

Palestine Development And Investment Limited (Padico)

Unaudited Interim Condensed Financial Statements

March 31, 2008



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**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 of March 31, 2008 which comprise the interim balance sheet as of March 31, 2008 and the related interim income statement, statement of changes in equity, and cash flow statement for the three-month period then ended and explanatory notes.

Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Financial Reporting Standard Interim Financial Reporting 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 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. During the three-month period ended March 31, 2007, U.S. \$ 568,485 was released from this provision; accordingly the profit of the three-month period ended March 31, 2007 was overstated by U.S. \$ 568,485.

The financial statements of PADICO were not consolidated with the financial statements of its subsidiaries as of March 31, 2008 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.

Ernst + Young

April 30, 2008

Palestine Development and Investment Limited (PADICO)

INTERIM BALANCE SHEET

March 31, 2008

(U.S \$ 000's)

	Notes	Not Consolidated March 31, 2008 Unaudited U.S. \$	Consolidated December 31, 2007 Audited U.S. \$
Assets			
Non-Current Assets			
Property, plant and equipment		221	24,548
Goodwill		1,445	1,445
Investment properties		-	3,481
Projects in progress		-	3,149
Investment in associates and subsidiaries		314,981	256,877
Available-for-sale financial assets		64,333	68,065
		<u>380,980</u>	<u>357,565</u>
Current Assets			
Inventories		-	3,636
Accounts receivable and other current assets		3,486	8,242
Financial assets held for trading		46,024	44,593
Loans to subsidiaries, associates and sister companies		22,547	20,140
Cash and cash equivalents		9,274	21,523
		<u>81,331</u>	<u>98,134</u>
Total Assets		<u><u>462,311</u></u>	<u><u>455,699</u></u>
Equity and Liabilities			
Equity attributable to equity holders of the parent			
Paid-in share capital		249,989	249,989
Share premium		16,932	16,932
Treasury shares		(994)	(994)
Statutory reserve	3	14,486	14,486
Voluntary reserve		1,594	1,594
Cumulative changes in fair value		(3,186)	(2,111)
Foreign currency translation		1,119	1,119
Retained earnings		58,629	50,305
		<u>338,569</u>	<u>331,320</u>
Minority interest		-	19,247
Total Equity		<u>338,569</u>	<u>350,567</u>
Non-Current Liabilities			
Interest-bearing loans and borrowings		69,768	59,733
Provision for employees' indemnity		375	1,150
		<u>70,143</u>	<u>60,883</u>
Current Liabilities			
Short-term loans		39,152	24,323
Accounts and notes payable		3,438	3,139
Other liabilities		11,009	16,787
		<u>53,599</u>	<u>44,249</u>
Total Liabilities		<u>123,742</u>	<u>105,132</u>
Total Equity and Liabilities		<u><u>462,311</u></u>	<u><u>455,699</u></u>

The attached notes 1 to 5 form part of these interim condensed financial statements.

Palestine Development and Investment Limited (PADICO)

INTERIM INCOME STATEMENT

For the three-month period ended March 31, 2008
(U.S \$ 000's)

	<u>Not Consolidated</u> March 31, 2008 <u>Unaudited</u> U.S. \$	<u>Not Consolidated</u> March 31, 2007 <u>Unaudited</u> U.S. \$
Revenues		
Income from financial assets portfolio	2,337	6,728
Changes in fair value of financial assets held for trading	(1,767)	2,940
Gain from sale of investments in associates and subsidiaries	364	4,898
Share of associates' results of operation	9,544	3,522
Interest revenues	423	575
Other	401	86
Total revenues	<u>11,302</u>	<u>18,749</u>
Expenses		
General and administrative	929	865
Finance costs	1,739	1,645
Other provisions and expenses	310	-
Total expenses	<u>2,978</u>	<u>2,510</u>
Profit for the period	<u>8,324</u>	<u>16,239</u>
Basic and diluted earnings per share	<u>0.033</u>	<u>0.065</u>

The attached notes 1 to 5 form part of these interim condensed financial statements.

Palestine Development and Investment Limited (PADICO)

INTERIM STATEMENT OF CHANGES IN EQUITY

For the three-month period ended March 31, 2008

(U.S. \$ 000's)

	Attributable to equity holders of the parent											
	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, 2008	249,989	16,932	(994)	14,486	1,594	(2,111)	1,119	50,305	-	331,320	19,247	350,567
Cumulative changes in fair value	-	-	-	-	-	(1,075)	-	-	-	(1,075)	-	(1,075)
Total expense for the period recognized directly in equity	-	-	-	-	-	(1,075)	-	-	-	(1,075)	-	(1,075)
Profit for the period	-	-	-	-	-	-	-	8,324	-	8,324	-	8,324
Total income and expense for the period	-	-	-	-	-	(1,075)	-	8,324	-	7,249	-	7,249
Change in minority interest	-	-	-	-	-	-	-	-	-	-	(19,247)	(19,247)
Balance at March 31, 2008 (Unaudited)	<u>249,989</u>	<u>16,932</u>	<u>(994)</u>	<u>14,486</u>	<u>1,594</u>	<u>(3,186)</u>	<u>1,119</u>	<u>58,629</u>	<u>-</u>	<u>338,569</u>	<u>-</u>	<u>338,569</u>
Balance at January 1, 2007	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	-	-	-	-	-	2,964	-	-	-	2,964	-	2,964
Total income for the period recognized directly in equity	-	-	-	-	-	2,964	-	-	-	2,964	-	2,964
Profit for the period	-	-	-	-	-	-	-	16,239	-	16,239	-	16,239
Total income and expense for the period	-	-	-	-	-	2,964	-	16,239	-	19,203	-	19,203
Change in minority interest	-	-	-	-	-	-	-	-	-	-	(17,334)	(17,334)
Balance at March 31, 2007 (Unaudited)	<u>249,989</u>	<u>16,932</u>	<u>(2,384)</u>	<u>12,430</u>	<u>1,594</u>	<u>2,150</u>	<u>416</u>	<u>36,218</u>	<u>25,000</u>	<u>342,345</u>	<u>-</u>	<u>342,345</u>

The attached notes 1 to 5 form part of these interim condensed financial statements.

Palestine Development and Investment Limited (PADICO)

INTRIM CASH FLOW STATEMENT

For the three-month period ended March 31, 2008
(U.S. \$ 000's)

	Not Consolidated March 31, 2008 Unaudited U.S. \$	Not Consolidated March 31, 2007 Unaudited U.S. \$
Operating activities		
Profit for the period	8,324	16,239
Adjustments for:		
Depreciation	10	22
Share of associates' results of operation	(9,544)	(3,522)
Income from financial assets portfolio	(2,337)	(6,728)
Changes in fair value of financial assets held for trading	1,767	(2,940)
Gain from sale of investments in associates and subsidiaries	(364)	(4,898)
Provision for decline in fair market value of financial assets held for trading	222	-
Interest revenues	(310)	(487)
	<u>(2,232)</u>	<u>(2,314)</u>
Working capital adjustments:		
Accounts receivable and other current assets	406	(226)
Accounts payable and notes payable	(1,109)	(2,180)
Other liabilities	476	(46)
Finance costs	1,739	1,645
Net cash used in operating activities	<u>(720)</u>	<u>(3,121)</u>
Investing Activities		
Purchase of financial assets held for trading	(20,336)	(37,261)
Sale of financial assets held for trading	5,833	36,766
Purchase of available-for-sale financial assets	-	(215)
Sale of investments in associates and subsidiaries	762	6,000
Purchase of investments in associates and subsidiaries	-	(6,933)
Purchase of property, plant and equipment	-	(69)
Payment of loans to associate	(500)	(500)
Dividends received	488	495
Net cash used in investing activities	<u>(13,753)</u>	<u>(1,717)</u>
Financing Activities		
Cash dividends	(707)	-
Long term loans	10,627	(3,582)
Interest paid	(1,739)	(1,645)
Net cash flows from (used in) financing activities	<u>8,181</u>	<u>(5,227)</u>
Net decrease in cash and cash equivalents	<u>(6,292)</u>	<u>(10,065)</u>
Cash and cash equivalents, beginning of period	15,566	26,642
Cash and cash equivalents, end of period	<u>9,274</u>	<u>16,577</u>

The attached notes 1 to 5 form part of these interim condensed financial statements.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

As of March 31, 2008

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 March 31, 2008 were authorized for issuance by the Board of Directors on April 30, 2008.

2. Basis of Preparation and Accounting Policies

The interim condensed financial statements for the three-month period ended March 31, 2008 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 financial statements as at December 31, 2007. The results for the three-month period ended March 31, 2008 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2008.

Significant 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, 2007, except for that the financial statements were not consolidated with the financial statements of PADICO's subsidiaries.

3. Statutory reserve

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

4. Related Party Transactions

Related parties represent associates and subsidiaries 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's Board of Directors.

Balances and transactions with related parties included in the balance sheet as of March 31, 2008 and December 31, 2007 are as follows:

	U.S. \$000's	
	March 31, 2008	December 31, 2007
Balance sheet items:		
Current accounts and term deposits at banks (Board of directors members)	4,907	9,102
Due from associates and subsidiaries	3,347	2,898
Loans to subsidiaries, associates and sister companies	22,547	20,140
Loans from banks (Board of directors members)	32,241	29,590
Loan from an associate	5,000	5,000
Due to associates	3,462	-
Customers' investment contracts	-	3,639
Off balance sheet items:		
Letters of guarantee to associates	16,845	16,845
Investment managed on behalf of a sister company	-	15,000

Balance and transactions with related parties included in the income statement for the three-month period ending in March 31, 2008 and 2007 are as follows:

	U.S. \$000's	
	March 31, 2008	March 31, 2007
Revenues		
Interest income on loans to associates and subsidiaries	395	347
Interest revenues on time deposits	18	62
Expenses		
Finance costs	795	524
Key management personnel compensations		
Salaries and wages	168	154
End of service benefits	72	66

5. 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 of March 31, 2008, PADICO signed letters of guarantee for U.S. \$ 16,845,000 due to local banks as collaterals against certain loans granted to subsidiaries and associate companies.
- The unpaid balance of PADICO's investment in associates and available-for-sale financial assets amounted to U.S. \$ 91,754,000 as of March 31, 2008.