

Palestine Development and Investment (PADICO)

Limited Liability Holding Company

Unaudited Interim Condensed Consolidated Financial
Statements

September 30, 2020



Ernst & Young Jordan
P.O. Box 1140
Amman 11118
Jordan
Tel: 00962 6580 0777 / 00962 6552 6111
Fax: 00962 6553 8300
www.ey.com/me

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, 2020 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, 2020 and 2019. 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, 2020 and 2019 represent 34% and 36% of PADICO's total assets, respectively, and their revenues for the nine-month period ended September 30, 2020 and 2019 represent 74% and 52% 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).



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Emphasis of matters

We draw attention to Note (17) to the accompanying financial statements, as PADICO's investments and the operations of its subsidiaries were affected by the global and local developments related to Coronavirus, which negatively impacted their results for the period compared to the same period of the preceding year. Noting that these developments could impact PADICO's future financial results, cash flows and financial condition. Our conclusion on these interim condensed consolidated financial statements is not modified in respect of this matter.

Ernst + Young

October 29, 2020
Amman - Jordan

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Palestine Development and Investment Limited (PADICO)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at September 30, 2020

| | | September 30, 2020 | December 31, 2019 |
|---|-------|-----------------------|----------------------|
| | | (Unaudited) | (Audited) |
| | Notes | U.S. \$ (000) | U.S. \$ (000) |
| <u>Assets</u> | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 129,347 | 133,292 |
| Intangible assets | | 27,997 | 31,044 |
| Investment properties | | 44,415 | 44,766 |
| Projects in progress | | 18,779 | 14,428 |
| Right-of-use assets | | 9,053 | 9,647 |
| Investments in associates | 5 | 367,868 | 389,557 |
| Financial assets at fair value through other comprehensive income | | 66,313 | 85,358 |
| Long term accounts receivable | | 11,353 | 8,231 |
| | | <u>675,125</u> | <u>716,323</u> |
| Current assets | | | |
| Inventories and ready for sale properties | | 25,422 | 26,947 |
| Accounts receivable and other assets | | 30,795 | 41,618 |
| Financial assets at fair value through profit or loss | | 5,655 | 7,631 |
| Cash and short-term deposits | 6 | 28,735 | 16,552 |
| | | <u>90,607</u> | <u>92,748</u> |
| Assets held for sale | 7 | 1,737 | 102 |
| Total assets | | <u>767,469</u> | <u>809,173</u> |
| <u>Equity and liabilities</u> | | | |
| Equity | | | |
| Paid-in share capital | | 250,000 | 250,000 |
| Share premium | | 16,932 | 16,932 |
| Treasury shares | | (361) | (361) |
| Statutory reserve | 8 | 30,775 | 30,775 |
| Voluntary reserve | | 1,594 | 1,594 |
| Fair value reserve | | (86,548) | (55,100) |
| Foreign currency translation reserve | | 5,388 | 4,764 |
| Retained earnings | | 148,337 | 146,059 |
| Equity attributable to equity holders of the parent | | 366,117 | 394,663 |
| Non-controlling interests | | 73,847 | 75,788 |
| Total equity | | <u>439,964</u> | <u>470,451</u> |
| Non-current liabilities | | | |
| Long-term loans | | 96,450 | 100,266 |
| Debt bonds | 9 | - | 120,000 |
| Provision for employees' indemnity | | 6,434 | 6,113 |
| Long term lease liabilities | | 8,147 | 8,356 |
| Other non-current liabilities | | 7,844 | 9,635 |
| | | <u>118,875</u> | <u>244,370</u> |
| Current liabilities | | | |
| Credit facilities, borrowings and short-term portion of long-term loans | | 37,255 | 36,872 |
| Debt bonds | 9 | 120,000 | - |
| Accounts and notes payable | | 12,963 | 13,870 |
| Short term lease liabilities | | 1,223 | 1,394 |
| Income tax provision | | 1,772 | 1,484 |
| Other current liabilities | | 35,417 | 40,732 |
| | | <u>208,630</u> | <u>94,352</u> |
| Total liabilities | | <u>327,505</u> | <u>338,722</u> |
| Total equity and liabilities | | <u>767,469</u> | <u>809,173</u> |

The attached notes from 1 to 17 form part of these interim condensed consolidated financial statements

Palestine Development and Investment Limited (PADICO)

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine-months period ended September 30, 2020

| | Notes | For the three months ended September 30 | | For the nine months ended September 30 | |
|--|-------|--|-----------------|---|-----------------|
| | | 2020 | 2019 | 2020 | 2019 |
| | | (Unaudited) | | (Unaudited) | |
| | | U.S. \$ (000) | | U.S. \$ (000) | |
| Revenues | | | | | |
| Revenues from contracts with customers | | 19,687 | 21,920 | 58,424 | 66,640 |
| PADICO's share of associates' results of operations | 5 | 9,876 | 6,002 | 17,401 | 24,121 |
| Gains (losses) from financial assets portfolio | | 1,591 | (315) | 181 | 6,180 |
| Rent revenue | | 1,426 | 1,266 | 3,931 | 3,835 |
| Realized and unrealized gains arising from sale of shares in a subsidiary | 4 | - | - | - | 30,640 |
| | | <u>32,580</u> | <u>28,873</u> | <u>79,937</u> | <u>131,416</u> |
| Expenses | | | | | |
| Operating costs and expenses | | (15,362) | (15,965) | (43,870) | (50,088) |
| General and administrative expenses | | (2,753) | (2,997) | (9,194) | (9,330) |
| Finance costs | | (3,205) | (3,735) | (10,207) | (11,553) |
| Depreciation and amortization | | (2,638) | (2,825) | (7,887) | (7,820) |
| | | <u>(23,958)</u> | <u>(25,522)</u> | <u>(71,158)</u> | <u>(78,791)</u> |
| Other expenses and provisions, net | 10 | <u>(3,531)</u> | <u>421</u> | <u>(5,459)</u> | <u>(22,430)</u> |
| Profit for the period before tax from continuing operations | | 5,091 | 3,772 | 3,320 | 30,195 |
| Income tax expense | | <u>(408)</u> | <u>(408)</u> | <u>(819)</u> | <u>(2,807)</u> |
| Profit for the period from continuing operations | | 4,683 | 3,364 | 2,501 | 27,388 |
| Loss for the period from discontinued operations | 7 | <u>(63)</u> | <u>(26)</u> | <u>(290)</u> | <u>(3,632)</u> |
| Profit for the period | | <u>4,620</u> | <u>3,338</u> | <u>2,211</u> | <u>23,756</u> |
| Attributable to: | | | | | |
| Shareholders of the parent | | 4,273 | 2,374 | 2,278 | 21,159 |
| Non-controlling interests | | <u>347</u> | <u>964</u> | <u>(67)</u> | <u>2,597</u> |
| | | <u>4,620</u> | <u>3,338</u> | <u>2,211</u> | <u>23,756</u> |
| Basic and diluted earnings per share from profit for the period attributable to shareholders of the parent (U.S. \$) | | | | | |
| | | 0.017 | 0.01 | 0.009 | 0.085 |
| Basic and diluted earnings per share from continuing operations attributable to shareholders of the parent (U.S. \$) | | | | | |
| | | <u>0.017</u> | <u>0.01</u> | <u>0.010</u> | <u>0.100</u> |

The attached notes from 1 to 17 form part of these interim condensed consolidated financial statements

Palestine Development and Investment Limited (PADICO)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the three months and nine-months period ended September 30, 2020

| | For the three months ended September 30 | | For the nine months ended September 30 | |
|--|--|---------|---|----------|
| | 2020 | 2019 | 2020 | 2019 |
| | (Unaudited) | | (Unaudited) | |
| | U.S. \$ (000) | | U.S. \$ (000) | |
| Profit for the period | 4,620 | 3,338 | 2,211 | 23,756 |
| Other comprehensive income items: | | | | |
| Items that will not be reclassified to profit or loss in subsequent periods: | | | | |
| Change in fair value of financial assets at fair value through other comprehensive income | 515 | (2,996) | (18,915) | (5,494) |
| PADICO's share of associates' other comprehensive income items | 175 | (2,936) | (14,226) | (5,662) |
| | 690 | (5,932) | (33,141) | (11,156) |
| Items that may be reclassified to profit or loss in subsequent periods: | | | | |
| Foreign currency translation differences | 1,119 | 1,265 | 1,009 | 3,852 |
| PADICO's share of associates' other comprehensive income items | (539) | (5) | (90) | 502 |
| Total other comprehensive income items for the period | 1,270 | (4,672) | (32,222) | (6,802) |
| Total comprehensive income for the period | 5,890 | (1,334) | (30,011) | 16,954 |
| Attributable to: | | | | |
| Shareholders of the parent | 5,208 | (2,381) | (28,546) | 13,270 |
| Non-controlling interests | 682 | 1,047 | (1,465) | 3,684 |
| | 5,890 | (1,334) | (30,011) | 16,954 |

The attached notes from 1 to 17 form part of these interim condensed consolidated financial statements

Palestine Development and Investment Limited (PADICO)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine-months period ended September 30, 2020

U.S. \$ (000)

| | Attributed to shareholders 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. \$ |
| <u>September 30, 2020</u> | | | | | | | | | | | |
| Balance as at January 1, 2020 | 250,000 | 16,932 | (361) | 30,775 | 1,594 | (55,100) | 4,764 | 146,059 | 394,663 | 75,788 | 470,451 |
| Profit for the period | - | - | - | - | - | - | - | 2,278 | 2,278 | (67) | 2,211 |
| Other comprehensive income items | - | - | - | - | - | (31,448) | 624 | - | (30,824) | (1,398) | (32,222) |
| Total comprehensive income for the period | - | - | - | - | - | (31,448) | 624 | 2,278 | (28,546) | (1,465) | (30,011) |
| Distributed cash dividends from subsidiaries (note 11) | - | - | - | - | - | - | - | - | - | (1,076) | (1,076) |
| Change in non-controlling interests | - | - | - | - | - | - | - | - | - | 600 | 600 |
| Balance as at September 30, 2020 (Unaudited) | <u>250,000</u> | <u>16,932</u> | <u>(361)</u> | <u>30,775</u> | <u>1,594</u> | <u>(86,548)</u> | <u>5,388</u> | <u>148,337</u> | <u>366,117</u> | <u>73,847</u> | <u>439,964</u> |
| <u>September 30, 2019</u> | | | | | | | | | | | |
| 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 11) | - | - | - | - | - | - | - | - | - | (1,005) | (1,005) |
| Purchase of shares in a subsidiary | - | - | - | - | - | - | - | 71 | 71 | (438) | (367) |
| Change in non-controlling interests | - | - | - | - | - | - | - | - | - | (22,106) | (22,106) |
| Balance as at September 30, 2019 (Unaudited) | <u>250,000</u> | <u>16,932</u> | <u>(361)</u> | <u>28,158</u> | <u>1,594</u> | <u>(55,711)</u> | <u>4,412</u> | <u>151,135</u> | <u>396,159</u> | <u>73,831</u> | <u>469,990</u> |

The attached notes from 1 to 17 form part of these interim condensed consolidated financial statements

Palestine Development and Investment Limited (PADICO)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the nine-months period ended September 30, 2020

| | Notes | For the nine months ended September 30 | |
|--|-------|---|------------------------------|
| | | 2020 | 2019 |
| | | (Unaudited) U.S. \$ (000) | (Unaudited) U.S. \$ (000) |
| <u>Operating activities</u> | | | |
| Profit for the period from continuing operations | | 3,320 | 30,195 |
| Loss for the period from discontinued operations | 7 | (290) | (3,632) |
| Profit for the period before tax | | 3,030 | 26,563 |
| Adjustments for: | | | |
| Depreciation and amortization | | 7,887 | 7,820 |
| Impairment loss resulting from revaluation of assets held for sale | | 90 | 3,559 |
| PADICO's share of associates' results of operations | | (17,401) | (24,121) |
| Gains from financial assets portfolio | | (181) | (6,180) |
| Finance costs | | 10,207 | 11,553 |
| Other non-cash items | | 6,954 | (15,319) |
| | | 10,586 | 3,875 |
| Working capital adjustments: | | | |
| Accounts receivable and other assets | | 4,122 | 2,927 |
| Inventories and ready for sale properties | | 1,338 | 4,059 |
| Financial assets at fair value through profit or loss | | - | (25) |
| Accounts payable and other liabilities | | (6,318) | (5,807) |
| Provisions for employees' indemnity and income tax payments | | (1,151) | (921) |
| Net cash from operating activities | | 8,577 | 4,108 |
| <u>Investing activities</u> | | | |
| Financial assets at fair value through other comprehensive income | | - | (7,914) |
| Investments in associates | | (132) | (30) |
| Dividends received | | 27,215 | 30,831 |
| Property, plant and equipment | | (4,354) | (3,929) |
| Projects in progress | | (4,578) | (6,917) |
| Investment properties | | 609 | - |
| Change in cash from the disposal of a subsidiary's shares | 4 | - | (202) |
| Cash inflow from sale of shares in a subsidiary | 4 | - | 36,670 |
| Net cash from investing activities | | 18,760 | 48,509 |
| <u>Financing activities</u> | | | |
| Distributed cash dividends | | (1,414) | (2,024) |
| Long-term loans and credit facilities | | (3,433) | (31,196) |
| Finance costs paid | | (11,564) | (11,023) |
| Change in non-controlling interests | | 600 | 1,264 |
| Payments of long-term lease liabilities | | (309) | (828) |
| Change in restricted cash | | (215) | (192) |
| Net cash used in financing activities | | (16,335) | (43,999) |
| Increase in cash and cash equivalents | | 11,002 | 8,618 |
| Foreign currency translation differences | | 966 | 2,467 |
| Cash and cash equivalents, beginning of the period | | 15,824 | 6,785 |
| Cash and cash equivalents, end of period | 6 | 27,792 | 17,870 |

The attached notes from 1 to 17 form part of these interim condensed consolidated financial statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2020

1. Corporate Information

Palestine Development and Investment Limited (PADICO) was incorporated as a limited liability company on October 14, 1993 under the Liberian non-resident (Offshore) Business Corporation Act in Monrovia, Liberia. PADICO's 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 in cooperation with its subsidiaries.

The interim condensed consolidated financial statements of PADICO as at September 30, 2020 were authorized for issuance in accordance with a resolution of the Board of Directors on October 29, 2020.

2. Consolidated Financial Statements

The interim condensed consolidated financial statements comprise the financial statements of Palestine Development and Investment Limited and its subsidiaries (PADICO) as at September 30, 2020. PADICO's ownership in its subsidiaries' subscribed capital was as follows:

| | Activity type | Country of origin | Ownership % | |
|---|------------------|-------------------|--------------------|-------------------|
| | | | September 30, 2020 | December 31, 2019 |
| Palestine Real Estate Investment Company (PRICO) | Real estate | Palestine | 76.75 | 76.75 |
| 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 (PSE) | 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 limited | 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 Investment (Nakheel Palestine) | Agricultural | Palestine | 50 | 50 |
| Al-Rashid Group for Real Estate Investment and Development Company | General trading | Palestine | 100 | 100 |

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 of PADICO for the nine months ended September 30, 2020 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 consolidated annual financial statements and should be read in conjunction with PADICO`s annual financial statements as at December 31, 2019. The results for the nine-month period ended September 30, 2020 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2020.

Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements for the year ended December 31, 2019, except for the adoption of the following amendments that are effective as of January 1,2020.

Amendments to IFRS 3: Definition of a Business

The IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

The amendments to IFRS 3 do not have impact on PADICO's interim condensed consolidated financial statements

Amendments to IAS 1 and IAS 8: Definition of "Material"

The IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material do not have impact on PADICO's interim condensed consolidated financial statements.

4. Disposal of a subsidiary during 2019

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 during 2019. The deal amount was JD 26 million (U.S. \$ 37 million). This resulted in a gain of U.S. \$ 17 million 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.

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 equivalents | <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%) | 26,955 |
| 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>13,571</u> |

Following is the movement on the non-controlling interests account for the period ended September 30, 2019:

| | <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 of other comprehensive income items for the period | 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>73,831</u> |

5. Investments in Associates

Set out below, are the carrying amounts of PADICO's investments in associates for the nine-months period ended September 30, 2020 and year ended December 31, 2019:

| | September 30, 2020 | December 31, 2019 |
|--|-----------------------|----------------------|
| | <u>U.S. \$ (000)</u> | <u>U.S. \$ (000)</u> |
| Beginning balance for the period/year | 389,557 | 367,850 |
| PADICO's share of associates' results of operations | 17,401 | 33,471 |
| Purchase of shares in associates | 132 | - |
| Cash dividends from associates | (24,906) | (24,625) |
| PADICO's share of the change in fair value of associates' financial assets | (14,226) | (5,786) |
| PADICO's share of associates' foreign currency translation differences | (90) | 970 |
| 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) |
| Impairment of investments in associates | - | (186) |
| Ending balance for the period/year | <u>367,868</u> | <u>389,557</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, 2020 | September 30, 2019 |
|---------------------------|-----------------------|-----------------------|
| | <u>U.S. \$ (000)</u> | <u>U.S. \$ (000)</u> |
| Cash at hand and in banks | 13,928 | 9,159 |
| Short-term deposits | 14,807 | 9,285 |
| | <u>28,735</u> | <u>18,444</u> |
| Restricted cash | (943) | (574) |
| Cash and cash equivalents | <u>27,792</u> | <u>17,870</u> |

7. Discontinued operations

On June 15, 2020, the Board of Directors of The First Entertainment Company (JEDICO's subsidiary) agreed to cease the Company's operations and its various leisure, cultural and athletics activities in light of the accumulated losses during the previous years, the effects of COVID-19 pandemic and the expected continuation of these effects for the coming period. This was accompanied by a decision to sell the Company's land, the established building and all property and equipment related to this activity. The Company's management expects that the sale will be completed within a year from the date of these interim condensed consolidated financial statements. Accordingly, the results of operations resulted from the Company's activities were classified as discontinued operations in the interim condensed consolidated income statement, and the comparative figures were reclassified in the interim condensed consolidated income statement. In addition, the Company's assets were classified as assets held for sale in the interim condensed consolidated financial statement of financial position.

Additionally, the Board of Directors of Palestine Plastic Industries Company (PIIC's subsidiary) agreed in the second half of 2015 to cease the Company's operational activities in the manufacturing and selling of plastic bottles and pipes, this was accompanied by a decision to sell all machinery, equipment and inventories of plastic bottles and pipes related to this activity. The fair value of these assets as of September 30, 2020 and December 31, 2019 amounted to U.S. \$ 77,000 and U.S. \$ 102,000, respectively.

The results of discontinued operations for the nine-month period ended September 30, 2020 and 2019 are presented below:

| | September 30, 2020 | September 30, 2019 |
|---|-----------------------|-----------------------|
| | <u>U.S. \$ (000)</u> | <u>U.S. \$ (000)</u> |
| <u>Results of discontinued operations</u> | | |
| Revenues | 58 | 381 |
| Expenses | (228) | (405) |
| | <u>(170)</u> | <u>(24)</u> |
| Finance costs | (30) | (49) |
| Impairment loss resulting from revaluation of assets held for sale | (90) | (3,559) |
| Loss for the period from discontinued operations | <u>(290)</u> | <u>(3,632)</u> |
| | September 30, 2020 | September 30, 2019 |
| | <u>U.S. \$ (000)</u> | <u>U.S. \$ (000)</u> |
| <u>Basic and diluted earnings per share</u> | | |
| Basic and diluted loss per share from discontinued operations attributable to shareholders of the parent (U.S. \$) | <u>(0.001)</u> | <u>(0.015)</u> |

Movement on assets held for sale as at September 30, 2020 and December 31, 2019 is as follows:

| | September 30, 2020 | December 31, 2019 |
|---|-----------------------|----------------------|
| | <u>U.S. \$ (000)</u> | <u>U.S. \$ (000)</u> |
| Beginning balance for the period/year | 102 | 116 |
| Transferred from property, plant and equipment | 1,725 | - |
| Impairment loss resulting from revaluation of assets held for sale | (90) | (14) |
| Ending balance for the period/year | <u>1,737</u> | <u>102</u> |

8. Statutory Reserve

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

9. Debt bonds

During August 2016, PADICO issued 240 debt bonds with a nominal amount of U.S. \$ 500,000. The bonds were underwritten in full with a fixed annual interest rate of 5% for the first 36 months, and an annual interest rate of 3% plus six months LIBOR for the remaining 24 months with a minimum of 5%. The interest is to be paid at the end of each six months starting February 15, 2017 and the bonds principle is to be paid in one installment after five years from the date of issuance in August 2021. These debt bonds were issued to repay the amount of the previous debt bonds of U.S. \$ 85 million that matured on September 15, 2016 as well as to finance PADICO's future projects and activities. During this period, PADICO classified these debt bonds as part of the current liabilities items as the remaining period to repay these bonds is less than one year from the date of these interim condensed consolidated financial statements.

10. Other expenses and provisions, net

| | September 30, 2020 | September 30, 2019 |
|--|-----------------------|-----------------------|
| | <u>U.S. \$ (000)</u> | <u>U.S. \$ (000)</u> |
| Provision for expected credit losses | (3,741) | (2,093) |
| Impairment loss on tourism investments* | (650) | (15,070) |
| Impairment loss on intangible assets | (2,000) | - |
| Impairment loss on property, plant and equipment | - | (1,060) |
| Loss from sale of property, plant and equipment | - | (557) |
| Other income (expenses), net | 932 | (7,209) |
| | <u>(5,459)</u> | <u>(25,989)</u> |

* During 2018 and 2019, 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 these investments, the Board of Directors decided to recognize impairment losses and reduce the value of assets related to these investments.

11. Distributed cash dividends from subsidiaries

Distributed cash dividends during the period ended September 30, 2020

PIIC's (a subsidiary) General Assembly decided in its meeting held on April 27, 2020 a cash dividend distribution of JD 0.075 per share, which amounted to U.S. \$ 1,983,000. Non-controlling interest's share of dividends was U.S. \$ 859,000.

Palestine Poultry Company (a subsidiary of PIIC) General Assembly decided in its meeting held on April 27, 2020 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 during 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.

12. Related Party Disclosures

This item represents the balances and transactions with related parties, which represent associated companies, major shareholders, Board of Directors members 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, 2020 and December 31, 2019 are as follows:

| <u>Statement of financial position items:</u> | | September 30, 2020 | December 31, 2019 |
|---|--|-----------------------|----------------------|
| | Nature of Relationship | U.S. \$ (000) | U.S. \$ (000) |
| Accounts receivable and other assets | Associates and sister companies | 1,395 | 3,768 |
| Accounts payable and other liabilities | Associates and sister companies | 556 | 588 |
| Accrued Dividends Payable | Major shareholders | 5,420 | 6,413 |
| Accrued Expenses | Shareholders and Members of the Board of Directors | 604 | 1,257 |
| Loans, borrowings and credit facilities | Banks - Members of the Board of Directors and major Shareholders | 47,996 | 55,376 |
| 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, 2020 and 2019 are as follows:

| | <u>Nature of Relationship</u> | <u>September 30, 2020</u> | <u>September 30, 2019</u> |
|--|---|-------------------------------|-------------------------------|
| | | <u>U.S. \$ (000)</u> | <u>U.S. \$ (000)</u> |
| 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 | 3,848 | 3,568 |
| Key management salaries and related benefits | | 1,772 | 1,913 |
| Board of Directors bonuses and expenses | | 431 | 410 |

13. Contingent Liabilities

Palestine Real Estate Investment Company - PRICO (a subsidiary) signed partnership and investment agreements with Governmental agencies (Ramallah Municipality, Al Bireh Municipality, Ministry of Awqaf and Religious affairs, Ministry of Public Works and Housing and Greater Amman Municipality) 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. \$ 332,984. This amount is subject to change as a result of termination of 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. \$ 221,626 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 it's unlikely that additional material obligations might exist and not provided for.

14. 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 as at September 30, 2020 and December 31, 2019:

| | Carrying amount | | Fair value | |
|--|----------------------|---------------------|----------------------|---------------------|
| | September 30,2020 | December 31,2019 | September 30,2020 | December 31,2019 |
| | U.S \$ (000) | U.S \$ (000) | U.S \$ (000) | U.S \$ (000) |
| <u>Financial assets</u> | | | | |
| Accounts receivable and other assets | 40,751 | 44,736 | 40,751 | 44,736 |
| Financial assets at fair value through profit or loss | 5,655 | 7,631 | 5,655 | 7,631 |
| Cash and short-term deposits | 28,735 | 16,552 | 28,735 | 16,552 |
| Financial assets at fair value through Other comprehensive income: | | | | |
| Quoted | 49,941 | 68,499 | 49,941 | 68,499 |
| Unquoted | 16,372 | 16,859 | 16,372 | 16,859 |
| | <u>141,454</u> | <u>154,277</u> | <u>141,454</u> | <u>154,277</u> |
| <u>Financial liabilities</u> | | | | |
| Debt Bonds | 120,000 | 120,000 | 120,000 | 120,000 |
| Loans, borrowings and credit facilities | 131,895 | 137,138 | 131,895 | 137,138 |
| Lease liabilities | 9,370 | 9,750 | 9,370 | 9,750 |
| Accounts and notes payable | 14,772 | 13,870 | 14,772 | 13,870 |
| Other liabilities | 16,385 | 18,844 | 16,385 | 18,844 |
| | <u>292,422</u> | <u>299,602</u> | <u>292,422</u> | <u>299,602</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), accounts and notes payable and other 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.
- The fair values 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 were determined by referencing 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 were estimated by discounting future cash flows using rates currently available for debt on similar terms.

Fair value Measurement

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, 2020:

| | Fair value measurement using | | | |
|--|------------------------------|--|---|---|
| | Total | 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 | 49,941 | 49,941 | - | - |
| Unquoted | 16,372 | - | 4,825 | 11,547 |
| Financial assets measured at fair value through profit or loss | 5,655 | 4,733 | 922 | - |

Following are quantitative disclosures fair value measurement hierarchy for assets as at December 31, 2019:

| | Fair value Measurement using | | | |
|--|------------------------------|---|---|---|
| | Total | 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 | 68,499 | 68,499 | - | - |
| Unquoted | 16,859 | - | 5,312 | 11,547 |
| Financial assets measured at fair value through profit or loss | 7,631 | 6,517 | 1,114 | - |

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.

15. Segment Reporting

PADICO presents segment reporting information in accordance with PADICO's and its Subsidiaries nature of operations, as 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, 2020 and 2019, respectively:

| <u>Nine-months ended September 30, 2020 (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 | 17,268 | 5,361 | 53,756 | 1,258 | 2,349 | (55) | 79,937 |
| Impairment provisions | - | (2,746) | - | - | (650) | - | (3,396) |
| Segment's results of operations before income tax | 8,387 | (4,318) | 4,901 | 308 | (5,398) | (560) | 3,320 |
| | | | | | | | |
| <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 | 8,905 | (396) | 131,416 |
| Impairment provisions | - | (1,570) | (1,060) | - | (15,070) | - | (17,700) |
| Segment's results of operations before income tax | 21,514 | (112) | 6,813 | 505 | 1,496 | (21) | 30,195 |

The following tables present assets and liabilities information for PADICO's operating segments as at September 30, 2020 and December 31, 2019, 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, 2020 (Unaudited) | <u>564,509</u> | <u>124,695</u> | <u>159,710</u> | <u>13,501</u> | <u>48,046</u> | <u>(142,992)</u> | <u>767,469</u> |
| As at December 31, 2019 | <u>616,280</u> | <u>129,045</u> | <u>161,520</u> | <u>13,504</u> | <u>55,587</u> | <u>(166,763)</u> | <u>809,173</u> |
| <u>Segment liabilities</u> | | | | | | | |
| As at September 30, 2020 (Unaudited) | <u>200,242</u> | <u>65,399</u> | <u>74,371</u> | <u>1,416</u> | <u>15,183</u> | <u>(29,107)</u> | <u>327,504</u> |
| As at December 31, 2019 | <u>209,735</u> | <u>65,489</u> | <u>75,748</u> | <u>1,382</u> | <u>16,618</u> | <u>(30,250)</u> | <u>338,722</u> |

16. Comparative figures

Certain comparative figures of the interim condensed consolidated financial statements as at September 30, 2019 were reclassified to conform with the presentation of the interim condensed consolidated financial statements of the current period. These reclassifications had no effect on the net income and equity of prior period.

17. Corona Virus risk effects (Covid-19)

As a result of the continued effect of the Corona Virus (COVID-19) on the global economy and the different business sectors, and the accompanying measures and restrictions taken by the Palestinian Government, neighboring countries and the rest of the world; PADICO's investments and operating activities of its subsidiaries were affected by these events, which negatively impacted the results of operations for this period compared to the same period in the preceding year.

Management believes that the impact of the Corona Virus (Covid-19) is summarized as follows:

- The tourism sector has been witnessing a complete shutdown since the beginning of March, considering that companies operating in this sector continued to incur fixed and current expenses. PADICO has agreed to cease some of its operating activities in light of the accumulated losses during the previous years and the effects of the Corona pandemic.
- PADICO's investments have been affected by the decision of the Central Bank of Jordan to postpone the distribution of dividends by Jordanian banks for the year 2019 until the issuance of the financial statements for the year 2020. PADICO owns shares in a bank listed in Amman Stock Exchange, and this affected its liquidity and cash flows for the upcoming period.
- Decrease in the closing prices of local and international stock markets, led to the recognition of revaluation losses for financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.
- Decline in some subsidiaries' sales revenues compared to budgeted sales for the period as a result of deteriorating economic conditions in general and a decrease in the consumer's purchasing power, in addition to interruptions in production as a result of the shutdown, whether between cities or within them.
- Difficulties in collecting some of the customers' receivables by the subsidiaries and increase in the number of bounced checks, which was reflected in the liquidity of the subsidiaries and their cash flows for the upcoming periods, this also affected the calculation of provision for expected credit losses.

PADICO is still working on evaluating the extent and duration of such impacts that could result from these global and local conditions, which depends on future developments that cannot be predicted accurately at the present time, noting that these developments could impact PADICO's future financial results, cash flows and financial condition.