

*Translated & Originally  
Issued in Arabic*

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

**The consolidated Financial Statements**  
**For the financial year ended December 31, 2013**  
**And Auditor's Report**



## Hazem Hassan

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### Auditor's Report

#### To the Shareholders of Egyptian Resorts Company

##### *Report on the Financial Statements*

We have audited the accompanying consolidated financial statements of Egyptian Resorts Company (S.A.E), which comprise the consolidated balance sheet as at December 31, 2013, and the consolidated income statement, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.

##### *Management's Responsibility for the Financial Statements*

These financial statements are the responsibility of Company's management. Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Egyptian Accounting Standards and in the light of the prevailing Egyptian laws, management responsibility includes, designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; management responsibility also includes selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

##### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Egyptian Standards on Auditing and in the light of the prevailing Egyptian laws. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

##### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Egyptian Resorts Company (SAE) as of December 31, 2013, and of its financial performance and its consolidated cash flows for the year then ended in accordance with the Egyptian Accounting Standards and the Egyptian laws and regulations relating to the preparation of these financial statements.

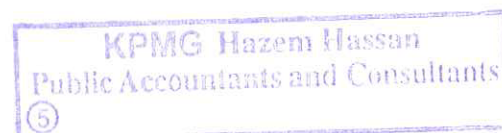
*Emphasis of matter*

Without considering the following as qualifications:

- 1 As disclosed in detail in note no. (33-2) 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. 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 in its preliminary, whom decided to postpone the lawsuit for a hearing on June 12, 2014. The company's management & legal consultant believes the integrity of the company's legal position in light of the defenses presented from them, though it would be difficult for the time being to predict the results of the lawsuit in this early stage of dispute along with the ruling ruled by the court. 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. (33-4) 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 71.689 million on December 31, 2013. The company raised a lawsuit to cancel the administrative decision issued by the General Authority Of Touristic Development referred to above & submitted to administrative court on September 21, 2011. The company's management & legal consultant believes the integrity of the company's legal position in light of the provisions of the contract concluded between The Authority & the company dated October 24, 1995 in which the terms were executed by the company. The court decided to submit the lawsuit to the state attorneys to prepare a report with the legal opinion. The lawsuit is postponed for a hearing on June 16, 2014 though it would be impossible for the time being to predict the results of the lawsuit in this early stage of dispute along with the ruling ruled by the court. 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.

**Hesham Gamal El-Afandy**  
Auditors' register  
At the Egyptian Financial Supervisory  
Authority No. (100)  
**KPMG Hazem Hassan**

Cairo, March 25, 2014





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

**The Consolidated Balance Sheet of the Company and its Subsidiaries**  
**As December 31, 2013**

	<u>Note No.</u>	<u>31/12/2013</u> <u>EGP</u>	<u>31/12/2012</u> <u>EGP</u>
<b><u>Long Term Assets</u></b>			
Fixed assets (Net)	(3-2,4)	142 126 790	149 808 886
Real estate investment	(3-3,5)	183 455 364	194 283 085
Projects in progress	(3-4,6)	10 733 126	1 797 799
Accounts & notes receivable - long term (Net)	(3-9,9)	16 519 782	43 492 376
Deferred tax assets (Net)	(3-20, 28-2)	-	621 556
<b>Total Long Term Assets</b>		<b>352 835 062</b>	<b>390 003 702</b>
<b><u>Current Assets</u></b>			
Non-current assets held for sale		-	91 664
Work in process	(3-7,7)	520 308 844	507 201 173
Inventory	(3-6,8)	2 309 116	1 865 473
Accounts & notes receivable - short term (Net)	(3-9,9)	313 232 896	292 720 182
Sundry debtors and other debit balances	(3-9,10)	11 172 451	11 957 684
Investment in treasury bills	(21-3)	-	53 711 135
Cash on hand & at banks	(3-11,11)	108 919 067	108 309 609
<b>Total Current Assets</b>		<b>955 942 374</b>	<b>975 856 920</b>
<b><u>Current Liabilities</u></b>			
Provision for claims	(3-13,12)	12 526 294	12 622 758
Receivables - advance payments	(13)	52 746 718	39 806 581
Sundry creditors and other credit balances	(3-14,14)	50 155 023	101 448 573
Due to Authority of Touristic Development (due within one year)	(15)	33 353 530	29 881 495
Estimated cost for development of sold land	(3-8)	78 740 568	87 428 378
Banks-Credit Facilities	(16)	8 793 201	-
<b>Total Current Liabilities</b>		<b>236 315 334</b>	<b>271 187 785</b>
Working capital		<b>719 627 040</b>	<b>704 669 135</b>
<b>Total Investments</b>		<b>1072 462 102</b>	<b>1094 672 837</b>
<b><u>Financed as follows:</u></b>			
<b><u>Shareholders' Equity</u></b>			
Issued and fully paid in capital	(17)	1050 000 000	1050 000 000
Legal reserve	(32)	131 664 379	131 664 379
Retained earnings (losses)		(369 336 624)	(269 860 682)
Net loss for the year		(41 429 956)	(99 475 942)
<b>Holding Companies' Equity</b>		<b>770 897 799</b>	<b>812 327 755</b>
<b>Minority Interest</b>	(29)	<b>49 128 018</b>	<b>55 426 636</b>
<b>Total Shareholders' Equity</b>		<b>820 025 817</b>	<b>867 754 391</b>
<b><u>Long-term Liabilities</u></b>			
Purchase of land creditors	(7-3)	248 906 076	226 918 446
Deferred tax liabilities (net)	(3-20, 28-2)	3 530 209	-
<b>Total Long-term Liabilities</b>		<b>252 436 285</b>	<b>226 918 446</b>
<b>Total shareholders' equity &amp; Long-term Liabilities</b>		<b>1072 462 102</b>	<b>1094 672 837</b>

(\*) The accompanying notes from page (1) to page (30) form an integral part of these financial statements and to be read therewith.

Financial Controller  
Mr. Wael Abou Alam

Managing Director  
Mr. Mohamed Ibrahim Kamel

Chairman  
Mr. Adel Hammad

Auditor's report (attached),,,



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

**The Consolidated Income Statement of the Company and its Subsidiaries**  
**For the Financial year ended December 31, 2013**

	<u>Note No.</u>	<u>From 1/1/2013</u> <u>to 31/12/2013</u> <u>EGP</u>	<u>From 1/1/2012</u> <u>to 30/12/2012</u> <u>EGP</u>
Operating Revenue	(3-16,19)	8 686 868	9 359 406
Sales returns	(3-16,20)	(12 198 681)	(2 701 495)
Revenues from services rendered	(3-16,22)	32 425 589	30 450 738
<b>Total revenues</b>		<b>28 913 776</b>	<b>37 108 649</b>
<b>Less:</b>			
Cost of sales	(3-17,23-1)	(9 829 914)	(11 581 013)
Cost of lands sales returns	(3-17,23-2)	7 319 209	1 620 897
Operating cost of services rendered	(3-17,24)	(49 536 225)	(43 381 561)
<b>Gross (loss) profit</b>		<b>(23 133 154)</b>	<b>(16 233 028)</b>
Other operating revenues	(25)	18 390 330	3 408 008
		<b>(4 742 824)</b>	<b>(12 825 020)</b>
<b>Add/(Less):</b>			
Net Interest recalled from deferred income	(3-16,21)	1 349 727	1 960 023
Delay Penalties in lands installement sales		14 326 390	10 387 352
Selling & marketing expenses	(3-17)	(1 900 775)	(3 436 348)
General and administrative expenses	(3-17,26)	(31 675 356)	(23 996 566)
Impairment in receivables	(3-12,9)	(24 309 937)	(95 444 168)
Impairment in debtors & other debit balances	(3-12,10)	(1 383 254)	-
Provisions for claims - Formation	(3-13,12)	(1 770 614)	(2 181 758)
<b>Loss resulted from operating activity</b>		<b>(50 106 643)</b>	<b>(125 536 485)</b>
<b>Add:</b>			
Change in evaluation of investment funds	(3-5,11)	4 265 651	82 009
Financing revenue (costs) (net)	(3-18,27)	2 731 958	18 491 087
<b>Net loss before tax</b>		<b>(43 109 034)</b>	<b>(106 963 389)</b>
Income tax	(3-20,28-1)	( 467 775)	(2 317 208)
Deferred tax (expense) benefit	(3-20,28-2)	(4 151 765)	( 739 865)
<b>Net profit after income tax</b>		<b>(47 728 574)</b>	<b>(110 020 462)</b>
The Holding Company's share in the year's loss		(41 429 956)	(99 475 942)
The Minority Interest's share in the year's loss	(29)	(6 298 618)	(10 544 520)
		<b>(47 728 574)</b>	<b>(110 020 462)</b>
<b>Basic Earning per Share in year's loss (EGP/share)</b>	(3-24,18)	<b>(0.039)</b>	<b>(0.095)</b>

(\*) The accompanying notes from page (1) to page (30) form an integral part of these financial statements and to be read therewith.

Egyptian Resorts Company  
(Egyptian Joint Stock Company)

**Consolidated Statement of Changes in Shareholders' Equity for the company & its subsidiaries**  
**For the Financial year ended December 31, 2013**

	Paid in Capital EGP	Legal Reserve EGP	Carried Forward losses EGP	The Holding Company's share in year's net loss EGP	Minority Interest EGP	Total EGP
<b>Balance as at December 31, 2011</b>	1050 000 000	130 892 541	(268 655 461)	( 433 383)	65 971 156	977 774 853
Transferred to retained earnings	-	-	( 433 383)	433 383	-	-
Transferred to legal reserve	-	771 838	( 771 838)	-	-	-
Net loss for the year	-	-	-	(99 475 942)	(10 544 520)	(110 020 462)
<b>Balance as at December 31, 2012</b>	<u>1050 000 000</u>	<u>131 664 379</u>	<u>(269 860 682)</u>	<u>(99 475 942)</u>	<u>55 426 636</u>	<u>867 754 391</u>
Transferred to retained earnings	-	-	(99 475 942)	99 475 942	-	-
Net loss for the year	-	-	-	(41 429 956)	(6 298 618)	(47 728 574)
<b>Balance as at December 31, 2013</b>	<u>1050 000 000</u>	<u>131 664 379</u>	<u>(369 336 624)</u>	<u>(41 429 956)</u>	<u>49 128 018</u>	<u>820 025 817</u>

(\*) The accompanying notes from page (1) to page (30) form an integral part of these financial statements and to be read therewith.

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

**The Consolidated Cash Flows Statement for the Company and its Subsidiaries**  
**For the Financial year ended December 31, 2013**

	<u>Note No.</u>	<u>The Financial year ended 31/12/2013 EGP</u>	<u>The Financial year ended 31/12/2012 EGP</u>
<b><u>Cash Flows from Operating Activities</u></b>			
Net profit before income tax		( 43 109 034 )	( 106 963 389 )
<b><u>Adjustments to Reconcile Net Profit with Net</u></b>			
<b><u>Cash Flows from Operating activities</u></b>			
Fixed assets' depreciation	(4)	20 923 981	19 983 026
Capital (gains) losses	(25)	( 16 121 510 )	( 22 500 )
Impairment in receivables	(9)	24 309 937	95 444 168
Differences in tax settlements		-	669 698
Impairment in debtors	(10)	1 383 254	-
Return on treasury bills	(27)	( 1 066 870 )	(11 947 185)
Provision for claims - formation	(12)	1 770 614	2 181 758
Differences in evaluation of foreign monetary balances		11 635 616	1 842 992
		<u>( 274 012 )</u>	<u>1 188 568</u>
<b><u>Change in working capital</u></b>			
Change in receivables (net)		13 054 092	( 35 251 431 )
Change in inventory		( 443 643 )	( 603 343 )
Change in debtors and other debit balances		( 3 173 915 )	783 696
Change in work in process		( 20 674 241 )	( 18 009 245 )
Change in receivables advance payments		8 657 176	441 748
Change in creditors and other credit balances		( 51 222 013 )	14 588 619
Change in estimated cost for development of sold land		(8 687 810)	(20 503 233)
Change in dues to Authority of Touristic Development		505 177	13 708 013
Change in purchase of land creditors		( 561 578 )	-
Used from provision for claims	(12)	( 563 184 )	( 50 000 )
<b>Net cash flow (used in) operating activities</b>		<u><b>(63 383 951)</b></u>	<u><b>(43 706 608)</b></u>
<b><u>Cash Flows from Investing Activities</u></b>			
Payments for purchase of fixed assets, projects in progress and real estate investments	(4,5)	( 10 133 750 )	( 3 761 684 )
Proceeds from sale of fixed assets & real estate investment		9 751 727	232 540
Changes in value of time deposits (more than three months)	(11)	33 056 089	( 11 789 589 )
Proceeds from investments in treasury bills (after tax)	(28)	1 871 095	9 268 838
<b>Net cash available from (used in) investing activities</b>		<u><b>34 545 161</b></u>	<u><b>(6 049 895)</b></u>
<b><u>Cash Flows from Financing Activities</u></b>			
Increase in banks credit facilities balance	(16)	8 793 201	-
<b>Cash flow available from financing activities</b>		<u><b>8 793 201</b></u>	<u><b>-</b></u>
Net cash & cash equivalent used in available during the year		(20 045 589)	(49 756 503)
Cash & cash equivalent as at the beginning of the year		108 119 156	157 875 659
<b>Cash &amp; cash equivalent balance at the end of the year</b>	(11)	<u><b>88 073 567</b></u>	<u><b>108 119 156</b></u>

The effect of used from provision of claims has been disposed during the year with an amount of L.E 1 303 894 in exchange of what was settled during the year from the balance of the income tax authority - debit balance which is classified among sundry debtors & other debit balances item in the current assets as it is considered to be a non-cash transaction

(\*)The accompanying notes from page (1) to page (30) form an integral part of these financial statements and to be read therewith.



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

**Notes to the Consolidated Financial Statements**  
**For the financial year from January 1, 2013 till December 31, 2013**

**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 1<sup>st</sup> and ends at December 31<sup>st</sup> each year.
- The company's head office location is at Sahl Hasheesh – Hurghada – Red Sea, and the location of the company's branch at Cairo Governorate is at 4 A Aziz Abaza Street – Zamalek – Cairo.
- The Chairman of the board of directors is Mr. Adel Hammad – and the Managing director is Mr. Mohamed Ibrahim Kamel Abu Eloyoon.

**(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. It owns the production and distribution of the electric energy, selling of desalinated water, management of urban resorts and touristic villages and establishment and management of service's stations. The company is allowed to participate in any means with the companies & others which perform activities similar to its activities or could help it to achieve its purpose in Egypt or outside.

**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 and 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 78.43 % 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 consolidated financial statements**

### **2-1 Basis for preparation**

#### **A- Statement of compliance**

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

#### **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 and its subsidiaries.

#### **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's operation and its subsidiaries which is called the "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 was separated 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 Applied**

The accounting policies set out below have been applied consistently to all financial periods presented in these financial statements and they are the same policies applied in the latest annual issued 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 EGP as per the prevailing exchange rates on that date. Any differences resulting from translation are taken to the income statement.

Moreover, the non-monetary assets and liabilities, which are stated at historical cost of the foreign currency, are translated 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 (3-12).

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 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 other costs are recognized as expenses in the income statement as incurred.

**C- Depreciation**

Depreciation is recognized in income statement on a straight-line basis over the estimated useful lives of each part of the fixed assets. Land is not depreciated. The estimated useful lives for these assets are as follows:

Buildings	30-50 years
Machinery & Equipments	10 years
Furniture & Fixtures	16 years
Vehicles	5 years
Computers	5 years
<b><u>Desalination plant and sewage treatment plant</u></b>	
Structural works	30 years
Mechanical works	10 years
Water tank	30 years
Warehouses	30 years
Networks & Facilities	10 years
Pier	25 years
Hostelry furniture & fixtures	6-10 years
Kitchens & operating supplies	10 years
Networks & internet	5 years
Beach restaurant	10 years

- The company revises the useful lives of the fixed assets periodically at least one time at the end of each financial year.



### 3-3 Real estate investments

The real estate investments are represented in the lands held and under current preparation to utilize it or hold for sale in the long run along with lands & leased buildings (operating lease) to others. Real estate investments are measured at the historical cost deducting from them accumulated depreciation & accumulated impairment losses –if any (note 3-12). The remaining useful life for real estate investments is reviewed periodically with the estimated useful life. If the remaining useful life was different from the main estimation, then the net book value is depreciated over the remaining useful life after modification.

The fair value for these investments in the balance sheet date is disclosed unless there are cases in which the fair value of any of these investments is difficult to be determined in a feasible way and it is disclosed in such a case.

The following is a description of the estimated useful lives to each item of the real investments items for the purpose of depreciation as follows :

	<b><u>Estimated useful lives in years</u></b>
Buildings and constructions	40 years
<b><u>Building &amp; constructions attachments</u></b>	
Air conditioning, transformers & electric boards	5 years
Elevators	10 years

### 3-4 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 3-12).

### 3-5 Investments in trading securities

The fair value of investments in trading securities are stated by referring to the declared market value for these investments in the date of financial statements. The differences resulted from revaluation are recognized in the income statement.

### 3-6 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.

### 3-7 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, the share of sold land is settled from the cost of work in process according to the actual cost of the meters sold from the actual cost. Work in progress is recorded at cost or the net realizable value, which is lower in the balance sheet.

### 3-8 Estimated cost for development of sold land

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 (3-7) in order to reach the remaining cost for development and supplying facilities' works for the remaining sold land for each phase. 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.

### 3-9 Receivables, debtors and other debit balances

Receivables, debtors and other short-term 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. 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. 3-12). Long –term receivables are measured by present value of expected cash flows which is computed by using actual return rate.

### 3-10 Cash flow statement

Cash flow statement is prepared according to indirect method.

### 3-11 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 payable on demand and form an integral part of the company's cash management.

### 3-12 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 of the assets' carrying amount which has been determined after discounting depreciation or amortization if no impairment loss had been recognized such that the asset's carrying amount does not exceed the recoverable amount.

**3-13 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 is suitable. Provisions are reviewed at each balance sheet date and adjusted, (if required), to reflect the best current estimate.

**3-14 Creditors and other credit balances**

Creditors and other credit liabilities are recorded at cost.

**3-15 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 income statement according to the accrual basis.

**3-16 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 revenue 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 which are recognized as revenue over its accrual period.



Units' revenue owned by the subsidiary company

The restaurant revenues are recognized once the service is rendered to the restaurant's customer. Also, the revenue specific to the hostelry apartments and shops rent is recognized according to the accrual basis.

Dividends Revenue

Dividends 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.

3-17 Expenses

Expenses are recognized according on accrual basis.

3-18 Financial revenues (costs) (net)

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

3-19 Interest expenses

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

3-20 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 at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed in the balance sheet date and reduced to by the value of the portion that it is no longer probable that the related tax benefit will be realized during the next years.

3-21 Governmental treasury bills

Governmental treasury bills are recognized at net cost after disposing amortization and losses from impairment in assets' value (3-12)

3-22 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.

3-23 Dividends

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

3-24 Basic earnings per share

Earnings 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 year.

3-25 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.

**4- Fixed Assets**

The balance of fixed assets (net) shown in the consolidated balance sheet as at December 31, 2013 is represented as follows:-

Description	Cost as at 1/1/2013	Additions of the year	Transferred from work in process	Adjustments	Disposals of the year	Cost as at 31/12/2013	Accumulated Depreciation as at 1/1/2013	Depreciation of the year	Accumulated depreciation of disposals	Accumulated Depreciation as at 31/12/2013	Net book value as at 31/12/2013	Net book value as at 31/12/2012
	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP	EGP
Land	521 610	-	-	-	-	521 610	-	-	-	-	521 610	521 610
Buildings	34 640 276	-	-	-	-	34 640 276	3 847 118	1 086 018	-	4 933 136	29 707 140	30 793 158
Administrative & operating furniture & fixtures	6 713 183	250 131	-	-	( 48 567)	6 914 747	1 543 975	498 149	( 5 939)	2 036 185	4 878 562	5 169 208
Transportation & vehicles	992 387	-	-	-	-	992 387	701 937	122 989	-	824 926	167 461	290 450
Electronic tools & devices & Computers	8 680 893	408 192	-	-	( 22 146)	9 066 939	5 891 725	1 053 637	( 6 768)	6 938 594	2 128 345	2 789 168
Kitchens & Operating Facilities	1 229 026	238 677	-	( 84 161)	-	1 383 542	112 272	112 374	-	224 646	1 158 896	1 116 754
Internet & Communications	1 110 481	152 952	-	-	( 2 916)	1 260 517	203 390	239 631	( 676)	442 345	818 172	907 091
Tools & Equipment	2 323 428	42 357	-	-	-	2 365 785	1 269 716	160 900	-	1 430 616	935 169	1 053 712
Network & Facilities	88 415 286	-	-	-	-	88 415 286	24 498 556	8 841 528	-	33 340 084	55 075 202	63 916 730
Sewage Treatment Plant	21 775 252	-	-	-	-	21 775 252	4 690 187	963 524	-	5 653 711	16 121 541	17 085 065
Water tank	8 950 096	-	-	-	-	8 950 096	1 129 429	298 307	-	1 427 736	7 522 360	7 820 667
Water desalination plant	29 060 055	-	-	-	-	29 060 055	10 714 782	2 734 921	-	13 449 703	15 610 352	18 345 273
Pier	-	-	7 566 571	-	-	7 566 571	-	302 663	-	302 663	7 263 908	-
Beach restaurant	-	242 532	-	-	-	242 532	-	24 460	-	24 460	218 072	-
<b>Total</b>	<b>204 411 973</b>	<b>1 334 841</b>	<b>7 566 571</b>	<b>( 84 161)</b>	<b>( 73 629)</b>	<b>213 155 595</b>	<b>54 603 087</b>	<b>16 439 101</b>	<b>( 13 383)</b>	<b>71 028 805</b>	<b>142 126 790</b>	<b>149 808 886</b>

\* Fixed assets included assets which are fully depreciated as at December 31, 2013 as follows:

	EGP
Transportation vehicles	377 437
Machinery & equipments	754 642
Furniture	166 857
Buildings (Caravans)	82 830
Computers	3 149 841
	<b>4 531 607</b>

**Depreciations were classified as follows:**

	EGP
Depreciation classified as administrative expenses (Note-23)	611 745
Depreciation classified as operating expenses (Note-24)	14 699 826
Depreciation of administrative fixed assets (Note-26)	1 127 530
	<b>16 439 101</b>



**5- Real Estate Investment**

The balance of fixed assets (net) shown in the balance sheet as at December 31, 2013 is represented as follows:-

<u>Description</u>	<u>Cost as at 1/1/2013</u>	<u>Additions of the year</u>	<u>Disposals of the year</u>	<u>Cost as at 31/12/2013</u>	<u>Accumulated Depreciation as at 1/1/2013</u>	<u>Depreciation of the year (**)</u>	<u>Accumulated depreciation of disposals</u>	<u>Accumulated Depreciation as at 31/12/2013</u>	<u>Net book value as at 31/12/2013</u>	<u>Net book value as at 31/12/2012</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>
Lands (*)	116 152 096	-	(6 195 404)	109 956 692	-	-	-	-	109 956 692	116 152 096
Buildings	67 068 104	18 251	( 158 693)	66 927 662	1 672 080	1 673 500	( 4 554)	3 341 026	63 586 636	65 396 024
Air Conditioning	9 423 823	-	( 23 446)	9 400 377	1 884 763	1 880 724	( 5 337)	3 760 150	5 640 227	7 539 060
Elevators	2 949 205	-	-	2 949 205	294 920	294 920	-	589 840	2 359 365	2 654 285
Transformers & Electric Boards	3 177 026	6 560	-	3 183 586	635 406	635 736	-	1 271 142	1 912 444	2 541 620
<b>Total</b>	<b>198 770 254</b>	<b>24 811</b>	<b>(6 377 543)</b>	<b>192 417 522</b>	<b>4 487 169</b>	<b>4 484 880</b>	<b>( 9 891)</b>	<b>8 962 158</b>	<b>183 455 364</b>	<b>194 283 085</b>

(\*) Lands item includes an amount of L.E 104 117 692 represented in the value of lands acquired with the knowledge of Sahl Hasheesh For Touristic Investment Co. (subsidiary company) & under current planning to be utilized with the knowledge of the company's management

(\*\*) Real estate investment depreciations as of December 31, 2013 was classified among operating depreciations included in the cost of sales item in the income statement (Note-23)

## 6- Projects in progress

Projects in progress shown in the consolidated balance sheet among the non-current assets item are represented in the following:

	<u>31/12/2013</u>	<u>31/12/2012</u>
	<b>EGP</b>	<b>EGP</b>
Raising the level of the drainage network station	2 306 411	1 797 799
Sea Bridge	210 000	-
Construction of water wells desalination station with a capacity of 4000 meters cube	8 211 715	-
Suppliers-advance payments	5 000	-
	<u><b>10 733 126</b></u>	<u><b>1 797799</b></u>

## 7- Work in Progress

The actual cost for the work in progress account shown in the Consolidated balance sheet among the current assets is represented as follows:-

	<u>31/12/2013</u>	<u>31/12/2012</u>
	<b>EGP</b>	<b>EGP</b>
7-1 Cost of the lands haven't been sold yet - Phase 1	28 674 982	30 206 227
7-2 Cost of the lands haven't been sold yet - Phase 2	177 693 011	164 547 784
7-3 Cost of project's lands – Phase 3	303 139 715	301 895 888
7-4 Cost of Sawary Project	10 530 274	10 530 274
7-5 Cost of Jomran Project	270 862	21 000
	<u><b>520 308 844</b></u>	<u><b>507 201 173</b></u>

- (\*) Based on the events occurred in Arab Republic of Egypt during year 2011, and what followed this of a governmental resolutions by taking the lands of phase three in which current legal procedures are being taken in note (7-3) below which would affect on the data, information and the technical assumptions in connection with estimation of the cost elements aforementioned. Based on the financial and technical data currently available for the company, it prepared a financial estimations for those elements to compute cost till terminating all the obstacles hinder completing this study in a proper way with the help of the experts aforementioned.

### 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 concluded on October 24, 1995. 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 EGP 11.25 per meter and to be increased by a 10% annually according to the sales contract concluded presented from the company.

According to the prime minister's decree No. 1026 of 2005 published in the official gazette issue No.28 on 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.

- 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.

The total cost estimated for development as at December 31, 2013 for the execution of the first phase of the project based on the revised study prepared by the company's experts amounted to EGP 251 742 815 in which the estimated cost per meter amounted to LE 51.773 approximately.

#### 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 m<sup>2</sup>). A decision no.(82) dated 5/6/2005 for final allocation of the phase's land has been made after full payment of stipulation and allocation expenses.
- In light of the final settlement for the Authority's share in the conductance made by the company on the lands of phase 1, 2 and 3 from Sahl Hasheesh Company mentioned in (7-1), an agreement has been made to account the Authority's share on the same basis adopted in phase 1 for the conductance conducted before the date of the Prime Minister's resolution on July 28, 2005. Therefore, the Authority's share is accounted by US Dollar 1.75 / meter for the conductance over the land pieces specified for hostelry use or US Dollar 5 for the land pieces specified for touristic housing.
- Based on the geographical survey for the second phase made on 2008 which is mentioned in (7-1), 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.
- The estimated cost as at December 31, 2013 for the project's second phase according to the study prepared by the company's experts amounted to EGP 392 607 701 with estimated cost of EGP 60.

#### 7-3 Third phase lands

- The company rented the third phase's lands (20 million m<sup>2</sup>) 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 March 17, 2005 the company communicated the General Authority for Touristic Development to issue a letter confirming the company's rights in developing the project's third phase. On March 20, 2005, the Authority for Touristic Development replied that there are no restrictions on studying the company's proposal as long as the company fulfills the terms of the contract and the authority will notify the company with the results of the study. According to the authority's letter dated February 26, 2007, the price of the meter was determined by USD 1.40/m.
- Moreover, as per the geographical survey prepared by the expertise whom the company used during year 2008, the total area of the third phase is 28 312 296 m<sup>2</sup>.

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 EGP 231 450 740. This cost is included in Work In Progress – Phase 3 and the total payments were USD 7 567 359 as at 31 December 2013. The remaining amount due to the Authority based on the aforementioned is EGP 242 167 864 equivalent to USD 34 851 819 and included in purchase of land creditors.

- Cost of works done in this phase as of December 31, 2013 amounted EGP 71 688 975.
- 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. The company raised a lawsuit to cancel this resolution, which is issued from TDA of taking the land of phase 3 back in front of the administrative court which was postponed to a session of June 16, 2014 according to what was stated in details in the company's legal position (Note no. 33-4)

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

The item is represented in the following:

7-4-1 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 agreed upon.

7-4-2 Trademarks represented in the value against use of trademark for Orascom Co. for Development and Management (FZC) located in Ras al-Khaimah in United Arab of Emirates as for the supervision over execution, promotion & propaganda for Sawary project mentioned above.

The company is in process of following up the procedures, which allow the continuance of the project works since that a part of the areas on which the project established upon interferes with phase 3 lands which are under dispute with The General Authority For Tourism (Note 7-3).

#### 7-5 **Jomran Project**

The item mentioned above is represented in the value of the cost incurred to execute works of phase 2 project for the villas region in addition to conduction of building villas units by the company for the favor of those lands' clients which is commensurate with the integrated urban planning for this region.

### 8- **Inventory**

Balance of inventory shown in the consolidated balance among the current assets is represented in the following:

	<b><u>31/12/2013</u></b>	<b><u>31/12/2012</u></b>
	<b>EGP</b>	<b>EGP</b>
<b><u>The Egyptian Resorts Company</u></b>		
Maintenance supplies & spare parts in the location	2 250 395	1 865 473
<b><u>Sahl Hasheesh Company For Touristic Development</u></b>		
Food store	17 724	-
Beverage store	40 997	-
	<b><u>2 309 116</u></b>	<b><u>1 865 473</u></b>

**9- Accounts & Notes Receivable (Net)**

The balance of accounts & notes receivable shown in the Consolidated balance sheet among current assets is represented as follows:

	<u>31/12/2013</u>	<u>31/12/2012</u>
	<b>EGP</b>	<b>EGP</b>
Land receivables (*)	422 475 225	364 885 790
Accounts and notes receivable of Sawary project	-	50 238 797
Accounts and notes receivable of Jomran project	9 882 601	11 531 395
Receivables – services	28 221 768	16 999 898
Accounts and notes receivable – sale of hostelry apartments (**)	835 648	-
	<u><b>461 415 242</b></u>	<u><b>443 655 880</b></u>
<b>Less:</b> Deferred interest	(1 265 234)	(1 180 442)
<b>Less:</b> Impairment in receivables (***)	(130 397 330)	(106 262 880)
	<u><b>329 752 678</b></u>	<u><b>336 212 558</b></u>

For presentation purposes, the accounts & notes receivable as at December 31, 2013 are classified as follows:

	<u>31/12/2013</u>	<u>31/12/2012</u>
	<b>EGP</b>	<b>EGP</b>
Accounts & notes receivable – long term assets	<u>16 519 782</u>	<u>43 492 376</u>
Accounts & notes receivable – current assets	<u><u>313 232 896</u></u>	<u><u>292 720 182</u></u>

(\*) The balance includes net due from one of the subsidiary company's clients as of December 31, 2013 equivalent to amount of 2 million US Dollars worth under the deferred payment checks dated 31/12/2014 and 31/12/2015 as of selling land piece no.(3) from the piece no (9-A) during the year with an area of 7 500 square meters with total value of EGP 21 077 300 equivalent to 3 million US Dollars.

(\*\*) The balance amounted EGP 835 648 equivalent to US Dollars 93 821 is represented in due from the subsidiary company's clients as of December 31, 2013 as of selling 3 hostelry apartments in the old town during the year totaling EGP 2 709 223 equivalent to \$ 415 300.

(\*\*\*) Impairment in receivables balance shown above is represented in the value of impairment in receivables balances according to the study prepared by the management's knowledge as a result of the current situations in Arab Republic Of Egypt and its reflection over the company's activity which led to some financial difficulties for some clients in addition to the effect of market decline because of the financial difficulties facing generally the tourism sector. Thus, the company's management has made a study based on several assumptions to determine the amount of impairment in receivables as a result of the indicators mentioned above. The study has been prepared in light of the following :

- Assuming the continuation of engagement with the clients and following up the collection process with them.
- Expected future cash flows in light of number of expected payments on the level of each client separately.
- Deducting the expected cash flows using rates of return on similar investments according to the nature of the currency related to each client.

- The movement of impairment in receivables balance during the year is represented in the following :

	<b>EGP</b>
Beginning balance	106 262 880
Impairment in value of receivables during the year	24 309 937
Used from the balance during the year	(175 487)
<b>Ending Balance</b>	<b>130 397 330</b>

#### 10- Sundry Debtors & Other Debit Balances

Sundry debtors & other debit balances item shown in the consolidated balance among current assets is represented in the following:

	<u><b>31/12/2013</b></u>	<u><b>31/12/2012</b></u>
	<b>EGP</b>	<b>EGP</b>
Letters of guarantee covers	50 000	50 000
Cash imprests and loans (*)	171 190	168 654
Prepaid expenses	2 751 020	1 001 450
Deposits with others	448 384	503 984
Accrued revenue	421 809	1 693 920
Contractors & suppliers-advance payments (*)	2 773 616	1 427 889
Sundry debtors (*)	541 854	466 414
Withholding Tax – Debit	360 438	304 085
Income Tax paid for reversed sales (**)	5 105 072	6 408 966
	<u>12 623 383</u>	<u>12 025 362</u>
Less: Impairment in sundry debtors & other debit balances (*)	(1 450 932)	(67 678)
	<u><b>11 172 451</b></u>	<u><b>11 957 684</b></u>

(\*\*\*) The balance is represented in the rest of paid in excess to the tax authority amounting EGP 5 105 672 as of judicial persons' income as of the financial year 2008 in light of the internal committee's decision shown in form no.36 payment dated March 31, 2012. The value of what has been settled during this year with the authority from this balance amounted EGP 1 303 894. This indebtedness will be settled with the authority in exchange with tax claims emerged from the incoming financial years.

#### 11- Cash on Hand and at Banks

This item shown in the Consolidated balance sheet among current assets is represented in the following:-

	<u><b>31/12/2013</b></u>	<u><b>31/12/2012</b></u>
	<b>EGP</b>	<b>EGP</b>
Cash on hand	207 095	343 958
Banks – current accounts	10 748 083	33 481 419
Banks – time deposit (less than three months)	34 768 250	500 638
Banks-time deposit-US\$ (more than three months)	20 845 500	53 901 589
Investment funds in fund market tools –Jaman (**)	42 350 139	-
Investment funds Mubasher – Gothor (***)	-	20 082 005
<b>Balance</b>	<u><b>108 919 067</b></u>	<u><b>108 309 609</b></u>



- (\*) The balances of deposits in US Dollars (more than three months) shown above in the value equivalent to 3 million US Dollars due during periods ranging between more than three months and less than one year from the balance sheet date with an interest of 2%.
- (\*\*) The item is represented in the market value for 282 932 documents out of investment fund in fund market tool documents – Jaman (daily) which is administered by the knowledge of Arab African Bank for administrating the investments. The declared price of the document has amounted to EGP 149.6831 as of December 31, 2013. The value of change in investment's market value recognized in the income statement during the year has amounted to L. E 476 190.
- (\*\*\*) The return from investment funds documents in fixed income tool in Egyptian Pounds "Gothor" has reached EGP 3 789 461 during the year ( against EGP 82 009 as of year 2012 )
- For the purpose of cash flow statements, the cash & cash equivalent item is represented in the following :

	<u>31/12/2013</u> EGP	<u>31/12/2012</u> EGP
Cash on hand & bank	108 919 067	108 309 609
<b>Added:</b>		
Investments in treasury bills (less than three months)	-	53 711 136
<b>Deducted:</b>		
Time deposit (more than three months )	(20 845 500)	(53 901 589)
<b>Cash &amp; cash equivalent according to cash flow statement</b>	<b>88 073 567</b>	<b>108 119 156</b>

## 12- Provision for Claims

This item shown in the balance sheet among current liabilities is represented in the following:-

	<u>31/12/2013</u> EGP	<u>31/12/2012</u> EGP
Beginning Balance	12 622 758	10 491 000
Formation during the year	1 770 614	2 181 758
Used from the year	(1 867 078)	(50 000)
Ending Balance	<b>12 526 294</b>	<b>12 622 758</b>

- (\*) Provision for claims includes the value of expected tax differences emerging from tax inspection of the Egyptian Resorts Company as mentioned in details in note No. (30) tax position as of the years from activity start till 2008. These tax differences will be settled from credit balance due to the company from the Egyptian Tax Authority.

## 13- Advance Payments from clients

Receivables advance payments shown in the consolidated balance sheet among current liabilities represented as follows:

	<u>31/12/2013</u> EGP	<u>31/12/2012</u> EGP
Advances lands reservations-phases 1 & 2 (*)	49 263 046	36 553 214
Advances lands reservations-Sawary project units	2 654 727	2 112 806
Advances lands reservations-Jamran project units	330 285	330 285
Advances shops reservations using rental system – subsidiary company	498 660	624 431
Advance payment purchase of hostelry units – Subsidiary company	-	185 845
	<b>52 746 718</b>	<b>39 806 581</b>

(\*) The balance includes the value of paid from one of the company's clients as a contract payment to purchase land in phase 2. The company has raised a lawsuit to annul contract with the client with reversal of contract payment amounted USD 5 700 000 equivalent to amount of EGP 39 606 450 due to his delay in meeting his contractual obligations till that date. The lawsuit has been submitted to the expert. The company, through its legal consultant, has submitted all the legal documents which support its position in the lawsuit according to what was stated in details in note (33-1) legal position.

#### 14- **Sundry Creditors & Other Credit Balances**

The balance shown in the Consolidated balance sheet among the current liabilities is represented in the following:

	<b><u>31/12/2013</u></b>	<b><u>31/12/2012</u></b>
	<b>EGP</b>	<b>EGP</b>
Contractors' retention	1 115 052	1 372 932
Suppliers and contractors	5 160 627	7 521 220
Contractors-social insurance	1 805 589	1 904 619
Social insurance authority (contractors)	-	98 410
Accrued expenses	1 228 390	1 822 888
Retentions-Contracts of distributing electricity	250 000	-
Due to sovereign authorities	15 362 665	12 482 801
Maintenance deposits	1 995 850	4 886 110
Deposits from others (shops)	2 667 017	2 082 085
Dividends payable	393 499	393 499
Deferred revenues(*)	10 015 587	58 723 262
Sundry Creditors	10 160 747	10 160 747
	<b><u>50 155 023</u></b>	<b><u>101 448 573</u></b>

(\*) Deferred revenue includes an amount of EGP 9 389 523 which is the value of building paid in advance from Jomran project's clients which will be recognized once their receipt by the clients upon execution of building villas.

#### 15- **Due to the General Authority for Touristic Development**

The due to the General Authority for Touristic Development shown among current liabilities in the balance sheet is represented in an amount of EGP 33 353 530 (EGP 29 881 495 as of December 31, 2012) which is the value of The Authority's share in the company's conductance in the lands of the three phases. Current Continuance of final settlement for the value of the due to the General Authority for Touristic Development from the company as conductance with selling the lands according to the basis of accounting agreed upon with the Authority and mentioned in details in note (7) works in process.

#### 16- **Banks – Credit Facilities**

The balance amounting EGP 8 793 201 shown in the balance sheet among the current liabilities is represented in the unpaid portion from the credit facility totaling EGP 105 million with a duration of 180 days with a maximum interest of 13.75% from Arab African International Bank with a purpose of its utilization in financing the company's underwriting in increasing subsidiary company's capital. An approval has been obtained from the bank over the credit facility dated 13/3/2013. An amount of EGP 105 million has been transferred from the value of the facility during the year to the underwriting account in increasing subsidiary company's capital. The facility has been renewed on August 22, 2013 for a duration ends on June 30, 2014 with a maximum withdrawal of 88 million Egyptian Pounds with a guarantee of investment funds in fund markets with an interest of 3% adding to the loan rate from the Central Bank Of Egypt with a maximum of 13.75%. The current balance will be paid at the end of financing period.

## 17- **Capital**

The company's authorized capital amounted to EGP 700 000 000 (only seven hundred million Egyptian pounds) and the issued capital amounted to EGP 350 000 000 (only three hundred and fifty million Egyptian pounds) divided over 3 500 000 share at par value of EGP 100, and the shareholders paid one fourth of the par value of the shares, the paid in capital amounted to EGP 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 EGP 60.

Based on the decision of the Extraordinary General Assembly Meeting held on 28/11/2004 unanimously agreed upon reducing the issued capital from EGP 350 million to EGP 210 million, by reducing the par value of the shares from EGP 100 to EGP 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 EGP 60 to EGP 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 EGP 210 million divided over 21 million shares at a par value of EGP 10.

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

Based on the decision of the Extraordinary General Assembly Meeting held on 23/12/2006 the nominal value of the share was amended to be EGP 1 instead of EGP 10 and the share was splitted 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 EGP 262 500 000 distributed on 262 500 000 shares with nominal value EGP 1 for each share. There was annotation in the commercial register on 21/2/2007.

Based on the decision of the Extraordinary 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 EGP 437 500 000 represented in 437 500 000 shares in which the nominal value of the share is EGP 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 EGP 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 EGP 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 EGP 700 million. There was annotation in the commercial register on 16/7/2007.

As per the decision of General Assembly Meeting held on 11/9/2007 there was a verification on the dividend distribution of EGP 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 EGP 2 000 000 000 and the capital after this free increase became EGP 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 EGP 700 million then the issued capital becomes EGP 840 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 EGP 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 EGP 2 billion though the issued capital will be EGP 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 EGP 840 million. There was annotation in the commercial register on 29/7/2008.

**18- Basic Earnings per share in year's loss:**

Basic earnings per share in year's loss is computed using weighted average of number of the outstanding shares during the year as follows:

	<u>2013</u>	<u>2012</u>
	<b>EGP</b>	<b>EGP</b>
Net loss for the year	(41 429 956)	(99 475 942)
Average number of shares during the year	1 050 000 000	1 050 000 000
<b>Basic earnings per share in year's loss</b>	<b>(0.039)</b>	<b>(0.095)</b>
<b>(EGP/share)</b>		

**19- Operating Revenue**

	<u>2013</u>	<u>2012</u>
	<b>EGP</b>	<b>EGP</b>
<b><u>Holding Company's operating revenues</u></b>		
Sales of lands – Phase 1	5 380 357	-
Land sales – Sawary Project	-	4 050 215
Land sales – Jomran Project	-	4 050 339
	<b>5 380 357</b>	<b>8 100 554</b>
<b><u>Added:</u></b>		
<b><u>Subsidiary Company's operating revenues</u></b>		
Shops & hostelry apartments rentals	719 037	253 108
Maintenance revenues	545 307	322 490
Restaurant & beach revenues	1 942 165	683 254
Other operating revenues	100 002	-
	<b>3 306 511</b>	<b>1 258 852</b>
	<b>8 686 868</b>	<b>9 359 406</b>

**20- Sales Returns**

	<u>2013</u>	<u>2012</u>
	<b>EGP</b>	<b>EGP</b>
Sales returns – Lands sales of Sawary project	(12 198 681)	(2 701 495)
	<b>(12 198 681)</b>	<b>(2 701 495)</b>

**21- Net deferred interest recalled**

	<b><u>2013</u></b>	<b><u>2012</u></b>
	<b>EGP</b>	<b>EGP</b>
Interest revenue recalled from deferred income	1 349 727	1 960 023
<b>Total</b>	<b>1 349 727</b>	<b>1 960 023</b>

**22- Revenue from services rendered**

	<b><u>2013</u></b>	<b><u>2012</u></b>
	<b>EGP</b>	<b>EGP</b>
Revenue from water supplied	9 467 980	9 502 091
Revenue from electricity supplied	11 622 482	10 452 464
Revenue from irrigation water supplied	2 238 524	2 020 639
Revenue from communication services supplied	142 891	150 790
Revenue from resort services (*)	8 953 712	8 324 754
<b>Total</b>	<b>32 425 589</b>	<b>30 450 738</b>

(\*) Revenue from resort services shown above is represented in the value of due from the company's clients as of the financial year ended December 31, 2013 valuing 2.625 EGP /meter from the lands sold to them against rendering management, maintenance, security and cleaning services and operation of all the networks and facilities by the company. This includes repairing and replacement works for the energy facilities and infrastructure for Sahl Hasheesh center in light of the agreement concluded with Sahl Hasheeh's investors community on October 22, 2012 in which an agreement has been made to render the service for three years valuing 2.5 EGP / meter square with an annual increase of 5% annually starting from 1/1/2013.

**23- Cost of sales & sales returns**

**23-1 Cost of sales**

	<b><u>2013</u></b>	<b><u>2012</u></b>
	<b>EGP</b>	<b>EGP</b>
<b><u>Egyptian Resorts Company</u></b>		
Cost of lands sales – Phase I	1 046 890	-
Cost of sales- Sawary project	-	3 090 916
Cost of sales- Jomran project	-	228 940
	<b>1 046 890</b>	<b>3 319 856</b>
<b><u>Added:</u></b>		
Cost of sales- Subsidiary company (*)	8 783 024	8 261 157
<b>Total</b>	<b>9 829 914</b>	<b>11 581 013</b>

- (\*) Cost of activity for the subsidiary company mentioned above is represented in expenses of beach and restaurant & operating activity of renting units owned by the subsidiary company in the old town region in Sahl Hasheesh resort in Hurghada. The following is a description of these costs on December 31,2013 :

	<u>2013</u>	<u>2012</u>
	EGP	EGP
Cost of beach & restaurant	1 532 790	719 368
Cost of maintenance, cleaning, security & guard	805 846	659 540
Operating depreciations	5 096 625	5 018 672
Salaries, wages & their equivalents	1 213 952	1 443 998
Others	133 811	419 579
	<u>8 783 024</u>	<u>8 261 157</u>

#### 23-2 Cost of lands sales returns

	<u>2013</u>	<u>2012</u>
	EGP	EGP
Cost of lands sales returns- Sawary project	(7 319 209)	(1 620 897)
	<u>(7 319 209)</u>	<u>(1 620 897)</u>

#### 24- Cost of operating services rendered

Cost operating services rendered shown in the consolidated income statement is represented in the following:-

	<u>2013</u>	<u>2012</u>
	EGP	EGP
Electricity cost	15 859 157	13 751 619
Water cost	3 446 343	3 145 508
Water irrigation cost	682 882	626 700
Operating fixed assets depreciation (note-4)	14 699 826	13 494 513
Salaries, wages & their equivalents	7 514 793	6 351 107
Temporary labor contracts	7 272 385	6 229 487
Cleaning expenses	1 763 294	1 791 919
Rentals	1 883 573	1 679 149
Other expenses	3 869 554	3 581 283
	<u>56 991 807</u>	<u>50 651 285</u>
<u>Less:</u> Transferred during the year to works in process as of the share of unsold lands	(7 455 582)	(7 269 724)
<b>Total</b>	<u>49 536 225</u>	<u>43 381 561</u>

These costs were distributed as follows :

	<u>2013</u>	<u>2012</u>
	EGP	EGP
Cost of electricity, water, water irrigation & communication services	33 245 554	29 608 786
Cost of managing the resort service	16 290 671	13 772 775
<b>Total</b>	<u>49 536 225</u>	<u>43 381 561</u>



## 25- Other operating revenues

Other operating revenues recognized in the income statement is represented in the following :

	<u>2013</u>	<u>2012</u>
	EGP	EGP
Extension of facilities to clients' lands	145 646	1 878 003
Revision of graphical drawings	144 330	384 246
Lands rental for communication towers	1 217 127	1 112 078
Pier rental	522 000	-
Beach rental	206 700	-
Gain from sale of fixed assets(*)	16 121 510	22 500
Miscellaneous	33 017	11 181
	<u>18 390 330</u>	<u>3 408 008</u>

(\*) Capital gains amounting EGP 16 121 510 shown in the income statement as of December 31,2013 is represented in the following :

- a. The value of capital gains amounting EGP 2 337 567 realized from sale of three hostelry apartments with areas of 54, 54, 55 square meters for each of buildings (C),(B),(D) respectively by Sahl Hasheesh Company For Touristic Investment in Sahl Hasheesh Company For Touristic Investment in the old town to clients with a total amount of 415 thousand dollars which is equivalent to an amount of EGP 2 709 223. Net cost of building and furnishing these hostelry apartments amounted to EGP 371 656 in the date of completing the sale process. Its description is as follows :

	EGP
Net cost of sold apartments' buildings	224 822
Net cost of furnitures and fixtures of sold apartments	96 030
Share of sold apartments from cost made upon by building	50 804
<b>Total</b>	<u><u>371 656</u></u>

- b. B- The value of capital gains amounting EGP 13 783 943 realized from sale of land piece no.(3) from the piece no.(9-A) with an area of 7 500 meters square by Sahl Hasheesh Company For Touristic Investment (subsidiary company) to Oscar Company For Development & real estate & touristic development with a total amount of 3 million US Dollars during the year. The cost of land sold at the date of completing the sale process amounted EGP 6 144 600.

## 26- General and Administrative Expenses

	<u>2013</u>	<u>2012</u>
	EGP	EGP
Salaries, wages, allowances and its related expenses	12 222 131	12 475 319
Attendance allowances of board of directors & executive committees	1 589 300	1 512 750
End of service benefits	1 012 353	-
Consultancy fees	3 009 667	2 372 257
Legal fees expenses	3 458 729	1 707 345
Judicial compensations (*)	4 260 650	-
Differences in tax settlements	-	669 698
Administrative fixed assets depreciation	1 127 530	1 469 841
Banking fees	49 084	35 682
Rentals	1 536 815	725 958
Stationary, printings & computer expenses	211 394	276 917
Traveling & transportation expenses	957 679	945 250
Others	2 240 024	1 805 549
	<u>31 675 356</u>	<u>23 996 566</u>

- (\*) The value of judicial compensations mentioned above is represented in the value of paid in accordance with the approval of the company's board of directors on June 17, 2013 to The Telecom Egypt for reconciliation in the lawsuit raised against the company for damages resulting from its tools & equipment in Sahl Hasheesh region in light of its execution of the contract concluded between the two parties on November 26, 2006 for designing, execution and fixing the main telecommunications network in Sahl Hasheesh center. It was not complete because dispute between the two parties. A first degree court ruling was issued on April 27, 2013 based on what was mentioned in the report of the expert delegated from general prosecution with an estimation of the value of these damages. A reconciliation minute was presented in a session of 18/6/2013.

## 27- **Financing revenues (costs) (net)**

Financing income (cost) (net) shown in the consolidated income statement is represented in the following:

	<b><u>2013</u></b> <b><u>EGP</u></b>	<b><u>2012</u></b> <b><u>EGP</u></b>
Burden of financing bank credit facilities (note-16)	(1 949 487)	-
Credit (debit) Currency evaluation differences	1 366 881	2 695 680
Return on investments in treasury bills	1 066 870	11 947 185
Interest revenue from bank deposits	2 247 694	3 848 222
	<b><u>2 731 958</u></b>	<b><u>18 491 087</u></b>

## 28- **Income tax expense**

28-1 Income tax expense shown in the consolidated income statement is represented in the following :

	<b><u>2013</u></b> <b><u>EGP</u></b>	<b><u>2012</u></b> <b><u>EGP</u></b>
Current tax	(467 775)	(2 317 208)
	<b><u>(467 775)</u></b>	<b><u>(2 317 208)</u></b>

- (\*) The value of current tax amounting EGP 467 775 is represented in the value of the tax on base of returns on treasury bills (independent tax base) valuing EGP 2 338 870 during year 2013. The tax was withheld from source and supplied to the tax authority according to law provisions no.114 for year 2008.

The value of interest revenues withheld during the year amounted EGP 1 066 870 (note-27) after deduction of the withheld accrued revenues during year 2012 with an amount of EGP 1 272 000.

28-2 The value of deferred tax benefit (expense) shown in the income statement is represented in the following:

	<b><u>2013</u></b> <b><u>EGP</u></b>	<b><u>2012</u></b> <b><u>EGP</u></b>
Deferred tax benefit (expense)	(4 151 765)	(739 865)
	<b><u>(4 151 765)</u></b>	<b><u>(739 865)</u></b>

- The balance of deferred taxes whether asset or liability is represented in the following:

	<u>31/12/2013</u>		<u>Movement of the year</u>		<u>31/12/2013</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Asset</u>	<u>Liability</u>	<u>Asset</u>	<u>Liability</u>
	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>	<u>EGP</u>
Fixed assets and intangible assets	--	(13 553 820)	--	(2 859 865)	--	(16 413 685)
Provisions	6 453 047	--	4 867 159	--	11 320 206	--
Carried forward losses	7 722 329	--	--	(6 159 059)	1 563 270	--
Total	<u>14 175 376</u>	<u>(13 553 820)</u>	<u>4 867 159</u>	<u>(9 018 924)</u>	<u>12 883 476</u>	<u>(16 413 685)</u>
Balance	<u>621 556</u>			<u>(4 151 765)</u>		<u>(3 530 209)</u>

### **28-3 Unrecognized deferred tax which results in an asset**

Deferred tax which results in an asset are not recognized in the following items :

	<u>31/12/2013</u>
	<u>EGP</u>
- Carried forward losses	31 377 867
-Provisions	25 224 547

- The deferred tax which results in an asset which is related in the items previously mentioned were not recognized because there is no current expectation for the usage of the asset to decrease taxable profits due from the company in future years.

### **29- Minority Interest**

The balance shown in the consolidated balance sheet as at December 31, 2013 is represented in their share in owners' equity in the subsidiary company as follows:

	<u>EGP</u>
Balance as at 1/1/2013	55 426 636
<b>Add:</b>	
Minority's share in the losses for the financial year ended December 31, 2013 for the subsidiary	(6 298 618)
<b>Balance as at December 31, 2013</b>	<u><u>49 128 018</u></u>

### **30- Tax Position**

**First: Tax position for the holding company (Egyptian Resorts Company) as per what was presented in the separate financial statements as of December 31, 2013 which complies with the tax system of Arab Republic of Egypt in practice**

#### **Corporate tax**

#### **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. Also, the movables taxes were inspected for these years by Corporation tax authorities and payment was made.

**Years from 2005 till 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 file was submitted to the specialized committee as of the foreign differences item so as not to be a basis for accounting in the subsequent years. The tax differences as per the internal committee results amounted to EGP 139 839 excluding the fines and delay interests. The credit balance for the company has been settled from the authority's side.

**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. The company settled some disputed issues and the internal committee decided that the differences resulted from the amounts paid in excess for the tax return of year 2008 should be booked in the company's books which amounted to EGP 6 408 965 and also claiming the company to pay an amount of EGP 473 670 for the unpaid amount related to tax pool of article no. (56) other than the delay interests and also cancelling the estimations of the tax authority concerning tax pool of article no. (57) commissions.
- Therefore, there is credit balance for the company from the tax authority. Current settlement of the authority's dues from the credit balance is currently made.

**Year 2009 and 2010**

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

**Salary tax****Years from start of activity till year 2004**

- 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 EGP 237 914 after deducting payments. This assessment is based on form No.9 dated on 1/8/2011. An offset has been made with the company's balance from the authority's side.

**Years from 2005 till 2008**

- Year 2005 has been inspected resulting with tax differences accrual amounted EGP 31 665
- The company has inspected years from 2006 till 2007. The inspection has resulted in differences amounted EGP 521 221
- Year 2008 has been inspected. Form (38-salaries) has been issued with differences amounted EGP 3.806 million. The form was objected and an internal committee was made in which the company has agreed upon some items according to the committee's result in which the due tax amounted EGP 1.486 million. Meanwhile, it has objected over some other items and the penalties resulting from them amounted EGP 1.862 EGP. Points of objection were submitted to the specialized committee to be decided.

**Years from 2009 till 2012**

The company pays under the account of salary tax due monthly and there is no inspection for these years yet.

**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.
- Years from 2008 till 2010 have been inspected and the due tax has reached roughly EGP 514 thousand according to form (15) dated April 17, 2012. The form has been appealed leading to decreasing the differences to EGP 358 thousand roughly. An offset has been made with the credit balance for the company from the authority.

**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.

**Second: Tax position for the subsidiary company (Sahl Hasheesh for touristic investment) as per what was presented in the consolidated financial statements as at December 31, 2011 which complies with the tax system of Arab Republic of Egypt in practice****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 2004**

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

**Years from 2005 till 2008**

The company paid the tax due based on the approved tax return in its due dates according to the provisions of law no. 91/2005. There has been inspection for these years and inspection differences have amounted EGP 441 543. Payment of due tax to the company has been done taking into consideration that there is a material error in the inspection result represented in losses of 2006 which were not carried forward amounted EGP 692 343. The internal committee in the tax authority in Luxor is under current discussion to correct it.

**Year 2009**

Year 2009 has been inspected and claimed tax differences have amounted EGP 686 302. An internal committee is currently made.

**Years from 2010 till 2012**

The approved tax return has been submitted in the legal appointments and in light of law provisions no. 91 of year 2005. Inspection for year 2010 is currently made.

**Salary tax****Years from activity inception till year 2009**

Inspection for year 2009 has been made. Payment of differences resulting from inspection has been made.

**Years from 2010 till December 31, 2011**

Years from 2010 till 2011 have been made. There is a credit balance carried forward to the company from the authority's side amounting EGP 60 109

**Year 2012**

Taxes on salaries paid to the employees are deducted. Payment is made regularly and year 2012 is under current inspection.

**Stamp Tax****Years form activity inception till year 2007**

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

**Years form 2008 till December 31, 2009**

Inspection and notifying the company with inspection differences has been made which amounted EGP 13 181. It was appealed and objected.

**Years from 2010 till December 31,2012**

Inspection is currently made for these years and due tax is paid monthly according to law provisions.

**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. Tax years are under current inspection till year 2013 in Hurghada tax authority.

**31- 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).

**31-1 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.

**31-2 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 EGP 370 161 449 and EGP 328 943 223 respectively. The Company's net balances in foreign currencies at the balance sheet date are as follows:-

**Foreign currencies**

	<b><u>Surplus</u></b>
USD	5 853 099
Euro	57 105
Sterling Pound	65

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.

**31-3 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.

**32- 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.

**33- Legal Position**

- 1- The company has filed a lawsuit in order to annul a contract concluded with one of the clients as the client has breached the contract terms. With the hearing of April 26,2012, the lawsuit was submitted to an expert. A session was stipulated for that purpose on July 26, 2012 to present the nature of relationship between the two parties of the lawsuit and the obligations of each one of them towards the other and presenting the extent of breach in executing these obligations and the party responsible for this breach. The company, through its legal consultant, has submitted all the documents which support its position in the lawsuit. The sessions in front of the court were in succession due to the absence of the expert's report. The date of the first session in front of the expert was not determined. It is expected that postponement of considering the lawsuit will continue until the remittance of the expert's report .
- 2- There is a lawsuit raised in front of the administrative court against the General Authority For Touristic Investment from one of the law lawyers for the annulment of allocation contract of all the lands of The Egyptian Resorts Company in Sahl Hasheesh region. The company's management has decided on February 28, 2011 to enter as a party in this lawsuit to take the legal procedures and present the documents supporting the company's situation. The lawsuit is now pending in front of the state attorneys. It is in its primary phases and postponed to present the documents request by the company from The General Authority For Touristic Development including the photocopies of the similar contracts that prove that selling price of Sahl Hasheesh Land is the same price adapted in all the authority's contracts to session of June 12, 2014 for the same reason. The company's management and its legal consultant see the integrity of the company's legal position in light of the legal defenses presented. It is impossible now to predict the result of the state attorneys' report in this early stage of the dispute and also the ruling ruled by the court.
- 3- Pyramisa Resorts Company has raised a lawsuit against state council in which it demanded for the annulment of contract included between the General Authority For Touristic Development and The Egyptian Resorts Company concerning Sahl Hasheesh land dated October 24,1995 and return of the land to the Authority except for made upon complete projects. The first lawsuit session has been attended on October 10,2013. The lawsuit was postponed to April 17, 2014 . Current inspection of the lawsuit's file to evaluate Pyramisa Company's claims and preparing the necessary defense to reply over what was aroused in this lawsuit.



- 4- The General Authority For Touristic Development has informed the company 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. The company has raised a lawsuit to cancel the administrative specific to the withdrawal of Phase 3 land issued from the General Authority for Touristic Development in front of administrative court on September 21, 2011. The company's management and its legal consultant the integrity of the company's legal position in light of the provisions of the contract concluded between the Authority and the company dated October 24,1995 in which the company has fulfilled its articles. the court has decided to submit the lawsuit to the state attorneys to prepare a report about the legal opinion. The lawsuit is postponed to a session of October 21,2013 to enable the company to reply and submit the documents. In this session, Pyramisa Company has attended and demanded to interfere offensively in the lawsuit and extracting the documents from the Authority. It was postponed to a session of June 16, 2014 after licensing Pyamisa to interfere offensively and extract the documents from the Authority in the session of December 16,2013. In addition to reserve of the Egyptian Company's rights concerning access to justice, the Egyptian Company has made a second appeal to The General Authority Of Touristic Development dated July 22,2013 in another trial to reverse its decision to withdraw the land. It is impossible now to predict what will be concluded by the state attorneys' authority in this dispute and also the ruling rule by the court.
- 5- There is an arbitration lawsuit from a lands' client concerning his contract concluded with The Egyptian Resorts Company concerning the client's desire not to comply with the sole purpose from purchasing the land under contract which is the establishment of an integrated housing project for labor. In the session of June 28,2012, the court has issued its ruling for recruitment of the recommended arbitrator among the arbitrators listed in the ministry of justice. According to the corrective court's ruling, the name of the recommended arbitrator has been determined on January 30,2013 in which the client has appealed over the ruling of his recruitment through the appeal court. A session of August 17,2013 has been decided for it to inspect it. Postponement has been made several times in a row to a session of January 21,2014 in which a ruling has been issued for the cancellation of the corrective ruling by naming the recommended ruling without naming another ruling. The company will appeal over this ruling. Since that the dispute from the legal aspect is considered to be in its beginning therefore it is impossible to predict what the arbitrary authority will conclude in ruling.
- 6- There is an arbitration lawsuit from one of the company's clients listed in Cairo Regional Center For International Commercial Arbitration number 863 for year 2012. It is concerned with obliging The Egyptian Resorts Company for the corporeal execution for golf courts which are overlooked by the client's land according the contract concluded with the client on December 31,2005 in which it is scheduled to be established in land piece no.25 in Sahl Hasheesh. Also, obliging it with a delay penalty valued 10 thousand US Dollars for each day of delay in contract execution. With the session of June 12,2013, the client has presented a description of his lawsuit . On August 18, 2013, a description of The Egyptian Resort Company's defense has been presented. On September 17,2013, Pyramisa Company has demanded the arbitrary authority to halt the proceeding with the lawsuit since that it has not been able to pay all the arbitrary expenses until the improvement of its financial position. On September 18, 2013, a resolution has been issued for halting arbitrary procedures until the payment of expenses. The company's management and its legal consultant see that the defense and the legal references submitted support the company's demands in this lawsuit in light of the arbitrary authority's discretion. Since that, the dispute from the legal aspect is considered to be in its beginning, so it is impossible to predict what the arbitrary authority will conclude in ruling.

**34- Contractual Obligations**

The following is the main contractual obligations concluded with the knowledge of the holding company and its subsidiary company as of December 31,2013 (After disposing the financial effect for exchangeable contracts)

**31/12/2013****EGP**

9 401 211

- The Egyptian Resorts Company has (holding company) has made an agreement with Sahl Hasheesh Resort's investors community to render services of managing the resort as shown in details in revenue services rendered note (note no.-22) for three years starting from 1/1/2012 with a total value of EGP 26 679 677 as of this period about the land pieces sold till December 31,2013 (after disposing the due from the subsidiary company from these revenues). What is specific to the year about the value of these services has been included with an amount of EGP 17 278 466 in the income statement according to the share of each financial period from these revenues.
- The company has concluded a contract with one of the lands' clients to sell land piece with an area of 48 448 meters on 1/1/2013 with a total amount of \$ 1 897 920 equivalent to an amount of EGP 13 187 697. The company has received checks in advance with the amount due starting from 15/1/2013 till 30/6/2013. They have been deposited in the company's accounts in the banks. Procedures of handing the land to the client under contracting is under current follow up and collection of due payable checks.

13 187 697

**35- Comparative Figures**

The comparative figures have been reclassified to agree with the classification of the current year without affecting the results of the comparative figures.