

**Palms Agro Production Company K.S.C.P and Subsidiary**

**Consolidated Financial Statements  
and Independent Auditors' Report**

**For the year ended 31 December 2014**

**Palms Agro Production Company K.S.C.P and Subsidiary**

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For the year ended 31 December 2014**

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## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PALMS AGRO PRODUCTION COMPANY K.S.C.P**

### **Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of Palms Agro Production Company K.S.C.P ("the Parent Company") and subsidiary (together referred to as "the group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's responsibility for the consolidated financial statements*

Management of the Parent Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
PALMS AGRO PRODUCTION COMPANY K.S.C.P (CONTINUED)**

*Opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on other legal and regulatory requirements**

Furthermore, in our opinion proper books of accounts have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by Companies Law No. 25 of 2012, as amended, and its Executive Regulations, Law No.7 of 2010 in respect of the establishment of Capital Markets Authority and Organisation of the Security Activity and its Executive Regulations and by the Parent Company's Memorandum and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 25 of 2012, as amended and its Executive Regulations, law No.7 of 2010 in respect of the Establishment of Capital Markets Authority and the Organisation of the Security Activity and its Executive Regulations nor of the Parent Company's Memorandum and Articles of Association, as amended have occurred during the year ended 31 December 2014 that might have had a material effect on the business of the group or its consolidated financial position.

Khalid Al-Shatti  
Licence No. 175-A  
PricewaterhouseCoopers  
(Al-Shatti and Co.)

Bader A. Al-Abduljader  
License No. 207 "A"  
of Russell Bedford - Bader Al Abduljader & Partners  
Member firm of Russell Bedford International

6 April 2015

Kuwait

**Consolidated statement of income**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

|                                                                                                                                                                                              | Notes | Year ended 31 December |                   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|------------------------|-------------------|
|                                                                                                                                                                                              |       | 2014                   | 2013              |
| Revenue                                                                                                                                                                                      |       | 8,982,883              | 8,268,357         |
| Cost of revenue                                                                                                                                                                              | 12    | (6,870,304)            | (6,399,327)       |
| <b>Gross profit</b>                                                                                                                                                                          |       | <b>2,112,579</b>       | <b>1,869,030</b>  |
| Selling and marketing expenses                                                                                                                                                               | 13    | (688,012)              | (588,707)         |
| General and administrative expenses                                                                                                                                                          | 14    | (701,201)              | (818,220)         |
| Write off of property and equipment                                                                                                                                                          |       | -                      | (10,693)          |
| Recovery of provision for impairment of receivables                                                                                                                                          | 8     | 14,929                 | 18,376            |
| <b>Operating profit</b>                                                                                                                                                                      |       | <b>738,295</b>         | <b>469,786</b>    |
| Investment income                                                                                                                                                                            | 15    | 11,287                 | 9,543             |
| Share of results of associate                                                                                                                                                                | 6     | (244,494)              | 203,435           |
| Other income                                                                                                                                                                                 |       | 7,333                  | -                 |
| <b>Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labor Support Tax ("NLST"), Zakat and Board of directors remuneration</b> |       | <b>512,421</b>         | <b>682,764</b>    |
| Contribution to KFAS                                                                                                                                                                         |       | (4,812)                | (6,145)           |
| NLST                                                                                                                                                                                         |       | (14,686)               | (18,406)          |
| Zakat                                                                                                                                                                                        |       | (5,810)                | (7,362)           |
| Board of directors remuneration                                                                                                                                                              |       | (20,000)               | (16,250)          |
| <b>Profit for the year</b>                                                                                                                                                                   |       | <b>467,113</b>         | <b>634,601</b>    |
| <b>Basic and diluted earnings per share</b>                                                                                                                                                  | 16    | <b>8.93 Fils</b>       | <b>12.13 fils</b> |

**Consolidated statement of comprehensive income**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

|                                                                      | <b>Year ended 31 December</b> |                |
|----------------------------------------------------------------------|-------------------------------|----------------|
|                                                                      | <b>2014</b>                   | <b>2013</b>    |
| Profit for the year                                                  | <b>467,113</b>                | <b>634,601</b> |
| <b>Other comprehensive income</b>                                    |                               |                |
| <i>Items that may be reclassified subsequently to profit or loss</i> |                               |                |
| Exchange differences arising on translation of foreign operations    | <b>42,619</b>                 | <b>4,100</b>   |
| Total other comprehensive income                                     | <b>42,619</b>                 | <b>4,100</b>   |
| <b>Total comprehensive income</b>                                    | <b>509,732</b>                | <b>638,701</b> |

**Palms Agro Production Company K.S.C.P and Subsidiary**

**Consolidated statement of financial position**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

|                                      | Notes | As at 31 December |                   |
|--------------------------------------|-------|-------------------|-------------------|
|                                      |       | 2014              | 2013              |
| <b>Assets</b>                        |       |                   |                   |
| <b>Non-current assets</b>            |       |                   |                   |
| Property and equipment               | 5     | 1,485,837         | 1,504,524         |
| Investment in associate              | 6     | 1,240,471         | 1,568,746         |
|                                      |       | <u>2,726,308</u>  | <u>3,073,270</u>  |
| <b>Current assets</b>                |       |                   |                   |
| Inventories                          | 7     | 1,785,166         | 1,364,551         |
| Amounts due from related parties     | 17    | 18,496            | 648,251           |
| Accounts receivable and prepayments  | 8     | 4,337,014         | 3,505,850         |
| Cash and cash equivalents            | 9     | 2,120,905         | 2,801,078         |
|                                      |       | <u>8,261,581</u>  | <u>8,319,730</u>  |
| <b>Total assets</b>                  |       | <u>10,987,889</u> | <u>11,393,000</u> |
| <b>Equity and liabilities</b>        |       |                   |                   |
| <b>Equity</b>                        |       |                   |                   |
| Share capital                        | 16    | 5,239,900         | 5,239,900         |
| Share premium                        |       | 225,000           | 225,000           |
| Treasury shares                      | 16    | (3,573)           | (3,573)           |
| Statutory reserve                    | 16    | 866,513           | 815,271           |
| General reserve                      | 16    | 866,513           | 815,271           |
| Foreign currency translation reserve |       | 53,414            | 10,795            |
| Retained earnings                    |       | 1,326,240         | 1,484,769         |
| <b>Total equity</b>                  |       | <u>8,574,007</u>  | <u>8,587,433</u>  |
| <b>Liabilities</b>                   |       |                   |                   |
| <b>Non- current liability</b>        |       |                   |                   |
| Employees' end of service benefits   |       | <u>614,716</u>    | <u>539,684</u>    |
| <b>Current liabilities</b>           |       |                   |                   |
| Advances on contracts                |       | 618,326           | 1,078,122         |
| Obligations under finance lease      | 11    | -                 | 262,550           |
| Accounts payable and accruals        | 10    | 1,180,840         | 925,211           |
|                                      |       | <u>1,799,166</u>  | <u>2,265,883</u>  |
| <b>Total liabilities</b>             |       | <u>2,413,882</u>  | <u>2,805,567</u>  |
| <b>Total equity and liabilities</b>  |       | <u>10,987,889</u> | <u>11,393,000</u> |

Faisal Fares Al-Fares  
Vice Chairman and CEO

Bader Hamad Al-Rabiah  
Chairman

The accompanying notes set out on pages 8 to 32 form an integral part of these consolidated financial statements

**Palms Agro Production Company K.S.C.P and Subsidiary**

**Consolidated statement of changes in equity**  
(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     |
|------------------------------------------------|---------------|---------------|-----------------|-------------------|-----------------|--------------------------------------|-------------------|-----------|
| <b>Balance as at 1 January 2013</b>            | 5,239,900     | 225,000       | (3,573)         | 746,995           | 746,995         | 6,695                                | 1,509,878         | 8,471,890 |
| Profit for the year                            | -             | -             | -               | -                 | -               | -                                    | 634,601           | 634,601   |
| Other comprehensive income for the year        | -             | -             | -               | -                 | -               | 4,100                                | -                 | 4,100     |
| <b>Total comprehensive income for the year</b> | -             | -             | -               | -                 | -               | 4,100                                | 634,601           | 638,701   |
| Dividends distributed (note 16)                | -             | -             | -               | -                 | -               | -                                    | (523,158)         | (523,158) |
| Transfer to reserves                           | -             | -             | -               | 68,276            | 68,276          | -                                    | (136,552)         | -         |
| <b>Balance as at 31 December 2013</b>          | 5,239,900     | 225,000       | (3,573)         | 815,271           | 815,271         | 10,795                               | 1,484,769         | 8,587,433 |
| Profit for the year                            | -             | -             | -               | -                 | -               | -                                    | 467,113           | 467,113   |
| Other comprehensive income for the year        | -             | -             | -               | -                 | -               | 42,619                               | -                 | 42,619    |
| <b>Total comprehensive income for the year</b> | -             | -             | -               | -                 | -               | 42,619                               | 467,113           | 509,732   |
| Dividends distributed (note 16)                | -             | -             | -               | -                 | -               | -                                    | (523,158)         | (523,158) |
| Transfer to reserves                           | -             | -             | -               | 51,242            | 51,242          | -                                    | (102,484)         | -         |
| <b>Balance as at 31 December 2014</b>          | 5,239,900     | 225,000       | (3,573)         | 866,513           | 866,513         | 53,414                               | 1,326,240         | 8,574,007 |

The accompanying notes set out on pages 8 to 32 form an integral part of these consolidated financial statements

**Palms Agro Production Company K.S.C.P and Subsidiary**

**Consolidated statement of cash flows**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

|                                                                 | Notes | Year ended 31 December |                  |
|-----------------------------------------------------------------|-------|------------------------|------------------|
|                                                                 |       | 2014                   | 2013             |
| <b>Cash flows from operating activities</b>                     |       |                        |                  |
| Profit for the year                                             |       | 467,113                | 634,601          |
| <b>Adjustments for:</b>                                         |       |                        |                  |
| Depreciation                                                    | 5     | 325,389                | 323,403          |
| Investment income                                               | 15    | (11,287)               | (9,543)          |
| Recovery of provision for impairment of receivables             | 8     | (14,929)               | (18,376)         |
| Provision for obsolete and slow moving inventories              | 7     | 8,426                  | 10,033           |
| Share of results of associate                                   | 6     | 244,494                | (203,435)        |
| Write off of property and equipment                             |       | -                      | 10,693           |
| Employees' end of service benefits                              |       | 130,087                | 94,544           |
|                                                                 |       | <u>1,149,293</u>       | <u>841,920</u>   |
| Inventories                                                     |       | (429,041)              | 17,098           |
| Accounts receivable and prepayments                             |       | (816,235)              | (342,616)        |
| Accounts payable and accruals                                   |       | 243,590                | 61,926           |
| Advances on contracts                                           |       | (459,796)              | (233,704)        |
| Employees' end of service benefits paid                         |       | (55,055)               | (39,790)         |
| <b>Net cash (used in) / generated from operating activities</b> |       | <u>(367,244)</u>       | <u>304,834</u>   |
| <b>Cash flows from investing activities</b>                     |       |                        |                  |
| Purchase of property and equipment                              | 5     | (306,702)              | (167,819)        |
| Amounts due from related parties                                |       | 629,755                | 400,949          |
| Dividends received from associate                               | 6     | 126,400                | -                |
| Murabaha income received                                        |       | 11,287                 | 9,543            |
| <b>Net cash generated from investing activities</b>             |       | <u>460,740</u>         | <u>242,673</u>   |
| <b>Cash flows from financing activities</b>                     |       |                        |                  |
| Obligations under finance lease                                 |       | (262,550)              | 12,550           |
| Cash dividends paid                                             |       | (511,119)              | (508,954)        |
| <b>Net cash used in financing activities</b>                    |       | <u>(773,669)</u>       | <u>(496,404)</u> |
| <b>Net decrease / increase in cash and cash equivalents</b>     |       | <u>(680,173)</u>       | <u>51,103</u>    |
| Cash and cash equivalents at the beginning of the year          |       | <u>2,801,078</u>       | <u>2,749,975</u> |
| <b>Cash and cash equivalents at the end of the year</b>         | 9     | <u>2,120,905</u>       | <u>2,801,078</u> |

The accompanying notes set out on pages 8 to 32 form an integral part of these consolidated financial statements

## Palms Agro Production Company K.S.C.P and Subsidiary

### Notes to the consolidated financial statements

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

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#### 1 GENERAL INFORMATION

Palms Agro Production Company K.S.C.P (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 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 centres 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 Parent Company operates under license number 33390 and is valid until 13 September 2015.

The consolidated financial statements of the group include the financial statements of Palms Trees Company K.S.C. - 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 is a subsidiary of Bayan Holding Company (K.S.C.) (the Ultimate Parent Company) by a percentage of 84.11%. 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.

These consolidated financial statements were approved for issue by the Board of Directors of the Parent Company on 26 March 2015 and are subject to the approval of the Annual General Assembly of the shareholders.

The Parent Company had a total of 820 employees as at 31 December 2014 (31 December 2013: 837 employees).

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

##### 2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, IFRIC interpretations and the Companies Law no. 25 of 2012, as amended. The consolidated financial statements have been prepared under the historical cost convention, as modified by the measurement at fair value of "biological assets" included in inventories.

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Notes to the consolidated financial statements

(All amounts in Kuwaiti Dinars unless otherwise stated)

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.1 Basis of preparation (continued)**

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD"), which is also the group's functional and presentation currency.

**2.1.1 Changes in accounting policies and disclosures**

*(a) New and amended standards adopted by the group*

The following amendments have been adopted by the Group for the first time for the financial period beginning on or after 1 January 2014:

*"Asset and Liability Offsetting" – Amendments to IAS 32*

These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The adoption of this amendment has no significant impact on the consolidated financial statements.

*"Impairment of Assets" – Amendments to IAS 36*

This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. This amendment did not have a material impact on the consolidated financial statements.

*IFRIC 21 – 'Levies'*

This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation addresses what the obligating event is that gives rise to the payment of a levy and when a liability should be recognised. The group is not currently subjected to significant levies so the impact on the group is not material.

*(b) New standards, amendments and interpretations issued but not yet adopted by the group:*

*'IFRS 9 – Financial instruments'*

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through consolidated statement of comprehensive income and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in consolidated statement of comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The group is yet to assess IFRS 9's full impact.

Notes to the consolidated financial statements

(All amounts in Kuwaiti Dinars unless otherwise stated)

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.1 Basis of preparation (continued)**

**2.1.1 Changes in accounting policies and disclosures (continued)**

(b) *New standards, amendments and interpretations issued but not yet adopted by the group: (Continued)*

*'IFRS 15 – Revenue from contracts with customers'*

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The group is assessing the impact of IFRS 15.

**2.2 Consolidation**

(a) *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values on the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Notes to the consolidated financial statements

(All amounts in Kuwaiti Dinars unless otherwise stated)

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.2 Consolidation (continued)**

*(a) Subsidiaries (continued)*

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit and loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform to the group's accounting policies.

*(b) Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

*(c) Disposal of subsidiaries*

When the group ceases to have control, any retained interest in the entity is re-measured to its fair value, at the date when control is lost with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the consolidated statement of income.

*(d) Associates*

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition.

## Palms Agro Production Company K.S.C.P and Subsidiary

### Notes to the consolidated financial statements

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

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## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Consolidation (continued)

#### *(d) Associates (continued)*

If ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The group's share of post-acquisition profit or loss is recognized in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Dilution gains and losses arising in investments in associates are recognised in the consolidated statement of income.

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chairman and managing director.

### 2.4 Foreign currency translation

#### *(a) Functional and presentation currency*

Items included in the consolidated financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the group operates ("the functional currency"). The consolidated financial statements are presented in Kuwaiti Dinars (KD) which is the group's functional and presentation currency.

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

**Palms Agro Production Company K.S.C.P and Subsidiary**

**Notes to the consolidated financial statements**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.4 Foreign currency translation (Continued)**

*(c) Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
- (ii) Income and expenses for each statement of income presented are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effects of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) All resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

**2.5 Financial assets**

**2.5.1 Classification**

The group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*(a) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise 'cash and cash equivalents', 'accounts receivable' and 'amounts due from related parties'.

*Cash and cash equivalents*

Cash and cash equivalents include cash on hand, bank balances and short – term deposits held at call with banks with an original maturity of three months or less.

*Accounts receivable*

Accounts receivable are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.5 Financial assets (continued)

#### 2.5.2 Recognition, measurement and derecognition

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

#### 2.5.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

#### 2.5.4 Impairment of financial assets

##### (a) Assets carried at amortized cost

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of income. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of income.

**Notes to the consolidated financial statements**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.6 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average method. The cost includes purchase price, import duties, transportation, handling and other direct costs. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Biological assets included in inventories are measured at their fair value less estimated costs to sell. Changes in the fair value of biological assets are recognised in the consolidated statement of income.

**2.7 Property and equipment**

Property and equipment are stated at historical cost less depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- Buildings and greenhouse 4-10 %
- Equipment and motor vehicles 15-25%
- Store fabrication, furniture and computers 15-16%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the consolidated statement of income.

**2.8 Impairment of non-financial assets**

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**2.9 Financial liabilities**

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the group.

**Palms Agro Production Company K.S.C.P and Subsidiary**

**Notes to the consolidated financial statements**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.9 Financial liabilities (continued)**

All financial liabilities are initially recognised at fair value less directly attributable transaction costs. After initial recognition the financial liabilities are subsequently measured at amortised cost using the effective interest method. The group's financial liabilities comprise of "accounts payable and accruals" and "obligations under finance lease".

*Accounts payable and accruals*

Accounts payable and accruals are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable and accruals are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

**2.10 Provisions**

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

**2.11 Employees' end of service benefits**

The provision for staff indemnity is payable on completion of employment. The provision is calculated in accordance with applicable labour law based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits. The provision, which is unfunded, is determined as the liability that would arise as a result of the involuntary termination of staff at the reporting date, on the basis that this computation is a reliable approximation of the present value of this obligation. With respect to its national employees, the group makes contributions to Public Authority for Social Security calculated as a percentage of the employees' salaries. The group's obligations are limited to these contributions, which are expensed when due.

**2.12 Dividend distribution**

Dividend distribution to the Parent Company's shareholders is recognised as a liability in the group's consolidated financial statements in the period in which the dividends are approved by the Parent Company's shareholders

**2.13 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction from the proceeds.

**Notes to the consolidated financial statements**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.14 Treasury shares**

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the group and not yet reissued or cancelled. Treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When treasury shares are reissued, gains are credited to a separate account in equity, which is not distributable.

Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the gain on sale of treasury shares account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

**2.15 Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

The group leases certain property and equipment. Leases of property and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included as payables. The interest element of the finance cost is charged to the consolidated statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term. If there is a reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset's depreciation should be calculated in accordance with IAS 16 Property and equipment.

**2.16 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of returns, rebates and discounts after eliminating sales within the group.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

**Palms Agro Production Company K.S.C.P and Subsidiary**

**Notes to the consolidated financial statements**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

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**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2.16 Revenue recognition (continued)**

- i) Revenues from services rendered is recognised in accordance with the percentage of completion method of accounting measured by reference to the percentage that actual costs incurred to date bear to total estimated costs for each contract. Profit is only recognised when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. Claims, variation orders and incentive payments are included in the determination of contract profit when approved by contract owners. Anticipated losses on contracts are recognised in full as soon as they become apparent. Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the year in which they are incurred.
- ii) Revenue from project management and maintenance activities represents the invoiced value of services rendered during the year.
- iii) Revenues from sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.
- iv) Interest income is recognised as the interest accrues using effective interest method.
- v) Dividend income is recognised when the right to receive payment is established.

Notes to the consolidated financial statements

(All amounts in Kuwaiti Dinars unless otherwise stated)

**3 FINANCIAL RISK MANAGEMENT**

**3.1 Financial risk factors**

The group's activities expose it to a variety of financial risks: market risk (including foreign currency risk), credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. Risk management is carried out by the group's finance department as approved by the Parent Company board of directors.

(a) *Market risk*

(i) *Foreign currency risk*

The group is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the US dollar, Euro, Sterling pound and AED. Foreign currency risk arises from future commercial transactions, recognised assets, liabilities and net investments in foreign operations. The group manages its foreign currency risk by regularly assessing current and expected foreign currency rate movements.

The group had the following significant net exposures denominated in foreign currencies:

|                | As at 31 December |              |
|----------------|-------------------|--------------|
|                | 2014              | 2013         |
|                | KD                | KD           |
|                | (equivalent)      | (equivalent) |
| US dollar      | (53,504)          | (7,819)      |
| EURO           | (82,484)          | (59,894)     |
| Sterling pound | (2,331)           | (3,300)      |
| AED            | 10,593            | 640,358      |

The table below indicates the group's foreign exchange exposure as at 31 December, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the KD currency rate against the US Dollar, Euro and Sterling pound with all other variables held constant, on the profit and equity for the year (due to the fair value of currency sensitive monetary assets and liabilities).

|                         | Change in<br>Currency rate | Effect on profit<br>and equity |
|-------------------------|----------------------------|--------------------------------|
| <b>31 December 2014</b> |                            |                                |
| US Dollar               | +5%                        | 2,675                          |
| EURO                    | +5%                        | 4,124                          |
| Sterling pound          | +5%                        | 117                            |
| AED                     | +5%                        | (530)                          |
| <b>31 December 2013</b> |                            |                                |
| US Dollar               | +5%                        | 391                            |
| EURO                    | +5%                        | 2,995                          |
| Sterling pound          | +5%                        | 165                            |
| AED                     | +5%                        | (32,018)                       |

The decrease in currency rate will have the opposite effect on profit and equity.

**Palms Agro Production Company K.S.C.P and Subsidiary**

**Notes to the consolidated financial statements**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

**3 FINANCIAL RISK MANAGEMENT (Continued)**

**3.1 Financial risk factors (continued)**

*(b) Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation and arises principally from outstanding bank balances, accounts receivable and amounts due from related parties.

The group seeks to limit its credit risk with respect to bank balances by dealing with reputable banks and with respect to receivables by setting credit limits for individual customers and monitoring outstanding receivables.

The group continuously monitors defaults of customers and other counterparties and incorporate this information into its credit risk controls. The group's policy is to deal only with creditworthy counterparties. Normal credit terms for customers range from 1 to 3 months.

*Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date by class of assets is as follows:

|                                  | As at 31 December |                  |
|----------------------------------|-------------------|------------------|
|                                  | 2014              | 2013             |
| <b>Loans and receivables</b>     |                   |                  |
| Amounts due from related parties | 18,496            | 648,251          |
| Accounts receivable              | 4,161,698         | 3,216,767        |
| Bank balances                    | 2,106,781         | 2,787,253        |
|                                  | <b>6,286,975</b>  | <b>6,652,271</b> |

*Concentration of credit risk*

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the group's performance to developments affecting a particular industry or geographical location.

The group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of its activities as the group deals with a large number of customers with respect to investment, commercial and projects activities.

The group's credit risk bearing assets can be analysed by the geographic region and the industry sector as follows:

|                                        | As at 31 December |                  |
|----------------------------------------|-------------------|------------------|
|                                        | 2014              | 2013             |
| <b>Geographic region:</b>              |                   |                  |
| Kuwait                                 | 6,276,382         | 6,011,913        |
| United Arab emirates                   | 10,593            | 640,358          |
| <b>Total</b>                           | <b>6,286,975</b>  | <b>6,652,271</b> |
| <b>Industry sector:</b>                |                   |                  |
| Banks and other financial institutions | 2,106,781         | 2,787,253        |
| Others                                 | 10,593            | 640,358          |
| Contracting and commercial customers   | 4,169,601         | 3,224,660        |
| <b>Total</b>                           | <b>6,286,975</b>  | <b>6,652,271</b> |

**Palms Agro Production Company K.S.C.P and Subsidiary**

**Notes to the consolidated financial statements**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

**3 FINANCIAL RISK MANAGEMENT (Continued)**

**3.1 Financial risk factors (continued)**

*(b) Credit risk (continued)*

*Credit quality of financial instruments*

It is not the practice of the group to obtain collateral over loans and receivables. Credit exposures classified as 'rated' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good. Credit exposures defined as "not rated" and classified under 'standard' quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not 'impaired'. The ultimate risk of possible financial loss on "not rated" or "standard" quality is assessed to be higher than that for the exposures classified within the "rated" quality range. Not rated assets are classified according to internal credit ratings of the counterparties. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

The table below shows the credit risk exposure by credit quality of financial assets by class, grade and status.

|                                  | Neither past due nor impaired |                  |                  |
|----------------------------------|-------------------------------|------------------|------------------|
|                                  | Rated                         | Not rated        | Total            |
| <b>31 December 2014</b>          |                               |                  |                  |
| Amounts due from related parties | -                             | 18,496           | 18,496           |
| Accounts receivable              | -                             | 3,967,457        | 3,967,457        |
| Bank balances                    | 2,106,781                     | -                | 2,106,781        |
| <b>Total</b>                     | <b>2,106,781</b>              | <b>3,985,953</b> | <b>6,092,734</b> |
|                                  | Neither past due nor impaired |                  |                  |
|                                  | Rated                         | Not rated        | Total            |
| <b>31 December 2013</b>          |                               |                  |                  |
| Amounts due from related parties | -                             | 648,251          | 648,251          |
| Accounts receivable              | -                             | 2,914,325        | 2,914,325        |
| Bank balances                    | 2,787,253                     | -                | 2,787,253        |
| <b>Total</b>                     | <b>2,787,253</b>              | <b>3,562,576</b> | <b>6,349,829</b> |

**Palms Agro Production Company K.S.C.P and Subsidiary**

**Notes to the consolidated financial statements**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

**3 FINANCIAL RISK MANAGEMENT (Continued)**

**3.1 Financial risk factors (continued)**

*(b) Credit risk (continued)*

*Credit quality of financial instruments (continued)*

Analysis by credit quality of financial assets is as follows:

|                                                                          | As at 31 December |                  |
|--------------------------------------------------------------------------|-------------------|------------------|
|                                                                          | 2014              | 2013             |
| <b>Accounts receivable</b>                                               |                   |                  |
| Neither past due nor impaired:                                           |                   |                  |
| Accounts receivable and prepayments from small or medium-sized companies | 3,904,276         | 2,914,325        |
| <b>Total neither past due nor impaired</b>                               | <b>3,904,276</b>  | <b>2,914,325</b> |
| Past due but not impaired                                                |                   |                  |
| 90-180 days overdue                                                      | 142,698           | 198,298          |
| 180-270 days overdue                                                     | 36,920            | 41,653           |
| 270-360 days overdue                                                     | 25,297            | 12,478           |
| More than 360 days over due                                              | 52,507            | -                |
| <b>Total past due but not impaired</b>                                   | <b>257,422</b>    | <b>252,429</b>   |
| <b>Individually determined to be impaired</b>                            |                   |                  |
| Less than 180 days overdue                                               | 28,009            | -                |
| More than 360 days over due                                              | -                 | 318,579          |
| Provision for impairment of accounts receivable                          | (28,009)          | (268,566)        |
| <b>Total accounts receivable, net of provision for doubtful debt</b>     | <b>4,161,698</b>  | <b>3,216,767</b> |
| <b>Due from related parties, neither past due nor impaired</b>           | <b>18,496</b>     | <b>648,251</b>   |
| <b>Bank balances, neither past due nor impaired</b>                      | <b>2,106,781</b>  | <b>2,787,253</b> |

*(c) Liquidity risk*

Liquidity risk is the risk that the group will encounter difficulty in meeting commitments associated with financial liabilities, arises because of the possibility (which may often be remote) that the group could be required to pay its liabilities earlier than expected.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

All financial liabilities are due within one year.

**3.2 Capital risk management**

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

**3.3 Fair value measurement**

Fair values of all financial instruments are not materially different from their carrying values.

Notes to the consolidated financial statements

(All amounts in Kuwaiti Dinars unless otherwise stated)

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**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

*Impairment of financial assets*

The impairment charge reflects estimates of losses arising from the failure or inability of the parties concerned to make the required payments. The charge is based on the ageing of the party accounts, the customer's credit worthiness and the historic write-off experience.

Any difference between the amounts actually collected in future years and the amounts expected will be recognised in the consolidated statement of income.

*Obsolete and slow moving inventories*

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

*Impairment and useful lives of property and equipment*

The group uses the straight line method to compute depreciation to reduce the cost of property and equipment to their estimated residual values over their estimated useful lives. The useful lives of assets carried by the group, range from 4 to 25 years.

This estimate is determined after considering the expected usage of the asset. Management reviews the residual value and useful lives annually and future depreciation charges would be adjusted where the management believes the useful lives differ from previous estimates.

At the reporting date, management assesses whether there is any indication that property and equipment may be impaired. The recoverable amount of an asset is determined based on the "value in use" method. This method uses estimated cash flow projections over the estimated useful life of the asset.

*Revenue recognition*

The group uses the percentage of completion method in accounting for its contracting contracts. Use of the percentage of completion method requires the group's project managers to estimate total estimated costs for each contract.

*Biological assets valuation*

Biological assets included in inventories are measured on initial recognition and at each reporting date at their fair value less costs to sell. In measuring fair value of agricultural products various management estimates and judgements are required. These estimates and judgements relate to the market prices, average weight and quality of the agricultural products. The quality of agricultural products sold at the local market is considered to approximate the group's agricultural products.

**Palms Agro Production Company K.S.C.P and Subsidiary**

**Notes to the consolidated financial statements**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

**5 PROPERTY AND EQUIPMENT**

|                                               | <b>Buildings and<br/>greenhouse</b> | <b>Equipment and<br/>motor Vehicles</b> | <b>Store<br/>fabrication,<br/>furniture and<br/>computers</b> | <b>Total</b>     |
|-----------------------------------------------|-------------------------------------|-----------------------------------------|---------------------------------------------------------------|------------------|
| <b>At 1 January 2013</b>                      |                                     |                                         |                                                               |                  |
| Cost                                          | 1,752,247                           | 1,624,356                               | 414,684                                                       | 3,791,287        |
| Accumulated depreciation                      | (749,175)                           | (1,088,832)                             | (282,479)                                                     | (2,120,486)      |
| <b>Net book amount</b>                        | <b>1,003,072</b>                    | <b>535,524</b>                          | <b>132,205</b>                                                | <b>1,670,801</b> |
| <b>Year ended 31 December 2013</b>            |                                     |                                         |                                                               |                  |
| Opening net book amount                       | 1,003,072                           | 535,524                                 | 132,205                                                       | 1,670,801        |
| Additions                                     | 59,642                              | 91,673                                  | 16,504                                                        | 167,819          |
| Write off (related to cost)                   | (20,960)                            | (14,470)                                | -                                                             | (35,430)         |
| Accumulated depreciation related to write off | 10,267                              | 14,470                                  | -                                                             | 24,737           |
| Depreciation charge                           | (103,101)                           | (178,492)                               | (41,810)                                                      | (323,403)        |
| <b>Closing net book amount</b>                | <b>948,920</b>                      | <b>448,705</b>                          | <b>106,899</b>                                                | <b>1,504,524</b> |
| <b>At 31 December 2013</b>                    |                                     |                                         |                                                               |                  |
| Cost                                          | 1,790,929                           | 1,701,559                               | 431,188                                                       | 3,923,676        |
| Accumulated depreciation                      | (842,009)                           | (1,252,854)                             | (324,289)                                                     | (2,419,152)      |
| <b>Net book amount</b>                        | <b>948,920</b>                      | <b>448,705</b>                          | <b>106,899</b>                                                | <b>1,504,524</b> |
| <b>Year ended 31 December 2014</b>            |                                     |                                         |                                                               |                  |
| Opening net book amount                       | 948,920                             | 448,705                                 | 106,899                                                       | 1,504,524        |
| Additions                                     | 28,700                              | 222,311                                 | 55,691                                                        | 306,702          |
| Depreciation charge                           | (84,571)                            | (203,424)                               | (37,394)                                                      | (325,389)        |
| <b>Closing net book amount</b>                | <b>893,049</b>                      | <b>467,592</b>                          | <b>125,196</b>                                                | <b>1,485,837</b> |
| <b>At 31 December 2014</b>                    |                                     |                                         |                                                               |                  |
| Cost                                          | 1,819,629                           | 1,923,870                               | 486,879                                                       | 4,230,378        |
| Accumulated depreciation                      | (926,580)                           | (1,456,278)                             | (361,683)                                                     | (2,744,541)      |
| <b>Net book amount</b>                        | <b>893,049</b>                      | <b>467,592</b>                          | <b>125,196</b>                                                | <b>1,485,837</b> |

Depreciation charge for the current year is allocated as follows: KD 199,733 (2013: KD 207,140) to cost of revenue, KD 13,811 (2013: KD 14,259) to general and administrative expenses and KD 111,845 (2013: KD 102,004) to selling and marketing expenses.

**Palms Agro Production Company K.S.C.P and Subsidiary**

**Notes to the consolidated financial statements**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

**6 INVESTMENT IN ASSOCIATE**

Details of the group's share in associate are as follows:

| Name                                     | Country of<br>incorporation | Assets           | Goodwill       | Liabilities      | Revenues         | (Loss) /<br>profit for<br>the year | Equity<br>Interest |
|------------------------------------------|-----------------------------|------------------|----------------|------------------|------------------|------------------------------------|--------------------|
| <b>31 December 2014</b>                  |                             |                  |                |                  |                  |                                    |                    |
| Al Dhafra Irrigation<br>Systems (L.L.C.) | United Arab<br>Emirates     | <u>1,986,349</u> | <u>128,250</u> | <u>874,128</u>   | <u>1,179,529</u> | <u>(244,494)</u>                   | <u>33%</u>         |
| <b>31 December 2013</b>                  |                             |                  |                |                  |                  |                                    |                    |
| Al Dhafra Irrigation<br>Systems (L.L.C.) | United Arab<br>Emirates     | <u>2,818,273</u> | <u>128,250</u> | <u>1,377,777</u> | <u>1,939,965</u> | <u>203,435</u>                     | <u>33%</u>         |

- The associate is engaged in the operation and maintenance business for landscape, irrigation, forest and associated infrastructure.
- The Parent Company's investment in the associate is accounted for using the equity method.
- The associate is unlisted company and there is no quoted market price available for its shares.

Following are summary of the recent financial information available for the associate:

Summarised statement of profit or loss:

|                                   | <b>Year ended 31 December</b> |                    |
|-----------------------------------|-------------------------------|--------------------|
|                                   | <b>2014</b>                   | <b>2013</b>        |
| Revenues                          | <u>3,574,329</u>              | <u>5,878,682</u>   |
| Expenses                          | <u>(4,315,220)</u>            | <u>(5,262,212)</u> |
| (Loss) / profit for the year      | <u>(740,891)</u>              | <u>616,470</u>     |
| Total comprehensive (loss) income | <u>(740,891)</u>              | <u>616,470</u>     |

Summarised statement of financial position as at 31 December:

|                           | <b>As at 31 December</b> |                    |
|---------------------------|--------------------------|--------------------|
|                           | <b>2014</b>              | <b>2013</b>        |
| Current assets            | <u>5,401,855</u>         | <u>8,403,060</u>   |
| Current liabilities       | <u>(2,086,011)</u>       | <u>(3,652,613)</u> |
| Non - current assets      | <u>617,384</u>           | <u>137,162</u>     |
| Non - current liabilities | <u>(562,862)</u>         | <u>(522,469)</u>   |
| Net assets                | <u>3,370,366</u>         | <u>4,365,140</u>   |

**Palms Agro Production Company K.S.C.P and Subsidiary**

**Notes to the consolidated financial statements**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

**6 INVESTMENT IN ASSOCIATE (Continued)**

Reconciliation of the summarized financial information:

|                                         | As at 31 December |           |
|-----------------------------------------|-------------------|-----------|
|                                         | 2014              | 2013      |
| Opening balances                        | 1,568,746         | 1,740,332 |
| Share of result                         | (244,494)         | 203,435   |
| Declared dividends                      | (126,400)         | (379,121) |
| Foreign currency translation adjustment | 42,619            | 4,100     |
| Ending balances                         | 1,240,471         | 1,568,746 |

The group has recorded its share of results of the investment in associate based on the audited financial statements of the associate for the year ended 31 December 2014.

**7 INVENTORIES**

|                                                          | As at 31 December |           |
|----------------------------------------------------------|-------------------|-----------|
|                                                          | 2014              | 2013      |
| Goods available for sale                                 | 1,761,359         | 1,386,097 |
| Biological assets                                        | 222,966           | 169,187   |
| Less: Provision for obsolete and slow moving inventories | (199,159)         | (190,733) |
|                                                          | 1,785,166         | 1,364,551 |

The movement of the biological assets is as follows:

|                        | As at 31 December |          |
|------------------------|-------------------|----------|
|                        | 2014              | 2013     |
| Opening balance        | 169,187           | 183,116  |
| Fair value revaluation | 38,203            | 33,555   |
| Purchases              | 133,456           | 40,338   |
| Disposals              | (117,880)         | (87,822) |
| Ending balance         | 222,966           | 169,187  |

The movement of the provision for obsolete and slow moving inventories is as follows:

|                                         | As at 31 December |         |
|-----------------------------------------|-------------------|---------|
|                                         | 2014              | 2013    |
| Opening balance                         | 190,733           | 180,700 |
| Provision charge for the year (note 12) | 8,426             | 10,033  |
|                                         | 199,159           | 190,733 |

**Palms Agro Production Company K.S.C.P and Subsidiary**

**Notes to the consolidated financial statements**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

**8 ACCOUNTS RECEIVABLE AND PREPAYMENTS**

|                                                     | As at 31 December |                  |
|-----------------------------------------------------|-------------------|------------------|
|                                                     | 2014              | 2013             |
| Trade receivables                                   | 2,955,632         | 2,009,060        |
| Less: Provision for impairment of trade receivables | (28,009)          | (268,566)        |
| Trade receivables – net                             | 2,927,623         | 1,740,494        |
| Accrued income                                      | 28,743            | 764,541          |
| Retentions receivable                               | 1,185,847         | 694,809          |
| Prepaid expenses                                    | 56,229            | 141,477          |
| Advance payments                                    | 119,087           | 147,606          |
| Other receivables                                   | 19,485            | 16,923           |
|                                                     | <b>4,337,014</b>  | <b>3,505,850</b> |

The movement of the provision for impairment of trade receivables is as follows:

|                                                     | As at 31 December |                |
|-----------------------------------------------------|-------------------|----------------|
|                                                     | 2014              | 2013           |
| Opening balance                                     | 268,566           | 286,942        |
| Provision write off                                 | (225,628)         | -              |
| Recovery of provision for impairment of receivables | (14,929)          | (18,376)       |
|                                                     | <b>28,009</b>     | <b>268,566</b> |

**9 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include the following:

|                                                          | As at 31 December |                  |
|----------------------------------------------------------|-------------------|------------------|
|                                                          | 2014              | 2013             |
| Bank balances                                            | 370,861           | 1,059,636        |
| Cash on hand                                             | 14,124            | 13,825           |
| Fixed deposits with original maturity less than 3 months | 1,735,920         | 1,727,617        |
|                                                          | <b>2,120,905</b>  | <b>2,801,078</b> |

Fixed deposits represent deposits with local financial institutions maturing within three months from date of placement with an average rate of profit of 0.6931% (2013: 0.5625%)

**Palms Agro Production Company K.S.C.P and Subsidiary**

**Notes to the consolidated financial statements**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

**10 ACCOUNTS PAYABLE AND ACCRUALS**

|                                 | As at 31 December |                |
|---------------------------------|-------------------|----------------|
|                                 | 2014              | 2013           |
| Trade Payables                  | 347,006           | 243,407        |
| Other Payables                  | 212,990           | 171,624        |
| Accrued Expenses                | 423,099           | 328,225        |
| Dividends payable               | 177,745           | 165,705        |
| Board of directors remuneration | 20,000            | 16,250         |
|                                 | <b>1,180,840</b>  | <b>925,211</b> |

**11 OBLIGATIONS UNDER FINANCE LEASE**

During prior years, 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 matured on 22 April 2014 and the group repaid the remaining final amount of KD 262,550.

**12 COST OF REVENUE**

|                                                    | Year ended 31 December |                  |
|----------------------------------------------------|------------------------|------------------|
|                                                    | 2014                   | 2013             |
| Raw materials                                      | 4,242,428              | 3,726,391        |
| Staff costs                                        | 1,361,841              | 1,508,926        |
| Sales commission                                   | 323,063                | 229,998          |
| Depreciation                                       | 199,733                | 207,140          |
| Rent                                               | 262,095                | 331,788          |
| Insurance                                          | 47,875                 | 53,143           |
| Maintenance and repair                             | 53,736                 | 22,155           |
| Provision for obsolete and slow moving inventories | 8,426                  | 10,033           |
| Utilities expenses                                 | 86,825                 | 47,747           |
| Bank charges and interest                          | 90,088                 | 76,987           |
| Others                                             | 194,194                | 185,019          |
|                                                    | <b>6,870,304</b>       | <b>6,399,327</b> |

**13 SELLING AND MARKETING EXPENSES**

|              | Year ended 31 December |                |
|--------------|------------------------|----------------|
|              | 2014                   | 2013           |
| Staff costs  | 552,440                | 477,428        |
| Depreciation | 111,845                | 102,004        |
| Others       | 23,727                 | 9,275          |
|              | <b>688,012</b>         | <b>588,707</b> |

**Palms Agro Production Company K.S.C.P and Subsidiary**

**Notes to the consolidated financial statements**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

**14 GENERAL AND ADMINISTRATIVE EXPENSES**

|                           | Year ended 31 December |                |
|---------------------------|------------------------|----------------|
|                           | 2014                   | 2013           |
| Staff costs               | 259,349                | 259,276        |
| Depreciation              | 13,811                 | 14,259         |
| Rent                      | 52,350                 | 58,408         |
| Maintenance and repair    | 62,730                 | 61,976         |
| Utilities expenses        | 76,044                 | 71,728         |
| Fines                     | 9,316                  | 29,276         |
| Social insurance          | 23,448                 | 21,405         |
| Residency permit expenses | -                      | 28,282         |
| Insurance                 | 31,962                 | 30,016         |
| Bank charges              | 24,710                 | 43,258         |
| Others                    | 147,481                | 200,336        |
|                           | <b>701,201</b>         | <b>818,220</b> |

**15 INVESTMENT INCOME**

|                 | Year ended 31 December |       |
|-----------------|------------------------|-------|
|                 | 2014                   | 2013  |
| Murabaha income | 11,287                 | 9,543 |

**16 EQUITY**

**Share Capital**

The Annual General Assembly of the Parent Company held on 12 May 2014 approved the annual consolidated financial statements of the group for the year ended 31 December 2013 and the payment of cash dividend of 10 fils per share for the year ended 31 December 2013 (31 December 2012: cash dividend of 10 fils per share) to the Parent Company's equity shareholders.

The authorised, issued and fully paid up share capital in cash as at 31 December 2014 and 2013 consists of 52,399 thousand shares of 100 fils each.

**Palms Agro Production Company K.S.C.P and Subsidiary**

**Notes to the consolidated financial statements**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

**16 EQUITY (Continued)**

**Treasury shares**

|                             | <b>As at 31 December</b> |             |
|-----------------------------|--------------------------|-------------|
|                             | <b>2014</b>              | <b>2013</b> |
| Number of shares            | <b>83,200</b>            | 83,200      |
| Percentage of issued shares | <b>0.16%</b>             | 0.16%       |
| Cost (KD)                   | <b>3,573</b>             | 3,573       |
| Market value (KD)           | <b>9,152</b>             | 10,483      |

**Statutory reserve**

As required by the Kuwaiti Companies Law and the Parent Company's Memorandum of Association, 10% of the profit for the year before KFAS, NLST, Zakat and Directors' remuneration is to be transferred to the statutory reserve until the reserve reaches a minimum of 50% of the paid up share capital. This reserve is not available for distribution except for payment of a dividend of 5% of paid up share capital in years when retained earnings are not sufficient for the payment of such dividends.

**General reserve**

In accordance with the Parent Company's Memorandum of Association, 10% of profit for the year before KFAS, NLST, Zakat and Directors' remuneration is required to be transferred to the general reserve until the shareholders decide to discontinue the transfer to the general reserve.

**Proposed dividends**

The Board of Directors proposed a cash dividend of 10 fils per share (2013: 10 fils per share) for the year ended 31 December 2014. This proposal is subject to the approval of the shareholders in the Annual General Assembly and has not been accounted for in these consolidated financial statements.

**Basic and diluted earnings per share**

Basic and diluted earnings per share are calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares) as follows:

|                                                                                                    | <b>As at 31 December</b> |             |
|----------------------------------------------------------------------------------------------------|--------------------------|-------------|
|                                                                                                    | <b>2014</b>              | <b>2013</b> |
| Profit for the year (KD)                                                                           | <b>467,113</b>           | 634,601     |
| Weighted average number of ordinary shares outstanding during the year (excluding treasury shares) | <b>52,315,800</b>        | 52,315,800  |
| Basic and diluted earnings per share                                                               | <b>8.93 Fils</b>         | 12.13 Fils  |

There are no potential dilutive shares.

# **Palms Agro Production Company K.S.C.P and Subsidiary**

## **Notes to the consolidated financial statements**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

### **17 RELATED PARTY BALANCES AND TRANSACTIONS**

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 consolidated financial statements are as follows:

|                                                                                 | As at 31 December      |                |
|---------------------------------------------------------------------------------|------------------------|----------------|
|                                                                                 | 2014                   | 2013           |
| <b>a) Balances included in the consolidated statement of financial position</b> |                        |                |
| Amounts due from associate                                                      | 10,593                 | 640,358        |
| Amounts due from the Ultimate Parent Company                                    | 7,903                  | 7,893          |
|                                                                                 | <u>18,496</u>          | <u>648,251</u> |
|                                                                                 |                        |                |
|                                                                                 | Year ended 31 December |                |
|                                                                                 | 2014                   | 2013           |
| <b>b) Key management compensation:</b>                                          |                        |                |
| Short term benefits                                                             | 78,000                 | 75,000         |
| Post-employment benefits                                                        | 6,923                  | 5,625          |
|                                                                                 | <u>84,923</u>          | <u>80,625</u>  |

### **18 SEGMENT INFORMATION**

The group's activities are organised into 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.

|                                    | 2014               |                  |                    |            |
|------------------------------------|--------------------|------------------|--------------------|------------|
|                                    | Commercial segment | Projects segment | Investment segment | Total      |
| Segment revenue                    | 4,075,612          | 4,929,533        | (233,207)          | 8,771,938  |
| Segment expense                    | 3,737,754          | 4,521,763        | -                  | 8,259,517  |
| Segment profit                     | 337,858            | 407,770          | (233,207)          | 512,421    |
| Segment assets                     | 4,669,012          | 3,323,990        | 2,994,887          | 10,987,889 |
| Segment liabilities                | 798,603            | 1,615,279        | -                  | 2,413,882  |
| Depreciation                       | 111,841            | 199,733          | 13,815             | 325,389    |
| Purchase of property and equipment | 295,732            | 2,832            | 8,138              | 306,702    |

**Palms Agro Production Company K.S.C.P and Subsidiary**

**Notes to the consolidated financial statements**

*(All amounts in Kuwaiti Dinars unless otherwise stated)*

**18 SEGMENT INFORMATION (Continued)**

|                                    | 2013               |                  |                    |            |
|------------------------------------|--------------------|------------------|--------------------|------------|
|                                    | Commercial segment | Projects segment | Investment segment | Total      |
| Segment revenue                    | 3,937,040          | 4,349,693        | 212,978            | 8,499,711  |
| Segment expense                    | 3,612,095          | 4,204,852        | -                  | 7,816,947  |
| Segment profit                     | 324,945            | 144,841          | 212,978            | 682,764    |
| Segment assets                     | 4,299,195          | 3,149,191        | 3,944,614          | 11,393,000 |
| Segment liabilities                | 790,798            | 2,014,769        | -                  | 2,805,567  |
| Depreciation                       | 137,116            | 173,344          | 12,943             | 323,403    |
| Purchase of property and equipment | 162,938            | 641              | 4,240              | 167,819    |

|                    | Year ended 31 December |                |
|--------------------|------------------------|----------------|
|                    | 2014                   | 2013           |
| <b>Adjustments</b> |                        |                |
| Segment profit     | 512,421                | 682,764        |
| Unallocated costs  | (45,308)               | (48,163)       |
| Segment profit     | <u>467,113</u>         | <u>634,601</u> |

**19 COMMITMENTS AND CONTINGENCES**

The Parent Company had letters of guarantee toward foreign purchases amounted to KD 5,019,631 (2013: KD 5,025,523). In addition, the Parent Company has guaranteed its associate against banking facilities amounting to KD 5,198,642 (31 December 2013: KD 9,488,965).