

Palestine Development and Investment (PADICO)

Limited Liability Holding Company

Unaudited Interim Condensed Consolidated Financial
Statements

30 September, 2019



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**Report on review of interim condensed consolidated financial statements
To the chairman and board of directors of Palestine Development and Investment limited
(PADICO)**

We have reviewed the accompanying interim condensed consolidated statement of financial position of Palestine Development and Investment Limited and its subsidiaries (PADICO) as of September 30, 2019 and the related interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the nine-month period then ended and explanatory notes.

The Company's Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS (34) "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

Except for the illustration in the next paragraph, 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 for qualified conclusion

Some of PADICO's subsidiaries have not issued interim financial statements reviewed by independent auditors as at September 30, 2019 and 2018. Therefore, PADICO prepared its interim condensed consolidated financial statements based on interim financial statements that are not reviewed. Total assets of those subsidiaries, whose financial statements were not reviewed, as at September 30, 2019 and 2018 represent 36% and 39% of PADICO's total assets, and their revenues for the nine-month period ended September 30, 2019 and September 30, 2018 represent 52% and 68% of PADICO's revenues, respectively. If we were able to obtain interim financial information reviewed by the external auditor of those subsidiaries, matters might have come to our attention indicating that adjustments might be necessary to the interim condensed consolidated financial statements.

Qualified Conclusion

Based on our review, except for the effect of the matter described in the basis for qualified conclusion, if any, 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).

October 31, 2019
Amman - Jordan

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at September 30, 2019

		September 30, 2019	December 31, 2018
		(Unaudited)	(Audited)
	Notes	U.S. \$ (000)	U.S. \$ (000)
Assets			
Non-current assets			
Property, plant and equipment		136,431	148,261
Intangible assets		33,226	34,287
Investment properties		43,509	94,715
Projects in progress		14,130	12,007
Right-of-use assets	3	6,957	-
Investments in associates	5	380,079	367,850
Financial assets at fair value through other comprehensive income		84,576	82,085
Long-term accounts receivable		7,803	8,939
		<u>706,711</u>	<u>748,144</u>
Current assets			
Inventories and ready for sale properties		28,259	32,192
Accounts receivable and other assets		43,726	38,840
Financial assets at fair value through profit or loss		11,677	11,678
Cash and short-term deposits	6	18,444	7,167
		<u>102,106</u>	<u>89,877</u>
Total assets		<u><u>808,817</u></u>	<u><u>838,021</u></u>
Equity and liabilities			
Equity			
Paid-in share capital		250,000	250,000
Share premium		16,932	16,932
Treasury shares		(361)	(361)
Statutory reserve	7	28,158	28,158
Voluntary reserve		1,594	1,594
Fair value reserve		(55,711)	(45,084)
Foreign currency translation reserve		4,412	1,674
Retained earnings		151,135	129,905
Equity attributable to equity holders of the parent		<u>396,159</u>	<u>382,818</u>
Non-controlling interests	4	73,831	93,696
Total equity		<u><u>469,990</u></u>	<u><u>476,514</u></u>
Non-current liabilities			
Long-term loans		107,656	116,060
Debt bonds		120,000	120,000
Provision for employees' indemnity		6,402	6,201
Long-term lease liabilities	3	6,167	-
Other non-current liabilities		6,213	10,877
		<u>246,438</u>	<u>253,138</u>
Current liabilities			
Credit facilities and short-term loans		32,052	55,864
Accounts payable and other liabilities		56,344	51,527
Short-term lease liabilities	3	758	-
Income tax Provision	9	3,235	978
		<u>92,389</u>	<u>108,369</u>
Total liabilities		<u><u>338,827</u></u>	<u><u>361,507</u></u>
Total equity and liabilities		<u><u>808,817</u></u>	<u><u>838,021</u></u>

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the three month and nine-month period ended September 30, 2019

	Notes	For the three months ended September 30		For the Nine months ended September 30	
		2019	2018	2019	2018
		(Unaudited)		(Unaudited)	
		U.S. \$ (000)		U.S. \$ (000)	
Revenues					
Revenues from contracts with customers		22,057	19,642	67,021	60,301
Realized and unrealized gains arising from sale of shares in a subsidiary	4	-	-	30,640	-
Share of associates' results of operations	5	6,002	8,042	24,121	26,089
(Losses) gains from financial assets portfolio		(315)	(603)	6,180	2,277
Rent revenue		1,266	1,266	3,835	4,035
		<u>29,010</u>	<u>28,347</u>	<u>131,797</u>	<u>92,702</u>
Expenses					
Operating costs and expenses		(16,213)	(17,042)	(50,493)	(47,241)
General and administrative expenses		(2,895)	(3,094)	(9,330)	(10,705)
Finance costs		(3,752)	(3,619)	(11,602)	(10,178)
Depreciation and amortization		(2,825)	(2,424)	(7,820)	(7,123)
		<u>(25,685)</u>	<u>(26,179)</u>	<u>(79,245)</u>	<u>(75,247)</u>
Other provisions and expenses, net	8	421	815	(25,989)	(691)
Profit for the period before income tax		3,746	2,983	26,563	16,764
Income tax expense	9	(408)	(137)	(2,807)	(710)
Profit for the period		<u>3,338</u>	<u>2,846</u>	<u>23,756</u>	<u>16,054</u>
Attributable to:					
Equity holders of the parent		2,374	2,937	21,159	14,324
Non-controlling interests		964	(91)	2,597	1,730
		<u>3,338</u>	<u>2,846</u>	<u>23,756</u>	<u>16,054</u>
Basic and diluted earnings per share attributable to shareholders of the parent (U.S. \$)		<u>0.009</u>	<u>0.012</u>	<u>0.085</u>	<u>0.057</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three month and nine-month period ended September 30, 2019

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
	U.S. \$ (000)		U.S. \$ (000)	
Profit for the period	<u>3,338</u>	<u>2,846</u>	<u>23,756</u>	<u>16,054</u>
Other comprehensive income items				
<i>Items that will not be reclassified to consolidated income statement in subsequent periods:</i>				
Change in fair value of financial assets at fair value through other comprehensive income	(2,996)	(3,322)	(5,494)	(1,853)
Share of associates' other comprehensive income items	<u>(2,936)</u>	<u>(4,591)</u>	<u>(5,662)</u>	<u>3,965</u>
	(5,932)	(7,913)	(11,156)	2,112
<i>Items that may be reclassified to consolidated income statement in subsequent periods:</i>				
Foreign currency translation differences	1,265	929	3,852	(1,686)
Share of associates' other comprehensive income items	<u>(5)</u>	<u>(10)</u>	<u>502</u>	<u>(524)</u>
Total other comprehensive income items for the period	<u>(4,672)</u>	<u>(6,994)</u>	<u>(6,802)</u>	<u>(98)</u>
Net comprehensive income for the period	<u><u>(1,334)</u></u>	<u><u>(4,148)</u></u>	<u><u>16,954</u></u>	<u><u>15,956</u></u>
Attributable to:				
Equity holders of the parent	(2,381)	(3,619)	13,270	14,371
Non-controlling interests	<u>1,047</u>	<u>(529)</u>	<u>3,684</u>	<u>1,585</u>
	<u><u>(1,334)</u></u>	<u><u>(4,148)</u></u>	<u><u>16,954</u></u>	<u><u>15,956</u></u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine-month period ended September 30, 2019

U.S. \$ (000)

Attributed to equity holders of the parent

	Paid-in share capital	Share premium	Treasury shares	Statutory reserve	Voluntary reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Total	Non- controlling interests	Total equity
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
September 30, 2019											
Balance as at January 1, 2019	250,000	16,932	(361)	28,158	1,594	(45,084)	1,674	129,905	382,818	93,696	476,514
Profit for the period	-	-	-	-	-	-	-	21,159	21,159	2,597	23,756
Other comprehensive income items	-	-	-	-	-	(10,627)	2,738	-	(7,889)	1,087	(6,802)
Total comprehensive income for the period	-	-	-	-	-	(10,627)	2,738	21,159	13,270	3,684	16,954
Distributed cash dividends from subsidiaries (note 10)	-	-	-	-	-	-	-	-	-	(1,005)	(1,005)
Purchase of shares in a subsidiary (note 2)	-	-	-	-	-	-	-	71	71	(438)	(367)
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	(22,106)	(22,106)
Balance as at September 30, 2019 (Unaudited)	250,000	16,932	(361)	28,158	1,594	(55,711)	4,412	151,135	396,159	73,831	469,990
September 30, 2018											
Balance as at January 1, 2018- Before Adjustment	250,000	16,932	(361)	31,934	1,594	(46,443)	4,470	162,829	420,955	99,057	520,012
Effect of adopting IFRS (9)	-	-	-	(5,012)	-	1,594	-	(46,701)	(50,119)	(3,560)	(53,679)
Balance as at January 1, 2018- After adjustment	250,000	16,932	(361)	26,922	1,594	(44,849)	4,470	116,128	370,836	95,497	466,333
Profit for the period	-	-	-	-	-	-	-	14,324	14,324	1,730	16,054
Other comprehensive income items	-	-	-	-	-	1,251	(1,204)	-	47	(145)	(98)
Total comprehensive income for the period	-	-	-	-	-	1,251	(1,204)	14,324	14,371	1,585	15,956
Distributed cash dividends from subsidiaries (note 10)	-	-	-	-	-	-	-	-	-	(1,622)	(1,622)
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	(2)	(2)
Balance as at September 30, 2018 (Unaudited)	250,000	16,932	(361)	26,922	1,594	(43,598)	3,266	130,452	385,207	95,458	480,665

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine-month period ended September 30, 2019

	Notes	For the nine months ended September 30	
		2019	2018
		(Unaudited) U.S. \$ (000)	(Unaudited) U.S. \$ (000)
Operating activities			
Profit for the period before income tax		26,563	16,764
Adjustments for:			
Depreciation and amortization		7,820	7,123
Share of associates' results of operations		(24,121)	(26,089)
Gains from financial assets portfolio		(6,180)	(2,277)
Finance costs		11,602	10,178
Other non-cash items		(11,809)	802
		<u>3,875</u>	<u>6,501</u>
Working capital adjustments:			
Accounts receivable and other assets		2,927	2,784
Inventories and ready for sale properties		4,059	1,191
Financial assets at fair value through profit or loss		(25)	(1,113)
Accounts payable and other liabilities		(5,807)	(4,949)
Provision for employees' indemnity and income tax payments		(921)	(1,494)
Net cash from operating activities		<u>4,108</u>	<u>2,920</u>
Investing activities			
Financial assets at fair value through other comprehensive income		(7,914)	(59,099)
Investments in associates		(30)	-
Dividends received		30,831	26,021
Property, plant and equipment		(3,929)	(3,636)
Projects in progress		(6,917)	(3,976)
Investment properties		-	(1,164)
Change in cash from the disposal of a subsidiary's shares	4	(202)	-
Cash inflow from sale of a subsidiary	4	<u>36,670</u>	<u>-</u>
Net cash from (used in) investing activities		<u>48,509</u>	<u>(41,854)</u>
Financing activities			
Distributed cash dividends		(2,024)	(4,055)
Long - term loans and credit facilities		(31,196)	39,017
Finance costs paid		(11,023)	(9,855)
Change in non-controlling interests		1,264	(2)
Payments of long-term lease liabilities		(828)	-
Change in restricted cash		(192)	(129)
Net cash (used in) from financing activities		<u>(43,999)</u>	<u>24,976</u>
Increase (decrease) in cash and cash equivalents		<u>8,618</u>	<u>(13,958)</u>
Foreign currency translation differences		2,467	1,649
Cash and cash equivalents, beginning of the period		<u>6,785</u>	<u>19,190</u>
Cash and cash equivalents, end of period	6	<u><u>17,870</u></u>	<u><u>6,881</u></u>

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2019

1. Corporate Information

Palestine Development and Investment Limited (PADICO) was incorporated on October 14, 1993 under the Liberian Off Shore Business Corporation Act in Monrovia, Liberia. PADICO shares are publicly traded in Palestine Securities Exchange. On December 3, 2009, PADICO was registered in Palestine as a foreign company under registration No. (562801332).

The main objectives of PADICO are to develop and encourage investment in various sectors including industrial, agriculture, real estate, tourism, housing and services, and to provide technical and consultancy services through the establishment of companies and independent projects through joint cooperation.

The interim condensed consolidated financial statements of PADICO as at September 30, 2019 were authorized for issuance in accordance with a resolution of the Board of Directors on October 31, 2019.

2. Consolidated Financial Statements

The interim condensed consolidated financial statements comprise Palestine Development and Investment Limited and its subsidiaries (PADICO) as at September 30, 2019. PADICO's ownership in its subsidiaries' subscribed capital was as follows:

	Activity type	Country of origin	Ownership	
			September 30, 2019	December 31, 2018
Palestine Real Estate Investment Company (PRICO) *	Real estate	Palestine	76.75	75.71
Jericho Gate for Real Estate Investment (JG)- (Note 4)	Real estate	Palestine	25	50
TAICO for trade and investment Company	Real estate	Jordan	100	100
Palestine Industrial Investment Company (PIIC)	Industrial	Palestine	56.72	56.72
The Palestinian Waste Recycling Company (Tadweer) **	Industrial	Palestine	100	100
Palestine Securities Exchange Company (PEX)	Financial market	Palestine	74.72	74.72
Jerusalem Development and Investment Company Ltd. (JEDICO)	Tourism	Britain	100	100
Palestine Development and Investment Company Private Shareholding	Investment	Palestine	100	100
Rawan International Investment Company	Investment	Jordan	100	100
Palestine General Trading Company Ltd.	Investment	Palestine	100	100
Palestine Company for the Transfer of Technology Ltd.	Investment	Palestine	100	100
Palestine Company for Canning and Packaging Ltd.	Investment	Palestine	100	100
Palestine Company for Basic Chemical Products Ltd.	Investment	Palestine	100	100
PADICO Services Company	Investment	Palestine	100	100
Nakheel Palestine for Agricultural investments (Nakheel Palestine) **	Agricultural	Palestine	50	-

* During the period, PADICO purchased additional shares in PRICO. Therefore, PADICO's ownership percentage increased to 76.75%.

** During August 2019, Tadweer (a subsidiary) transferred all its shares in Nakheel Palestine for Agricultural investments in a total of 9,500,000 shares to PADICO.

The financial period of the subsidiaries is the same as the financial period of PADICO and, where necessary, PADICO makes adjustments to align the policies of the subsidiaries with the accounting policies of PADICO.

3. Basis of preparation and changes in accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the nine months ended September 30, 2019 have been prepared in accordance with International Accounting Standard IAS 34 (Interim financial reporting).

The interim condensed consolidated financial statements have been presented in U.S Dollars, and all values except when otherwise indicated, are rounded to the nearest thousand (U.S. \$ 000's).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with PADICO`s consolidated annual financial statements as at December 31, 2018. The results for the nine-month period ended September 30, 2019 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2019.

Changes in accounting policies

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the condensed consolidated financial statements for the year ended December 31, 2018. Following are the policies and amendments effective as of January 1, 2019. PADICO did not apply early adoption to any standards issued but not yet effective.

IFRS (16) "Leases"

IFRS 16 supersedes IAS 17 "Leases", IFRIC 4" Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases-Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-consolidated balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where PADICO is the lessor.

PADICO adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Accordingly, no adjustments were made to prior year financial statements. PADICO elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

Following is the effect of the increase on the consolidated statement of financial position as at January 1, 2019:

<u>Assets</u>	<u>U.S. \$ (000)</u>
Right-of-use assets	6,977
Prepayments	512
Net effect on assets	7,489
<u>Liabilities</u>	
Lease Liabilities	7,489

a) Nature of the effect of adoption of IFRS (16)

PADICO has lease contracts for various items of property and equipment before the adoption of IFRS 16, PADICO used to classify each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transfers substantially all of the risks and rewards associated with ownership of the leased asset to PADICO; otherwise, it was classified as an operating lease. Finance leases used to be capitalized at the commencement of the lease contract at fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liabilities. In an operating lease, the leased property was not capitalized, and the lease payments were recognized as rent expense in the statement of profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under other receivables and other payables, respectively.

After the adoption of the new standard, PADICO applied a single recognition approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The standard provides specific application requirements and practical solutions, which PADICO has used when applying the standard.

Leases previously accounted for as operating leases

PADICO recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

PADICO also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application.

b) *Amounts recognised in the consolidated statement of financial position and consolidated income statement.*

Set out below, are the carrying amounts of PADICO's right-of-use assets and lease liabilities and the movements for the period ended September 30, 2019:

	Buildings	Cars	Total	Liabilities
	U.S. \$ (000)	U.S. \$ (000)	U.S. \$ (000)	U.S. \$ (000)
As of January 1, 2019	7,422	67	7,489	7,489
Amortization	(515)	(17)	(532)	-
Finance costs	-	-	-	264
Payments	-	-	-	(828)
Total	6,907	50	6,957	6,925

c) *Set out below are the new accounting policies of PADICO upon adoption of IFRS16:*

Right-of-Use assets

PADICO recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated amortization and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless PADICO is not reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are amortized on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment testing.

Lease Liabilities

At the commencement date of the lease, PADICO recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by PADICO and payments of penalties for terminating a lease, if the lease terms reflect PADICO's intentions to exercise the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, PADICO uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

PADICO applies the short-term lease recognition exemption to its short-term leases (those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

PADICO determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. PADICO has the option, under some of its leases to lease the assets for additional terms. PADICO applies judgement in evaluating whether it is reasonably certain to exercise the option to renew.

That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, PADICO reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

PADICO included the renewal period as part of the lease term due to the significance of these assets to its operations. These leases are considered to have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This amendments is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

4. Disposal of a subsidiary during the period

In January 2019, PADICO sold 50% of its investment in Jericho Gate for Real Estate Investment (a subsidiary) to Palestine Telecommunication Company (associate company). Consequently, PADICO's investment in Jericho Gate decreased to 25% and it lost its control of the subsidiary. Accordingly, Jericho Gate's financial statements were not consolidated with PADICO's consolidated financial statements for the period ended 30 September 2019. The deal amount was JOD 26 million (U.S. \$ 37 million). This resulted in a gain of U.S. \$ 17,069,000 recorded in the interim condensed consolidated income statement.

PADICO's management believes that it still has representation in Jericho Gate's Board of Directors and the ability to influence the company's financial and operating policies. Therefore, the remaining investment in Jericho Gate has been classified as investment in associate. PADICO's remaining investment in Jericho Gate has been revalued, and unrealized gains in an amount of U.S. \$ 13,571,000 have been recorded in the interim condensed consolidated income statement for the period.

Following is the fair value of assets and liabilities of Jericho Gate at the date of disposal:

	<u>U.S. \$ (000)</u> <u>Fair value at disposal date</u>
<u>Assets</u>	
Property, plant and equipment	315
Properties under development	116,216
Accounts receivable	3,553
Other current assets	1,031
Cash and cash equivalent	<u>202</u>
	<u>121,317</u>
<u>Liabilities</u>	
Loans and credit facilities	1,020
Deferred tax liabilities	9,864
Provision for employees' indemnity	54
Accounts payable	750
Deferred revenues	1,615
Income tax provision	<u>193</u>
	<u>13,496</u>
Fair value of net assets	<u>107,821</u>
PADICO's share of the fair value of net assets (25%)	<u>26,955</u>
Carrying value of PADICO's remaining investment in Jericho Gate (25%)	<u>(13,384)</u>
Change in fair value of PADICO's remaining investment recognized in the interim condensed consolidated income statement	<u><u>13,571</u></u>

Following is the movement on the non-controlling interest account for the period:

	<u>September 30 2019</u> <u>U.S. \$ (000)</u>
Beginning balance for the period	93,696
Non-controlling interest share of results of operations for the period	2,597
Non-controlling interest share of other comprehensive income items	1,087
Non-controlling interest share of distributed cash dividends	(1,005)
Change in non-controlling interest	1,264
Disposal of non-controlling interest - Jericho Gate	<u>(23,808)</u>
Ending balance for the period	<u><u>73,831</u></u>

5. Investment in Associates

Set out below, are the carrying amounts of PADICO's investments in associates for the nine-month period ended September 30, 2019 and the year ended December 31, 2018:

	September 30, 2019	December 31, 2018
	<u>U.S. \$ (000)</u>	<u>U.S. \$ (000)</u>
Beginning balance for the period/year- before adjustment	367,850	400,187
Effect of adopting IFRS (9)	-	(42,179)
Beginning balance for the period/year- after adjustment	367,850	358,008
Share of associates' results of operations	24,121	32,913
Cash dividends from associates	(24,625)	(24,582)
Share of the change in fair value of associates' financial assets	(5,662)	2,401
Share of associates' foreign currency translation differences	502	(945)
Transferred from investments in subsidiaries (Note 4)	13,384	-
Unrealized gains arising from the revaluation (Note 4)	13,571	-
Elimination of gains from sale in an associate	(9,092)	-
Purchase of shares in associates	30	55
Ending Balance for the period/year	<u>380,079</u>	<u>367,850</u>

6. Cash and short-term deposits

For the purpose of the interim condensed consolidated statement of cash flows, cash and cash equivalents comprised of the following:

	September 30, 2019	December 31, 2018
	<u>U.S. \$ (000)</u>	<u>U.S. \$ (000)</u>
Cash at hand and in banks	9,159	6,441
Short-term deposits	9,285	726
	18,444	7,167
Restricted cash	(574)	(382)
Cash and cash equivalent	<u>17,870</u>	<u>6,785</u>

7. Statutory Reserve

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

8. Other provisions and expenses, net

	September 30, 2019	September 30, 2018
	<u>U.S. \$ (000)</u>	<u>U.S. \$ (000)</u>
Impairment on tourism investments*	(15,070)	-
Provision for expected credit losses	(2,093)	(707)
Loss from impairment of property, plant and equipments	(1,060)	-
Loss (Gain) from sale of property, plant and equipments	(557)	63
Others	(7,209)	(47)
	<u>(25,989)</u>	<u>(691)</u>

* During the period, PADICO conducted an analysis of impairment on its various investments in the tourism sector. Based on the indicators of the political and economic situation and the financial performance of such investments, the Board of Directors decided to take impairment provisions against those investments.

9. Income tax provision:

	September 30, 2019	December 31, 2018
	<u>U.S. \$ (000)</u>	<u>U.S. \$ (000)</u>
Beginning balance for the period/year	978	1,031
Provision for the period/year	2,807	677
Disposal of a subsidiary (Note 4)	(193)	-
Payments during the period/year	(357)	(730)
Ending balance for the period/year	<u>3,235</u>	<u>978</u>

Provision for the period represents provisions made by PADICO and its subsidiaries on the results of operations for the nine-month period ended September 30, 2019. PADICO's subsidiaries are still attempting to reach a final settlement with the Income Tax Department over several taxable years.

10. Distributed cash dividends from subsidiaries

Distributed cash dividends from subsidiaries during the period ended September 30, 2019

PIIC's (a subsidiary) General Assembly decided in its meeting held on April 17, 2019 a cash dividend distribution of JD 0.06 per share, which amounted to U.S. \$ 1,587,000. Non-controlling interest's share of dividends was U.S. \$ 687,000.

Palestine Securities Exchange (a subsidiary) General Assembly decided in its meeting held on April 9, 2019 a cash dividend distribution of U.S. \$ 0.04 per share for, which amounted to U.S. \$ 400,000. Non-controlling interest's share of dividends was U.S. \$ 101,000.

Palestine Poultry Company (a subsidiary of PIIC) General Assembly decided in its meeting held on April 17, 2019 a cash dividend distribution of JD 0.10 per share which amounted to U.S. \$ 1,896,000. Non-controlling interest's share of dividends was U.S. \$ 217,000.

Distributed cash dividends from subsidiaries during 2018

PIIC's (a subsidiary) General Assembly decided in its meeting held on April 25, 2018 a cash dividend distribution of JD 0.10 per share, which amounted to U.S. \$ 2,644,500. Non-controlling interest's share of dividends was U.S. \$ 1,145,000.

Palestine Securities Exchange (a subsidiary) General Assembly decided in its meeting held on April 17, 2018 a cash dividend distribution of U.S. \$ 0.06 per share for the result of operations, which amounted to U.S. \$ 600,000. Non-controlling interest's share of dividends was U.S. \$ 151,000.

Palestine Poultry Company (a subsidiary of PIIC) General Assembly decided in its meeting held on April 25, 2018 a cash dividend distribution of U.S. \$ 0.18 per share, which amounted to U.S. \$ 2,843,366. Non-controlling interest's share of dividends was U.S. \$ 326,000.

11. Related Party Disclosures

Related parties represent associated companies, major shareholders, members of the Board of 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 condensed consolidated statement of financial position as at September 30, 2019 and December 31, 2018 are as follows:

<u>Statement of financial position items:</u>	<u>Nature of Relationship</u>	September 30,	December 31,
		2019	2018
		U.S. \$ (000)	U.S. \$ (000)
Accounts receivable and other assets	Associate and sister companies	2,310	1,941
Accounts payable and other liabilities	Associates and sister companies	418	2,203
Accrued dividends payable	Shareholders	5,556	6,681
Accrued expenses	Shareholders and Members of the Board of Directors	604	1,255
Loans and credit facilities	Banks - Members of the Board of Directors	57,026	84,755
Long- term loans	Major shareholders	3,681	2,197
Debt bonds	Banks - Members of the Board of Directors	43,000	43,000

Transactions with related parties included in the interim condensed consolidated income statement for the nine-month period ended September 30, 2019 and 2018 are as follows:

	<u>Nature of Relationship</u>	September 30,	September 30,
		2019	2018
		U.S. \$ (000)	U.S. \$ (000)
Realized and unrealized gains arising from sale of shares in a subsidiary (note 4)	Associate Company	30,640	-
Finance costs	Banks - Members of the Board of Directors	3,568	4,704
Key management personnel compensations:			
Salaries and related benefits		1,951	2,233

12. Contingent Liabilities

The unpaid portion of PADICO's investments in financial assets at fair value through profit or loss amounted to U.S. \$ 31,114 and U.S. \$ 90,670 as at September 30, 2019 and December 31, 2018, respectively.

Palestine Real Estate Investment Company (a subsidiary) signed partnership and investment agreements with Governmental agencies (Ramallah Municipality, Ministry of Awqaf and Religious Affairs and Ministry of Public Works and Housing) under which investment projects are developed and constructed during various investment terms. The current annual contractual commitment related to those agreements amounts to U.S. \$ 292,729. This amount is subject to change as a result of completing current investment contracts or entering into new contracts.

The contractual commitments resulting from contracts and agreements signed with suppliers in relation to PADICO and its subsidiaries' projects amounted to U.S. \$ 5,358,805 as at the date of the interim condensed consolidated financial statements. This amount represents the difference between the total contract value and the completed amount as at the date of the interim condensed consolidated financial statements.

There have been several lawsuits against PADICO's subsidiaries within the normal course of business. The management of these subsidiaries and their legal advisors believe that the provisions taken against those lawsuits are sufficient and its unlikely that additional material obligations might exist and not provided for.

13. Fair Values of Financial Instruments

The schedule below represents a comparison by class of the carrying amounts and fair values of PADICO's financial instruments carried in the financial statements as at September 30, 2019 and December 31, 2018:

	Carrying amount		Fair value	
	September 30, 2019 U.S \$ (000)	December 31, 2018 U.S \$ (000)	September 30, 2019 U.S \$(000)	December 31, 2018 U.S \$ (000)
Financial assets				
Accounts receivable and other assets	49,849	44,959	49,849	44,959
Financial assets at fair value through profit or loss	11,677	11,678	11,677	11,678
Cash and short-term deposits	18,444	7,167	18,444	7,167
Financial assets at fair value through Other comprehensive income:				
Quoted	68,101	65,840	68,101	65,840
Unquoted	16,475	16,245	16,475	16,245
	<u>164,546</u>	<u>145,889</u>	<u>164,546</u>	<u>145,889</u>
Financial liabilities				
Debt Bonds	120,000	120,000	120,000	120,000
Loans and credit facilities	139,708	171,924	139,708	171,924
Accounts payable and other liabilities	52,390	36,448	52,390	36,448
Lease liabilities	6,925	-	6,925	-
	<u>319,023</u>	<u>328,372</u>	<u>319,023</u>	<u>328,372</u>

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

- The fair values of accounts receivable and other assets (except for long-term accounts receivable), cash and short-term deposits, accounts payable and other current liabilities and credit facilities approximate to their carrying amounts largely due to the short-term maturities of these instruments.

- The fair value of long-term accounts receivable is estimated by discounting future cash flows using rates currently available for receivables and credit facilities on similar terms.
- Fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income that are actively traded in active financial markets is determined by reference to quoted prices at the date of the interim condensed consolidated financial statements.
- The fair values of unquoted financial assets at fair value through other comprehensive income were determined using appropriate valuation techniques.
- The fair value of loans, debt bond and lease liabilities are estimated by discounting future cash flows using rates currently available for debt on similar terms.

Fair value Measurement

PADICO uses the following sequence to identify and disclose fair values:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly unobservable.

There were no transfers between Level 1, Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the nine-month period ended September 30, 2019.

The following table provides the fair value measurement hierarchy of PADICO's assets and liabilities. Following are quantitative disclosures fair value measurement hierarchy for assets and liabilities as at September 30, 2019:

	Total	Fair value Measurement using		
		Quoted Prices in active markets (Level 1)	Significant observable inputs (Level2)	Significant unobservable inputs (Level3)
	U.S. \$ (000)	U.S. \$ (000)	U.S. \$ (000)	U.S. \$ (000)
<u>Financial assets measured at fair value</u>				
Financial assets at fair value through other comprehensive income:				
Quoted	68,101	68,101	-	-
Unquoted	16,475	-	4,895	11,580
Financial assets measured at fair value through profit or loss	11,677	7,978	3,699	-

Following are quantitative disclosures fair value measurement hierarchy for assets as at December 31, 2018:

	Fair value Measurement using			
	Total	Quoted Prices in active markets (Level 1)	Significant observable inputs (Level2)	Significant unobservable inputs (Level3)
	<u>U.S. \$ (000)</u>	<u>U.S. \$ (000)</u>	<u>U.S. \$ (000)</u>	<u>U.S. \$ (000)</u>
<u>Financial assets measured at fair value</u>				
Financial assets at fair value through other comprehensive income:				
Quoted	65,840	65,840	-	-
Unquoted	16,245	-	4,722	11,523
Financial assets measured at fair value through profit or loss	11,678	7,849	3,829	-

14. Segment Reporting

PADICO's reporting segments as PADICO's and its Subsidiaries risks and rates of return are affected predominantly by differences in the products and services provided. PADICO and its subsidiaries segments are real estate, industrial and agricultural, tourism, financial markets, in addition to the investment sector.

The following tables present revenue and profit information for PADICO's operating segments for the nine-month period ended September 30, 2019 and 2018, respectively:

<u>Nine-months ended September 30, 2019 (unaudited)</u>	Investment sector	Real estate sector	Industrial and agricultural sector	Financial market sector	Tourism sector	Eliminations	Consolidated
	U.S. \$ (000)	U.S. \$ (000)	U.S. \$ (000)	U.S. \$ (000)	U.S. \$ (000)	U.S. \$ (000)	U.S. \$ (000)
Revenues	56,888	8,647	55,608	1,764	9,286	(396)	131,797
Impairment provisions	-	(1,570)	(1,060)	-	(15,070)	-	(17,700)
Segment's results of operation before income tax	21,514	(112)	6,813	505	(2,136)	(21)	26,563
<u>Nine months ended September 30, 2018 (unaudited)</u>	Investment Sector	Real estate sector	Industrial and agricultural sector	Financial market sector	Tourism Sector	Eliminations	Consolidated
	U.S. \$ (000)	U.S. \$ (000)	U.S. \$ (000)	U.S. \$ (000)	U.S. \$ (000)	U.S. \$ (000)	U.S. \$ (000)
Revenues	24,020	6,077	52,823	2,215	8,039	(472)	92,702
Segment's results of operation before income tax	14,954	(2,309)	5,873	800	(2,478)	(76)	16,764

The following tables present assets and liabilities information for PADICO's operating segments as at September 30, 2019 and December 31, 2018, respectively:

	Investment sector	Real estate sector	Industrial and agricultural sector	Financial market sector	Tourism sector	Eliminations	Consolidated
	U.S. \$ (000)	U.S. \$ (000)	U.S. \$ (000)	U.S. \$ (000)	U.S. \$ (000)	U.S. \$ (000)	U.S. \$ (000)
<u>Segment assets</u>							
As at September 30, 2019	<u>592,614</u>	<u>146,815</u>	<u>155,511</u>	<u>13,630</u>	<u>72,610</u>	<u>(172,363)</u>	<u>808,817</u>
As at December 31, 2018	<u>616,757</u>	<u>196,453</u>	<u>144,585</u>	<u>13,176</u>	<u>72,800</u>	<u>(205,750)</u>	<u>838,021</u>
<u>Segment liabilities</u>							
As at September 30, 2019	<u>207,863</u>	<u>73,570</u>	<u>73,136</u>	<u>1,594</u>	<u>18,150</u>	<u>(35,486)</u>	<u>338,827</u>
As at December 31, 2018	<u>227,874</u>	<u>79,569</u>	<u>70,428</u>	<u>1,335</u>	<u>16,338</u>	<u>(34,037)</u>	<u>361,507</u>