

PALESTINE DEVELOPMENT AND INVESTMENT
LIMITED (PADICO)

UNAUDITED INTERIM CONDENSED FINANCIAL
STATEMENTS
JUNE 30, 2007

**Report on review of interim condensed financial statements
To the Board of Directors of Palestine Development and Investment Limited (PADICO)**

Introduction

We have reviewed the accompanying interim condensed financial statements of Palestine Development and Investment Limited (PADICO) as at June 30, 2007, comprising of the interim balance sheet as at June 30, 2007 and the related interim income statement, statement of changes in equity, and cash flow statement for the six-month period then ended, and other explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting (IAS 34). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

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

Basis of qualification

Contrary to the provisions of the International Accounting Standard No. (39), PADICO recorded in 2005 a provision of U.S. \$ 20 million to cover any potential future losses due to a possible decline in the fair value of its trading investments; accordingly the profit for 2005 and investments were both understated by U.S. \$ 20 million. In 2006 and the six-month period ended June 30, 2007, an amount of U.S. \$ 17,439,000 and 2,561,000 respectively, were released from this provision; accordingly the profit for year 2006 and the six-month period ended June 30, 2007 were overstated by U.S. \$ 17,439,000 and 2,561,000 respectively, and the fair value of the trading investments as at December 31, 2006 is understated by U.S. \$ 2,561,000.

The financial statements of PADICO were not consolidated with the financial statements of its subsidiaries in accordance with the provisions of the International Financial Reporting Standards.

Conclusion

Based on our review, except for the effect of the matters described in the preceding two paragraphs, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.



August 14, 2007

Palestine Development and Investment Limited (PADICO)

BALANCE SHEET

June 30, 2007

(U.S \$ 000's)

	Notes	June 30, 2007 Unaudited U.S. \$	December 31, 2006 Audited U.S. \$ (Restated Note 7)
Assets			
Non-Current Assets			
Property, plant and equipment		253	22,343
Investment properties		-	1,745
Projects in progress		-	6,653
Investment in associates and subsidiaries		300,351	245,336
Long term loans to associates		1,272	1,272
Available-for-sale investments		68,759	74,826
		<u>370,635</u>	<u>352,175</u>
Current Assets			
Inventories		-	2,340
Accounts receivable and other current assets		7,953	8,272
Trading investments		30,973	37,330
Current portion of long term loans to associates		19,801	16,910
Cash and cash equivalents		9,307	35,500
		<u>68,034</u>	<u>100,352</u>
Total Assets		<u>438,669</u>	<u>452,527</u>
Equity and Liabilities			
Equity attributable to equity holders of PADICO			
Paid-in share capital		249,989	249,989
Share premium		16,932	16,932
Treasury shares		(2,384)	(2,384)
Statutory reserve	3	12,430	12,430
Voluntary reserve		1,594	1,594
Cumulative changes in fair value		(2,963)	(814)
Foreign currency translation		416	416
Retained earnings		40,185	19,979
Proposed dividends	4	-	25,000
		<u>316,199</u>	<u>323,142</u>
Minority interest		-	17,334
Total Equity		<u>316,199</u>	<u>340,476</u>
Non-Current Liabilities			
Interest-bearing loans and borrowings		31,502	48,689
		<u>31,502</u>	<u>48,689</u>
Current Liabilities			
Interest-bearing loans and borrowings		54,010	44,616
Accounts payable and notes payable		4,736	8,120
Accrued cash dividends	4	26,881	2,581
Other liabilities		5,341	8,045
		<u>90,968</u>	<u>63,362</u>
Total Liabilities		<u>122,470</u>	<u>112,051</u>
Total Equity and Liabilities		<u>438,669</u>	<u>452,527</u>

The attached notes 1 to 7 form part of these interim condensed financial statements.

Palestine Development and Investment Limited (PADICO)

INCOME STATEMENT

For the six-month period ended June 30, 2007
(U.S \$ 000's)

	June 30, 2007	June 30, 2006
	Unaudited	
	U.S. \$	U.S. \$
Revenues		
Income from investment portfolio	7,821	8,474
Changes in fair value of trading investments	(363)	44
Gain from sale of investments in associates and subsidiaries	7,345	25,973
Share of associates' results of operation	9,933	5,634
Interest revenues	1,037	740
Total revenues	<u>25,773</u>	<u>40,865</u>
Expenses		
General and administrative	1,910	2,241
Finance costs	3,657	1,483
Provision for decline in fair market value of trading investments	-	10,000
Total expenses	<u>5,567</u>	<u>13,724</u>
Profit for the period	<u>20,206</u>	<u>27,141</u>
Basic and diluted earnings per share for the period	<u>0.08</u>	<u>0.11</u>

The attached notes 1 to 7 form part of these interim condensed financial statements.

Palestine Development and Investment Limited (PADICO)

STATEMENT OF CHANGES IN EQUITY

For the six-month period ended June 30, 2007

(U.S. \$ 000's)

	Attributable to equity holders of PADICO											
	Paid-in share Capital	Share Premium	Treasury Shares	Statutory Reserve	Voluntary Reserve	Cumulative Changes in Fair Value	Foreign Currency Translation	Retained Earnings	Proposed Dividends	Total	Minority Interest	Total Equity
Balance at January 1, 2007 – before adjustment	249,989	16,932	(2,384)	13,357	1,594	(814)	416	37,608	25,000	341,698	17,334	359,032
Prior year adjustments	-	-	-	(927)	-	-	-	(17,629)	-	(18,556)	-	(18,556)
Balance at January 1, 2007 – after adjustments	249,989	16,932	(2,384)	12,430	1,594	(814)	416	19,979	25,000	323,142	17,334	340,476
Cumulative changes in fair value	-	-	-	-	-	(2,149)	-	-	-	(2,149)	-	(2,149)
Total income and expense for the period recognized directly in equity	-	-	-	-	-	(2,149)	-	-	-	(2,149)	-	(2,149)
Profit for the period	-	-	-	-	-	-	-	20,206	-	20,206	-	20,206
Total income and expense for the period	-	-	-	-	-	(2,149)	-	20,206	-	18,057	-	18,057
Change in minority interest	-	-	-	-	-	-	-	-	-	-	(17,334)	(17,334)
Cash dividends	-	-	-	-	-	-	-	-	(25,000)	(25,000)	-	(25,000)
Balance at June 30, 2007 (Unaudited)	<u>249,989</u>	<u>16,932</u>	<u>(2,384)</u>	<u>12,430</u>	<u>1,594</u>	<u>(2,963)</u>	<u>416</u>	<u>40,185</u>	<u>-</u>	<u>316,199</u>	<u>-</u>	<u>316,199</u>
Balance at January 1, 2006	199,438	-	(9,136)	10,748	1,594	29,143	-	57,783	40,000	329,570	41,542	371,112
Cumulative changes in fair value	-	-	-	-	-	(23,773)	-	-	-	(23,773)	-	(23,773)
Total income and expense for the period recognized directly in equity	-	-	-	-	-	(23,773)	-	-	-	(23,773)	-	(23,773)
Profit for the period	-	-	-	-	-	-	-	27,141	-	27,141	-	27,141
Total income and expense for the period	-	-	-	-	-	(23,773)	-	27,141	-	3,368	-	3,368
Paid in share capital	86	-	-	-	-	-	-	-	-	86	-	86
Change in minority interest	-	-	-	-	-	-	-	-	-	-	(41,542)	(41,542)
Cash dividends	-	-	-	-	-	-	-	-	(40,000)	(40,000)	-	(40,000)
Purchase of treasury shares	-	-	(6,713)	-	-	-	-	-	-	(6,713)	-	(6,713)
Stock dividends	39,907	-	-	-	-	-	-	(39,907)	-	-	-	-
Balance at June 30, 2006 (Unaudited)	<u>239,431</u>	<u>-</u>	<u>(15,849)</u>	<u>10,748</u>	<u>1,594</u>	<u>5,370</u>	<u>-</u>	<u>45,017</u>	<u>-</u>	<u>286,311</u>	<u>-</u>	<u>286,311</u>

The attached notes 1 to 7 form part of these interim condensed financial statements.

Palestine Development and Investment Limited (PADICO)

STATEMENT OF CASH FLOWS

For the six-month period ended June 30, 2007
(U.S. \$ 000's)

	June 30, 2007 U.S. \$	June 30, 2006 U.S. \$
	Unaudited	
Operating activities		
Profit for the period	20,206	27,141
Adjustments for:		
Depreciation	11	33
Share of associates results of operation	(9,933)	(5,634)
Income from investment portfolio	(7,821)	(8,474)
Changes in fair value of trading investments	363	(44)
Gain from sale of investments in associates and subsidiaries	(7,345)	(25,973)
Provision for decline in fair market value of trading investments	-	10,000
Finance costs	3,657	1,483
Accrued interest revenues	(635)	(740)
	<u>(1,497)</u>	<u>(2,208)</u>
Working capital adjustments:		
Accounts receivable and other current assets	(3,079)	(431)
Accounts payable and notes payable	(4,754)	6,980
Other liabilities	(733)	36,405
Net cash flows (used in) from operating activities	<u>(10,063)</u>	<u>40,746</u>
Investing Activities		
Purchase of trading investments	(20,695)	(37,827)
Sale of trading investments	29,286	39,224
Purchase of available-for-sale investments	(411)	(7,954)
Sale of available-for-sale investments	-	5,316
Sale of investments in associates and subsidiaries	9,000	54,014
Purchase of investments in associates and subsidiaries	(9,235)	(61,717)
Purchase of property, plant and equipment	(170)	(121)
(Payments) settlement of loans to associate	(811)	1,822
Dividends received	14,722	10,444
Net cash flows from investing activities	<u>21,686</u>	<u>3,201</u>
Financing Activities		
Paid in share capital	-	86
Cash dividends	-	(40,000)
Treasury shares	-	(6,713)
Long term loans	(28,828)	26,493
Net cash flows used in financing activities	<u>(28,828)</u>	<u>(20,134)</u>
Net (decrease) increase in cash and cash equivalents	<u>(17,205)</u>	<u>23,813</u>
Cash and cash equivalents, beginning of period	<u>26,512</u>	<u>14,372</u>
Cash and cash equivalents, end of period	<u><u>9,307</u></u>	<u><u>38,185</u></u>

The attached notes 1 to 7 form part of these interim condensed financial statements.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

June 30, 2007

(U.S. \$ 000's)

1. Corporate information

Palestine Development and Investment Limited (PADICO) was incorporated on October 14, 1993 under the Liberian Off Shore Business Corporation Act.

The main objectives of PADICO are to develop and encourage investment in various sectors including industrial, real estate, tourism and housing, and to provide technical and consultancy services through the establishment of companies, joint ventures and associations with other companies.

The interim condensed financial statements of PADICO for the period ended June 30, 2007 were authorized for issuance with a resolution of the Board of Directors on August 14, 2007.

2. Basis of Preparation and Accounting Policies

Basis of preparation

The interim condensed financial statements for the six-month ended June 30, 2007 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed financial statements do not include all information and disclosures required in the annual financial statements, and should be read in conjunction with PADICO's annual consolidated financial statements as at December 31, 2006. The results for the six-month period ended June 30, 2007 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2007.

Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of PADICO's annual financial statements for the year ended December 31, 2006, except for:

- The financial statements were not consolidated with the financial statement of PADICO's subsidiaries.
- The accounting policy related to PADICO investments in one of its associates have been adjusted (Note 7).

3. Statutory reserve

As these financial statements represent interim financial information, PADICO did not appropriate additional amounts to statutory reserve.

4. Proposed Dividends

In its meeting held on April 29, 2007, PADICO General Assembly approved the declaration of cash dividend distribution of U.S. \$ 0.10 per share totaling to U.S. \$ 25,000,000. Distribution of the proposed dividends started post to these financial statements date.

5. Related Party Transactions

Related parties represent associated and subsidiary companies, major shareholders directors and key management personnel of PADICO, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by PADICO Board of Directors.

Balances and transactions with related parties included in the Balance Sheet are as follows:

	U.S. \$000's	
	June 30, 2007	December 31, 2006
Current accounts and time deposits at banks	8,678	17,540
Investments portfolio	3,648	7,064
Due from associates and subsidiaries	4,697	419
Interest-bearing loans	55,963	57,723
Long term loans to associates	21,073	18,182
Due to associates	4,878	6,472
Letters of guarantees	66,530	66,530

Balance and transactions with related parties included in the income statements are as follows:

	U.S. \$000's	
	June 30, 2007	June 30, 2006
Interest income on loans to associates	674	668
Interest revenues on time deposits	68	70
Finance costs	2,410	1,403
Service costs	888	520
Key management personnel compensations		
Salaries and wages	261	263
End of service benefits	69	64

6. Commitments and Contingent Liabilities

- During July 2003, PADICO signed an agreement to purchase 350,000 shares owned by International finance Corporation (IFC) in Palestine Tourism Investment Company's (PTIC) share capital in a five-year period from the date of the agreement. The shares will be purchased at the par value of U.S. \$ 494,000.
- As at June 30, 2007, PADICO signed letters of guarantee for U.S. \$ 66,530,000 due to local banks as collaterals against certain loans granted to Palestine Telecommunication Company, Palestine Tourism Investment Company and National Beverage Company.
- The unpaid investment in associate and available-for-sales investment of PADICO amounted to U.S. \$ 91,200,000 as at June 30, 2007.

7. Comparative Amounts

During the year ended December 31, 2006 PADICO reclassified part of its investments in one of its associate companies into trading investments, accordingly the accounting policy relating to the reclassified investment was changed from the equity method to fair value method; as a result the profit for the year 2006 and the assets as at December 31, 2006 were both overstated by U.S. \$ 18,555,983. During the year 2007 PADICO adjusted the accounting treatment retrospectively in order to comply with the International Financial Reporting Standards, accordingly the Comparative figures for 2006 were adjusted to correspond to the change as follows:

	U.S. \$000's		
	2006		
	After adjustment	Before adjustment	Change
Assets	452,527	471,083	18,556
Liabilities	112,051	112,051	-
Equity	323,142	341,698	18,556
Net income	27,688	46,244	18,556