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

Consolidated Financial Statements and Independent Auditor's Report

For the year ended 31 December 2017

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For the year ended 31 December 2017

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Independent auditor's report to the Shareholders of Palms Agro Production Company K.S.C.P

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated 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 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of income for the year ended 31 December 2017;
- the consolidated statement of comprehensive income for the year ended 31 December 2017;
- the consolidated statement of financial position as at 31 December 2017
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the State of Kuwait. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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Independent auditor's report to the shareholders of Palms Agro Production Company K.S.C.P (Continued)

Report on the audit of the consolidated financial statements (Continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment of investment in associate 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 458,900 in the consolidated statement of financial position as at 31 December 2017. Al Dhafra experienced a significant down-turn in trading for the year ended 31 December 2017 that management considered to be an indicator of impairment in accordance with IAS 36, 'Impairment of assets'. Management considered the Group's share of the adjusted net book value of Al Dhafra to be its recoverable amount. Accordingly, management recorded an impairment loss against the carrying value of Al Dhafra amounting to KD 100,250 to offset the goodwill amount included in the carrying value of Al Dhafra. This area was important to our audit because of the significant judgments involved in determining the recoverable amount of Al Dhafra and the materiality to the consolidated statement of income of the impairment amount this year. Refer to note 6 to the consolidated financial statements for the related disclosures.	**Our audit procedures in this area included, among others:** • We obtained Al Dhafra's audited financial statements for the year ended 31 December 2017. • We discussed with management the reasons behind the significant down-turn in trading of Al Dhafra and management's long term view of its operations to help determine the need for a possible impairment provision. • We tested the adjustments made by management to the net book value of Al Dhafra to account for the uncertainty relating to certain contract receivables held by Al Dhafra. • We recalculated the Group's share of Al Dhafra's adjusted net book value. • We compared the adjusted net book value with the fair value less cost of disposal of each individual asset and liability of Al Dhafra and recomputed the required impairment provision.

Other information

Management is responsible for the other information. The other information comprises the report of the Board of Directors (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Group's complete Annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Group's complete Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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Independent auditor's report to the shareholders of Palms Agro Production Company K.S.C.P (Continued)

Report on the audit of the consolidated financial statements (Continued)

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent auditor's report to the shareholders of Palms Agro Production Company K.S.C.P (Continued)

Report on the audit of the consolidated financial statements (Continued)

Auditor's responsibilities for the audit of the consolidated financial statements (Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all 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. 1 of 2016, its executive bylaws and by the Parent Company's Memorandum and Articles of Association that an inventory count was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies' Law no. 1 of 2016, its executive bylaws nor of the Parent Company's Memorandum and Articles of Association have occurred during the year ended 31 December 2017 that might have had a material effect on the business of the Group or on its consolidated financial position.

Ahmed Mohammed Abdulrahman Al-Rasheed
Licence No. 39 A
PricewaterhouseCoopers
(Al-Shatti & Co.)

8 April 2018
Kuwait

Consolidated statement of income
(All amounts in Kuwaiti Dinars unless otherwise stated)

	Notes	Year ended 31 December 2017	2016
Revenue		**3,752,527**	6,395,604
Cost of revenue	12	**(2,779,305)**	(4,418,319)
Gross profit		**973,222**	1,977,285
Change in fair value of biological assets	8	**47,677**	80,368
Selling and marketing expenses	13	**(578,499)**	(628,443)
General and administrative expenses	14	**(604,046)**	(773,610)
Operating (loss) / profit		**(161,646)**	655,600
Investment income / (loss)	15	**6,604**	(6,357)
Impairment of investment in associate	6	**(100,250)**	-
Share of results of associate	6	**(271,130)**	34,252
Other income		**7,700**	15,330
(Loss) / 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		**(518,722)**	698,825
Contribution to KFAS		-	(7,188)
NLST		-	(18,671)
Zakat		-	(7,468)
Board of directors remuneration		-	(20,000)
(Loss) / profit for the year		**(518,722)**	645,498
Basic and diluted earnings per share	16	**(9.92) Fils**	12.34 Fils

The accompanying `s set out on pages 10 to 34 form an integral part of these consolidated financial statements

Consolidated statement of comprehensive income
(All amounts in Kuwaiti Dinars unless otherwise stated)

	Year ended 31 December	
	2017	2016
(Loss) / profit for the year	**(518,722)**	645,498
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translation of foreign operations	**(7,760)**	6,138
Total other comprehensive (loss) / income	(7,760)	6,138
Total comprehensive (loss) / income for the year	(526,482)	651,636

Consolidated statement of financial position
(All amounts in Kuwaiti Dinars unless otherwise stated)

	Notes	As at 31 December 2017	2016
ASSETS			
Non-current assets			
Property and equipment	5	**935,102**	1,095,724
Investment in associates	6	**491,900**	871,040
Accounts receivable and prepayments	9	**1,152,622**	1,944,355
		2,579,624	3,911,119
Current assets			
Inventories	7	**1,393,714**	1,520,923
Biological assets	8	**393,065**	365,456
Amounts due from related parties	17	**21,172**	185,452
Accounts receivable and prepayments	9	**3,337,475**	2,664,261
Financial assets at fair value through profit or loss		**62,586**	76,757
Term deposit		**252,532**	-
Cash and cash equivalents	10	**1,922,032**	2,582,226
		7,382,576	7,395,075
Total assets		**9,962,200**	11,306,194
EQUITY AND LIABILITIES			
EQUITY			
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	**1,033,497**	1,033,497
General reserve	16	**1,033,497**	1,033,497
Foreign currency translation reserve		**91,007**	98,767
Retained earnings		**442,061**	1,483,941
Net equity		**8,061,389**	9,111,029
LIABILITIES			
Non- current liability			
Employees' end of service benefits		**595,177**	680,301
Current liabilities			
Advances on contracts		**132,028**	81,296
Accounts payable and accruals	11	**1,173,606**	1,433,568
		1,305,634	1,514,864
Total liabilities		**1,900,811**	2,195,165
Total equity and liabilities		**9,962,200**	11,306,194

Bader Hamad Al-Rabiah
Chairman

Faisal Fares Al-Fares
Vice Chairman and CEO

The accompanying 's set out on pages 10 to 34 form an integral part of these consolidated financial statements

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
Balance as at 1 January 2016	5,239,900	225,000	(3,573)	963,614	963,614	92,629	1,501,367	8,982,551
Profit for the year	-	-	-	-	-	-	645,498	645,498
Other comprehensive income for the year	-	-	-	-	-	6,138	-	6,138
Total comprehensive income for the year	-	-	-	-	-	6,138	645,498	651,636
Dividends distributed (note 16)	-	-	-	-	-	-	(523,158)	(523,158)
Transfer to reserves	-	-	-	69,883	69,883	-	(139,766)	-
Balance as at 31 December 2016	5,239,900	225,000	(3,573)	1,033,497	1,033,497	98,767	1,483,941	9,111,029
Loss for the year	-	-	-	-	-	-	(518,722)	(518,722)
Other comprehensive loss for the year	-	-	-	-	-	(7,760)	-	(7,760)
Total comprehensive loss for the year	-	-	-	-	-	**(7,760)**	**(518,722)**	**(526,482)**
Dividends distributed (note 16)	-	-	-	-	-	-	(523,158)	(523,158)
Balance as at 31 December 2017	**5,239,900**	**225,000**	**(3,573)**	**1,033,497**	**1,033,497**	**91,007**	**442,061**	**8,061,389**

The accompanying `s set out on pages 10 to 34 form an integral part of these consolidated financial statements

Consolidated statement of cash flows
(All amounts in Kuwaiti Dinars unless otherwise stated)

	Notes	Year ended 31 December 2017	2016
Operating activities			
(Loss) / profit for the year		**(518,722)**	645,498
Adjustments for:			
Depreciation	5	**206,004**	254,538
Murabaha income	15	**(20,775)**	(13,717)
Gain on disposal of property and equipment		**(7,700)**	(15,330)
Impairment of investment in associate	6	**100,250**	-
Recovery of provision for impairment of receivables	9	**-**	(5,500)
Provision for obsolete and slow moving inventories and biological assets	7 & 8	**29,050**	18,726
Share of results of associates	6	**271,130**	(34,252)
Change in fair value of financial assets at fair value	15	**14,171**	20,074
Employees' end of service benefits		**79,562**	85,182
Operating profits before changes in working capital		**152,970**	955,219
Inventories		**98,802**	(63,026)
Biological assets		**(28,252)**	(103,258)
Accounts receivable and prepayments		**118,519**	1,114,388
Accounts payable and accruals		**(276,933)**	(375,965)
Advances on contracts		**50,732**	(85,597)
Employees' end of service benefits paid		**(164,686)**	(71,416)
Net cash (used in) / generated from operating activities		**(48,848)**	1,370,345
Investing activities			
Purchase of property and equipment	5	**(45,382)**	(104,794)
Proceeds from disposal of property and equipment		**7,700**	18,376
Amounts due from related parties		**164,280**	(1,000)
Term deposit		**(252,532)**	-
Dividends received from associate	6	**-**	161,799
Murabaha income received		**20,775**	13,717
Net cash (used in) / generated from investing activities		**(105,159)**	88,098
Financing activities			
Cash dividends paid		**(506,187)**	(518,137)
Net cash used in financing activities		**(506,187)**	(518,137)
(Decrease) / increase in cash and cash equivalents		**(660,194)**	940,306
Cash and cash equivalents at beginning of the year		**2,582,226**	1,641,920
Cash and cash equivalents at end of the year	10	**1,922,032**	2,582,226

The accompanying `s set out on pages 10 to 34 form an integral part of these consolidated financial statements

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.

According to the decision No. 69 of 2017 dated 14 May 2017 of the Capital Markets Authority, the Authority transferred the listing of Parent Company's shares from the main market to the parallel market on the Kuwait Stock Exchange as of 16 May 2017.

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 2 June 2019.

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 1 April 2018 and are subject to the approval of the Annual General Assembly of the shareholders.

The Parent Company had a total employees of 415 as at 31 December 2017 (31 December 2016: 639 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

(i) Compliance with IFRS
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention
The consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of financial assets at fair value through profit or loss and biological assets.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The Group has adopted all standards, amendments and improvements which came effective for the first time for the financial period beginning on or after 1 January 2017 and none resulted in a significant impact on the consolidated financial statements.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

'IFRS 9 – Financial instruments'

IFRS 9, 'Financial instruments', addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and liabilities and is not expecting a significant impact upon adoption of the new standard on 1 January 2018.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect any significant impact on allowance for doubtful debt for trade receivables.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The new standard must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard.

'IFRS 15 – Revenue from contracts with customers'

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

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' (continued)

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management has assessed the effects of applying the new standard on the Group's consolidated financial statements and has identified that there will be no significant impact on revenue for the period when the standard is adopted.

The new standard is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

'IFRS 16 – Leases'

'IFRS 16, Leases' will affect primarily the accounting by lessees and will result in the recognition of almost all leases on consolidated statement of financial position. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The consolidated statement of income will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change. Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows. The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted only if IFRS 15 is adopted at the same time. The Group is yet to assess the impact of IFRS 16.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (continued)

2.2 Consolidation (continued)

(a) Subsidiaries (continued)

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.

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 consolidated statement of income.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (continued)

(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.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(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 and financial assets at fair value through profit or loss. 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'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Financial assets (continued)

2.5.1 Classification (continued)

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.

(b) Financial assets at fair value through profit and loss

Financial assets are classified as at fair value through profit and loss when the financial asset is either held for trading or it is designated as at fair value through profit and loss.

Financial assets at fair value through profit and loss are stated at fair value, with any gains or losses arising on remeasurement recognised in consolidated statement of income. The net gain or loss recognised in consolidated statement of income incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in (note 3.3).

2.5.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. 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 the risks and rewards of ownership.

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 Measurement

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 carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of income.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statement of income in the period in which they arise.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Financial assets (continued)

2.5.5 Impairment of financial assets

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.

(a) Assets carried at amortised cost
For loans and receivables, 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 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 consolidated statement of income.

2.6 Inventories and biological assets

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 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%

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property and equipment (continued)

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.

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".

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Leases (continued)

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.

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.

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 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	
	2017	2016
	KD (equivalent)	KD (equivalent)
US dollar	**21,124**	(17,427)
EURO	**(121,825)**	(155,474)
AED	**12,261**	176,541

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 AED with all other variables held constant, on the (loss) / profit and equity for the year (due to the fair value of currency sensitive monetary assets and liabilities).

	Change in Currency rate	***Effect on (loss) / profit and equity***
31 December 2017		
US Dollar	**+5%**	**(1,056)**
EURO	**+5%**	**6,091**
AED	**+5%**	**(613)**
31 December 2016		
US Dollar	+5%	871
EURO	+5%	7,774
AED	+5%	(8,827)

The decrease in currency rate will have the opposite effect on (loss) / profit and equity.

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, term deposits, 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	
Loans and receivables	**2017**	2016
Amounts due from related parties	**21,172**	185,452
Accounts receivable	**4,416,977**	4,539,774
Bank balances, term deposit and cash held at portfolio	**2,162,194**	2,569,201
	6,600,343	7,294,427

(i) 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	
	2017	2016
Geographic region:		
Kuwait	**6,588,082**	7,117,886
United Arab emirates	**12,261**	176,541
Total	**6,600,343**	7,294,427
Industry sector:		
Banks and other financial institutions	**2,162,194**	2,569,201
Others	**12,261**	176,541
Contracting and commercial customers	**4,425,888**	4,548,685
Total	**6,600,343**	7,294,427

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) 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**
31 December 2017			
Amounts due from related parties	-	**21,172**	**21,172**
Accounts receivable	-	**3,929,495**	**3,929,495**
Bank balances, term deposit and cash held at portfolio	**2,154,769**	**7,425**	**2,162,194**
Total	**2,154,769**	**3,958,092**	**6,112,861**

	Neither past due nor impaired		
	Rated	Not rated	Total
31 December 2016			
Amounts due from related parties	-	185,452	185,452
Accounts receivable	-	3,963,195	3,963,195
Bank balances, term deposit and cash held at portfolio	2,561,672	7,529	2,569,201
Total	2,561,672	4,156,176	6,717,848

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(ii) Credit quality of financial instruments (continued)

Analysis by credit quality of financial assets is as follows:

	As at 31 December	
	2017	2016
Accounts receivable		
Neither past due nor impaired:		
Accounts receivable and prepayments from small or medium-sized companies	**3,929,495**	3,963,195
Total neither past due nor impaired	**3,929,495**	3,963,195
Past due but not impaired		
90-180 days overdue	**303,233**	368,480
180-270 days overdue	**144,858**	127,971
270-360 days overdue	**39,391**	73,100
More than 360 days over due	**-**	7,028
Total past due but not impaired	**487,482**	576,579
Individually determined to be impaired		
More than 360 days over due	**45,625**	45,625
Provision for impairment of accounts receivable	**(45,625)**	(45,625)
Total accounts receivable, net of provision for doubtful debt	**4,416,977**	4,539,774
Due from related parties, neither past due nor impaired	**21,172**	185,452
Bank balances, term deposit and cash held at portfolio, neither past due nor impaired	**2,162,194**	2,569,201

(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 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value measurement

The fair value of financial assets and liabilities carried at amortised cost approximates fair value.

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

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 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 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's financial instruments that are measured at fair value on a recurring basis at 31 December:

	Level 1	*Total*
31 December 2017		
Financial assets at fair value through profit or loss		
Quoted securities	**62,586**	**62,586**

	Level 1	*Total*
31 December 2016		
Financial assets at fair value through profit or loss		
Quoted securities	76,757	76,757

There were no transfers between levels during the year.

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:

(a) 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) 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.

(c) 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.

5 PROPERTY AND EQUIPMENT

	Buildings and greenhouse	Equipment and motor vehicles	Store fabrication, furniture and computers	Total
At 1 January 2016				
Cost	2,005,459	1,878,756	419,435	4,303,650
Accumulated depreciation	(1,111,210)	(1,622,368)	(321,558)	(3,055,136)
Net book amount	894,249	256,388	97,877	1,248,514
Year ended 31 December 2016				
Opening net book amount	894,249	256,388	97,877	1,248,514
Additions	30,550	40,983	33,261	104,794
Disposal	-	(27,086)	-	(27,086)
Depreciation charge	(101,991)	(117,820)	(34,727)	(254,538)
Transfers	-	24,040	-	24,040
Closing net book amount	822,808	176,505	96,411	1,095,724
At 31 December 2016				
Cost	2,036,009	1,892,653	452,696	4,381,358
Accumulated depreciation	(1,213,201)	(1,716,148)	(356,285)	(3,285,634)
Net book amount	822,808	176,505	96,411	1,095,724
Year ended 31 December 2017				
Opening net book amount	**822,808**	**176,505**	**96,411**	**1,095,724**
Additions	7,946	30,682	6,754	45,382
Disposal	-	(30,750)	-	(30,750)
Depreciation charge	(103,620)	(73,504)	(28,880)	(206,004)
Depreciation related to the disposal	-	30,750	-	30,750
Closing net book amount	**727,134**	**133,683**	**74,285**	**935,102**
At 31 December 2017				
Cost	2,043,955	1,892,585	459,450	4,395,990
Accumulated depreciation	(1,316,821)	(1,758,902)	(385,165)	(3,460,888)
Net book amount	**727,134**	**133,683**	**74,285**	**935,102**

Depreciation charge for the current year is allocated as follows: KD 88,014 (2016: KD 123,081) to cost of revenue, KD 10,953 (2016: KD 12,475) to general and administrative expenses and KD 107,037 (2016: KD 118,982) to selling and marketing expenses.

6 INVESTMENT IN ASSOCIATES

Details of the Group's share in associates are as follows:

Name	Country of incorporation	Assets	Goodwill	Liabilities	Revenues	(Loss) / profit for the year	Equity interest
31 December 2017							
Al Dhafra Irrigation Systems (L.L.C.)	United Arab Emirates	839,106	-	380,206	481,534	(271,130)	33%
Durra Al- Nakeel Real Estate Company W.L.L	Kuwait	33,000	-	-	-	-	33%
31 December 2016							
Al Dhafra Irrigation Systems (L.L.C.)	United Arab Emirates	1,486,524	100,250	748,734	1,269,604	34,252	33%
Durra Al- Nakeel Real Estate Company W.L.L	Kuwait	33,000	-	-	-	-	33%

– The associate "Durra Al- Nakeel Real Estate Company W.L.L" 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 December 2017.
– The other associate "Al Dhafra Irrigation Systems (L.L.C.)" is engaged in the operation and maintenance business for landscape, irrigation, forest and associated infrastructure.
– The Parent Company's investment in the associates is accounted for using the equity method.
– The associates are unlisted companies and there are no quoted market price available for their shares.

Following are summary of the recent financial information available for the significant associate "Al Dhafra Irrigation Systems (L.L.C.)":

Summarised statement of profit or loss:

	Year ended 31 December	
	2017	2016
Revenues	**1,459,194**	3,847,284
Expenses	**(2,280,800)**	(3,743,490)
(Loss) / profit for the year	**(821,606)**	103,794
Total comprehensive (loss) / profit	**(821,606)**	103,794

Summarised statement of financial position as at 31 December:

	As at 31 December	
	2017	2016
Current assets	**2,387,262**	3,275,382
Current liabilities	**(800,773)**	(1,744,091)
Non - current assets	**155,484**	1,229,237
Non - current liabilities	**(351,366)**	(524,801)
Net assets	**1,390,607**	2,235,727

6 INVESTMENT IN ASSOCIATE (Continued)

Reconciliation of the summarized financial information:

	Year ended 31 December	
	2017	2016
Opening balances	**871,040**	1,156,729
Share of results	**(271,130)**	34,252
Impairment charged	**(100,250)**	-
Declared dividends	**-**	(326,079)
Foreign currency translation adjustment	**(7,760)**	6,138
Ending balances	**491,900**	871,040

The Group has recorded its share of results of the investment in associate "Al Dhafra Irrigation Systems (L.L.C.)" based on the audited financial statements of the associate for the year ended 31 December 2017.

During the year, as a result of the significant down-turn in trading of "Al Dhafra Irrigation Systems (L.L.C.)", management of the Group recorded an impairment of investment in associate amounting to KD 100,250 (2016: KD nil).

7 INVENTORIES

	As at 31 December	
	2017	2016
Goods available for sale	**1,644,787**	1,743,589
Less: Provision for obsolete and slow moving inventories	**(251,073)**	(222,666)
	1,393,714	1,520,923

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

	Year ended 31 December	
	2017	2016
Opening balance	**222,666**	197,261
Provision charge for the year	**28,407**	25,405
	251,073	222,666

8 BIOLOGICAL ASSETS

	As at 31 December	
	2017	2016
Consumable biological assets	**335,933**	324,520
Bearer biological assets	**79,034**	62,195
Total	**414,967**	386,715
Less: Provision for biological assets	**(21,902)**	(21,259)
Net	**393,065**	365,456

8 BIOLOGICAL ASSETS (CONTINUED)

The movement of the biological assets is as follows:

	Year ended 31 December	
	2017	2016
Opening balance	**386,715**	283,457
Change in fair value due to biological transformation	**37,174**	42,300
Change in fair value due to price changes	**10,503**	38,068
Purchases	**118,302**	122,417
Disposals	**(137,727)**	(99,527)
Ending balance	**414,967**	386,715

The movement of the provision for biological assets is as follows:

	Year ended 31 December	
	2017	2016
Opening balance	**21,259**	27,938
Provision charge for the year	**643**	-
Reversal of provision	**-**	(6,679)
	21,902	21,259

The fair value of biological assets is considered level 3 valuation determined based on inputs of the market prices, average weight and quality of the assets.

9 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	As at 31 December	
	2017	2016
Non-current		
Retentions receivable	**1,152,622**	1,944,355
Current		
Trade receivables	**1,852,856**	1,863,074
Less: Provision for impairment of trade receivables	**(45,625)**	(45,625)
Trade receivables – net	**1,807,231**	1,817,449
Accrued income	**355,459**	606,681
Retentions receivable	**1,039,937**	113,981
Prepaid expenses	**22,321**	9,101
Advance payments	**50,799**	59,741
Other receivables	**61,728**	57,308
	3,337,475	2,664,261

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

	Year ended 31 December	
	2017	2016
Opening balance	**45,625**	51,582
Provision write off	**-**	(457)
Recovery of provision for impairment of receivables	**-**	(5,500)
	45,625	45,625

10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following:

	As at 31 December	
	2017	2016
Bank balances	**1,007,385**	705,462
Cash on hand	**12,370**	13,025
Fixed deposits with original maturity less than 3 months	**894,852**	1,856,210
Cash held at portfolio	**7,425**	7,529
	1,922,032	2,582,226

Fixed deposits represent deposits with local financial institutions maturing within three months from date of placement with an average rate of profit of 1.338% (2016: 1.036%).

11 ACCOUNTS PAYABLE AND ACCRUALS

	As at 31 December	
	2017	2016
Trade payables	**332,341**	398,937
Retention payables	**153,955**	180,728
Other payables	**74,513**	116,120
Accrued expenses	**406,915**	528,872
Dividends payable	**205,882**	188,911
Board of directors remuneration	**-**	20,000
	1,173,606	1,433,568

12 COST OF REVENUE

	Year ended 31 December	
	2017	2016
Raw materials	**1,634,786**	2,712,854
Staff costs	**665,951**	1,043,763
Sales commission	**-**	6,571
Depreciation	**88,014**	123,081
Rent	**144,312**	198,659
Insurance	**25,656**	6,285
Maintenance and repair	**31,001**	13,709
Utilities expenses	**21,259**	21,813
Bank charges and interest	**37,395**	48,562
Others	**130,931**	243,022
	2,779,305	4,418,319

13 SELLING AND MARKETING EXPENSES

	Year ended 31 December	
	2017	2016
Staff costs	**461,052**	499,651
Depreciation	**107,037**	118,982
Others	**10,410**	9,810
	578,499	628,443

14 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2017	2016
Staff costs	**218,433**	370,708
Depreciation	**10,953**	12,475
Rent	**19,979**	45,560
Maintenance and repair	**60,300**	40,307
Utilities expenses	**30,066**	30,328
Fines	**16,153**	58,267
Social insurance	**22,726**	27,387
Insurance	**19,036**	1,855
Bank charges	**15,220**	34,547
Recovery of provision for impairment of receivables	**-**	(5,500)
Provision for obsolete and slow moving inventories and biological assets	**29,050**	18,726
Others	**162,130**	138,950
	604,046	773,610

15 INVESTMENT INCOME / (LOSS)

	Year ended 31 December	
	2017	2016
Murabaha income	**20,775**	13,717
Change in fair value of financial assets at fair value through profit or loss	**(14,171)**	(20,074)
	6,604	(6,357)

16 EQUITY

Share Capital

The Annual General Assembly of the parent company's shareholders held on 30 May 2017 approved the consolidated financial statements of the group for the year ended 31 December 2016 and the distribution of cash dividends of 10 fils per share for the year ended 31 December 2016 (31 December 2015: cash dividend of 10 fils per share).

The authorised, issued and fully paid up share capital in cash as at 31 December 2017 and 2016 consists of 52,399 thousand shares of 100 fils each.

16 EQUITY (Continued)

Treasury shares

	As at 31 December	
	2017	2016
Number of shares	**83,200**	83,200
Percentage of issued shares	**0.16%**	0.16%
Cost (KD)	**3,573**	3,573
Market value (KD)	**4,992**	7,904

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 5 fils (2016: 10 fils per share) for the year ended 31 December 2017.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:

	Year ended 31 December	
	2017	2016
(Loss) / profit for the year (KD)	**(518,722)**	645,498
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares)	**52,315,800**	52,315,800
Basic and diluted earnings per share	**(9.92) Fils**	12.34 Fils

There are no potential dilutive shares.

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	
	2017	2016
(a) Balances included in the consolidated statement of financial position		
Amounts due from associate	**12,261**	176,541
Amounts due from the Ultimate Parent Company	**8,911**	8,911
	21,172	185,452

	Year ended 31 December	
	2017	2016
(b) Key management compensation:		
Short term benefits	**48,000**	83,000
Post-employment benefits	**6,923**	6,923
	54,923	89,923

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.

	2017			
	Commercial segment	**Projects segment**	**Investment segment**	**Total**
Segment revenue	**2,382,778**	**1,425,126**	**(364,776)**	**3,443,128**
Segment expense	**2,470,997**	**1,490,853**	**-**	**3,961,850**
Segment loss	**(88,219)**	**(65,727)**	**(364,776)**	**(518,722)**
Depreciation	**91,881**	**114,123**	**-**	**206,004**
Purchase of property and equipment	**27,835**	**17,547**	**-**	**45,382**

	2016			
	Commercial segment	Projects segment	Investment segment	Total
Segment revenue	3,100,295	3,391,007	27,895	6,519,197
Segment expense	2,880,580	2,939,792	-	5,820,372
Segment profit	219,715	451,215	27,895	698,825
Depreciation	153,357	101,181	-	254,538
Purchase of property and equipment	92,845	11,949	-	104,794

18 SEGMENT INFORMATION (Continued)

	Year ended 31 December	
	2017	2016
Adjustments		
Segment (loss) / profit	**(518,722)**	698,825
Unallocated costs	**-**	(53,327)
Segment (loss) / profit	**(518,722)**	645,498

Segmental distribution of assets and liabilities

	Commercial segment	Projects segment	Investment segment	Total
Total segment assets				
31 December 2017	**4,449,647**	**3,782,086**	**1,730,467**	**9,962,200**
31 December 2016	4,447,812	3,861,394	2,996,988	11,306,194

	Commercial segment	Projects segment	Investment segment	Total
Total segment liabilities				
31 December 2017	**723,045**	**1,177,766**	**-**	**1,900,811**
31 December 2016	904,615	1,290,550	-	2,195,165

19 COMMITMENTS AND CONTINGENCES

The Parent Company had letters of guarantee toward foreign purchases amounted to KD 2,955,728 (2016: KD 3,805,841).