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Palms Agro Production Company K.S.C. (Closed) and Subsidiary

Interim Condensed Consolidated Financial Information and Independent Auditors' Review Report for the nine month period ended 30 September 2013 (Unaudited)

3rd Quarter Report

Palms Agro Production Company K.S.C. (Closed) and Subsidiary

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For the nine month period ended 30 September 2013

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TO THE BOARD OF DIRECTORS OF PALMS AGRO PRODUCTION COMPANY K.S.C. (CLOSED)

Independent auditors' report on review of interim condensed consolidated financial information

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Palms Agro Production Company K.S.C. (Closed) ("the parent company") and subsidiary (together referred to as "the group") as at 30 September 2013, the related interim condensed consolidated statements of income and comprehensive income for the three month and nine month periods then ended and the related interim condensed consolidated statements of changes in equity and cash flows for the nine month period then ended. The parent company's management is responsible for the preparation and fair presentation of this interim condensed consolidated financial information in accordance with International Financial Reporting Standard, IAS 34, Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Limitation of Scope

The group's total assets and profit include amounts of KD 2,179,283 (31 December 2012: KD 1,992,353 and 30 September 2012: KD 1,982,090) and results of KD 177,455 (30 September 2012: KD 193,713) respectively, related to an investment in associate "Al Dhafra Irrigation Systems L.L.C." representing 19% (31 December 2012: 17.5% and 30 September 2012: 17%) and 39% (30 September 2012: 47%) of the total assets and profit for the period respectively. The financial information of the associate was reviewed by other independent auditor whose report expressed an unqualified conclusion. We were unable to carry out any review procedures on the investment in associate and related share of result balances and therefore are not in a position to provide any conclusion with regards to the amounts included in the financial information relating to the above entity.

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AL-WAHA
AUDITING OFFICE
ALI OWAID RUKHAEYES

TO THE BOARD OF DIRECTORS OF PALMS AGRO PRODUCTION COMPANY K.S.C. (CLOSED)

Independent auditors' report on review of interim condensed consolidated financial information (Continued)

Qualified Conclusion

Based on our review, except for the possible effects of the matter described in the "Limitation of Scope" paragraph above, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34.

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of accounts of the parent company. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Kuwait Companies' Law No. 25 of 2012, as amended, or of the parent company's articles and memorandum of association during the nine month period ended 30 September 2013 that might have had a material effect on the business of the parent company or on its financial position.

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18 November 2013
Kuwait

Palms Agro Production Company K.S.C. (Closed) and Subsidiary

Interim condensed consolidated statement of income (unaudited)
(All amounts in Kuwaiti Dinars unless otherwise stated)

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2013	2012	**2013**	2012
Revenue		**1,997,912**	1,431,025	**5,888,111**	4,053,207
Cost of revenue		**(1,584,789)**	(1,126,192)	**(4,685,501)**	(3,080,281)
Gross Profit		**413,123**	304,833	**1,202,610**	972,926
Selling and marketing expenses	3	**(131,508)**	(122,460)	**(404,857)**	(403,074)
General and administrative expenses	4	**(133,239)**	(159,559)	**(519,332)**	(439,763)
Operating profit		**148,376**	22,814	**278,421**	130,089
Investment income	14	**2,407**	4,420	**7,096**	33,623
Share of results from investment in associate	5	**57,436**	74,876	**177,455**	193,713
Provision for impairment of receivables no longer required		**2,635**	300	**18,376**	42,165
Impairment of property and equipment		**(10,928)**	-	**(10,928)**	-
Other income		-	20,236	-	27,866
Foreign currency gain		**4,842**	6,816	**4,842**	5,883
Profit for the period before provisions for contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labor Support Tax ("NLST") and Zakat		**204,768**	129,462	**475,262**	433,339
Provision for contribution to KFAS		**(1,840)**	(1,166)	**(4,277)**	(3,900)
Provision for NLST		**(4,784)**	(3,033)	**(12,545)**	(10,015)
Provision for Zakat		**(2,302)**	(1,213)	**(5,406)**	(4,006)
Profit for the period		**195,842**	124,050	**453,034**	415,418
Basic and diluted earnings per share	12	**3.74 fils**	2.37 fils	**8.66 fils**	7.94 fils

The accompanying notes on pages 8 to 15 form an integral part of this interim condensed consolidated financial information.

Palms Agro Production Company K.S.C. (Closed) and Subsidiary

Interim condensed consolidated statement of comprehensive income (unaudited)
(All amounts in Kuwaiti Dinars unless otherwise stated)

	Three months ended 30 September		Nine months ended 30 September	
	2013	2012	**2013**	2012
Profit for the period	**195,842**	124,050	**453,034**	415,418
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Exchange differences arising on translation of foreign operations	**(16,593)**	4,761	**9,475**	15,676
Total other comprehensive income for the period	**(16,593)**	4,761	**9,475**	15,676
Total comprehensive income for the period	**179,249**	128,811	**462,509**	431,094

Palms Agro Production Company K.S.C. (Closed) and Subsidiary

Interim condensed consolidated statement of financial position (unaudited)
(All amounts in Kuwaiti Dinars unless otherwise stated)

	Notes	30 September 2013	31 December 2012 (Audited)	30 September 2012
Assets				
Current assets				
Cash and cash equivalents	7	**2,518,023**	2,749,975	2,561,262
Accounts receivable and prepayments	6	**3,629,828**	3,144,858	3,321,885
Amounts due from related parties	13	**16,431**	418,058	418,053
Inventories		**1,635,132**	1,391,682	1,369,039
		7,799,414	7,704,573	7,670,239
Non-current assets				
Property and equipment		**1,530,130**	1,670,801	1,747,214
Investment in an associate	5	**2,179,283**	1,992,353	1,982,090
		3,709,413	3,663,154	3,729,304
Total assets		**11,508,827**	11,367,727	11,399,543
Liabilities and equity				
Liabilities				
Current liabilities				
Accounts payable and accruals	9	**1,119,828**	849,081	825,128
Obligations under finance lease	10	**250,000**	250,000	250,000
Advances on contracts		**1,194,078**	1,311,826	1,386,310
		2,563,906	2,410,907	2,461,438
Non-current liability				
Employees' end of service benefits		**533,680**	484,930	545,053
Total liabilities		**3,097,586**	2,895,837	3,006,491
Equity				
Share capital		**5,239,900**	5,239,900	5,239,900
Share premium		**225,000**	225,000	225,000
Treasury shares	11	**(3,573)**	(3,573)	(3,573)
Statutory reserve		**746,995**	746,995	693,812
General reserve		**746,995**	746,995	693,812
Foreign currency translation reserve		**16,170**	6,695	4,975
Retained earnings		**1,439,754**	1,509,878	1,539,126
Total equity		**8,411,241**	8,471,890	8,393,052
Total liabilities and equity		**11,508,827**	11,367,727	11,399,543

Faisal Fares Al-Fares
Chairman and Managing Director

Bader Hamad Al-Rabiah
Vice Chairman

The accompanying notes on pages 8 to 15 form an integral part of this interim condensed consolidated financial information.

Interim condensed consolidated statement of changes in equity (unaudited)
(All amounts in Kuwaiti Dinars unless otherwise stated)

	Share capital	Share premium	Treasury shares	Statutory reserve	General reserve	Foreign currency translation reserve	Retained earnings	Total
Balance as of 1 January 2013	**5,239,900**	**225,000**	**(3,573)**	**746,995**	**746,995**	**6,695**	**1,509,878**	**8,471,890**
Total comprehensive income for the period	-	-	-	-	-	9,475	453,034	462,509
Dividends distributed	-	-	-	-	-	-	(523,158)	(523,158)
Balance as of 30 September 2013	**5,239,900**	**225,000**	**(3,573)**	**746,995**	**746,995**	**16,170**	**1,439,754**	**8,411,241**
Balance as of 1 January 2012	**5,239,900**	**225,000**	**(3,573)**	**693,812**	**693,812**	**(10,701)**	**1,646,867**	**8,485,117**
Total comprehensive income for the period	-	-	-	-	-	**15,676**	**415,418**	**431,094**
Dividends distributed	-	-	-	-	-	-	**(523,159)**	**(523,159)**
Balance as of 30 September 2012	**5,239,900**	**225,000**	**(3,573)**	**693,812**	**693,812**	**4,975**	**1,539,126**	**8,393,052**

The accompanying notes on pages 8 to 15 form an integral part of this interim condensed consolidated financial information.

Palms Agro Production Company K.S.C. (Closed) and Subsidiary

Interim condensed consolidated statement of cash flows (unaudited)
(All amounts in Kuwaiti Dinars unless otherwise stated)

	Note	Nine months ended 30 September 2013	2012
Operating activities			
Profit for the period		**453,034**	415,418
Adjustments for:			
Depreciation		**242,550**	210,824
Investment income		**(7,096)**	(33,623)
Share of results from investment in associate		**(177,455)**	(193,713)
Provision for impairment of receivables no longer required		**(18,376)**	(42,165)
Provision for obsolete and slow moving inventories		**17,215**	-
Impairment of property and equipment		**10,928**	-
Gain on sale of property and equipment		**-**	(2,300)
Foreign exchange currency gain		**(4,842)**	(5,883)
Employees' end of service benefits		**71,299**	89,612
Operating profits before changes in working capital		**587,257**	438,170
Accounts receivable and prepayments		**(466,594)**	67,738
Inventories		**(260,665)**	(144,465)
Amounts due from related parties		**401,627**	(297,609)
Accounts payables and accruals		**259,818**	225,086
Advances on contracts		**(117,748)**	534,054
Employees' end of service benefits paid		**(22,549)**	(50,533)
Net cash generated from operating activities		**381,146**	772,441
Investing activities			
Purchase of property and equipment		**(112,807)**	(917,647)
Proceeds from sale of property and equipment		**-**	2,300
Proceeds from sale of financial assets at fair value through profit or loss		**-**	858,739
Investment income received		**7,096**	15,734
Net cash used in investing activities		**(105,711)**	(40,874)
Financing activities			
Cash dividends paid		**(507,387)**	(523,159)
Net cash used in financing activities		**(507,387)**	(523,159)
(Decrease) increase in cash and cash equivalents		**(231,952)**	208,408
Cash and cash equivalents at beginning of the period		**2,749,975**	2,352,854
Cash and cash equivalents at the end of the period	7	**2,518,023**	2,561,262

The accompanying notes on pages 8 to 15 form an integral part of this interim condensed consolidated financial information.

1 GENERAL INFORMATION

Palms Agro Production Company K.S.C. (Closed) (the parent company) is a Kuwaiti closed shareholding company registered and incorporated in Kuwait on 25 May 1982.

The parent company's main activities are import and export business of agricultural supplies, the execution of agricultural contracting work, establishment and management of all types of nurseries and farms, reclamation and development of agricultural land, landscape gardening and ornamentation of public places and cities, utilizing of financial surplus available to the parent company through investing it in portfolios managed by specialized companies and entities, import and circulation of veterinary medicines and concluding agency agreements, inaugurating and operation of veterinary clinics and centers and practicing the professional of veterinary medicine, trading in the Kuwait stock exchange, breeding and trading of chicken and eggs and execution of construction contracts work.

The company operates under license number 33390 and is valid until 13 September 2015.

On 27 March 2013, Decree Law no 97 of year 2013 was issued to amend some articles in Law no 25 of year 2012 which was issued on 29 November 2012 (New Companies' Law). The amendment stipulates that Executive Regulation of the Law will determine the rules and procedures to be followed by the existing companies to adjust their statues at the time of putting this law into effect. The parent company is now in the process of taking the necessary steps to be in full compliance with the new Law and its Executive Regulation.

The accompanying interim condensed consolidated financial information of the group include the interim condensed financial information of Palms Trees Company K.S.C. (Closed) - fully owned subsidiary of the parent company which is operating in producing and packing of black honey; however the subsidiary's licence was suspended on 31 December 2006 and the subsidiary is not having any operations since then.

The parent company's shares are listed on the Kuwait Stock Exchange.

The registered head office of the parent company is at P.O. Box 1976, Safat 13020, Kuwait.

The accompanying interim condensed consolidated financial information was authorised for issue in accordance with a resolution of the board of directors on 12 November 2013.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial information of the group has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" (IAS 34).

The interim condensed consolidated financial information does not contain all information and disclosures required for full consolidated financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the group's annual consolidated financial statements as at 31 December 2012. In addition, results for the nine months ended 30 September 2013 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2013.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (continued)

In the opinion of management, all adjustments (consisting of normal recurring accruals), considered necessary for a fair presentation have been included. The accounting policies used in the preparation of this interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2012, except for the adoption of new standards, amendments and interpretations which had no material impact on the group's financial position or performance.

2.2 Judgements and estimates

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual audited consolidated financial statements as at and for the year ended 31 December 2012.

3 SELLING AND MARKETING EXPENSES

	Three months ended 30 September		Nine months ended 30 September	
	2013	**2012**	**2013**	**2012**
Salaries and related costs	**95,845**	72,949	**314,480**	248,885
Depreciation	**26,228**	24,046	**76,162**	75,772
Others	**9,435**	25,465	**14,215**	78,417
	131,508	122,460	**404,857**	403,074

4 GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 30 September		Nine months ended 30 September	
	2013	2012	**2013**	2012
Salaries and related costs	**41,111**	35,247	**154,705**	131,887
Depreciation	**3,603**	3,303	**10,623**	10,118
Rent	**13,677**	13,979	**37,117**	34,716
Maintenance and repair	**1,478**	19,464	**26,781**	41,799
Electricity and water	**7,872**	7,436	**21,332**	22,521
Insurance	**20,110**	7,697	**35,741**	12,291
Others	**45,388**	72,433	**233,033**	186,431
	133,239	159,559	**519,332**	439,763

5 INVESTMENT IN ASSOCIATE

The parent company has the following investment in associate:

		Equity Interest		
Name	**County of incorporation**	**30 September 2013**	31 December 2012 (Audited)	30 September 2012
Al Dhafra Irrigation Systems (L.L.C.)	United Arab Emirates	**33%**	33%	33%

The movement in the carrying amount of investment in associate is as follows:

	30 September 2013	31 December 2012 (Audited)	30 September 2012
Opening balances	**1,992,353**	1,772,701	1,772,701
Share of results	**177,455**	202,256	193,713
Foreign currency translation adjustments	**9,475**	17,396	15,676
Ending balances	**2,179,283**	1,992,353	1,982,090

The parent company has recorded its share of results based on reviewed interim financial information of the associate company.

6 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 September 2013	31 December 2012 (Audited)	30 September 2012
Trade receivables – gross	**1,867,293**	2,243,158	2,326,983
Provision for impairment of trade receivables	**(268,566)**	(286,942)	(288,530)
Trade receivables – net	**1,598,727**	1,956,216	2,038,453
Accrued income	**1,009,031**	540,042	490,754
Retentions receivable	**549,339**	373,482	401,423
Prepaid expenses	**277,311**	210,229	176,534
Advance payments	**175,085**	50,339	127,849
Other receivables	**20,335**	14,550	86,872
	3,629,828	3,144,858	3,321,885

7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the interim condensed consolidated statements of financial position and cash flows include the following:

	30 September 2013	31 December 2012 (Audited)	30 September 2012
Bank balances	**778,308**	1,040,566	852,463
Cash on hand	**14,625**	12,425	15,069
Deposits with original maturity less than 3 months	**1,725,090**	1,696,984	1,693,720
	2,518,023	2,749,975	2,561,252

Fixed deposits represent deposits with local financial institutions maturing within three months from date of placement with an average rate of profit of 0.5625% (31 December 2012: 1.109% and 30 September 2012: 1.125%).

8 ANNUAL GENERAL ASSEMBLY

The Annual General Assembly of the parent company's shareholders held on 5 May 2013 has approved the consolidated financial statements of the group for the year ended 31 December 2012 and the distribution of cash dividends of 10 fils per share for the year ended 31 December 2012 (31 December 2011: cash dividend of 10 fils per share).

9 ACCOUNTS PAYABLE AND ACCRUALS

	30 September 2013	31 December 2012 (Audited)	30 September 2012
Trade payables	**532,400**	230,285	338,233
Other payables	**181,948**	149,496	157,882
Accrued expenses	**238,208**	302,799	166,451
Dividends payable	**167,272**	151,501	162,562
Board remunerations	**-**	15,000	-
	1,119,828	849,081	825,128

10 OBLIGATIONS UNDER FINANCE LEASE

During year 2012, the group entered into an agreement with a third party to lease a property from a local Islamic bank. The group's share of the property is 33% as per the agreement with the third party. The lease term is over one year maturing on 22 April 2013. The group's share of the rent over the lease term is KD 13,800 and the share of the remaining final payment is KD 250,000 due on 22 April 2013. During year 2013, the group paid its share of rent on 22 April 2013 and renewed the lease for one year maturing on 22 April 2014. The group's share of rent over the renewed year is KD 12,550.

11 TREASURY SHARES

	30 September 2013	31 December 2012 (Audited)	30 September 2012
Number of shares	**83,200**	83,200	83,200
Percentage of issued shares	**0.16%**	0.16%	0.16%
Cost (KD)	**3,573**	3,573	3,573
Market Value (KD)	**12,480**	7,987	12,480

12 BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share are calculated by dividing the profit for the period by the weighted average number of ordinary shares outstanding during the period (excluding treasury shares) as follows:

	Three months ended 30 September		**Nine months ended 30 September**	
	2013	2012	**2013**	2012
Profit for the period (KD)	**195,842**	124,050	**453,034**	415,418
Weighted average number of ordinary shares outstanding during the period (excluding treasury shares)	**52,315,800**	52,315,800	**52,315,800**	52,315,800
Basic and diluted earnings per share	**3.74 fils**	2.37 fils	**8.66 fils**	7.94 fils

There are no potential dilutive shares.

13 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties comprise of the shareholders of the parent company who are represented in the board of directors, major shareholders and the companies in which any of its members is in the same time a board member in the parent company's board of directors, associated companies, directors and key management personnel of the parent company, and entities controlled, jointly controlled or significantly influenced by such parties. In the ordinary course of business, the group has carried some transactions during the year with related parties. The transactions and balances which are included in the interim condensed consolidated financial information are as follows:

Transactions with related parties included in the interim condensed consolidated statement of income are as follows:

	Nine months ended 30 September	
	2013	2012
Transactions included in the interim condensed consolidated statement of income		
Management fees related to financial assets at fair value through profit or loss	**-**	265

Balances with related parties included in the interim condensed consolidated statement of financial position are as follows:

	30 September 2013	31 December 2012 (Audited)	30 September 2012
Balances included in the interim condensed consolidated statement of financial position			
Amounts due from associate	**8,542**	410,179	410,179
Amounts due from the Ultimate Parent Company	**7,889**	7,879	7,874
	16,431	418,058	418,053

	Three months ended 30 September		Nine months ended 30 September	
Key management compensation	**2013**	2012	**2013**	2012
Short-term benefits	**9,750**	9,750	**29,250**	29,250
End of service benefits	**1,406**	1,406	**4,219**	4,219
	11,156	11,156	**33,469**	33,469

14 INVESTMENT INCOME

	Three months ended 30 September		Nine months ended 30 September	
	2013	2012	**2013**	2012
Gain on sale of financial assets at fair value through profit or loss	**-**	-	**-**	17,889
Murabaha Income	**2,407**	4,420	**7,096**	15,734
	2,407	4,420	**7,096**	33,623

15 SEGMENT INFORMATION

The group activities are organised in three major segments in the internal reporting system as follows:

- Commercial segment: includes the production and sale of nurseries and ornamental plants.
- Projects segment; represented in providing gardening and maintenance services.
- Investment segment.

	30 September 2013			
	Commercial Segment	**Projects Segment**	**Investment Segment**	**Total**
Segment revenue	**2,739,010**	**3,172,318**	**184,552**	**6,095,880**
Segment expense	**2,508,755**	**3,111,863**	**-**	**5,620,618**
Segment profit	**230,255**	**60,455**	**184,552**	**475,262**
Segment assets	**4,682,256**	**2,922,198**	**3,904,373**	**11,508,827**
Segment liabilities	**1,009,534**	**2,088,052**	**-**	**3,097,586**

	30 September 2012			
	Commercial Segment	Projects Segment	Investment Segment	Total
Segment revenue	2,278,279	1,850,842	227,336	4,356,457
Segment expense	2,152,519	1,770,599	-	3,923,118
Segment profit	125,760	80,243	227,336	433,339
Segment assets	4,918,410	2,805,323	3,675,810	11,399,543
Segment liabilities	836,195	2,170,296	-	3,006,491

15 SEGMENT INFORMATION (Continued)

	Nine months ended 30 September	
	2013	2012
Adjustments		
Segment profit	**475,262**	**433,339**
Unallocated expenses	**(22,228)**	**(17,921)**
Segment profit	**453,034**	**415,418**

16 CONTINGENCES

The parent company had letters of guarantee against purchases amounting to KD 4,783,221 (31 December 2012: 5,248,754 and 30 September 2012: KD 4,979,394).