>30 Sep. 2017</u>	<u>31 Dec. 2016</u>
	<u>EGP</u>	<u>EGP</u>
Land	340 104 665	340 104 665
Construction of Golf Club and Hotel in 6th of October City	495 317 793	495 317 793
Constructions, Consultation and designs fees	11 591 005	10 126 782
Mall (8)	<u>36 038 373</u>	<u>32 217 502</u>
Balance as at 30 Sep. 2017	<u><u>883 051 836</u></u>	<u><u>877 766 742</u></u>

34. FIXED ASSETS

	<u>Cost as of Jan. 1,2017</u>	<u>Additions during the period</u>	<u>Disposals during the period</u>	<u>Cost as of Sep. 30,2017</u>	<u>Accumulated depreciation as of Jan. 1, 2017</u>	<u>Depreciation for the period</u>	<u>Depreciation of Disposals</u>	<u>Accumulated depreciation as of Sep. 30,2017</u>	<u>Net book value as of Sep. 30,2017</u>	<u>Net book value as of Dec. 31,2016</u>
	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>
Land	18 920 662	--	--	18 920 662	--	--	--	--	18 920 662	18 920 662
Buildings	509 774 162	131 250	--	509 905 412	195 468 196	11 635 887	--	207 104 083	302 801 329	314 305 966
Machinery & equipment	138 804 890	11 886 250	137 589	150 553 551	97 121 702	7 607 838	135 630	104 593 910	45 959 641	41 683 188
Vehicles	17 194 882	4 700 720	--	21 895 602	14 669 685	1 096 478	--	15 766 163	6 129 439	2 525 197
Computer equipment	54 273 849	4 926 662	5 399	59 195 112	32 448 079	7 798 254	3 749	40 242 584	18 952 528	21 825 770
Leasehold improvements	17 701 066	2 450 485	--	20 151 551	17 092 507	295 331	--	17 387 838	2 763 713	608 559
Furniture	60 638 724	2 629 867	1 515	63 267 076	41 860 174	3 325 704	1 515	45 184 363	18 082 713	18 778 550
Total cost	<u>817 308 235</u>	<u>26 725 234</u>	<u>144 503</u>	<u>843 888 966</u>	<u>398 660 343</u>	<u>31 759 492</u>	<u>140 894</u>	<u>430 278 941</u>	<u>413 610 025</u>	<u>418 647 892</u>
Impairment of Macor									(2 500 000)	(2 500 000)
Impairment of assets									(64 539 487)	(64 539 487)
Balance as at 30 Sep. 2017									<u>346 570 538</u>	<u>351 608 405</u>

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

	<u>EGP</u>
Operating assets-work in process	5 934 587
Administrative depreciation (income statement)	13 760 684
Depreciation expense of hotel operations	4 782 694
Depreciation expense of Palm Hills Club's assets - club's operating statement	7 281 527
	<u>31 759 492</u>

Fixed assets (net) balance as at 31 Dec. 2016 amounted to EGP 817 308 235 represented as follows:

	<u>Cost as of Jan. 1,2016</u>	<u>Additions during the year</u>	<u>Disposals during the year</u>	<u>Cost as of Dec. 31,2016</u>	<u>Accumulated depreciation as of Jan. 1, 2016</u>	<u>Depreciation for the year</u>	<u>Accumulated depreciation of disposals</u>	<u>Accumulated depreciation as of 31 Dec.,2016</u>	<u>Net book value as of Dec. 31,2016</u>	<u>Net book value as of Dec. 31,2015</u>
	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>
Land	18 920 662	--	--	18 920 662	--	--	--	--	18 920 662	18 920 662
Buildings	509 623 460	150 702	--	509 774 162	179 792 340	15 675 856	--	195 468 196	314 305 966	335 129 973
Machinery & equipment	114 730 811	24 098 820	24 741	138 804 890	89 420 963	7 725 480	24 741	97 121 702	41 683 188	18 252 396
Vehicles	15 623 582	1 676 300	105 000	17 194 882	14 297 422	477 263	105 000	14 669 685	2 525 197	833 033
Computer equipment	37 849 806	16 808 839	384 796	54 273 849	26 190 974	6 630 757	373 652	32 448 079	21 825 770	5 673 764
Leasehold improvements	17 686 292	14 774	--	17 701 066	16 851 733	240 774	--	17 092 507	608 559	962 162
Furniture	52 304 194	8 468 944	134 414	60 638 724	38 523 267	3 467 507	130 600	41 860 174	18 778 550	5 045 115
Total cost	<u>766 738 807</u>	<u>51 218 379</u>	<u>648 951</u>	<u>817 308 235</u>	<u>365 076 699</u>	<u>34 217 637</u>	<u>633 993</u>	<u>398 660 343</u>	<u>418 647 892</u>	<u>384 817 105</u>
Impairment of Macor									(2 500 000)	(2 500 000)
Impairment of assets									(64 539 487)	(64 539 487)
Balance as at 31 Dec. 2016									<u>351 608 405</u>	<u>317777 618</u>

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

	<u>EGP</u>
Operating assets-work in process	6 423 374
Administrative depreciation (income statement)	12 824 256
Depreciation expense of hotel operations	6 245 862
Depreciation expense of Palm Hills Club's assets - club's operating statement	8 724 145
	<u>34 217 637</u>

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

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

35. WORK IN PROCESS

	<u>Cost of sales recognized</u> <u>in income statement</u>				
	<u>Total as at</u> <u>30 Sep. 2017</u> <u>EGP</u>	<u>As at</u> <u>31 Dec. 2016</u> <u>EGP</u>	<u>For the period</u> <u>Ended</u> <u>30 Sep. 2017</u> <u>EGP</u>	<u>30 Sep. 2017</u> <u>EGP</u>	<u>31 Dec. 2016</u> <u>EGP</u>
Land acquisition cost	7 297 487 870	2 646 715 464	698 231 536	3 952 540 870	1 998 407 897
Cost of construction	14 682 954 197	7 591 652 979	2 084 753 748	5 006 547 470	4 397 216 503
Completed units ready for sale	<u>187 907 169</u>	<u>172 785 614</u>	<u>12 000 000</u>	<u>3 121 555</u>	<u>15 121 555</u>
Balance as at 30 Sep. 2017	<u>22 168 349 236</u>	<u>10 411 154 057</u>	<u>2 794 985 284</u>	<u>8 962 209 895</u>	<u>6 410 745 955</u>

* Borrowing cost capitalized on work in process for the period ended 30 Sep. 2017 amounted to EGP 352 530 324 The capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 11.56%.

36. CASH AND CASH EQUIVALENTS

	<u>30 Sep. 2017</u>	<u>31 Dec. 2016</u>
	<u>EGP</u>	<u>EGP</u>
Banks-current accounts- EGP	398 470 008	405 401 961
Banks-current accounts- foreign currency	8 730 241	20 135 726
Banks – Deposits- EGP	116 154 021	350 101 394
Cash on hand- EGP	67 358 294	32 877 489
Balance as at 30 Sep. 2016	<u>590 712 564</u>	<u>808 516 570</u>

37. ACCOUNTS RECEIVABLE

	<u>30 Sep. 2017</u>	<u>31 Dec. 2016</u>
	<u>EGP</u>	<u>EGP</u>
Palm Hills Developments Company customers	253 652 554	248 358 902
Palm Hills Middle East Company for Real Estate Investment customers	125 775 686	134 409 736
Royal Gardens for Real Estate Investment Company customers	19 795 082	23 854 680
New Cairo for Real Estate Developments customers	2 342 598	2 432 862
Gawda for Trade Services customers	1 304 842	4 906 414
Saudi Urban Development Company customers	45 777 159	50 229 087
Rakeen Egypt for Real Estate Investment customers	81 832 927	115 164 240
East New Cairo for Real Estate Development customers	100 409 228	101 801 380
Middle East Company for Real Estate and Touristic Investment customers	13 390 372	28 179 947
United Engineering for Construction S.A.E	13 107	3 800 381
Palm Real Estate Development S.A.E	43 838 340	43 879 972
Palm For Investment And Real Estate Development	102 218 471	39 112
Palm Hills Club	1 244 541	--
Palm Hills Development of Tourism and Real Estate	800 188	--
Palm for Clubs Management	374 277	--
Balance as at 30 Sep. 2017	<u>792 769 372</u>	<u>757 056 711</u>

38. DEBTORS AND OTHER DEBIT BALANCES

	<u>30 Sep. 2017</u>	<u>31 Dec. 2016</u>
	<u>EGP</u>	<u>EGP</u>
Investments debtors	5 017 457	5 011 455
Deposits with others	57 037 117	5 641 802
Prepaid expenses	32 843 676	18 833 154
Loans to employee & custodies	22 103 022	8 315 790
Due from City for Real Estate Development Company	5 522 741	5 522 741
Advance payments for land acquisition	173 451 053	118 982 019
Residents' Association	47 664 055	32 050 330
Other debit balances	18 839 310	24 119 386
Balance as at 30 Sep. 2017	<u>362 478 431</u>	<u>218 476 677</u>

39. GUARANTEED PAYMENTS – JOINT ARRANGEMENT

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

	<u>30 Sep. 2017</u>	<u>31 Dec. 2016</u>
	<u>EGP</u>	<u>EGP</u>
Palm Hills for Tourist & Real Estate Development	--	40 000 000
Palm for Urban Development	50 000 000	--
Balance as at 30 Sep. 2017	<u>50 000 000</u>	<u>40 000 000</u>

40. DUE FROM RELATED PARTIES

	<u>30 Sep. 2017</u>	<u>31 Dec. 2016</u>
	<u>EGP</u>	<u>EGP</u>
Al Ethadia for Real Estate S.A.E	201 124 122	185 563 424
Al Naeem for investments	48 755 256	48 755 256
Coldwell Banker -Palm Hills for Real Estate S.A.E	20 480	20 480
Novotel Cairo 6th Of October S.A.E	1 899 028	2 510 272
Palm Hills Education S.A.E	--	184 125
Mercure Ismailia Hotel	10 511 502	6 821 963
Palm Hills – Saudi	269 320	269 320
Balance as at 30 Sep. 2017	<u>262 579 708</u>	<u>244 124 840</u>

41. ADVANCE PAYMENTS FOR INVESTMENTS ACQUISITION

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

42. BANKS- CREDIT BALANCES

	<u>30 Sep. 2017</u>	<u>31 Dec. 2016</u>
	<u>EGP</u>	<u>EGP</u>
Banks –EGP	103 070 064	40 248 216
Banks-foreign currencies	--	1 928 271
Balance as at 30 Sep. 2017	<u>103 070 064</u>	<u>42 176 487</u>

43. BANK OVERDRAFT

	<u>30 Sep. 2017</u>	<u>31 Dec. 2016</u>
	<u>EGP</u>	<u>EGP</u>
Banks –EGP	196 936 291	79 410 353
Balance as at 30 Sep. 2017	<u>196 936 291</u>	<u>79 410 353</u>

44. ADVANCES FROM CUSTOMERS

	<u>Down payments</u>	<u>Advances for contracting</u>	<u>30 Sep. 2017</u>
	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>
Palm Hills Developments Company	32 019 250	2 327 993 737	2 360 012 987
Palm Hills Middle East Company for Real Estate Investment	4 879 310	1 124 067 993	1 128 947 303
Royal Gardens for Real Estate Investment Company	--	33 028 663	33 028 663
New Cairo for Real Estate Developments	--	3 627 438	3 627 438
Gawda for Trade Services	--	251 212	251 212
Saudi Urban Development Company	1 383 225	620 446 522	621 829 747
Rakeen Egypt for Real Estate Investment	8 369 454	1 322 552 934	1 330 922 388
East New Cairo for Real Estate Development	2 709 643	552 985 725	555 695 368
Middle East Company for Real Estate and Touristic Investment	40 000	36 467 147	36 507 147
United Engineering for Construction	87 213 616	--	87 213 616
Palm for Real Estate Development S.A.E	3 153 567	836 119 158	839 272 725
The company's share in Capital Gardens Compound)	169 385	--	169 385
Palm Hills Club	16 782 766	2 336 910 136	2 353 692 902
Palm Hills Development of Tourism and Real Estate	30 858 404	357 702 965	388 561 369
Palm for Clubs Management	178 083	--	178 083
Balance as at 30 Sep. 2017	<u>187 756 703</u>	<u>9 552 153 630</u>	<u>9 739 910 333</u>

45. LAND PURCHASE LIABILITIES

	<u>30 Sep. 2017</u> <u>EGP</u>	<u>31 Dec. 2016</u> <u>EGP</u>
Land purchase liabilities - short term	144 883 713	60 651 029
Land purchase liabilities - long term	353 834 458	169 799 525
Balance as at 30 Sep. 2017	498 718 171	230 450 554

46. DUE TO RELATED PARTIES

	<u>30 Sep. 2017</u> <u>EGP</u>	<u>31 Dec. 2016</u> <u>EGP</u>
El Mansour & El Maghraby Investment and Development Villamora for Real Estate Development Company S.A.E	56 365 501	92 112 385
Due to shareholders	22 557 140	19 347 824
Balance as at 30 Sep. 2017	104 045 311	131 333 859

47. INVESTMENT PURCHASE LIABILITIES

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

48. NOTES PAYABLE

A) Short Term Notes Payable

	<u>30 Sep. 2017</u> <u>EGP</u>	<u>31 Dec. 2016</u> <u>EGP</u>
Notes payable- Land (New Urban Communities Authority)	797 684 539	615 260 497
Deduct:- Delayed installments interest	337 031 746	93 486 582
	460 652 793	521 773 915
Add:- Other notes payable	690 915 621	554 818 902
Deduct: - Unamortized discount	94 763 799	102 290 957
Balance as at 30 Sep. 2017	1 056 504 615	974 301 860

B) Long Term Notes Payable

	<u>30 Sep. 2017</u> <u>EGP</u>	<u>31 Dec. 2016</u> <u>EGP</u>
Notes payable- Land (New Urban Communities Authority)	2 370 792 072	28 991 768
Deduct: - Delayed installments interest	871 823 715	5 882 861
	1 498 968 357	23 108 907
Add:- Other notes payable	1 199 547 730	1 106 203 723
Deduct: - Delayed installments interest	589 622 893	516 612 039
Balance as at 30 Sep. 2017	2 108 893 194	612 700 591

49. LOANS

This item is represented as follows:

	30Sep. 2017		31 Dec. 2016	
	Short term EGP	long term EGP	Short term EGP	long term EGP
Misr Bank				
Revolving medium-term loan with Banque Misr in the amount of EGP 750 million to finance projects of Palm Hills Middle East for Real Estate Investment.	114 007 000	618 890 203	18 750 000	721 249 980
Arab African International Bank (AAIB)				
A medium loan with Arab African International Bank (AAIB) amounted to EGP 100 million for United Engineering for Construction	42 503 000	18 424 618	35 621 000	36 848 117
Arab African International Bank (AAIB)				
A medium-term loan with the Arab African International Bank (AAIB) amounted to EGP 2.4 billion to finance projects of <u>Palm Hills Developments and Rakeen Egypt for Real Estate Investment</u> secured by the assignment of projects' cash and bears an interest rate of 3.25% above deposit corridor rate.	618 306 417	1 845 902 541	230 400 000	2 038 657 312
Arab African International Bank (AAIB)				
A medium-term loan with Arab African International Bank (AAIB) amounted to EGP 225 million to finance projects of <u>East New Cairo for Real Estate Development</u> secured by the assignment of projects' cash flow and bears an interest rate of 2.75% above deposit corridor rate and is repayable on quarterly installments from 30 Sep. 2013 to Sep. 2018.	28 198 000	64 286 252	32 142 857	160 714 286
Abu Dhabi Islamic Bank (ADIB)				
Mudaraba Contract with Abu Dhabi Islamic Bank (ADIB) amounted to EGP 96 403 044 for 3 years for <u>Saudi Urban Development Company</u> .	--	--	24 100 762	--
Arab Bank				
A loan secured by notes receivable of delivered units		298 508 445	200 000 000	--
National Bank of Egypt				
Medium Term Loan of up to EGP852 million with the purpose of partially financing the recently acquired 190 feddan.	--	368 033 796	--	--
Balance as at 30 Sep. 2017	803 014 417	3 214 045 855	541 014 619	2 957 469 695

50. CREDITORS AND OTHER CREDIT BALANCES

	30 Sep. 2017 EGP	31 Dec. 2016 EGP
Other credit balances	234 896 293	174 875 404
Increase in construction area liabilities	95 500 000	95 500 000
Accounts receivable under settlement	75 384 138	170 605 682
Accrued expenses	51 791 259	46 091 915
Insurance for others	53 510 100	35 183 000
Balance as at 30 Sep. 2017	511 081 790	522 256 001

51. CAPITAL

The Company's authorized capital amounts EGP 6000 000 000. The Company's issued and paid in capital amounts to EGP 4 617 899 452 representing 2 308 949 726 shares with a par value of EGP 2 per share as follows:

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

52. OTHER LONG TERM LIABILITIES- RESIDENTS' ASSOCIATION

Other long term liabilities represent time deposit checks received from residents or customers due on the sold units to finance the maintenance and other running expenses, such time deposit checks are temporarily invested in favor of residents until the compound has separate legal personality and separate assets and liabilities, then the compound's management and its General Assembly will be responsible for running the compound's assets and liabilities according to the Buildings & Housing Law No.119 for 2008. Other long-term liabilities balance as at 30 Sep. 2017 amounted to EGP 1 004 571 869.

53. RESERVES

a) Legal reserve

	<u>30 Sep. 2017</u>	<u>31 Dec. 2016</u>
	<u>EGP</u>	<u>EGP</u>
Beginning balance	630 142 410	585 103 921
Transferred from the prior year's profit	<u>50 585 876</u>	<u>45 038 489</u>
Balance as at 30 Sep. 2017	<u>680 728 286</u>	<u>630 142 410</u>

b) Special reserve

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

54. Joint Share Arrangement

The arrangement for joint represents the net share of the Partners(Owner) for the value of the land and the preparation of the external facilities in accordance with the approved contract and in the projected time for the annual payments. follows: -

	<u>30 Sep. 2017</u>	<u>30 Sep. 2017</u>	<u>31 Dec. 2016</u>	<u>31 Dec. 2016</u>
	<u>Short term</u>	<u>Long term</u>	<u>Short term</u>	<u>Long term</u>
	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>
Partners in Palm New Cairo-Project	167 552 760	592 577 722	160 424 409	--
Partners in Hacienda West -Project	12 834 970	19 202 263	--	--
Balance as at 30 Sep. 2017	<u>180 387 730</u>	<u>611 779 985</u>	<u>160 424 409</u>	<u>--</u>

55. REVENUES

	<u>30 Sep. 2017</u>	<u>30 Sep. 2016</u>
	<u>EGP</u>	<u>EGP</u>
Revenues from building and development activities	4 523 106 429	3 518 478 464
Revenues from the construction activity	40 978 237	20 551 584
Sale of completed units ready for sale	15 332 759	--
Revenues from the commercial activity	2 742 695	--
Revenues from hospitality activities	49 228 125	24 036 406
Other revenues	68 554 891	48 587 724
Revenues from Palm Hills Club	57 861 410	16 784 281
Total as at 30 Sep. 2017	<u>4 757 804 546</u>	<u>3 628 438 459</u>

56. COST OF REVENUES

	<u>30 Sep. 2017</u>	<u>30 Sep. 2016</u>
	<u>EGP</u>	<u>EGP</u>
Cost of building and development activities	3 135 417 620	2 457 173 383
Cost of completed units ready for sale	12 000 000	--
Cost of the construction activity	34 495 245	14 466 408
Depreciation of Fixed Assets – hospitality operations	4 782 694	4 504 583
Cost of the commercial activity	560 138	--
Operation cost -Palm Hills Club	16 127 695	--
Depreciation of Fixed Assets – Palm Hills Club	7 281 526	--
Total as at 30 Sep. 2017	<u>3 210 664 918</u>	<u>2 476 144 374</u>

57. General Administrative, Selling And Marketing Expenses

	<u>30 Sep. 2017</u>	<u>30 Sep. 2016</u>
	<u>EGP</u>	<u>EGP</u>
Wages and salaries	258 039 260	175 639 007
Selling and marketing expenses	157 961 861	108 167 631
Communications expenses	2 236 219	1 545 771
Utilities	18 166 836	16 366 954
Professional and Government fees	33 786 219	44 917 165
Maintenance and Insurance	27 240 095	16 205 684
Travel and transportation	7 956 464	5 146 207
Bank charges	7 678 607	4 578 686
Other administrative expenses	24 464 680	33 527 916
Total as at 30 Sep. 2017	<u>537 530 241</u>	<u>406 095 021</u>

58. Gains on Investments in Fair value through profit or loss

	<u>30 Sep. 2017</u>	<u>30 Sep. 2016</u>
	<u>EGP</u>	<u>EGP</u>
Gains on sale of mutual funds certificates	4 589 155	4 220 741
Total as at 30 Sep. 2017	<u>4 589 155</u>	<u>4 220 741</u>

59. OTHER REVENUES

	<u>30 Sep. 2017</u>	<u>30 Sep. 2016</u>
	<u>EGP</u>	<u>EGP</u>
Retrieve the value of the facilities	8 596 223	9 871 726
Transfer fees and delay benefits	50 046 809	31 841 610
Miscellaneous revenues	9 911 859	6 874 388
Total as at 30 Sep. 2017	<u>68 554 891</u>	<u>48 587 724</u>

60. EARNINGS PER SHARE

	<u>30 Sep.</u> <u>2017</u> <u>EGP</u>	<u>30 Sep.</u> <u>2016</u> <u>EGP</u>
Net profit for the Period	466 994 926	404 307 872
Earnings per share	<u>0.202</u>	<u>0.175</u>

61. TRANSACTION WITH RELATED PARTIES

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

a- Transaction with related parties

<u>Party</u>	<u>Relationship</u>	<u>Nature of transaction</u>	<u>Amount of transaction</u> <u>EGP</u>
Palm Hills Middle East Company for Real Estate Investment S.A.E	A subsidiary	Finance	1 383 892 521
Royal Gardens for Real Estate Investment Company S.A.E	A subsidiary	Finance	17 738 225
Middle East Company for Real Estate and Touristic Investment S.A.E	A subsidiary	Finance	62 646 193
Gawda for Trade Services S.A.E	A subsidiary	Finance	36 557 850
Rakeen Egypt for Real Estate Investment S.A.E	A subsidiary	Finance	390 367 033
Saudi Urban Development Company S.A.E	A subsidiary	Finance	36 980 006
Nile Palm Al-Naeem for Real Estate Development S.A.E			169 370
Al Ethadia for Real Estate S.A.E	A Related party	Finance	55 085 444
East New Cairo for Real Estate Development S.A.E	A subsidiary	Finance	2 841 117 184
Palm October for Hotels S.A.E	A subsidiary	Finance	79 370
New Cairo for Real Estate Development S.A.E	A subsidiary	Finance	112 033 432
Al Naeem for Hotels and Touristic Villages S.A.E	A subsidiary	Finance	264 956
Gemsha for Tourist Development S.A.E	A subsidiary	Finance	199 253
United Engineering for Construction S.A.E	A subsidiary	Finance	18 062 285
El Mansour & El Maghraby Investment and Development	A main shareholder	Finance	199 209 884
Palm Gemsha for Hotels S.A.E	A subsidiary	Finance	86 585
Palm North Coast Hotels S.A.E	A subsidiary	Finance	86 585
Palm for Real Estate Development	A subsidiary	Finance	51 306 049
Palm For Investment And Real Estate Development	A subsidiary	Finance	394 509 054
Palm Hills Properties	A subsidiary	Finance	1 983 697
Palm Hills Development of Tourism and Real Estate	A subsidiary	Finance	7 767 134
Palm Hills for Investment Tourism	A subsidiary	Finance	994 651
Palm Hills Resorts S.A.E	A subsidiary	Finance	30 000
Palm Hills Hospitality S.A.E	A subsidiary	Finance	79 370
Palm Alexandria for Real Estate	A subsidiary	Finance	501 000
Palm for Club Management	A subsidiary	Finance	109 100 045
Palm Hills Education S.A.E	A subsidiary	Finance	1 639 389

b- Resulting balances from these transactions

<u>Party</u>	<u>Item as in balance sheet</u>	<u>30Sep. 2017</u> <u>EGP</u>
Palm Hills Middle East Company for Real Estate Investment S.A.E	Due from related parties	946 824 810
Royal Gardens for Real Estate Investment Company S.A.E	Due from related parties	1 678 298
Rakeen Egypt for Real Estate Investment S.A.E	Due from related parties	216 253 688
Saudi Urban Development Company S.A.E	Due from related parties	189 329 726
Al Ethadia for Real Estate S.A.E	Due from related parties	185 001 226
East New Cairo for Real Estate Development S.A.E	Due from related parties	632 643 988
Palm October for Hotels S.A.E	Due from related parties	11 466 588
New Cairo for Real Estate Developments S.A.E	Due from related parties	17 354 054
Gemsha for Tourist Development S.A.E	Due from related parties	68 718 945
Palm for Real Estate Development S.A.E	Due from related parties	9 305 187
Palm For Investment And Real Estate Development	Due from related parties	41 018 470
Palm Hills Properties	Due from related parties	1 673 547
Palm Hills Development of Tourism and Real Estate	Due from related parties	39 314 004
Palm Hills for Investment Tourism	Due from related parties	63 476 568
Palm Hills Resorts	Due from related parties	178 149
Palm Hills Hospitality S.A.E	Due from related parties	100 305 574
Palm Hills Education S.A.E	Due from related parties	1 323 513
Palm Hills – Saudi	Due from related parties	269 320
Coldwell Banker Palm Hills for Real Estate	Due from related parties	20 480
Palm for Urban Development	Due from related parties	6 886 897
Palm Alexandria for Real Estate	Due from related parties	1 000
Palm Gemsha for Hotels S.A.E	Due from related parties	2 550
Nile Palm Al-Naeem for Real Estate Development S.A.E	Due to related parties	(44 636 717)
Al Naeem for Hotels and Touristic Villages S.A.E	Due to related parties	(127 463 519)
Gawda for Trade Services S.A.E	Due to related parties	(51 060 368)
El Mansour & El Maghraby Investment and Development	Due to related parties	(21 679 336)
Palm North Coast Hotels S.A.E	Due to related parties	(642)
Middle East Company for Real Estate and Touristic Investment S.A.E	Due to related parties	(138 135 172)
United Engineering for Construction S.A.E	Due to related parties	(11 249 000)
Palm for Club Management S.A.E	Due to related parties	(29 877 575)
Shareholders	Due to related parties	(11 474 851)

62. TAX STATUS

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

a) Corporate tax

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

b) Payroll tax

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

c) Stamp tax

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

63. FINANCIAL INSTRUMENTS & FAIR VALUE

- Financial instruments

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

- Financial instruments fair value

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

64. RISK MANAGEMENT

- Interest rate risk

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

- Credit risk

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

65. EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

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

Only 4 184 366 shares have been exercised and the Company re-measured the fair value of granted options and recognized EGP 30 159 777 in the ESOP re-measurement reserve, therefore the fair value of the granted options amounted EGP 75 539 068 as at 30 Sep. 2017 and these granted options have not been exercised yet.