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Egyptian Resorts Company
"Egyptian Joint Stock Company"
Subject to the provisions of Law no. 159/1981

The consolidated Financial Statements
For the six months ended September 30, 2011
And review report

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Review Report for the interim financial statements

To the board of directors of Egyptian Resorts Company

Introduction

We have performed a limited review for the accompanying consolidated balance sheet of Egyptian Resorts Company (SAE) as of 30 September 2011 and the related statements of income, cash flows and changes in equity for the nine-month then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim financial statements in accordance with Egyptian Accounting Standards. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Limited Review

We conducted our limited review in accordance with Egyptian Standard on Review Engagements 2410, "Limited Review of Interim Financial Statements Performed by the Independent Auditor of the Entity." A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters in the Company, and applying analytical and other limited review procedures. A limited review is substantially less in scope than an audit conducted in accordance with Egyptian Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these interim financial statements.

Conclusion

Based on our limited review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements do not present fairly, in all material respects, the financial position of the Company as at 30 September 2011, and of its financial performance and its cash flows for the six-months then ended in accordance with Egyptian Accounting Standards.

Emphasis of matter

Without considering the following as qualifications:

1 As disclosed in detail in note no. 26 of the notes to the financial statements, there is a lawsuit before court which is raised by one of the lawyers against the General Authority for Touristic Development in order to annul the allocation contract of all lands for Egyptian Resorts Company at Sahl Hasheesh, and On February 28, 2011 the company's management decided to become a part of this lawsuit in order to undertake the legal procedures and submit the documents supports the company's position. The lawsuit is now still pending before the state attorneys' authority, a hearing has been determined on January 26, 2012 to complete the documents needed. The company's legal consultant believes that the lawsuit is still in its early stages, though it would be impossible for the time being to predict the results of the lawsuit in this early stage of dispute. Though the extent of the negative effects ,that may result, on the company's economics and financial position that may result because of this lawsuit is not yet determined.

2 As disclosed in detail in note no. 26 of the notes to the financial statements, the General Authority of Touristic Development has informed ERC that it has decided to withdraw its previous consent for the company on development of phase 3 lands at Sahl Hasheesh (zone c) in which its area is 20 million square meter in its resolution dated March 31, 2011. Knowing that Work in process in connection with this phase amounted to L.E 66.66 million on September 30, 2011. And the company raised a lawsuit to cancel this resolution which is issued from TDA of taking the land of phase 3 back and taking into consideration that this resolution is submitted to administrative court on September 21, 2011. This lawsuit has been listed and the first hearing has been determined to be on December 17, 2011. In addition to the aforementioned, the company is looking forward to approach the ministerial group in order to settle the dispute of investment between the company and TDA. Based on the company's legal consultant's opinion issued on October 17, 2011, it's too soon to predict the results of those procedures in the dispute. Though the extent of the negative effects ,that may result, on the company's economics and financial position that may result because of this lawsuit is not yet determined.

Ahmed Mohamed Mohamed Salem
Auditors' register
At the Money Market General Authority No. (94)
KPMG Hazem Hassan

Cairo, November 14, 2011

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Egyptian Resorts Company
(Egyptian Joint Stock Company)

The Consolidated Balance Sheet of the Company and its Subsidiaries
As at September 30, 2011

	Note No.	30/09/2011 L.E.	31/12/2010 L.E.
Long Term Assets			
Fixed assets (Net)	(3-2,4)	152 459 498	163 097 550
Projects in progress	(3-3,5)	213 468 628	199 320 499
Utilization rights of trade marks	(6)	5 441 576	5 941 526
Accounts & notes receivable (Net)	(3-7,8/1)	64 073 407	81 128 399
Deferred tax assets (Net)	(3-18,24)	1 399 965	2 805 906
Total Long Term Assets		**436 843 074**	**452 293 880**
Current Assets			
Work in process	(3-5,7)	475 363 878	441 830 266
Inventory	(3-4)	1 221 766	1 001 221
Accounts & notes receivable (Net)	(3-7,8/2)	308 834 026	250 755 203
Sundry debtors and other debit balances	(9)	17 824 113	11 953 034
Cash on hand & at banks	(10)	207 894 309	273 767 389
Total Current Assets		**1011 138 092**	**979 307 113**
Current Liabilities			
Provision for claims	(3-11,11)	10 238 508	15 043 508
Receivables - advance payments	(12)	39 217 257	40 092 803
Sundry creditors and other credit balances	(3-12,13)	76 962 547	40 328 469
Due to Authority of Touristic Development-(due within one year)	(14-1)	14 069 704	22 828 825
Estimated cost for development of sold land	(3-6)	107 250 397	119 366 716
Total Current Liabilities		**247 738 413**	**237 660 321**
Working capital		763 399 679	741 646 792
Total Investments		**1200 242 753**	**1193 940 672**
Financed as follows:			
Owners' Equity			
Issued and fully paid in capital	(15)	1050 000 000	1050 000 000
Legal reserve	(25)	123 986 754	123 986 754
Gains from sale of treasury shares	(15)	6 041 052	6 041 052
Carried forward losses		(268 082 553)	(264 225 600)
Net profit (loss) for the period / year		5 985 335	(3 856 953)
Shareholders' Equity of holding company		**917 930 588**	**911 945 253**
Minorities' interest	(21)	**68 081 837**	**72 975 518**
Total Owners' Equity		**986 012 425**	**984 920 771**
Long-term Liabilities			
Purchase of land creditors	(3-7)	213 703 384	207 921 792
Due to Authority of Touristic Development- Long term	(14-2)	526 944	1 098 109
Total Long-term Liabilities		**214 230 328**	**209 019 901**
Total Owners' equity & Long-term Liabilities		**1200 242 753**	**1193 940 672**

- The accompanying notes from (1) to (27) form an integral part of these financial statements and to be read therewith.
- Review report attached.

Financial Controller	Managing Director	Chairman
Mr. Wael Abou Alam	Mr. Mohamed Ibrahim Kamel	Dr. Samir Makary

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Egyptian Resorts Company
(Egyptian Joint Stock Company)

The Consolidated Income Statement of the Company and its Subsidiaries
For the financial period from January 1, 2011 till September 30, 2011

	Note No.	From 1/1/2011 to 30/9/2011 L.E.	From 1/7/2011 to 30/9/2011 L.E.	From 1/1/2010 to 30/9/2010 L.E.	From 1/7/2010 to 30/9/2010 L.E.
Net sales	(3-14,17/1)	7 679 035	-	189 615	(699 255)
Interest recalled from deferred income	(3-14,17/2)	4 829 599	1 297 708	(2 084 388)	(2 325 896)
Revenues from services rendered	(3-14,17/3)	11 733 007	5 145 741	11 615 134	5 557 133
Total revenues		**24 241 641**	**6 443 449**	**9 720 361**	**2 531 982**
Less:					
Cost of sales	(3-15,18)	(136 572)	-	(1 254)	21 104
Operating cost of services rendered	(3-15)	(8 407 417)	(3 086 875)	(8 137 077)	(3 570 703)
Depreciation of fixed assets in operation	(3-2,4)	(8 880 967)	(2 960 289)	(8 127 194)	(1 678 247)
Gross profit (Loss)		**6 816 685**	**396 285**	**(6 545 164)**	**(2 695 864)**
Other operating revenues		2 475 413	718 212	831 303	332 306
		9 292 098	**1 114 497**	**(5 713 861)**	**(2 363 558)**
Less:					
Selling & marketing expenses	(3-15)	(6 405 572)	(1 957 724)	(1 703 759)	(503 242)
General and administrative expenses	(3-15,19)	(18 663 639)	(6 158 861)	(17 599 268)	(5 892 724)
Depreciation of fixed assets	(3-2,4)	(2 149 276)	(739 927)	(1 458 637)	(502 283)
Banks charges		(44 534)	(13 091)	(74 392)	(23 179)
Impairment in receivables		(2 943 513)	(1 211 514)	-	-
Provisions no longer required	(11)	2 652 956	(222 568)	-	-
(Loss) resulted from operating activity		**(18 261 480)**	**(9 189 188)**	**(26 549 917)**	**(9 284 986)**
Capital gain		-	-	424 750	-
Interest income	(20)	16 981 386	6 118 086	12 873 957	2 292 731
Foreign exchange differences		3 777 689	(112 052)	6 283 164	(1 781 225)
		20 759 075	**6 006 034**	**19 581 871**	**511 506**
Net profit (Loss) before income tax		**2 497 595**	**(3 183 154)**	**(6 968 046)**	**(8 773 480)**
Current income tax	(3-18)	-	-	-	-
Deferred tax that results in a liability	(3-18)	(1 405 941)	(243 692)	263 326	1 446 154
Net profit (loss)for the year after tax		1 091 654	(3 426 846)	(6 704 720)	(7 327 326)
Holding company's shareholders' share in the year's (losses) profits		5 985 335	(2 492 000)	(3 093 800)	(6 617 254)
Minorities share in (losses) profits of subsidiary company for the year	(21)	(4 893 681)	(934 846)	(3 610 920)	(710 072)
Net profit after income tax		**1 091 654**	**(3 426 846)**	**(6 704 720)**	**(7 327 326)**
Earning per Share	(16)	**0.006**	**(0.002)**	**(0.003)**	**(0.006)**

- The accompanying notes from (1) to (27) form an integral part of these financial statements and to be read therewith.

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Egyptian Resorts Company
(Egyptian Joint Stock Company)

Consolidated Statement of Changes in Shareholders' Equity for the company & its subsidiaries
For the financial period from January 1, 2011 till September 30, 2011

Description	Note No.	Issued & Paid in Capital L.E.	Gains from Sale of Treasury Shares L.E.	Legal Reserve L.E.	Carried Forward (Losses) L.E.	Net (Loss) Profit of the year L.E.	Minorities' interest L.E.	Total L.E.
Balance as at December 31, 2009		**1050 000 000**	**6 041 052**	**123 986 754**	**(268 325 606)**	**4 100 006**	**78 476 536**	**994 278 742**
Transferred to carried forward losses		-	-	-	4 100 006	(4 100 006)	-	-
Net loss for the year		-	-	-	-	(3 856 953)	(5 501 018)	(9 357 971)
Balance as at December 31, 2010		**1050 000 000**	**6 041 052**	**123 986 754**	**(264 225 600)**	**(3 856 953)**	**72 975 518**	**984 920 771**
Transferred to carried forward losses		-	-	-	(3 856 953)	3 856 953	-	-
Net profit of the period		-	-	-	-	5 985 335	(4 893 681)	1 091 654
Balance as at September 30, 2011		**1050 000 000**	**6 041 052**	**123 986 754**	**(268 082 553)**	**5 985 335**	**68 081 837**	**986 012 425**

- The accompanying notes from (1) to (27) form an integral part of these financial statements and to be read therewith.

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Egyptian Resorts Company
(Egyptian Joint Stock Company)

The Consolidated Cash Flows Statement for the Company and its Subsidiary
For the financial period from January 1, 2011 till September 30, 2011

	Note No.	For the financial year From 1/1/2011 to 30/9/2011 L.E.	For the financial year From 1/1/2010 to 30/9/2010 L.E.
Cash Flows from Operating Activities			
Net profit before income tax		2 497 595	(6 968 046)
Adjustments to Reconcile Net Profit with Net Cash Flows from Operating activities			
Fixed assets' depreciation	**(4)**	11 030 243	9 585 831
Amortization for utilization rights of trade marks		499 950	-
Impairment in receivables		2 943 513	-
Provisions no longer required		(2 652 956)	-
Capital gain		-	(424 750)
		14 318 345	**2 193 035**
Change in working capital			
(Increase) decrease in receivables (net)		(34 786 483)	51 525 213
(Increase) in inventory		(220 545)	(75 649)
(Increase) in debtors and other debit balances		(5 571 078)	(4 623 384)
(Increase) in work in process		(33 533 612)	(20 123 675)
(Decrease) in receivables advance payments		(1 793 246)	(658 550)
Increase (Decrease) in creditors and other credit balances		36 634 078	(1 264 766)
Changes in estimated cost for development of sold land		(12 116 319)	(14 626 696)
(Decrease) dues to Authority of Touristic Development		(9 728 389)	(3 028 039)
Used form provision for claims	**(11)**	(2 152 044)	(3 519 771)
Increase (Decrease) in purchase of land creditors		-	67 424 442
Paid income tax		-	(666 103)
Net cash flow (used in) operating activities		**(48 949 293)**	**72 556 057**
Cash Flows from Investing Activities			
Payments for purchase of fixed assets, projects in progress and property investments	**(4,5)**	(15 130 172)	(110 996 972)
Proceeds from sale of fixed assets		11 470	424 750
Net cash available from investing activities		**(15 118 702)**	**(110 572 222)**
Net cash (used) during the year		(64 067 995)	(38 016 165)
Foreign currency exchange differences		(1 805 085)	(6 810 265)
Cash & cash equivalent as at January 1, 2011		273 767 389	309 218 545
Cash & cash equivalent as at September 30, 2011	**(10)**	**207 894 309**	**264 392 115**

- The accompanying notes from (1) to (27) form an integral part of these financial statements and to be read therewith.

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Egyptian Resorts Company
(Egyptian Joint Stock Company)

Notes to the Consolidated Financial Statements
For the financial year from January 1, 2011 till September 30, 2011

1- General Background

(A) General

- Egyptian Resorts Company - Egyptian joint stock Company – established under the provisions of Law No. 159 of 1981 and its executive regulations and also subject to the provisions of Law No. 95 of 1992 and its executive regulations. The company was registered in the commercial register under No. 6514 on 24/4/1996.
- The Company's duration is 50 years starting from the date of registration in the commercial registry.
- The financial year for the company starts from January 1st and ends at December 31st each year.
- The company's head office location is at Sahl Hashish – Hurghada – Red Sea, and the location of the company's branch at Cairo Governorate is at 4 A Aziz Abaza Street – Zamalek – Cairo.
- The Chairman of the board of directors is Mr. Samir Makary – and the Managing director is Mr. Mohamed Ibrahim Kamel Abu Eloyoon (and the board of directors approved these financial statements on 14/11/2011).

(B) Company's purpose

B-1 Egyptian Resorts Company

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

B-2 Sahl Hasheesh Company for Touristic Investment

The purpose of the company is establishing 30 hostelry apartments consists of 200 rooms of a 5 stars level, fully completed with its complementary utilities and entertainment services which represented in restaurants, cafeterias, health club, swimming pools, tennis, golf, squash playgrounds, entertainment hall and disco, meeting rooms, wedding halls, gardens and playgrounds for kids, entertainment center, medical unit, marine and all kinds of marine sports. Egyptian Resorts Company owns 69.38 % of Sahl Hasheesh Company for Touristic Investment.

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

2- Basis of preparation of the Separate financial statement

2-1 Basis for preparation

A- Statement of compliance

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

B- Basis of measurement

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

C- Functional and presentation currency

These financial statements are presented in Egyptian pounds, which is the Company's functional currency.

D- Use of estimates and judgments

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

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

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

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

- Cost of acquisition was classified according to the fair value of owned assets and liabilities as at acquisition date which is equivalent in value to the book value and in the limit of the percentage the holding company obtained on that date.

3- Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3-1 Foreign currencies translation

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

3-2 Fixed assets and depreciation

A- Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation (3-2-C) and impairment losses (3-10).
Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.
When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

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

Buildings	50 years
Machinery & Equipments	10 years
Furniture & Fixtures	16 years
Vehicles	5 years
Computers	5 years
Desalination plant and sewage treatment plant	
Structural works	30 years
Mechanical works	10 years
Water tank	30 years
Warehouses	30 years
Gateways	30 years
Sunken City	30 years
Lights & Marketing Signs	30 years
Networks & Facilities	10 years
Internal Road Networks	30 years

3-3 Projects in progress

Primary measurement: Projects in progress are recorded at cost. Cost includes all expenditures that are directly attributable to bringing the asset to a working condition for its intended use and to the purpose in which it was acquired for.
Projects in progress are transferred to fixed assets as soon as these projects were finished and are ready for their intended use.
Projects in progress are evaluated on the balance sheet date deducted from it impairment losses – if any (note 3-10).

3-4 Inventory

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

3-5 Work in process

Primary measurement: work in process is recorded at cost and it includes all actual costs related to the land, direct and indirect expenditures necessary to complete the development of the land and supplying the necessary infrastructure and facilities. The cost related to the work in process are recorded in the work in progress account and at sale this account shall be deducted from the estimated cost account according to the actual cost of the meters sold. Work in progress is recorded at cost or the net realizable value which is lower in the balance sheet.

The company concluded a contract with Ernst Body Corporate Management for providing consulting and administrative services for the management of the community, As the management decided to develop a model for managing the services rendered to the clients of the community, which permits the company to obtain fees from clients for services provided and for recovering the cost of managing the community, which resulted in amending the accounting treatment of some work in process costs, and reclassifying them to projects in progress to be capitalized as fixed assets when completed ,considering them as assets provide services which will generate income in future. This treatment has been made based on the company's legal consultant's opinion dated April 14, 2009 which stated the company is entitled to impose charges on clients with fees as long as the company implemented its contractual obligations towards them.

3-6 Estimated cost for development of sold land

This item includes the estimated cost necessary to complete the development of land sold and supplying facilities for these lands.
Primary measurement: the cost of sold land is recorded initially based on the share of meters sold from the total cost estimated for the development and supplying facilities to the lands for each phase and then the estimated cost shall be adjusted by the work in process which includes the actual cost development of lands for each phase as per the share of meters sold (3-5) in order to reach the cost for development and supplying facilities' works for the remaining sold land for each phase. And the estimated cost shall be studied all over again based on the technical study of the total estimated cost for each phase prepared annually by the technical department and this study shall be approved by the project consultant. The differences results from the re-estimation shall be charged to the income statement.

Based on the aforementioned concerning the contract with Ernst Body Corporate Management for providing consulting and administrative services for the management of the community, the estimated costs necessary to develop these phases have been modified based on the study prepared by the company's experts in 2008.

3-7 Receivables, debtors and other debit balances

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

3-8 Cash flow statement

Cash flow statement is prepared according to indirect method.

3-9 Cash and cash equivalent

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

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3-10 Impairment

A- Financial assets

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

B- Non-financial assets

- The carrying amounts of the non-financial assets, other than inventory and deferred tax assets are reviewed at the balance sheet date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.
- An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in the income statement.
- The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
- An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3-11 Provisions

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

3-12 Creditors and other credit balances

Creditors and other credit liabilities are recorded at cost.

3-13 Employees' pension plan

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

3-14 Revenue recognition

Activity's revenues

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

Financial investments' Revenue

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

Interest income

Interest income is recorded according to the accrual basis.

3-15 Expenses

Expenses are recognized on accrual basis.

3-16 Financial costs (net)

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

3-17 Interest expenses

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

3-18 Income Tax

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

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

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

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

3-19 Purchase of capital's shares

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

3-20 Dividends

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

3-21 Earning per share

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

3-22 Transaction with related parties

Transactions with related parties made by the company are recorded in accordance with the rules stated by the board of directors and by the same basis of dealing with others.

4- Fixed Assets

The balance of fixed assets (net) shown in the balance sheet as at September 30, 2011 is represented as follows:-

Description	Cost as at 1/1/2011	Additions of the year	Disposals	Cost as at 30/9/2011	Accumulated Depreciation as at 1/1/2011	Depreciation of the period	Accumulated Depreciation of disposals	Accumulated Depreciation as at 30/9/2011	Net book value as at 30/9/2011	Net book value as at 31/12/2010
	L.E.			L.E.	L.E.	L.E.		L.E.	L.E.	L.E.
Land	521 610	-	-	521 610	-	-	-	-	521 610	521 610
Buildings	34 375 770	-	(300 000)	34 075 770	1 693 915	800 024	-	2 493 939	31 581 831	32 681 855
Machinery & equipments	2 071 649	99 750	-	2 171 399	978 601	103 585	-	1 082 186	1 089 213	1 093 048
Furniture & fixtures	4 450 927	56 535	-	4 507 462	791 421	210 075	-	1 001 496	3 505 966	3 659 506
Transportation vehicles	790 237	202 150	-	992 387	446 641	99 694	-	546 335	446 052	343 596
Networks & facilities	78 656 802	-	-	78 656 802	8 645 767	5 899 260	-	14 545 027	64 111 775	70 011 035
Sewage Treatment Plant	21 575 064	-	-	21 575 064	2 769 707	717 744	-	3 487 451	18 087 613	18 805 357
Water tank	8 919 154	-	-	8 919 154	533 796	223 008	-	756 804	8 162 350	8 385 358
Water desalination plant	28 649 737	-	-	28 649 737	5 258 595	2 040 955	-	7 299 550	21 350 187	23 391 142
Computers & Air-conditioning	7 495 320	345 224	(15 025)	7 825 519	3 290 277	935 898	(3 557)	4 222 618	3 602 901	4 205 043
Total	**187 506 270**	**703 659**	**(315 025)**	**187 894 904**	**24 408 720**	**11 030 243**	**(3 557)**	**35 435 406**	**152 459 498**	**163 097 550**

* Fixed assets included assets which are fully depreciated, its cost amounted to L.E 2 527 384 as at September 30, 2011 as follows:

	L.E
Transportation vehicles	349 437
Machinery & equipments	734 061
Furniture	1 016
Buildings (Caravans)	82 830
Computers	1 360 040
	2 527 384

Depreciations were classified as follows:

Depreciation of fixed assets in operation	8 880 967
Depreciation of administrative fixed assets	2 149 276
	11 030 243

5- Projects in progress

Projects in progress shown in the consolidated balance sheet as at September 30, 2011 are represented in the following:

	30/9/2011	31/12/2010
	L.E	L.E
Sahl Hasheesh Company		
Lands	116 152 096	116 152 096
Works done by Sahl Hasheesh	65 801 444	61 218 060
Supplies of furniture for apartments	963 570	37 853
Air conditioning works	9 309 736	9 179 538
Elevators works	2 955 000	2 686 934
Electrical circuit boards and convertors	2 635 911	2 473 189
Supplies of apartments' samples and supplies for the kitchen of main restaurant	943 789	537 486
Internet networks works	280 518	--
Advance payments to suppliers	1 290 263	1 088 730
Egyptian Resorts Company		
Electricity network	7 061 631	--
Arrival Piazza	384 936	--
Water Desalination plant	410 318	183 052
Sundry projects in progress	2 090 343	556 968
Advance payments to suppliers	3 189 073	5 206 593
Balance as at 30/9/2011	**213 468 628**	**199 320 499**

- Projects in progress are transferred to fixed assets as soon as it is completed.

6- Utilization rights of Trademarks

The utilization rights of trademarks are represented in amounts due to Orascom Co. for Development and Management (FZC) in which its premises is at Ras Al Kamiah, United Arab Emirates. These dues are against the utilization of its trade name in promotion and publicity by Egyptian Resorts Company for a period of 9 years starting from November 2010. These dues amounted to L.E 6 million to be paid on three annual installments starts on the date of concluding the contract. And this would be in favor of the company's planned project which should be executed at phase two at the land allocated to the company at Sahl Hasheesh. These amounts shall be amortized in the income statement included in sales and marketing expenses. represented as at September 30, 2011 as follows:-

	30/9/2011
	L.E
Balance as at 1/1/2011	5 941 526
Less: Amortized during the period included in selling and distribution expenses	(499 950)
Balance as at 30/9/2011	5 441 576

7- Work in Progress

The company concluded a contract with Ernst Body Corporate Management for providing consulting and administrative services for the management of the community, As the management decided to develop a model for managing the services rendered to the clients of the community, which permits the company to obtain fees from clients for services provided and for recovering the cost of managing the community, which resulted in amending the accounting treatment of some work in process costs, and reclassifying them to projects in progress to be capitalized as fixed assets when completed ,considering them as assets provide services which will generate income in future. This treatment has been made based on the company's legal consultant's opinion dated April 14, 2009 which stated the company is entitled to impose charges on clients with fees as long as the company implemented its contractual obligations towards them.

Based on the aforementioned the estimated costs necessary to develop the lands of the community have been modified based on the study prepared by the company's experts in 2008.The cost per estimated square meter become L.E 22.36 and L.E 34.31 for both the first and second phases, respectively. The study of development costs for the third phase is still in progress and there has not been any lands sold from this phase yet.

Based on the periodic study carried out by the company for the elements of the estimated cost based on the operation, it has been clear for the company's experts that such measurements and studies were not accurate and there should be significant amendments to be considered when calculating estimated cost of both first and second phases which are represented in reducing the land areas available for sale to both phases based on the geographical survey and the master plan for both phases, which was prepared in 2008, though the experts believed that the company should reclassify some of the projects to be included in the costs of work in progress rather than fixed assets or projects in progress based on the nature of these assets and its contact to the facilitation activity, as the company has re-measured non-direct contact to the facilitation activity based on any updates in the current or the future operating conditions. The differences results from this amendments in the measurement aforementioned shall be charged to the retained earnings.

The company has concluded a contract with a specialized consultancy firm to assess all elements of the estimated cost of the company's project in light of the expected amendments to the master plan of the project and expected to be completed accurately during the second half of the financial year of 2011.

The actual cost for the work in progress account shown in the separate balance sheet as at September 30, 2011 is represented as follows:-

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		Balance as at 30/9/2011	**Balance as at 31/12/2010**
		L.E.	**L.E.**
7-1	Cost of the project's lands haven't been sold yet 732 440 m²- Phase 1	27 687 046	26 484 217
7-2	Cost of the project's lands haven't been sold yet 4 925 603 m²-Phase 2	144 795 222	128 400 124
7-3	Cost of project's lands 28 312 296 million m² – Phase 3	298 110 407	286 392 710
7-4	Cost of Sawry Project	4 771 203	553 215
		475 363 878	441 830 266

(*) Work in process include 50 % from salary of chief executive officer for the period for his technical supervision on the works done in the company's site at Sahl Hasheesh at Hurghada.

7-1 First Phase Lands

- The General Authority for Touristic Development allocated an area of six million meter square by virtue of a contract for sale and leasing of desert land at Sahl Hasheesh at Red Sea for the purpose of touristic development. And this contract has been concluded on October 24, 1995 and the amounts due to the authority for this phase has been paid in full. As per the contract the authority is entitled for 7.5% of the sales price as a commission with a minimum amount of L.E 11.25 per meter and to be increased by a 10% annually.
- According to the prime minister's decree No. 1026 of 2005 published in the official gazette issue No.28 July 14, 2005 stating that the lands sold for the purpose of constructing a touristic project, US$ 1.75 is due to the authority per meter sold.
- The total cost estimated for development as at June 30, 2011 of the first phase of the project based on the revised study prepared by the company's experts amounted to L.E 251 742 815 in which the estimated cost per meter amounted to LE 51.773 approximately.
- Based on the geographical survey for phase 1 made on 2008, which was prepared by the company's experts, the total area of that phase is 5 604 817 meter square in which the sold area is 4 862 347 meter square. These differences were included in purchase of land creditors as at September 30,2011.

7-2 Second Phase Lands

- The company rented the second phase's lands 6 million meters as an extension to the touristic development of phase one,

  On March 30, 2003 the company got an initial approval from the General Authority for touristic development (Ministry of Tourism) to sell the area allocated from the touristic center for the second phase (6 million m²).

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- The estimated cost as at December 31, 2010 for the project's second phase according to the study prepared by the company's experts amounted to L.E 392 607 701 with estimated cost L.E 60. And upon the sale of any of the project's lands, 7.5% of the selling price is due to the authority with minimum payment L.E 11.25/meter and increase by 10% yearly according to the contracts, applying the prime minister's decree No. 1026 of 2005 mentioned above in note (8-1) over the project's second phase.
- Based on the geographical survey for the second phase made on 2008 which is mentioned in (8-1), the total area of that phase is 7 032 867 meter square and the area to be sold from this phase is 6 542 922 meter square. These differences were included in purchase of land creditors as at September 30,2011.

7-3 Third phase lands

The company rented the third phase's lands (20 million m²) as an extension to touristic development of the first and second phase as per the main agreement with the Authority for Touristic Development on 24/10/1995.

On March17, 2005 the company communicated the General Authority for Touristic Development to issue a letter confirming the company's rights in developing the project's third phase and On March 20, 2005 the Authority for Touristic Development replied that there are no restrictions on studying the company's proposal as long as the company fulfills the terms of the contract and the authority will notify the company with the results of the study then, according to the authority's letter dated February 26, 2007, the price of the meter was determined by USD 1.40/m.

And as per the geographical survey prepared by the expertise whom the company used during year 2008 in order to measure the total area of lands, the total area of the third phase is 28 312 296 m2.

And as per the geographical survey prepared by the company aforementioned, the cost of land purchased from the Authority of Touristic Development (including the contractual and allocation expenses) amounted to USD 42 411 819 which is equivalent to L.E 231 450 740. This cost is included in Work In Progress – Phase 3 and the total payments was USD 7 567 359 as at 30 September 2011 and the remaining amount due to the Authority based on the aforementioned is L.E 207 403 177 equivalent to USD 34 851 819 and included in purchase of land creditors, knowing that there are no allocation contracts for phase 3 have been concluded because the company did not submit a master plan for this phase to the Authority of Touristic Development yet. Subsequently the company did not receive a final time schedule determining payment installments, its dates and its interests till this date. That master plan for this phase is currently being prepared by the company.

The General Authority for Touristic Development notified the company to annul its previous consent that issued for the company to develop the land of the third phase of Sahl Hasheesh (Area C) and of an area of 20 million meter square in its resolution dated March 31, 2011, the company appealed to the resolution of the General Authority for Touristic Development to annul its previous consent referred to in 27 May 2011 and the company did not receive any reply in this concern.

And the company raised a lawsuit to cancel this resolution which is issued from TDA of taking the land of phase 3 back and taking into consideration that this resolution is submitted to administrative court on September 21, 2011 (seventh region – Investment). And there will be a hearing to be set on September 27, 2011 and this lawsuit has been listed under the no. 55158/65, In addition to the aforementioned, the company is looking forward to approach the ministerial group in order to settle the dispute of investment between the company and TDA. the company's legal consultant's believes that it's too soon to predict the results of those procedures in the dispute.

7-4 Cost of work in process (Sawary project)

Based on the project undertaken by the company which will be a luxurious compound to be established on an area of 2.583 million meter square from the lands of phase 2, the company concluded an agreement with Orascom Co. for Development and Management (FZC) (as developer) on April 28, 2010 in order to obtain the services associated with the development, management, marketing and sale of project units in accordance with the master plan based on the following conditions:

- Egyptian Resorts Company (the owner) provides Orascom Co. for Development and Management the right to lease two plots of project's lands (no. 37 and 38) for an amount of $ 100 annually for the duration of the contract in order to ensure the rights of the developer of this contract.
- The developer shall execute all works in which he is entitled for through his own staff and his own expenditure where he shall receive his fees as follows:

First: sales commission

- Subject to the terms of contract (from 6 / 12 until 6 / 14), the developer shall receive 6% from all realized sales due based on the contracts concluded and after payment of a part from the advance payment from the total sales amount, and the remaining amount shall be obtained via cheques or any trusted way of payment.
- If the Owner shall acquire the remaining units or shall give it to one of its shareholders or its subsidiaries or its associates, this shall be excluded from the commission of 6% on the condition that these units shall not exceed 50 units.
- If it is necessary to use experts other than the developer's experts, the two parties agreed that the commission shall be charged s follows:
  - up to 2% shall be charged to the developer. Above 2% to 4% it would be charged as follows: 2% to the developer and the other 2% shall be charged to the owner. Above 4% it would be charged as follows: 2% shall be charged to the owner and the remaining shall be charged to the developer on condition that the commission rate to be charged to the Owner shall not exceed 8% from all sales including the developer's commission.

Second: Incentive management fees:

- In addition to the sales commission set forth above the developer shall receive an incentive fees to develop and manage the project amounted to 15% from the net profit of the project before tax and to be calculated in accordance with the basis agreed upon in the contract and after deducting from the revenues an estimated cost for the square meter with an amount of

USD 24 per meter. The rate shall be calculated based on L.E 10 million for the first year in case of increasing the project's profits before tax, and the net profit before tax in which is the base for computing the incentive shall be increased by a compound 3% annually.

8- Accounts & Notes Receivable (Net)

The balance of accounts & notes receivable shown in the Consolidated balance sheet as at September 30, 2011 is represented as follows:

8/1 Accounts & Notes receivable - long term (Net)	**30/9/2011**	**31/12/2010**
	L.E.	**L.E.**
Land receivables- first phase	--	21 452 693
Land receivables- second phase	38 097 709	66 428 303
Villas receivables- second zone	200 000	350 000
Accounts and notes receivables Sawary project(**)	28 450 349	--
	66 748 058	**88 230 996**
Less: Deferred interest – long term	(2 674 651)	(7 102 597)
	64 073 407	**81 128 399**

	30/9/2011	**31/12/2010**
	L.E.	**L.E.**
8/2 Accounts & Notes receivable -short term (Net)		
Land receivables- first phase	115 551 978	101 401 581
Land receivables- second phase	176 077 867	142 590 151
Villas receivables- first zone	3 474 196	4 816 808
Villas receivables- second zone	6 723 411	6 499 999
Accounts and notes receivables Sawary project(**)	10 776 904	--
Service rendered – receivables	8 753 074	5 428 208
	321 357 430	**260 736 747**
Less: Deferred interest -Short term	(1 562 890)	(1 964 544)
Less: Impairment in receivables	(10 960 514)	(8 017 000)
	308 834 026	**250 755 203**

(*) Land receivables include balances which are against notes receivable amounted to L.E 42 417 955 deposited at banks and on hand in the company as at September 30, 2011, and shall be deducted from the balance when collected.

(**) Accounts and notes receivables for Sawary project includes an amount of L.E 36 579 020 represented in notes receivable collected from clients concluded contracts to purchase units in the project as of September 30, 2011.

9- Sundry Debtors & Other Debit Balances

The balance of sundry debtors & other debit balances shown in the Consolidated balance sheet as at September 30, 2011 are represented as follows:

	30/9/2011 L.E.	31/12/2010 L.E.
Letters of guarantee covers	50 000	50 000
Cash imprests and loans	348 853	170 865
Prepaid expenses	1 877 676	914 823
Deposits with others	800 810	241 329
Accrued interest	4 271 601	2 886 922
Contractors (debit balances)	1 288 205	174 475
Sundry debtors	156 148	156 107
Withholding Tax – Debit	1 873 249	212 171
Income Tax paid for reversed sales	7 078 664	7 078 664
Other debit balances	78 907	67 678
	17 824 113	**11 953 034**

(*) Income Tax Authority balance (debit) amounted to L.E 7 078 664 is represented in the differences due to the company resulted from tax inspection for the years from 2005 to 2007 as per the tax inspection forms while the tax claims based on the tax pool of these years have been charged to provision for claims as at September 30, 2011.

10- Cash on Hand and at Banks

This item shown in the Consolidated balance sheet as at September 30, 2011 is represented in the following:-

	30/9/2011 L.E	31/12/2010 L.E
Cash on hand	136 923	154 494
Banks – current accounts-L.E	11 697 696	37 712 052
Banks – current accounts-US$	5 050 235	35 705 448
Banks – current accounts-EURO	58 250	35 697
Banks-time deposit-L.E	16 502 464	31 663 223
Banks-time deposit-US$	62 084 901	51 685 525
Treasury Bills (**)	112 363 840	116 810 950
	207 894 309	**273 767 389**

(*) Treasury Bills represented in treasury bills from Arab African International bank due on 29/11/2011 with a nominal value of L.E 32 million at a rate of 12.48%. and also the company purchased treasury bills from Misr Iran bank due on within three months with a nominal value of L.E 86 million with rates between 11.5 % and 12%.

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11- Provision for Claims

	Balance 1/1/2011	Formed during the year	Provision no longer required	Used during the year	Balance as at 30/9/2011
	L.E	L.E	L.E	LE	LE
Provision For claims – receivables	9 713 508	222 568		(1 868 450)	8 067 626
Provision For claims	5 330 000	--	(2 875 524)	(283 594)	2 170 882
Total	**15 043 508**	**222 568**	**(2 875 524)**	**(2 152 044)**	**10 238 508**

12- Receivables Advance Payments

Receivables advance payments shown in the consolidated balance sheet as at June 30, 2011 are represented as follows:

		L.E
A-	The company received amounts from some of the clients as a reservation paid under the account of purchasing project's lands and Sawary project in Sahl Hasheesh and its balance as at September 30 2011 amounted to L.E 37 872 273. The company terminated a contract with one of the clients and paid him back the contracting advance payment amounting to USD 5 700 000 equivalent to LE 33 949 200 considering his delay in fulfilling his contractual obligations till this date and the hearing for the lawsuit has been postponed to be on October 20, 2011 in order to view the documents of both parties.	38 872 273
B-	Advance payments from receivables – rentals of Sahl Hasheesh company (subsidiary company)	1 344 984
		39 217 257

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13- Sundry Creditors & Other Credit Balances

The balance shown in the Consolidated balance sheet as at September 30, 2011 is represented in the following:

	30/9/2011	31/12/2010
	L.E	L.E
Sundry creditors	19 976 629	23 208 603
Contractors' retention	2 581 912	3 923 441
Suppliers and contractors	70 071	447 409
Contractors-social insurance	1 848 606	2 135 259
Accrued expenses	2 593 174	300 519
Due to sovereign authorities	9 335 650	8 194 437
Maintenance deposits	3 344 556	1 118 063
Deposits from others (shops)	135 765	125 750
Dividends payable	393 499	393 499
Unearned revenues – Community management	--	--
Deferred revenues(*)	36 682 685	481 489
	76 962 547	**40 328 469**

(*) Deferred revenue includes an amount of L.E 34 663 884 which represent the building and finishing works paid in advance by the customers of sawary project, which will be recognized when implementing building structures and finishing works for the units based on contracts concluded with clients. And also the Villas' maintenance deposits mentioned above include an amount of L.E 2 166 493 which represents the customers' contribution in community maintenance which were collected from sawary project's clients.

14- Due to the General Authority for Touristic Development

This item shown in the Consolidated balance sheet as at September 30, 2011 is represented as follows:

14-1 Dues to the authority – due within one year

	30/9/2011	31/12/2010
	L.E.	L.E.
Dues to the authority for the sale of the project's land	14 069 704	22 828 825
	14069 704	22 828 825

14-2 Dues to the authority – Long Term

The classifications of the short and long term dues to the authority is according to the customers' payments of the installments of the lands sold, thus the amounts due to the authority (long term) shown in the consolidated balance sheet as at September 30, 2011 are as follows:

	30/9/2011	31/12/2010
	L.E.	L.E.
Due to General Authority for Touristic Development – Long Term	526 944	1 098 109

15- Capital

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

Based on the Extra Ordinary General Assembly Meeting dated 28/11/2004 unanimously agreed upon reducing the issued capital from LE. 350 millions to L.E 210 millions, by reducing the par value of the shares from L.E 100 to L.E 60 for the same number of shares (3.5 million shares) accordingly the company's issued capital is fully paid, to organize the company's position according to the procedures and continuation of the registration of the stocks in the stock exchange market.

And also it has been approved to split the par value of the shares from L.E 60 to L.E 10 then the number of shares will be 21 million shares instead of 3.5 million shares, thus the company's issued and fully paid in capital amounted to L.E 210 millions divided over 21 million shares at a par value of L.E 10.

As per the decision of General Assembly Meeting held on 11/5/2006 and the decision of the company's board of directors on 24/5/2006 which approved on though the company's issued and paid in capital became L.E 262 500 000 represented in 26 250 000 shares in which the nominal value of the share is L.E 10 . There was annotation in the commercial register on 18/7/2006.

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

As per the decision of the General Assembly Meeting held on April 11, 2007 all the members unanimously approved on the increase of the authorized capital to become 2 000 000 000 (Two billion Egyptian pounds) increasing the company's issued and paid in capital to be L.E 437 500 000 represented in 437 500 000 shares in which the nominal value of the share is L.E 1 which were fully financed by the shareholders' dividends of year 2006. There was annotation in the commercial register on 26/4/2007.

Issued and paid in capital was increased by an amount of L.E 262.5 million (two hundred sixty two million and five hundred thousand Egyptian pounds) which was fully paid by the subscription of old shareholders in capital as per the decision of the board of directors on 25/3/2007.

The share was issued by a nominal value of L.E 1 in addition to issuance premium of 25 piaster for each share. As per the certificate from Misr Iran Bank dated June 20, 2007, the issued and paid in capital amounted to L.E 700 million. There was annotation in the commercial register on 16/7/2007.

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

As per the decision of General Assembly Meeting held on 24/4/2008 there was a verification on the distribution project by an amount of L.E 210 million from the realized profits on the financial statements for the financial year ended December 31, 2007 as a bonus shares for shareholders and the board of directors was delegated to take the necessary procedures for capital increase in the limit of the authorized capital amounted to L.E 2 billion though the issued capital will be L.E 1 050 000 000. Articles 6 and 7 of the company's articles of associations were amended by distributing one bonus share for each four outstanding share of issued capital which is amounted to L.E 840 million. There was annotation in the commercial register on 29/7/2008.

-**Treasury bills**

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

As per the approval of the Extraordinary General Assembly meeting held on October 4, 2009, the Board of Directors was empowered to dispose the purchased treasury shares amounted to 25 million shares considering that the legally allowed period for keeping those shares has ended, though these shares have been re-offered for sale in the open market by one of the Securities' Brokerage companies after notifying the Chairman of the Investment Authority on October 5, 2009. The net sale of such shares during the period from October 8, 2009 until October 12, 2009 amounted to L.E. 57 681 385 with an average sale price of L.E 2.31 / share, The gains from sale of treasury shares amounted to L.E 6 041 052

16- Earnings per share (loss) profit during the period:

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

	From 1/1/2011 to 30/9/2011 L.E.	**From 1/7/2011 to 30/9/2011**	**From 1/1/2010 to 30/9/2010**	**From 1/7/2010 to 30/9/2010** L.E.
(*) Net profit for the period	5 985 335	(2 492 000)	(3 093 800)	(6 617 254)
Average number of shares during the period	1 050 000 000	1 050 000 000	1 050 000 000	1 050 000 000
Earning per share	**L.E. 0.005/share**	**L.E. (0.002)/share**	**L.E. (0.003)/share**	**L.E. (0.006)/share**

(*) Earnings per share was not affected by employees and members of the Board of Directors share in terms of profits which shall be determined at the end of the year, according to draft distribution of dividends the Board of Directors till being approved by the General Assembly Meeting.

17- Sales

17-1 Net sales

	From 1/1/2011 to 30/9/2011 L.E.	From 1/7/2011 to 30/9/2011 L.E.	From 1/1/2010 to 30/9/2010 L.E.	From 1/7/2010 to 30/9/2010 L.E.
Land sales Sawary project	7 274 435	--	--	--
Against lands' utilization	404 600	--	(699 255)	(699 255)
Land and Villa sales income				
First zone	--	--	888 870	--
Total revenue of land and villa sales	**7 679 035**	**--**	**189 615**	**(699 255)**

17-2 Interest recalled from deferred income

	From 1/1/2011 to 30/9/2011 L.E.	From 1/7/2011 to 30/9/2011 L.E.	From 1/1/2010 to 30/9/2010 L.E.	From 1/7/2010 to 30/9/2010 L.E.
Interest recalled from deferred income	4 829 599	1 297 708	6 188 443	2 008 430
Less:				
Differences in installment' rescheduling	--	--	(8 272 831)	(4 334 326)
	4 829 599	**1 297 708**	**(2 084 388)**	**(2 325 896)**

17-3 Revenue from services rendered

	From 1/1/2011 to 30/9/2011 L.E.	From 1/7/2011 to 30/9/2011 L.E.	From 1/1/2010 to 30/9/2010 L.E.	From 1/7/2010 to 30/9/2010 L.E.
Revenue from water and electricity supplied	10 539 755	4 712 090	9 803 231	4 132 286
Revenue from irrigation water supplied	883 892	338 632	592 873	298 779
Revenue from communication services supplied	309 360	95 019	1 219 030	1 126 068
	11 733 007	**5 145 741**	**11 615 134**	**5 557 133**

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18- Cost of sales

	From 1/1/2011 to 30/9/2011 L.E.	From 1/7/2011 to 30/9/2011 L.E.	From 1/1/2010 to 30/9/2010 L.E.	From 1/7/2010 to 30/9/2010 L.E.
The cost of sale of villas' lands (first zone)	--	--	22 358	--
Cost of sales land sawary project	136 572	--	--	--
Less: Adjustments of geographical measurement	--	--	(21 104)	(21 104)
	136 572	**--**	**1 254**	**(21 104)**

(*) Sawary project cost represents in the cost of sold land built in sawary project According to the contracts concluded with customers, using estimated cost prepared by the managemnt of the Company till the completion of all matters to determine the estimated cost to implement the project, that is implemented by experts hired by the company for this purpose

19- Administrative and general expenses

	From 1/1/2011 to 30/9/2011 L.E.	From 1/7/2011 to 30/9/2011 L.E.	From 1/1/2010 to 30/9/2010 L.E.	From 1/7/2010 to 30/9/2010 L.E.
Salaries, wages and related expenses	11 206 114	3 859 874	11 558 810	3 659 822
Consultancy & audit fees	3 204 361	667 081	1 716 939	671 149
Recruitment fees	32 891	11 018	317 714	147 179
Donations	--	--	450 000	250 000
Rentals	1 583 930	935 321	424 412	130 284
Stationary, printings & computer expenses	252 508	45 530	386 387	104 866
Subscriptions	219 039	72 018	256 200	250 172
Traveling & transportation expenses	593 967	130 522	915 210	296 296
Publishing and advertising fees	316 024	103 501	497 107	39 050
Others	1 254 805	333 996	1 076 489	343 906
Total	**18 663 639**	**6 158 861**	**17 599 268**	**5 892 724**

(*) Salaries, wages, allowances and its related include 50 % from salary of chief executive officer for the period and the other 50% was charged to work in process considering that it is a direct cost on the projects.

20- Interest income

Interest income shown in the consolidated income statement as at September 30, 2011 is represented in the following:

	From 1/1/2011 to 30/9/2011 L.E.	From 1/7/2011 to 30/9/2011 L.E.	From 1/1/2010 to 30/9/2010 L.E.	From 1/7/2010 to 30/9/2010 L.E.
Interest income from bank deposits	12 020 550	4 182 243	9 529 270	3 843 862
Interest resulted from delay in payment of installments	4 960 836	1 935 843	3 344 687	(1 551 131)
	16 981 386	**6 118 086**	**12 873 957**	**2 292 731**

21- Minority Interest

The balance shown in the consolidated balance sheet as at September 30, 2011 is represented in their share in owners' equity in the subsidiary company by the percentage of 30.62% as follows:

	L.E
Balance as at 1/1/2011	72 975 518
Add:	
Minority's share in the losses for the financial year ended June 30, 2011 for the subsidiary	(4 893 681)
Balance as at September 30, 2011	**68 081 837**

22- Tax Position

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

The tax position of the company as at 30/9/2011 is represented in the following:

22-1 Corporate tax

The Company is subject to the provisions of tax law no. 157/1981 till the issuance of the new tax law no. 91/2005. The company enjoys income tax exemption for ten years starting from the first financial year subsequent to the activity inception on January 1, 1998 till December 31, 2007 in application of the provisions of article no. 4 of law no. 143/1981 concerning desert land owned by the state. This law was amended by Law No. 72/1996 with the same explanation which was stated previously in Law No. 59/1979 concerning the new urban communities.

The tax returns were submitted for years from 2005 to 2010 according to Law No.91 of 2005 in the due dates.

Years since activity inception till year 2004

The company's books were inspected by the Tax Authority of corporate companies since company's activity inception till year 2000 and there was an assessment as per the resolution of the appeal committee and tax due was fully paid. There was tax inspection for years from 2001 till 2004 and the company was informed by form (18) and the dispute was assigned to an internal committee by the Tax Authority which declared that there were no tax differences.

2005, 2006 and 2007

- The tax inspection for the years from 2005 till 2007 has been made based on the provisions of Law no. 91/2005, and the company received form (19) taxes for separate tax pools and movable tax. The company has appealed to the inspection results on the legal due dates and has been assigned to an internal committee.
- The internal committee considered the disputes and reached to an agreement in all the points of dispute except for the debit foreign exchange differences. The tax differences as per the internal committee results amounted to L.E 139 839 excluding the fines and delay interests which amounted to approximately L.E 88 000. And the company's tax file for the debit foreign tax differences is currently being assigned to a specialized committee in order not to be the base for computation for the subsequent years.

Year 2008

- The tax inspection has been made for the year 2008 and the company received a notification with the elements of the tax assessment (form 19) on July 14, 2011 and the company is currently submitting an appeal to the inspection results and asked for assignment to an internal committee.

Years 2009 and 2010

- The company submitted the tax returns in its legal dates based on the provisions of law no. 91/2005.

22-2 Salary tax

- The salary tax for the company was inspected till year 2004 and there has been tax assessment and the tax due and delay penalties amounted to L.E 214 915 after deducting payments. This assessment is based on form No.9 dated 14/6/2009.
- For the years from 2005 till 2008 is currently being inspected.

22-3 Sales tax

There has been an inspection from the date of activity's inception till year 2007 by the Tax Authority and there has been an assessment and it has been paid.

22-4 Stamp tax

There has been an inspection from the date of activity's inception till 31/7/2006 by the Tax Authority and there has been an assessment and it has been paid.

22-5 Movable tax

There has been an inspection for the company's books from the date of activity's inception till year 2004 by the Tax Authority for corporate companies and there has been an assessment and it has been paid.

Second: Tax position for the subsidiary company (Sahl Hasheesh for touristic investment) as per what was presented in the consolidated financial statements as at September 30, 2011 which complies with the tax system of Arab Republic of Egypt in practice

22-6 Corporate income tax

- The company is subject to the provisions of law no. 8/1997 related to the issuance of guarantee and incentive investments law and its executive regulations. Based on this law which has been issued on November 9, 2008, the company is exempted from corporate tax from 1/2/2008 till December 31, 2018 for the specified purpose mentioned in the company's tax card.

Years from activity inception till year 2005

There has been inspection and assigned to internal committee. And the company has been notified by (form 19) which included tax differences amounted to L.E 190 103 and the company objected and appealed on this form.

Years from 2006 till 2010

The company paid the tax due as per its tax returns in its due dates based on the provisions of law no. 91/2005.

22-7 Salary tax

Years form activity inception till year 2007

There has been inspection and the company has been notified by (form 38) which included tax differences amounted to L.E 162 203 and the company objected and appealed on this form.

Years from 2008 till September 30, 2011

Tax are deducted from salaries paid to employees and the company pays regularly.

22-8 Stamp Tax

Years form activity inception till year 2005

The company has been notified and paid all tax differences due to the Authority.

Years form 2006 till September 30, 2011

These years were not yet inspected and the tax due is being paid monthly based on the provisions of law.

22-9 Withholding tax

The company submits all kinds of tax due which results from the company's regular transactions with others to the Tax Authority in its due dates. The company pays regularly till September 30, 2011.

23- Financial Instruments and Risk Management

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

23-1 Fair Value

Fair value of the financial instruments reflects the reciprocal value of the asset or settlement of a liability between parties has the desire and the capability to trade with a free will, the book value of the financial instruments as at the balance sheet date is almost equivalent to its fair value other than the financial investments not registered in the Stock exchange market which are recorded at cost and its difficult to determine its fair value.

23-2 Foreign Currency Fluctuation Risk

Foreign currency risk represents the risk of fluctuation in exchange rates, which in turn affects the company's cash inflows and outflows in foreign currency as well as the value of its foreign monetary assets and liabilities as of the date of the financial position the company has foreign currency assets & liabilities equivalent to L.E 389 593 806 and L.E 262 339 057 respectively. The Company's net balances in foreign currencies at the balance sheet date are as follows:-

Foreign currencies	Surplus
USD	21 373 971
Euro	7 024

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

23-3 Credit Risk

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

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

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

	30/9/2011 L.E.	31/12/2010 L.E.
Fixed assets and intangible assets	(8 716 885)	(8 940 577)
Provision	4 890 881	--
Carried forward losses	5 225 969	11 746 483
Net tax that results in (Asset) Liability	**1 399 965**	**2 805 906**

Unrecognized deferred tax that results in an asset

The deferred tax that results in an asset is unrecognized for the following:

	30/9/2011 L.E.	31/12/2010 L.E.
Provisions	--	5 715 511
Carried forward losses	1 306 492	--

No deferred tax assets or liabilities has been recognized because there will be no probable future taxable profits available against which those tax losses can be utilized.

25- Legal Reserve

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

26- Legal Position

1- The company has filed a lawsuit in order to annul a contract concluded with on the clients as the client has breached the contract terms, and the hearing of this lawsuit has been postponed to October 20, 2011 in order to view the documents submitted by both parties.

2- **Legal opinion based on the legal position of ERC (Egyptian Company) regarding the lawsuit filed before the Council of state in order to annul the contract for allocation and purchase a community at Sahl Hasheesh from the General Authority for Touristic Development:**

First- Proceedings :

- On October 26, 2010 the prosecutor filed a lawsuit No. 3516/65 before the Administrative Court of law against each of the Prime Minister, Minister of Tourism and the Chairman of the Touristic Development Authority and requested on an expedited basis:
  - To cease the resolution made by the defendant to be put into action which is related to allocation and contracting for sale of 41 million meter

square of lands at Sahl Hasheesh to ERC. ERC is obligated to execute the jurisdiction and without declaration.

- To cancel and annul the aforementioned contract and any associated impacts as it breaches the law and also obligates the authority to pay any fees or expenses. <u>There was no hearing set for this lawsuit before the administrative court of law till now</u>.

- The prosecutor relied in his lawsuit on that the General Authority for Touristic Development (TDA) has allocated that land at Sahl Hasheesh by direct order which breaches the law of bids no. 9/1983 (old law of auctions and bids) considering that it is the prevailing law when contracting and also considering law no. 143/1981 of desert lands which organizes the conditions for selling lands in which the authority breaches when selling some lands lots.

- The prosecutor also relied in his lawsuit on that the General Authority for Touristic Development (TDA) did not take into consideration the public interest when signing the contract of Sahl Hasheesh, as the Authority did not follow the rules of competition rules set by old bids' law as he pointed out that the authority sold the land to ERC for a very law price and that ERC only paid a quarter of the lands price and he mentioned that there only 4 hotels have been established on that land, he also relied on that the land hasn't been developed since 1993 till now.

- As detailed above the prosecutor has appealed the sales and rental contract of desert lands at Sahl Hasheesh dated October 24, 1995 which were intended for touristic development, this contract was concluded between the authority and ERC (under establishment). It has been agreed that ERC will start pursuing its obligations from the date of execution of the aforementioned contract which is March 19, 1997, this is based on the addendum of the contract dated December 31, 2001.

- On February 28, 2011 ERC has decided to be a part of this lawsuit in order to take the legal procedures and prepare the documents that supports the company's positions. These documents which defends the company's position has been prepared.

- ERC intervened in the court hearing to defend the accuracy of the contract concluded with TDA nevertheless the company submitted a request to the state attorneys' authority in order to prepare for the lawsuit considering that there are documents should be submitted to them before being handed over to be reported, though the documents submitted proves that the company made an integrated developments to the Sahl Hasheesh project and there has been a legal advice offered to the company's shareholders with the necessity of intervening in the lawsuit.

- The Court of law has postponed the lawsuit to the hearing on September 12, 2011, and the state attorneys' authority determined a hearing on October 27, 2011 because new opponents has intervened in the lawsuit and that's why the lawsuit is submitted to the state attorneys' authority. The hearing for completing the rest of the documents will be set on January 26, 2012. And the tax consultant believes that it would be impossible for the time being to predict the results of these procedures in this early stage of dispute and also its impossible to predict the verdict which the court shall issue.

3- The General Authority for Touristic Development notified the company on April 11, 2011 notified the company to annul its previous consent that issued for the company to develop the land of the third phase of Sahl Hasheesh (Area C) and of an area of 20 million meter square in its resolution dated March 31, 2011, the company appealed to the resolution of the General Authority for Touristic Development to annul its previous consent referred to in 27 May 2011 and the company did not receive any reply in this concern.

And the company raised a lawsuit to cancel this resolution which is issued from TDA of taking the land of phase 3 back and taking into consideration that this resolution is submitted to administrative court on September 21, 2011 (seventh region – Investment). And there will be a hearing to be set on September 27, 2011 and this lawsuit has been listed under the no. 55158/65, In addition to the aforementioned, the company is looking forward to approach the ministerial group in order to settle the dispute of investment between the company and TDA. the company's legal consultant's believes that it's too soon to predict the results of those procedures in the dispute.

4- There is an arbitration lawsuit raised from one of the clients who purchased lands from the company, the lawsuit is concerned with the contracts concluded with ERC as the client refused to commit with the only purpose of purchasing the land in question which is building a comprehensive employee housing project. And there was no appointment determined to start hearings, and the legal dispute is still in its beginning though subsequently it is not possible to predict of what will be the verdict which the arbitration authority shall end up.

27- Comparative figures

Comparative figures of operating deprecation of fixed assets in consolidated income statement and cash flows statement has been adjusted for the financial period from 1/1/2010 until 30/9/2010 (the comparative period) to reflect the impact of adjustments for the amendment of the cost of fixed assets at the end of fiscal year 2010, as these assets were depreciated last year and its depreciation was included in depreciation of fixed assets in operation in the consolidated income statement for the period set forth above. The amount to be adjusted is L.E 2 016 875 though the depreciation of the period aforementioned shall be L.E 8 127 194 instead of LE 10 144 069.