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

Interim Condensed Consolidated Financial Information and Independent Auditor's Review Report for the three month period ended 31 March 2017 (Unaudited)

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

Interim condensed consolidated financial information and independent auditor's review report (Unaudited)
For the three month period ended 31 March 2017

Index

pwc

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

Independent auditor's 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 2017 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's investment in Al Dhafra Irrigation Systems L.L.C "Al Dhafra", a foreign associate accounted for using the equity method, is carried at KD 825,003 (31 December 2016: KD 838,040 and 31 March 2016: KD 1,125,155) on the interim condensed consolidated statement of financial position. The group's share of Al Dhafra net losses of KD 9,634 (31 March 2016: income of KD 4,157), and the exchange differences arising on translation of foreign operations relating to Al Dhafra of KD 3,403 loss (31 March 2016: KD 2,731 loss) are included in the interim condensed consolidated statement of comprehensive income. We were unable to review the carrying amount of the group's investment in Al Dhafra as at 31 March 2017 and the group's share of Al Dhafra results and other comprehensive income for the period ended 31 March 2017. Had we been able to perform a review of Al Dhafra financial information for the three-month period ended 31 March 2017, matters might have come to our attention indicating that adjustments might be necessary to the interim condensed consolidated financial information.

Qualified conclusion

Except for the adjustments to the interim condensed consolidated 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 auditor's report on review of interim condensed consolidated financial information (Continued)

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the accounting records of the parent company. We further report that nothing has come to our attention indicating any contravention during the three month period ended 31 March 2017, of Companies Law no. 1 of 2016 and its executive bylaws, nor of the parent company's articles of association, that might have had material effect on the parent company's activities or on its financial position.

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

22 May 2017
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 2017	2016
Revenue		**1,032,970**	1,911,005
Cost of revenue		**(701,019)**	(1,425,953)
Gross profit		**331,951**	485,052
Change in fair value of biological assets		**8,694**	18,218
Selling and marketing expenses	3	**(155,345)**	(159,891)
General and administrative expenses	4	**(145,914)**	(185,048)
Other income		**-**	3,000
Operating profit		**39,386**	161,331
Investment income / (loss)	14	**12,837**	(14,048)
Share of results of associate	5	**(9,634)**	4,157
Profit for the period before provisions for contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labor Support Tax ("NLST") and Zakat		**42,589**	151,440
Contribution to KFAS		**(426)**	(1,514)
NLST		**(778)**	(4,336)
Zakat		**(1,571)**	(1,736)
Profit for the period		**39,814**	143,854
Basic and diluted earnings per share	11	**0.76 fils**	2.75 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	
	2017	2016
Profit for the period	**39,814**	143,854
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translation of foreign operations	**(3,403)**	(2,731)
Total other comprehensive loss for the period	**(3,403)**	(2,731)
Total comprehensive income for the period	**36,411**	141,123

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 2017	31December 2016 (audited)	31 March 2016
Assets				
Non-current assets				
Property and equipment		**1,045,738**	1,095,724	1,205,764
Investment in associates	5	**858,003**	871,040	1,158,155
Accounts receivable and prepayments	6	**2,004,506**	1,944,355	1,925,771
		3,908,247	3,911,119	4,289,690
Current assets				
Inventories		**1,574,351**	1,520,923	1,461,340
Biological assets		**441,272**	365,456	327,228
Amounts due from related parties	13	**21,172**	185,452	20,172
Accounts receivable and prepayments	6	**2,437,293**	2,664,261	2,967,855
Financial assets at fair value through profit or loss	12	**83,842**	76,757	80,299
Cash and cash equivalents	7	**2,746,903**	2,582,226	2,127,243
		7,304,833	7,395,075	6,984,137
Total assets		**11,213,080**	11,306,194	11,273,827
EQUITY AND LIABILITIES				
EQUITY				
Share capital		**5,239,900**	5,239,900	5,239,900
Share premium		**225,000**	225,000	225,000
Treasury shares	10	**(3,573)**	(3,573)	(3,573)
Statutory reserve		**1,033,497**	1,033,497	963,614
General reserve		**1,033,497**	1,033,497	963,614
Foreign currency translation reserve		**95,364**	98,767	89,898
Retained earnings		**1,523,755**	1,483,941	1,645,221
Net equity		**9,147,440**	9,111,029	9,123,674
LIABILITIES				
Non-current liability				
Employees' end of service benefits		**669,823**	680,301	686,033
Current liabilities				
Advances on contracts		**53,818**	81,296	102,825
Accounts payable and accruals	9	**1,341,999**	1,433,568	1,361,295
		1,395,817	1,514,864	1,464,120
Total liabilities		**2,065,640**	2,195,165	2,150,153
Total equity and liabilities		**11,213,080**	11,306,194	11,273,827

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 2017 (audited)	**5,239,900**	**225,000**	**(3,573)**	**1,033,497**	**1,033,497**	**98,767**	**1,483,941**	**9,111,029**
Total comprehensive income for the period	-	-	-	-	-	(3,403)	39,814	36,411
Balance as of 31 March 2017	**5,239,900**	**225,000**	**(3,573)**	**1,033,497**	**1,033,497**	**95,364**	**1,523,755**	**9,147,440**
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

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 2017	2016
Operating activities			
Profit for the period		**39,814**	143,854
Adjustments for:			
Depreciation		**55,712**	69,602
Murabaha income	15	**(5,752)**	(2,484)
Recovery of provision for impairment of receivables	6	**-**	(3,000)
Provision for obsolete and slow moving inventories and biological assets		**5,825**	2,500
Share of results from investment in associate	5	**9,634**	(4,157)
Change in fair value of financial assets at fair value through profit or loss	15	**(7,085)**	16,532
Employees' end of service benefits		**20,364**	21,216
Operating profits before changes in working capital		**118,512**	244,063
Accounts receivable and prepayments		**166,817**	826,878
Inventories		**(65,133)**	19,462
Biological assets		**(69,936)**	(71,709)
Accounts payable and accruals		**(90,432)**	(440,324)
Advances on contracts		**(27,478)**	(64,068)
Employees' end of service benefits paid		**(30,842)**	(1,718)
Net cash generated from operating activities		**1,508**	512,584
Investing activities			
Purchase of property and equipment		**(5,726)**	(26,852)
Amounts due from related parties		**164,280**	-
Murabaha income received		**5,752**	2,484
Net cash generated from / (used in) investing activities		**164,306**	(24,368)
Financing activities			
Cash dividends paid		**(1,137)**	(2,893)
Net cash used in financing activities		**(1,137)**	(2,893)
Increase in cash and cash equivalents		**164,677**	485,323
Cash and cash equivalents at beginning of the period		**2,582,226**	1,641,920
Cash and cash equivalents at end of the period	7	**2,746,903**	2,127,243

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

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 a subsidiary of Bayan Holding Company (K.S.C.) ("ultimate parent company") 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 2017.

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 2016. 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 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017. For further information, refer to the annual audited financial statements for the year ended 31 December 2016.

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 2016, except for the adoption of the amendments and annual improvements to IFRSs, relevant to the group which are effective for annual reporting period starting from 1 January 2017 and did not result in any material impact on the accounting policies, financial position or performance of the group.

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 2016.

3 SELLING AND MARKETING EXPENSES

	Three months ended 31 March	
	2017	2016
Salaries and related costs	**120,338**	122,233
Depreciation	**28,584**	29,858
Others	**6,423**	7,800
	155,345	159,891

4 GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 31 March	
	2017	2016
Salaries and related costs	**76,500**	59,990
Depreciation	**3,048**	3,176
Rent	**1,394**	34,563
Maintenance and repair	**9,685**	8,292
Electricity and water	**8,100**	7,835
Insurance	**1,050**	6,092
Travelling expenses	**2,575**	3,930
Provision for obsolete and slow moving inventories and biological assets	**5,825**	2,500
Others	**37,737**	58,670
	145,914	185,048

5 INVESTMENT IN ASSOCIATES

The parent company has the following investment in associates:

Name	County of incorporation	Equity Interest 31 March 2017	31 December 2016 (Audited)	31 March 2016
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%	33%

5 INVESTMENT IN ASSOCIATES (Continued)

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

	31 March 2017	31 December 2016 (Audited)	31 March 2016
Opening balances	**871,040**	1,156,729	1,156,729
Share of results of associate	**(9,634)**	34,252	4,157
Declared dividends	**-**	(326,079)	-
Foreign currency translation adjustment	**(3,403)**	6,138	(2,731)
Ending balances	**858,003**	871,040	1,158,155

6 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 March 2017	31 December 2016 (Audited)	31 March 2016
Non-current			
Retentions receivable	**2,004,506**	1,944,355	1,925,771
Current			
Trade receivables – gross	**1,822,290**	1,863,074	2,542,803
Provision for impairment of trade receivables	**(45,625)**	(45,625)	(48,582)
Trade receivables – net	**1,776,665**	1,817,449	2,494,221
Accrued income	**450,225**	606,681	321,775
Retentions receivable	**113,981**	113,981	6,482
Prepaid expenses	**21,004**	9,101	25,730
Advance payments	**47,017**	59,741	68,705
Other receivables	**28,401**	57,308	50,942
	2,437,293	2,664,261	2,967,855

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

	31 March 2017	31 December 2016 (Audited)	31 March 2016
Opening balance	**45,625**	51,582	51,582
Provision write off	**-**	(457)	-
Recovery of provision for impairment of receivables	**-**	(5,500)	(3,000)
	45,625	45,625	48,582

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 2017	31 December 2016 (Audited)	31 March 2016
Bank balances	**864,889**	705,462	1,014,707
Cash on hand	**12,945**	13,025	14,525
Fixed deposits with original maturity less than 3 months	**1,861,570**	1,856,210	1,096,308
Cash held at portfolio	**7,499**	7,529	1,703
	2,746,903	2,582,226	2,127,243

Fixed deposits represent deposits with local financial institutions maturing within three months from date of placement with an average rate of profit of 1.125% (31 December 2016: 1.0357% and 31 March 2016: 0.9063%).

8 ANNUAL GENERAL ASSEMBLY

The Annual General Assembly of the parent company's shareholders did not meet yet to approve the consolidated financial statements for the year ended 31 December 2016 and the recommendations proposed by the board of directors as disclosed in the consolidated financial statements for the year ended 31 December 2016.

9 ACCOUNTS PAYABLE AND ACCRUALS

	31 March 2017	31 December 2016 (Audited)	31 March 2016
Trade payables	**405,391**	398,937	807,479
Retention payables	**180,728**	180,728	-
Other payables	**35,781**	116,120	197,871
Accrued expenses	**532,325**	528,872	174,948
Dividends payable	**187,774**	188,911	180,997
Board of directors remuneration	**-**	20,000	-
	1,341,999	1,433,568	1,361,295

10 TREASURY SHARES

	31 March 2017	31 December 2016 (Audited)	31 March 2016
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)	**8,653**	7,904	9,485

11 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	
	2017	2016
Profit for the period (KD)	**39,814**	143,854
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	**0.76 fils**	2.75 fils

There are no potential dilutive shares.

12 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.

	Level 1	**Total**
31 March 2017		
Financial assets at fair value through profit or loss		
Quoted securities	**83,842**	**83,842**
31 December 2016		
Financial assets at fair value through profit or loss		
Quoted securities	76,757	76,757
31 March 2016		
Financial assets at fair value through profit or loss		
Quoted securities	80,299	80,299

(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.

13 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties comprise of the shareholders of the parent company who are represented in the board of directors, major shareholders and the companies in which any of its members is in the same time a board member in the parent company's board of directors, associated companies, directors and key management personnel of the parent company, and entities controlled, jointly controlled or significantly influenced by such parties. In the ordinary course of business, the group has carried some transactions during the 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 2017	31 December 2016 (Audited)	31 March 2016
Balances included in the interim condensed consolidated statement of financial position			
Amounts due from associate	**12,261**	176,541	12,261
Amounts due from the Ultimate Parent Company	**8,911**	8,911	7,911
Total	**21,172**	185,452	20,172
Financial assets at fair value through profit or loss - Al-Salbookh Trading Company K.S.C.P.	**83,842**	76,757	80,299

Key management compensation

	Three months ended 31 March 2017	Three months ended 31 March 2016
Short-term benefits	**12,000**	12,000
End of service benefits	**1,730**	1,730
	13,730	13,730

14 INVESTMENT INCOME / (LOSS)

	Three months ended 31 March 2017	Three months ended 31 March 2016
Murabaha income	**5,752**	2,484
Change in fair value of financial assets at fair value through profit or loss	**7,085**	(16,532)
	12,837	(14,048)

15 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.

15 SEGMENT INFORMATION (Continued)

	31 March 2017			
	Commercial segment	**Projects segment**	**Investment segment**	**Total**
Segment revenue	**569,019**	**472,645**	**3,203**	**1,044,867**
Segment expense	**565,356**	**436,922**	**-**	**1,002,278**
Segment profit	**3,663**	**35,723**	**3,203**	**42,589**
Depreciation	**27,208**	**28,504**	**-**	**55,712**
Purchase of property and equipment	**5,366**	**360**	**-**	**5,726**

	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/ loss	9,962	151,369	(9,891)	151,440
Depreciation	41,144	28,458	-	69,602
Purchase of property and equipment	14,526	12,326	-	26,852

	Three months ended 31 March	
	2017	2016
Adjustments		
Segment profit	**42,589**	151,440
Unallocated costs	**(2,775)**	(7,586)
Segment profit	**39,814**	143,854

Segmental distribution of assets and liabilities

	Commercial segment	**Projects segment**	**Investment segment**	**Total**
Total segment assets				
31 March 2017	**4,546,481**	**3,834,513**	**2,832,086**	**11,213,080**
31 December 2016	4,447,812	3,861,394	2,996,988	11,306,194
31 March 2016	4,564,144	4,353,046	2,356,637	11,273,827

	Commercial segment	**Projects segment**	**Investment segment**	**Total**
Total segment liabilities				
31 March 2017	**797,997**	**1,267,643**	**-**	**2,065,640**
31 December 2016	904,615	1,290,550	-	2,195,165
31 March 2016	788,283	1,361,870	-	2,150,153

16 CONTINGENCIES

The parent company had letters of guarantee towards foreign purchases amounting to KD 3,601,671 (31 December 2016: 3,805,841 and 31 March 2016: 3,950,348).