

Palestine Development and Investment Limited (PADICO)

Unaudited Interim Condensed Consolidated Financial Statements

September 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 September 30, 2009, which comprise of the interim consolidated statement of financial position as at September 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 nine-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.

Basis of qualification

PADICO's subsidiaries; Palestine Real Estate Investment Company and Al-Mashtal for Tourism Investment, did not prepare financial statements reviewed by the independent auditors for the nine-months period ended September 30, 2009. Therefore, PADICO consolidated the financial statements of those subsidiaries based on financial statements that are not reviewed. Total assets and revenues of those subsidiaries; represent 18% and 7% of the total assets and revenues of PADICO's assets and revenues respectively.

Conclusion

Based on our review, except for the effect of the matter discussed in the basis of qualification paragraph, 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

Without qualifying our opinion, as depicted in note (4) to the accompanying financial statements, PADICO recorded its share from Palestine Telecommunications Company P.L.C. (PALTEL) results of operation for the nine-months period ended September 30, 2009 based on PALTEL financial statements that are not consolidated with Pella Investment L.L.C. PADICO's management believes that it is too early to rely on consolidated financial statement as some of the agreement terms between PALTEL and Mobile Telecommunications Company K.S.C. (ZAIN) are still not complete.

A handwritten signature in blue ink that reads 'Ernst + Young'. The signature is written in a cursive, flowing style.

October 31, 2009.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2009

(U.S \$ 000's)

		September 30, 2009	December 31, 2008
		Unaudited	Audited
	Notes	U.S. \$	U.S. \$
Assets			
Non-current assets			
Property, plant and equipment		43,682	33,430
Intangible assets		15,338	3,980
Investment properties		48,762	15,889
Projects in progress		57,362	5,726
Investment in associates	4	303,414	330,857
Available-for-sale financial assets		71,165	66,341
		<u>539,723</u>	<u>456,223</u>
Current assets			
Inventories		4,387	3,937
Accounts receivable and other current assets		18,115	9,087
Financial assets held for trading		20,217	25,486
Loans to associates and sister companies		21,308	20,657
Cash and cash equivalents		22,622	20,720
		<u>86,649</u>	<u>79,887</u>
Total assets		<u>626,372</u>	<u>536,110</u>
Equity and liabilities			
Equity attributable to equity holders of the parent			
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		(6,704)	(7,895)
Foreign currency translation		1,648	1,047
Retained earnings		88,451	71,522
		<u>365,424</u>	<u>347,021</u>
Minority interest		67,227	38,124
Total Equity		<u>432,651</u>	<u>385,145</u>
Non-current liabilities			
Long-term loans		107,041	83,372
Deferred revenues		1,962	-
Provision for employees' indemnity		2,408	1,313
Deferred tax liability		846	-
		<u>112,257</u>	<u>84,685</u>
Current liabilities			
Short-term loans and borrowings		51,568	46,519
Accounts and notes payable		5,702	3,846
Dividends payable		6,726	3,184
Other liabilities		17,468	12,731
		<u>81,464</u>	<u>66,280</u>
Total liabilities		<u>193,721</u>	<u>150,965</u>
Total equity and liabilities		<u>626,372</u>	<u>536,110</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 nine-month period ended September 30, 2009

(U.S \$ 000's)

	Notes	Three months ended September 30		Nine-months ended September 30	
		2009	2008	2009	2008
		(Unaudited)		(Unaudited)	
		U.S. \$	U.S. \$	U.S. \$	U.S. \$
			(Restated note 11)		(Restated note 11)
Revenues					
Operating income		8,508	6,415	21,801	20,802
Gain (loss) from financial assets portfolios		283	(6,643)	919	(966)
Gain from sale of investments in an associate		-	-	371	364
Share of associates' results of operations		13,536	11,907	31,802	30,771
Interest revenues		513	291	884	1,044
Gain from business combination of a subsidiary	3	-	-	6,145	-
Others		(159)	(229)	1,023	867
		<u>22,681</u>	<u>11,741</u>	<u>62,945</u>	<u>52,882</u>
Expenses					
Operating expenses		5,858	5,100	14,431	13,845
General and administrative expenses		3,199	3,136	10,846	7,280
Finance costs		1,439	1,059	4,731	4,667
Other provisions and expenses		202	111	947	754
		<u>10,698</u>	<u>9,406</u>	<u>30,955</u>	<u>26,546</u>
Profit before income tax		<u>11,983</u>	<u>2,335</u>	<u>31,990</u>	<u>26,336</u>
Income tax expense		(92)	(71)	(302)	(562)
Profit for the period		<u>11,891</u>	<u>2,264</u>	<u>31,688</u>	<u>25,774</u>
Attributable to:					
Equity holders of the parent		11,453	2,422	31,841	24,807
Minority interest		438	(158)	(153)	967
		<u>11,891</u>	<u>2,264</u>	<u>31,688</u>	<u>25,774</u>
Basic and diluted earnings per share attributable to equity holders of the parent					
		<u>0.05</u>	<u>0.01</u>	<u>0.13</u>	<u>0.10</u>

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

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine-month period ended September 30, 2009

(U.S \$ 000's)

	Three months ended September 30		Nine-months ended September 30	
	2009	2008	2009	2008
	(Unaudited)		(Unaudited)	
	U.S. \$	U.S. \$ (Restated note 11)	U.S. \$	U.S. \$ (Restated note 11)
Profit for the period	11,891	2,264	31,688	25,774
Other comprehensive income				
Net gains (losses) on available-for-sale investments	2,826	(1,217)	1,230	751
Foreign currency translation	1,557	(639)	1,103	1,119
Other comprehensive income for the period	4,383	(1,856)	2,333	1,870
Total comprehensive income for the period	16,274	408	34,021	27,644
Attributable to:				
Equity holders of the parent	15,109	1,189	33,633	26,677
Minority interest	1,165	(781)	388	967
	16,274	408	34,021	27,644

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine-month period ended September 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
September 30, 2009	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	-	-	-	-	-	1,191	601	31,841	33,633	388	34,021
Cash dividends (note 6)	-	-	-	-	-	-	-	(14,912)	(14,912)	-	(14,912)
Treasury shares	-	-	(318)	-	-	-	-	-	(318)	-	(318)
Change in minority interest	-	-	-	-	-	-	-	-	-	28,715	28,715
At September 30, 2009 (unaudited)	<u>250,000</u>	<u>16,932</u>	<u>(2,292)</u>	<u>15,795</u>	<u>1,594</u>	<u>(6,704)</u>	<u>1,648</u>	<u>88,451</u>	<u>365,424</u>	<u>67,227</u>	<u>432,651</u>
September 30, 2008 (Restated)											
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	-	-	-	-	-	751	1,119	24,807	26,677	967	27,644
Treasury shares	-	-	(1,125)	-	-	-	-	-	(1,125)	-	(1,125)
Change in minority interest	-	-	-	-	-	-	-	-	-	18,624	18,624
At September 30, 2008 (unaudited)	<u>249,989</u>	<u>16,932</u>	<u>(2,119)</u>	<u>14,486</u>	<u>1,594</u>	<u>(1,360)</u>	<u>2,378</u>	<u>72,112</u>	<u>356,872</u>	<u>38,838</u>	<u>395,710</u>

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

Palestine Development and Investment Limited (PADICO)

INTRIM CONSOLIDATED CASH FLOW STATEMENT

For the nine-month period ended September 30, 2009

(U.S. \$ 000's)

	Nine-months ended September 30	
	2009 Unaudited	2008 Unaudited
	U.S. \$	U.S. \$ (Restated Note 11)
Operating Activities		
Profit before income tax	31,990	26,336
Adjustments for:		
Depreciation and amortization	2,485	1,418
Share of associates' results of operations	(31,802)	(30,771)
(Gain) loss from financial assets portfolios	(919)	966
Interest revenues	(884)	(1,044)
Loss on impairment of investment properties	412	-
Gain from sale of investments in an associate	(371)	(364)
Finance cost	4,731	4,667
Gain from business combination of a subsidiary	(6,145)	-
Employees indemnity provision	426	293
Provisions and other non cash items	1,058	-
	981	1,501
Working capital adjustments:		
Accounts receivable and other current assets	1,193	(236)
Inventories	710	(308)
Change in trading investment portfolio	10,508	(17,365)
Accounts and notes payable	2,423	(696)
Other liabilities	(10,905)	(958)
Paid income tax	(209)	(108)
Indemnity provision paid	(684)	(455)
Net cash flows from (used in) operating activities	4,017	(18,625)
Investing Activities		
Change in available-for-sale financial assets	3,815	(345)
Purchase of investments in associates	(2,446)	(51,642)
Sale of investments in associates	1,169	1,126
Dividends received	23,087	16,046
Purchase of property, plant and equipment	(5,765)	(484)
Sale of property plant and equipment	-	64
Investment properties	-	(2,395)
Projects in progress	(7,035)	(320)
Cash flow from business combination of a subsidiary	2,041	9,165
Purchase of investments in subsidiaries	(23,231)	-
Net cash used in investing activities	(8,365)	(28,785)
Financing activities		
Dividend Paid to equity holders of the parent	(11,458)	(983)
Treasury shares	(318)	(1,125)
Repayment of long term loans and borrowings	(6,692)	(11,008)
Proceeds from long term loans	27,470	63,056
Interest received	364	290
Finance costs paid	(4,127)	(3,917)
Net cash flows from financing activities	5,239	46,313
Increase (Decrease) in cash and cash equivalents	891	(1,067)
Foreign currency translation	1,011	(1,386)
Cash and cash equivalents, beginning of period	20,720	21,523
Cash and cash equivalents, end of period	22,622	19,040

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 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 nine-months period ended September 30, 2009 were authorized for issuance by the Board of Directors on October 31, 2009

2. Accounting Policies

The interim condensed consolidated financial statements for the nine-month period ended September 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 September 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 nine-month period ended September 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 the beginning of 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. \$ 1,249,000 to PADICO's net income during the period from acquisition date to September 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. Al-Mashtal contributed a loss of U.S.\$ 342,000 to PADICO's net income during the period from acquisition date to September 30, 2009.

PADICO accounted for the business combinations of PRICO and Al-Mashtal provisionally, as the fair value to be assigned to PRICO and Al-Mashtal 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 retroactively 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 Company 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.

PADICO recorded its share in PALTEL's result of operation depending on unconsolidated financial statements for PALTEL with Pella investment using PADICO's percentage of ownership in PALTEL before the signing date of the agreement between PALTEL and ZAIN. PADICO's management believes that it is too early to rely on consolidated financial statement as some of the agreement terms between PALTEL and ZAIN are still not fulfilled. If PADICO recorded its share of PALTEL's operations based on consolidated financial statements, PADICO's assets as of September 30, 2009 and profit for the nine-months ended September 30, 2009 would decrease by of U.S.\$ 3,930,000.

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 the 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 September 30, 2009 and December 31, 2008 are as follows:

	U.S. \$000's	
	September 30, 2009	December 31, 2008
Balance sheet items:		
Due from associates and sister companies	1,612	2,546
Loans to an associate	21,308	20,657
Loans from banks members in PADICO's Board of Directors	105,000	83,476
Customers' investment contracts (associates)	904	2,562
Off balance sheet items:		
Letters of guarantee to associates	13,845	13,845
Funds managed on behalf of a sister company	6,086	8,696

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

	<u>U.S. \$000's</u>	<u>U.S. \$000's</u>
	<u>September</u>	<u>September</u>
	<u>30, 2009</u>	<u>30, 2008</u>
Revenues		
Interest income on loans to an associates	520	754
Management fees	<u>161</u>	<u>455</u>
Expenses		
Finance costs	<u>2,473</u>	<u>1,786</u>
Key management personnel compensations		
Salaries and related benefits	<u>1,053</u>	<u>702</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 September 30, 2009 amounted to U.S. \$ 19,800,000.
- 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, as risks and rates of return are affected by the products and services provided by each segment. 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 nine-month period ended September 30, 2009.

	Investment sector <u>U.S. \$</u>	Real estate sector <u>U.S. \$</u>	Manufacturing sector <u>U.S. \$</u>	Securities market sector <u>U.S. \$</u>	<u>Consolidated U.S. \$</u>
Revenues					
Segments' revenues	42,587	5,678	15,025	2,463	65,753
Inter-segment revenues (eliminated)	<u>(1,743)</u>	<u>(419)</u>	<u>(646)</u>	<u>-</u>	<u>(2,808)</u>
External revenues	<u>40,844</u>	<u>5,259</u>	<u>14,379</u>	<u>2,463</u>	<u>62,945</u>
Expenses					
Other expenses					26,224
Profit before interest and income tax					36,721
Finance cost					<u>(4,731)</u>
Profit before income tax					31,990
Income tax expense					<u>(302)</u>
Profit for the period					<u>31,688</u>
Assets and liabilities					
Segments assets	579,368	178,064	49,497	12,183	819,112
Inter-segment assets (eliminated)	<u>(127,671)</u>	<u>(52,587)</u>	<u>(4,748)</u>	<u>(7,734)</u>	<u>(192,740)</u>
Total assets	<u>451,697</u>	<u>125,477</u>	<u>44,749</u>	<u>4,449</u>	<u>626,372</u>
Segments liabilities	189,261	30,308	12,650	931	233,150
Inter-segment liabilities (eliminated)	<u>(33,511)</u>	<u>(5,438)</u>	<u>(480)</u>	<u>-</u>	<u>(39,429)</u>
Total liabilities	<u>155,750</u>	<u>24,870</u>	<u>12,170</u>	<u>931</u>	<u>193,721</u>
Other information					
Depreciation and amortization	<u>109</u>	<u>1,233</u>	<u>971</u>	<u>172</u>	<u>2,485</u>
Provision for doubtful accounts	<u>520</u>	<u>215</u>	<u>212</u>	<u>-</u>	<u>947</u>
Capital expenditure	<u>1,029</u>	<u>4,975</u>	<u>6,758</u>	<u>38</u>	<u>12,800</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

During the nine-months period ended September 30, 2008, PADICO reclassified one of its investment retroactively from available-for-sale investment to investment in associate. Accordingly, the accounting policy relating to that investment was changed from fair value method to equity method. As a result, profit for the nine-months period ended September 30, 2008 was overstated in the amount of U.S. \$ 5,760,000.

During the period, the company adjusted this accounting treatment retroactively to conform to the international financial reporting standard.

Following is a summary of the adjustment effect on the period profit and equity statement as of September 30, 2008:

	2008		
	Before adjustment	Adjustment	After adjustment
	U.S. \$	U.S. \$	U.S. \$
Profit for the period	31,534	(5,760)	25,774
Equity	397,003	(1,293)	395,710

The effect of change on basic and diluted earnings per share for the period ended September 30, 2008:

	2008		
	Before adjustment	Adjustment	After adjustment
	U.S. \$	U.S. \$	U.S. \$
Basic and diluted earnings per share for the period	0.12	(0.02)	0.10