

Palestine Development and Investment Limited (PADICO)

Unaudited Interim Condensed Consolidated Financial Statements

June 30, 2009

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

## Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Palestine Development and Investment Limited (PADICO) as at June 30, 2009, which comprise of the interim consolidated statement of financial position as at June 30, 2009 and the related interim consolidated income statement, the interim consolidated statement of comprehensive income, the interim consolidated statement of changes in equity and the interim consolidated cash flow statement for the six-month period then ended and explanatory notes.

The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated 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 consolidated 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. Consequently, it 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.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

## Emphasis of matter

As mentioned in note (11), comparative figures were not presented in the interim consolidated income statement and interim consolidated comprehensive income for the three-month period ended June 30, 2008.



August 13, 2009

**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

June 30, 2009

(U.S \$ 000's)

	Notes	June 30, 2009 Unaudited U.S. \$	December 31, 2008 Audited U.S. \$
<b>Assets</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment		39,178	33,430
Intangible assets		15,596	3,980
Investment properties		48,774	15,889
Projects in progress		54,157	5,726
Investment in associates	4	290,328	330,857
Available-for-sale financial assets		68,797	66,341
		<u>516,830</u>	<u>456,223</u>
<b>Current Assets</b>			
Inventories		4,177	3,937
Accounts receivable and other current assets		17,465	9,087
Financial assets held for trading		20,032	25,486
Loans to associates and sister companies		20,978	20,657
Cash and cash equivalents		19,719	20,720
		<u>82,371</u>	<u>79,887</u>
<b>Total Assets</b>		<u><u>599,201</u></u>	<u><u>536,110</u></u>
<b>Equity and Liabilities</b>			
<b>Equity attributable to equity holders of the parent</b>			
Paid-in share capital		250,000	250,000
Share premium		16,932	16,932
Treasury shares		(2,292)	(1,974)
Statutory reserve	5	15,795	15,795
Voluntary reserve		1,594	1,594
Cumulative changes in fair value		(9,522)	(7,895)
Foreign currency translation		810	1,047
Retained earnings		76,998	71,522
		<u>350,315</u>	<u>347,021</u>
Minority interest		66,062	38,124
<b>Total Equity</b>		<u>416,377</u>	<u>385,145</u>
<b>Non-current Liabilities</b>			
Long-term loans		92,038	83,372
Deferred revenues		1,961	-
Provision for employees' indemnity		2,302	1,313
Deferred tax liability		846	-
		<u>97,147</u>	<u>84,685</u>
<b>Current Liabilities</b>			
Short-term loans and borrowings		46,012	46,519
Accounts and notes payable		8,257	3,846
Dividends payable		17,878	3,184
Other liabilities		13,530	12,731
		<u>85,677</u>	<u>66,280</u>
<b>Total Liabilities</b>		<u>182,824</u>	<u>150,965</u>
<b>Total Equity and Liabilities</b>		<u><u>599,201</u></u>	<u><u>536,110</u></u>

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements.

Palestine Development and Investment Limited (PADICO)

**INTERIM CONSOLIDATED INCOME STATEMENT**

For the six-month period ended June 30, 2009  
(U.S \$ 000's)

	Notes	Three months	Six months	
		ended June 30	ended June 30	
		2009	2009	2008
		(Unaudited)		
		U.S. \$	U.S. \$	U.S. \$
<b>Revenues</b>				
Operating income		7,208	13,293	14,387
Gain from financial assets portfolios		975	636	5,677
Gain from sale of investments in an associate		-	371	364
Share of associates' results of operations		9,961	18,266	18,864
Interest revenues		145	371	753
Gain from business combination of a subsidiary	3	-	6,145	-
Others		208	1,182	1,096
		<u>18,497</u>	<u>40,264</u>	<u>41,141</u>
<b>Expenses</b>				
Operating expenses		4,894	8,573	7,910
General and administrative expenses		3,071	5,954	4,044
Finance costs		1,691	3,292	3,608
Depreciation and amortization		1,175	1,693	935
Other provisions and expenses		543	745	643
		<u>11,374</u>	<u>20,257</u>	<u>17,140</u>
<b>Profit before income tax</b>		<u>7,123</u>	<u>20,007</u>	<u>24,001</u>
Income tax expense		<u>(177)</u>	<u>(210)</u>	<u>(491)</u>
<b>Profit for the period</b>		<u>6,946</u>	<u>19,797</u>	<u>23,510</u>
Attributable to:				
Shareholders of PADICO		7,635	20,388	22,385
Minority interest		<u>(689)</u>	<u>(591)</u>	<u>1,125</u>
		<u>6,946</u>	<u>19,797</u>	<u>23,510</u>
<b>Basic and diluted earnings per share</b>				
<b>attributable to shareholders of the parent</b>		<u>0.030</u>	<u>0.082</u>	<u>0.090</u>

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements.

Palestine Development and Investment Limited (PADICO)

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the six-month period ended June 30, 2009  
(U.S \$ 000's)

	Three months ended June 30	Six months ended June 30	
	2009	2009	2008
	(Unaudited)	(Unaudited)	
	U.S. \$	U.S. \$	U.S. \$
<b>Profit for the period</b>	6,946	19,797	23,510
<b>Other comprehensive income</b>			
Net gains (losses) on available-for-sale investments	2,616	(1,596)	1,968
Foreign currency translation	521	(454)	1,758
<b>Other comprehensive income for the period</b>	3,137	(2,050)	3,726
<b>Total comprehensive income for the period</b>	<u>10,083</u>	<u>17,747</u>	<u>27,236</u>
Attributable to:			
Shareholders of PADICO	9,446	18,524	25,488
Minority interest	637	(777)	1,748
	<u>10,083</u>	<u>17,747</u>	<u>27,236</u>
<b>Basic and diluted earnings per share attributable to shareholders of the parent</b>	<u>0.037</u>	<u>0.075</u>	<u>0.102</u>

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements.

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six-month period ended June 30, 2009

(U.S. \$ 000's)

	Equity 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	Total	Minority interest	Total equity
<b>June 30, 2009</b>	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance at January 1, 2009	250,000	16,932	(1,974)	15,795	1,594	(7,895)	1,047	71,522	347,021	38,124	385,145
Total comprehensive income for the period	-	-	-	-	-	(1,627)	(237)	20,388	18,524	(777)	17,747
Cash dividends (note 6)	-	-	-	-	-	-	-	(14,912)	(14,912)	-	(14,912)
Treasury shares	-	-	(318)	-	-	-	-	-	(318)	-	(318)
Change in minority interest	-	-	-	-	-	-	-	-	-	28,715	28,715
Balance at June 30, 2009 (unaudited)	<u>250,000</u>	<u>16,932</u>	<u>(2,292)</u>	<u>15,795</u>	<u>1,594</u>	<u>(9,522)</u>	<u>810</u>	<u>76,998</u>	<u>350,315</u>	<u>66,062</u>	<u>416,377</u>
	Paid-in share capital	Share premium	Treasury shares	Statutory reserve	Voluntary reserve	Cumulative changes in fair value	Foreign currency translation	Retained earnings	Total	Minority interest	Total equity
<b>June 30, 2008</b>	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
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
Total comprehensive income for the period	-	-	-	-	-	1,846	1,257	22,385	25,488	1,748	27,236
Treasury shares	-	-	(365)	-	-	-	-	-	(365)	-	(365)
Balance at June 30, 2008 (unaudited)	<u>249,989</u>	<u>16,932</u>	<u>(1,359)</u>	<u>14,486</u>	<u>1,594</u>	<u>(265)</u>	<u>2,376</u>	<u>72,690</u>	<u>356,443</u>	<u>20,995</u>	<u>377,438</u>

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements.

**INTRIM CONSOLIDATED CASH FLOW STATEMENT**

For the six-month period ended June 30, 2009

(U.S. \$ 000's)

	Six months ended June 30	
	2009	2008
	Unaudited U.S. \$	Unaudited U.S. \$
<b>Operating Activities</b>		
Profit before income tax	20,007	24,001
Adjustments for:		
Depreciation and amortization	1,693	935
Share of associates' results of operations	(18,266)	(18,864)
(Gain) loss from financial assets portfolios	(636)	(5,677)
Accrued interest income	(347)	(550)
Loss on impairment of investment properties	400	-
Gain from sale of investments in an associate	(371)	(364)
Gain from business combination of a subsidiary	(6,145)	-
Provisions and other non cash items	482	820
	<u>(3,183)</u>	<u>301</u>
Working capital adjustments:		
Accounts receivable and other current assets	1,872	(1,721)
Inventories	920	(523)
Change in trading investment portfolio	10,410	(18,888)
Accounts and notes payable	90	1,728
Other liabilities	(7,593)	(23)
Finance costs	3,292	3,608
Paid income tax	(209)	(108)
<b>Net cash flows from (used in) operating activities</b>	<u>5,599</u>	<u>(15,626)</u>
<b>Investing Activities</b>		
Change in available-for-sale investment portfolio	3,365	-
Purchase of investments in associates	(2,446)	(21,637)
Sale of investments in associates	1,169	1,126
Paid off associates loans	-	(500)
Dividends received	23,087	14,480
Purchase of property, plant and equipment	(1,119)	(350)
Sale of property plant and equipment	-	64
Projects in progress	(6,101)	(455)
Joint venture	-	(250)
Cash flow from business combination of a subsidiary	2,041	-
Purchase of investments in subsidiaries	(23,231)	-
<b>Net cash flows used in investing activities</b>	<u>(3,235)</u>	<u>(7,522)</u>
<b>Financing activities</b>		
Dividends Paid to equity holders of the parent	(306)	(836)
Treasury shares	(318)	(365)
Repayment of long term loans and borrowings	(9,744)	(11,135)
Proceeds from long term loans	9,525	27,692
Finance costs paid	(2,624)	(2,806)
<b>Net cash flows (used in) from financing activities</b>	<u>(3,467)</u>	<u>12,550</u>
<b>Decrease in cash and cash equivalents</b>	<u>(1,103)</u>	<u>(10,598)</u>
Foreign Currency translation	102	(644)
Cash and cash equivalents, beginning of period	20,720	21,523
<b>Cash and cash equivalents, end of period</b>	<u>19,719</u>	<u>10,281</u>

The attached notes 1 to 11 form part of these interim condensed consolidated financial statements.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2009

**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 investments 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 consolidated financial statements of PADICO for the period ended June 30, 2009 were authorized for issuance by the Board of Directors on August 13, 2009

**2. Accounting Policies**

The interim condensed consolidated financial statements for the six-month period ended June 30, 2009 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements comprise of the financial statements of PADICO and its subsidiaries as at June 30, 2009.

The interim condensed consolidated 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, 2008. The results for the six-month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2009.

**Changes in significant accounting policies**

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2008, except for the adoption of the following standards and interpretations effective for the annual periods beginning on or after January 1, 2009.

IAS 1 'Presentation of Financial Statements' (Revised):

The revised standard requires changes in equity arising from transactions with owners in their capacity as owners (ie. owner changes in income) to be presented in the statement of changes in equity. All other changes in equity (i.e. non-owner changes in equity) are required to be presented separately in a performance statement (consolidated statement of comprehensive income).

IFRS 8 'Operating segments':

The new standard which replaced IAS 14 'Segment reporting' requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

PADICO has early adopted IFRS 3 (R) 'Business combination' (Revised).

The revised standard was issued in January 2008 and becomes effective for financial years beginning on or after July 1, 2009. The standard introduces a number of changes in the accounting for business combinations that impact the amount of goodwill recognized and reported results in the period in which an acquisition occurs, and future reported results.

### **3. Business Combination**

On February 12, 2009, PADICO purchased 16 million shares of Palestine Real-Estate Company (PRICO), therefore; PADICO's percentage of ownership in PRICO increased from %37.75 to %70.87. PADICO gained control over PRICO's financial and operating policies, and accordingly PRICO's financial statements were consolidated with PADICO. PRICO contributed a loss of U.S.\$ 945,296 to PADICO's net income for the period from February 12, 2009 to June 30, 2009.

As a result of the increase in PADICO's ownership in PRICO, PADICO's direct and indirect ownership in Al-Mashtal Tourism Investments Company (Al-Mashtal) increased from %32.59 to %60.65, therefore; PADICO gained control over Al-Mashtal's financial and operating policies, and accordingly Al-Mashtal's financial statements were consolidated with PADICO.

PADICO accounted for the business combinations of PRICO and Al-Mashtal provisionally, as the fair value to be assigned to PADICO's identifiable assets, liabilities or contingent liabilities can be determined only provisionally. As a result of the business combinations, an amount of U.S. \$ 6,145,000 was initially recorded as gain in the consolidated income statement in accordance with IFRS 3 (R). PADICO shall adjust the preliminary values that were determined retroactivity from the acquisition date during 12 months period from the acquisition date.

### **4. Investment in Associates**

On May 18, 2009, PALTEL entered into a Sale and Purchase Agreement (the Agreement) with Mobile Telecommunications Company K.S.C. (Zain). Under the Agreement, Zain and the other third party, who collectively own 100% of the capital of Pella Investment L.L.C. (Pella), sold their shares in Pella to PALTEL, In consideration, PALTEL issues Zain and the other third party a total number of 186,081,081 ordinary shares, therefore, PADICO's share in PALTEL decreased from 31.37% to 13%.

Although PADICO's ownership in PALTEL decreased, PADICO still has influence on PALTEL's operating and financing policies. Hence, PADICO maintained the classification of its investment in PALTEL as investment in an associate.

### **5. Statutory Reserve**

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

### **6. Proposed Dividends**

PADICO's General Assembly decided in its meeting that was held on May 13, 2009, to distribute cash dividends of U.S \$ 0.06 per share for the year 2008 totaling U.S. \$ 15,000,000. For the purpose of preparing the consolidated financial statements, an amount of U.S.\$ 88,000 was decreased from cash dividends which belongs to PADICO 's subsidiaries that owns shares in PADICO's capital.

## 7. Related Party Transactions

Related parties represent associated 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 with related parties included in the interim consolidated statement of financial position as at June 30, 2009 and December 31, 2008 are as follows:

	U.S. \$000's	
	June 30, 2009	December 31, 2008
<b>Balance sheet items:</b>		
Due from associates and sister companies	<u>1,750</u>	<u>2,546</u>
Loans to an associate	<u>20,978</u>	<u>20,657</u>
Loans from banks members in PADICO's Board of Directors	<u>83,452</u>	<u>83,476</u>
Customers' investment contracts (associates)	<u>870</u>	<u>2,562</u>
<b>Off balance sheet items:</b>		
Letters of guarantee to associates	<u>13,845</u>	<u>13,845</u>
Funds managed on behalf of an associate company	<u>6,086</u>	<u>8,696</u>

Transactions with related parties included in the interim consolidated income statement for the six-month period ended June 30, 2009 are as follows:

	U.S. \$000's June 30, 2009	U.S. \$000's June 30, 2008
<b>Revenues</b>		
Interest income on loans to an associates	<u>347</u>	<u>483</u>
Management fees	<u>115</u>	<u>168</u>
<b>Expenses</b>		
Finance costs	<u>1,615</u>	<u>990</u>
Key management personnel compensations		
Salaries and related benefits	<u>556</u>	<u>466</u>

## 8. Commitments and Contingent Liabilities

- PADICO signed letters of guarantee for U.S. \$ 13,845,000 due to local banks as collaterals against certain loans granted to sister and associate companies.
- The unpaid balance of PADICO's investment in associates as at June 30, 2009 amounted to U.S. \$ 91,200,000.
- Palestine Real-Estate Investment Company (PRICO) commits to pay U.S. \$ 60,224 for the rental of the shore chalets land for a period of 49 years started on January 1, 1998 and subject to automatic renewal for another same period.

## 9. Segment Reporting

PADICO's operating business are organized and managed separately according to the nature of PADICO's and its subsidiaries operations, risks and rates of return are affected predominantly by the different in the products and services provided. PADICO's business segments are real estate, manufacturing, tourism, securities market, in addition to the investment segment.

The following table depicts PADICO's business segment, revenues and profits as well as certain assets and liabilities for the six-month period ended June 30, 2009.

	<u>Investment sector</u>	<u>Real Estate sector</u>	<u>Manufacturing sector</u>	<u>Securities market sector</u>	<u>Consolidated</u>
<b><u>Revenues</u></b>					
Segments' revenues	22,063	2,726	8,864	1,674	35,327
Inter-segment revenues (eliminated)	<u>(562)</u>	<u>6,145</u>	<u>(646)</u>	<u>-</u>	<u>4,937</u>
External revenues	<u>21,501</u>	<u>8,871</u>	<u>8,218</u>	<u>1,674</u>	<u>40,264</u>
<b><u>Expenses</u></b>					
Other expenses					<u>16,965</u>
Profit before interest and income tax					23,299
Finance cost					<u>(3,292)</u>
Profit before income tax					20,007
Income tax expense					<u>(210)</u>
Profit for the period					<u>19,797</u>
<b><u>Assets and liabilities</u></b>					
Segments assets	556,321	183,333	41,501	12,380	793,535
Inter-segment assets (eliminated)	<u>(148,335)</u>	<u>(33,477)</u>	<u>(6,394)</u>	<u>(6,128)</u>	<u>(194,334)</u>
<b>Total assets</b>	<u>407,986</u>	<u>149,856</u>	<u>35,107</u>	<u>6,252</u>	<u>599,201</u>
Segments liabilities	185,268	31,207	4,671	1,279	222,425
Inter-segment liabilities (eliminated)	<u>(34,629)</u>	<u>(3,772)</u>	<u>(1,200)</u>	<u>-</u>	<u>(39,601)</u>
<b>Total liabilities</b>	<u>150,639</u>	<u>27,435</u>	<u>3,471</u>	<u>1,279</u>	<u>182,824</u>
<b><u>Other information</u></b>					
Depreciation	<u>82</u>	<u>846</u>	<u>644</u>	<u>121</u>	<u>1,693</u>
Provision for doubtful accounts	<u>347</u>	<u>193</u>	<u>205</u>	<u>-</u>	<u>745</u>

**10. Clients' Funds Under Management**

Rawan International Investment Company manages funds on behalf of its clients in the amount of U.S. \$ 6,086,000. The clients' funds are managed in a fiduciary capacity, without risk or recourse on Rawan International Investment Company. These funds are considered off-balance sheet items and do not constitute part of PADICO's assets.

**11. Comparative Figures**

Comparative figures were not presented in the interim condensed consolidated income statement and interim condensed consolidated comprehensive income for the three-month period ended June 30, 2008 as financial statements of PADICO were not prepared as of March 31, 2008.