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

Interim Condensed Consolidated Financial Information and Independent Auditors' Review Report for the three month period ended 31 March 2016 (Unaudited)

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

Interim condensed consolidated financial information and independent auditors' review report (Unaudited)
For the three month period ended 31 March 2016

Index

Al-Shatti & Co.
Arraya Tower II, 23rd-24th floor, Sharq P.O. Box 1753
Safat 13018
Kuwait
Telephone: +965 22275777
Fax: +965 22275888

Russell Bedford
Bader Al Abduljader & Partners
Panasonic Tower, 18th Floor
Fahad Al Salem Street, Qibla
P.O. Box 5613, Safat 13057
Kuwait

T : +965 222 48717
F : +965 222 48715
www.russellbedford.com

TO THE BOARD OF DIRECTORS OF PALMS AGRO PRODUCTION COMPANY K.S.C.P

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Palms Agro Production Company K.S.C.P ("the parent company") and its subsidiary (together referred to as "the group") as at 31 March 2016 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three month period then ended. The parent company's management is responsible for the preparation and fair presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

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

Basis for qualified conclusion

The group investment in Al Dhafra Irrigation Systems L.L.C. "Al Dhafra"", a foreign associate accounted for using the equity method, is carried at KD 1,125,155 (31 December 2015: KD 1,123,729 and 31 March 2015: KD 1,237,355) on the interim condensed consolidated statement of financial position. The group share of Al Dhafra net income of KD 4,157 (31 March 2015: losses of KD 31,119), and the exchange differences arising on translation of foreign operations relating to Al Dhafra of KD 2,731 (31 March 2015: KD 28,003) are included in the interim condensed consolidated statement of comprehensive income. We were unable to review the carrying amount of the group investment in Al Dhafra as at 31 March 2016 and the group share of Al Dhafra net income and other comprehensive income for the period ended 31 March 2016. Had we been able to perform a review of Al Dhafra financial information for the three-month period ended 31 March 2016, matters might have come to our attention indicating that adjustments might be necessary to the condensed consolidated interim financial information.

Qualified conclusion

Except for the adjustments to the interim financial information that we might have become aware of had it not been the situation described in the "Basis for qualified conclusion" paragraph above, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim financial reporting'.

TO THE BOARD OF DIRECTORS OF PALMS AGRO PRODUCTION COMPANY K.S.C.P

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

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, nothing has come to our attention indicating that the interim condensed consolidated financial information is not in agreement with the books of accounts of the parent company. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies' Law No. 1 of 2016, provision of Law No. 7 of 2010 concerning the Capital Markets Authority and its related regulations, nor of the parent company's articles and memorandum of association during the three month period ended 31 March 2016 that might have had a material effect on the business of the group or on its financial position.

Khalid Ebrahim Al-Shatti
License 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

23 May 2016
Kuwait

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

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

	Notes	Three months ended 31 March 2016	Three months ended 31 March 2015
Revenue		**1,929,223**	2,623,990
Cost of revenue		**(1,425,953)**	(2,068,770)
Gross profit		**503,270**	555,220
Selling and marketing expenses	3	**(159,891)**	(191,605)
General and administrative expenses	4	**(182,548)**	(202,048)
Provision for impairment of receivables	6	**-**	(25,067)
Recovery of provision for impairment of receivables	6	**3,000**	-
Provision for obsolete and slow moving inventories		**(2,500)**	(4,700)
Operating profit		**161,331**	131,800
Investment (loss) / income	15	**(14,048)**	15,348
Share of results from investment in associate	5	**4,157**	(31,119)
Profit for the period before provisions for contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labor Support Tax ("NLST") and Zakat		**151,440**	116,029
Contribution to KFAS		**(1,514)**	(1,160)
NLST		**(4,336)**	(2,464)
Zakat		**(1,736)**	(985)
Profit for the period		**143,854**	111,420
Basic and diluted earnings per share	12	**2.75 fils**	2.13 fils

The accompanying notes on pages 8 to 14 form an integral part of this interim condensed consolidated financial information.

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

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

	Three months ended 31 March	
	2016	2015
Profit for the period	**143,854**	111,420
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translation of foreign operations	**(2,731)**	28,003
Total other comprehensive income for the period	**(2,731)**	28,003
Total comprehensive income for the period	**141,123**	139,423

The accompanying notes on pages 8 to 14 form an integral part of this interim condensed consolidated financial information.

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

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

	Notes	31 March 2016	31December 2015 (audited)	31 March 2015
Assets				
Current assets				
Cash and cash equivalents	7	**2,127,243**	1,641,920	2,179,239
Accounts receivable and prepayments	6	**4,893,626**	5,717,504	4,290,040
Amounts due from related parties	14	**20,172**	20,172	18,498
Inventories		**1,788,568**	1,738,821	1,978,309
		8,829,609	9,118,417	8,466,086
Non-current assets				
Property and equipment		**1,205,764**	1,248,514	1,403,936
Investment in associates	5	**1,158,155**	1,156,729	1,237,355
Financial assets at fair value through profit or loss	14	**80,299**	96,831	136,797
		2,444,218	2,502,074	2,778,088
Total assets		**11,273,827**	11,620,491	11,244,174
LIABILITIES AND EQUITY				
LIABILITIES				
Current liabilities				
Accounts payable and accruals	9	**1,361,295**	1,804,512	1,518,256
Advances on contracts		**102,825**	166,893	380,287
		1,464,120	1,971,405	1,898,543
Non-current liability				
Employees' end of service benefits		**686,033**	666,535	632,201
Total liabilities		**2,150,153**	2,637,940	2,530,744
EQUITY				
Share capital		**5,239,900**	5,239,900	5,239,900
Share premium		**225,000**	225,000	225,000
Treasury shares	11	**(3,573)**	(3,573)	(3,573)
Statutory reserve		**963,614**	963,614	866,513
General reserve		**963,614**	963,614	866,513
Foreign currency translation reserve		**89,898**	92,629	81,417
Retained earnings		**1,645,221**	1,501,367	1,437,660
Net equity		**9,123,674**	8,982,551	8,713,430
Total liabilities and equity		**11,273,827**	11,620,491	11,244,174

Bader Hamad Al-Rabiah
Chairman

Faisal Fares Al-Fares
Vice Chairman and CEO

The accompanying notes on pages 8 to 14 form an integral part of this interim condensed consolidated financial information.

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

	Share capital	Share premium	Treasury shares	Statutory reserve	General reserve	Foreign currency translation reserve	Retained earnings	Total
Balance as of 1 January 2016 (audited)	**5,239,900**	**225,000**	**(3,573)**	**963,614**	**963,614**	**92,629**	**1,501,367**	**8,982,551**
Total comprehensive income for the period	-	-	-	-	-	(2,731)	143,854	141,123
Balance as of 31 March 2016	**5,239,900**	**225,000**	**(3,573)**	**963,614**	**963,614**	**89,898**	**1,645,221**	**9,123,674**
Balance as of 1 January 2015 (audited)	5,239,900	225,000	(3,573)	866,513	866,513	53,414	1,326,240	8,574,007
Total comprehensive income for the period	-	-	-	-	-	28,003	111,420	139,423
Balance as of 31 March 2015	5,239,900	225,000	(3,573)	866,513	866,513	81,417	1,437,660	8,713,430

The accompanying notes on pages 8 to 14 form an integral part of this interim condensed consolidated financial information.

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

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

	Notes	Three months ended 31 March	
		2016	2015
Operating activities			
Profit for the period		**143,854**	111,420
Adjustments for:			
Depreciation		**69,602**	84,706
Murabaha income	15	**(2,484)**	(2,546)
Provision for impairment of receivables	6	**-**	25,067
Recovery of provision for impairment of receivables	6	**(3,000)**	-
Provision for obsolete and slow moving inventories		**2,500**	4,700
Share of results from investment in associate	5	**(4,157)**	31,119
Change in fair value of financial assets at fair value through profit or loss	15	**16,532**	(12,802)
Employees' end of service benefits		**21,216**	26,488
Operating profits before changes in working capital		**244,063**	268,152
Accounts receivable and prepayments		**826,878**	314,031
Inventories		**(52,247)**	(197,843)
Accounts payable and accruals		**(440,324)**	47,062
Advances on contracts		**(64,068)**	(238,039)
Employees' end of service benefits paid		**(1,718)**	(9,003)
Net cash generated from operating activities		**512,584**	184,360
Investing activities			
Purchase of property and equipment		**(26,852)**	(2,805)
Amounts due from related parties		**-**	(2)
Purchase of financial assets at fair value through profit or loss		**-**	(123,995)
Murabaha income received		**2,484**	2,546
Net cash used in investing activities		**(24,368)**	(124,256)
Financing activities			
Cash dividends paid		**(2,893)**	(1,770)
Net cash used in financing activities		**(2,893)**	(1,770)
Increase in cash and cash equivalents		**485,323**	58,334
Cash and cash equivalents at beginning of the period		**1,641,920**	2,120,905
Cash and cash equivalents at end of the period	7	**2,127,243**	2,179,239

1 GENERAL INFORMATION

Palms Agro Production Company K.S.C.P (the parent company) is a Kuwaiti 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 centers and practicing the professional of veterinary medicine, trading in the Kuwait stock exchange, breeding and trading of chicken and eggs and execution of construction contracts work.

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

The parent company is owned by Bayan Holding Company (K.S.C.) with 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.

The accompanying interim condensed consolidated financial information was authorised for issue in accordance with a resolution of the board of directors on 15 May 2016.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

This interim condensed consolidated financial information has been prepared in accordance with IAS 34, 'Interim financial reporting'. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards and should be read in conjunction with the annual financial statements for the year ended 31 December 2015. In the opinion of management all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included.

Operating results for the three month period ended 31 March 2016 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2016. For further information, refer to the annual audited financial statements for the year ended 31 December 2015.

2.2 Accounting policies

The accounting policies used in the preparation of the interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2015.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Judgements and estimates

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

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual audited consolidated financial statements as at and for the year ended 31 December 2015.

3 SELLING AND MARKETING EXPENSES

	Three months ended 31 March	
	2016	2015
Salaries and related costs	**122,233**	127,122
Depreciation	**29,858**	34,567
Others	**7,800**	29,916
	159,891	191,605

4 GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 31 March	
	2016	2015
Salaries and related costs	**59,990**	73,541
Depreciation	**3,176**	3,437
Rent	**34,563**	14,972
Maintenance and repair	**8,292**	6,436
Electricity and water	**7,835**	12,460
Insurance	**6,092**	16,250
Travelling expenses	**3,930**	21,599
Others	**58,670**	53,353
	182,548	202,048

5 INVESTMENT IN ASSOCIATES

The parent company has the following investment in associates:

		Equity Interest		
Name	**County of incorporation**	**31 March 2016**	31 December 2015 (Audited)	31 March 2015
Al Dhafra Irrigation Systems (L.L.C.)	United Arab Emirates	**33%**	33%	33%
Durra Al- Nakeel Real Estate Company W.L.L	Kuwait	**33%**	33%	-

5 INVESTMENT IN ASSOCIATE (Continued)

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

	31 March 2016	31 December 2015 (Audited)	31 March 2015
Opening balances	**1,156,729**	1,240,471	1,240,471
Share of results of associate	**4,157**	(127,957)	(31,119)
Impairment charged	**-**	(28,000)	-
Acquired during the period	**-**	33,000	-
Foreign currency translation adjustment	**(2,731)**	39,215	28,003
Ending balances	**1,158,155**	1,156,729	1,237,355

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

On 3 May 2015, the parent company participated in the incorporation of its newly established associate "Durra Al- Nakeel Real Estate Company W.L.L" with share capital amounting to KD 100,000 and equity interest of 33%. The associate's main activities are management, development, purchasing and selling of land and real estate. The associate did not start operations as at 31 March 2016.

6 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 March 2016	31 December 2015 (Audited)	31 March 2015
Trade receivables – gross	**2,542,803**	3,572,400	2,508,686
Provision for impairment of trade receivables	**(48,582)**	(51,582)	(53,076)
Trade receivables – net	**2,494,221**	3,520,818	2,455,610
Accrued income	**321,775**	238,196	139,351
Retentions receivable	**1,932,253**	1,778,139	1,425,013
Prepaid expenses	**25,730**	17,371	44,916
Advance payments	**68,705**	131,829	179,378
Other receivables	**50,942**	31,151	45,772
	4,893,626	5,717,504	4,290,040

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

	31 March 2016	31 December 2015 (Audited)	31 March 2015
Opening balance	**51,582**	28,009	28,009
Provision for impairment of receivables	**-**	25,369	25,067
Recovery of provision for impairment of receivables	**(3,000)**	(1,796)	-
	48,582	51,582	53,076

7 CASH AND CASH EQUIVALENTS

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

	31 March 2016	31 December 2015 (Audited)	31 March 2015
Bank balances	**1,014,707**	532,585	618,694
Cash on hand	**14,525**	13,825	14,024
Fixed deposits with original maturity less than 3 months	**1,096,308**	1,093,780	1,520,646
Cash held at portfolio	**1,703**	1,730	25,875
	2,127,243	1,641,920	2,179,239

Fixed deposits represent deposits with local financial institutions maturing within three months from date of placement with an average rate of profit of 0.9063% (31 December 2015: 0.6574% and 31 March 2015: 0.667%).

8 ANNUAL GENERAL ASSEMBLY

The Annual General Assembly of the parent company's shareholders held on 27 April 2016 approved the consolidated financial statements of the group for the year ended 31 December 2015 and the distribution of cash dividends of 10 fils per share for the year ended 31 December 2015 (31 December 2014: cash dividend of 10 fils per share).

9 ACCOUNTS PAYABLE AND ACCRUALS

	31 March 2016	31 December 2015 (Audited)	31 March 2015
Trade payable	**807,479**	1,034,869	780,640
Other payables	**197,871**	162,794	253,199
Accrued expenses	**174,948**	392,959	308,442
Dividends payable	**180,997**	183,890	175,975
Board of directors remuneration	**-**	30,000	-
	1,361,295	1,804,512	1,518,256

11 TREASURY SHARES

	31 March 2016	31 December 2015 (Audited)	31 March 2015
Number of shares	**83,200**	83,200	83,200
Percentage of issued shares	**0.16%**	0.16%	0.16%
Cost (KD)	**3,573**	3,573	3,573
Market Value (KD)	**9,485**	9,318	9,984

12 BASIC AND DILUTED EARNINGS PER SHARE

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

	Three months ended 31 March	
	2016	2015
Profit for the period (KD)	**143,854**	111,420
Weighted average number of ordinary shares outstanding during the period (excluding treasury shares)	**52,315,800**	52,315,800
Basic and diluted earnings per share	**2.75 fils**	2.13 fils

There are no potential dilutive shares.

13 FAIR VALUE ESTIMATION

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

1 Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the group's financial instruments that are measured at fair value on a recurring basis.

31 March 2016	**Level 1**	**Total**
Financial assets at fair value through profit or loss		
Quoted securities	**80,299**	**80,299**
31 December 2015		
Financial assets at fair value through profit or loss		
Quoted securities	96,831	96,831

(i) Financial instruments in level 1

The fair value of financial instruments carried at fair value on recurring basis traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the last bid price.

The fair value of financial assets and liabilities measured at amortised cost approximates their carrying amounts.

14 RELATED PARTY TRANSACTIONS AND BALANCES

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

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

	31 March 2016	31 December 2015 (Audited)	31 March 2015
Balances included in the interim condensed consolidated statement of financial position			
Amounts due from associate	**12,261**	12,261	10,593
Amounts due from the Ultimate Parent Company	**7,911**	7,911	7,905
Total	**20,172**	20,172	18,498
Financial assets at fair value through profit or loss - Al-Salbookh Trading Company K.S.C.P.	**80,299**	96,831	136,797

Key management compensation

	Three months ended 31 March 2016	Three months ended 31 March 2015
Short-term benefits	**12,000**	12,000
End of service benefits	**1,730**	1,730
	13,730	13,730

15 INVESTMENT (LOSS) / INCOME

	Three months ended 31 March 2016	Three months ended 31 March 2015
Murabaha Income	**2,484**	2,546
Change in fair value of financial assets at fair value through profit or loss	**(16,532)**	12,802
	(14,048)	15,348

16 SEGMENT INFORMATION

The group activities are organised in two 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.

	31 March 2016			
	Commercial segment	**Projects segment**	**Investment segment**	**Total**
Segment revenue	**705,068**	**1,227,155**	**(9,891)**	**1,922,332**
Segment expense	**695,106**	**1,075,786**	**-**	**1,770,892**
Segment profit	**9,962**	**151,369**	**(9,891)**	**151,440**
Segment assets	**4,564,144**	**4,353,046**	**2,356,637**	**11,273,827**
Segment liabilities	**788,283**	**1,361,870**	**-**	**2,150,153**
Depreciation	**41,144**	**28,458**	**-**	**69,602**
Purchase of property and equipment	**14,526**	**12,326**	**-**	**26,852**

	31 March 2015			
	Commercial segment	Projects segment	Investment segment	Total
Segment revenue	1,035,949	1,588,041	(15,771)	2,608,219
Segment expense	968,745	1,523,445	-	2,492,190
Segment profit/ loss	67,204	64,596	(15,771)	116,029
Segment assets	4,686,902	3,618,101	2,939,171	11,244,174
Segment liabilities	513,556	2,017,218	-	2,530,774
Depreciation	53,129	31,577	-	84,706
Purchase of property and equipment	2,606	199	-	2,805

	Three months ended 31 March	
	2016	2015
Adjustments		
Segment profit	**151,440**	116,029
Unallocated costs	**(7,586)**	(4,609)
Segment profit	**143,854**	111,420

17 CONTINGENCIES

The parent company had letters of guarantee towards foreign purchases amounting to KD 3,950,348 (31 December 2015: 4,368,001 and 31 March 2015: 5,381,911). In addition, the parent company has guaranteed its associate against banking facilities amounting to KD Nil. (31 December 2015: Nil and 31 March 2015: 4,527,515).