

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 2019 (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 2019

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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 2019 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three month period then ended and other explanatory notes. The parent company's management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34, 'Interim Financial Reporting'. 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

Management has not assessed the group's total financial assets, comprising amounts due from related parties, accounts receivable, retention receivables and contract assets amounting to KD 3,087,460 and its share of associates' total financial assets amounting to KD 167,110 for impairment in accordance with the requirements of IFRS 9 "Financial Instruments". In the absence of this information, we were unable to determine whether any adjustments were necessary to the amounts recorded in the interim condensed consolidated statement of financial position as at 31 March 2019 or in the interim condensed consolidated statements of comprehensive income, changes in equity, cash flows and related disclosures for the period then ended.

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 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, nothing has come to our attention indicating that the interim condensed consolidated financial information is not in agreement with the books of accounts of the parent company. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016 and its executive bylaw during the three month period ended 31 March 2019 that might have had a material effect on the business of the group or on its financial position.

A handwritten signature in blue ink, appearing to be 'Ahmed Mohammed Abdulrahman Al-Rasheed', is written over a horizontal line.

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

22 May 2019
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	
		2019	2018
Revenue from contracts with customers		658,486	954,436
Cost of revenue		(429,986)	(664,622)
Gross profit		228,500	289,814
Change in fair value of biological assets		10,865	5,523
Selling and marketing expenses	3	(137,373)	(137,145)
General and administrative expenses	4	(163,374)	(154,162)
Other expenses		(11,442)	(4,142)
Operating loss		(72,824)	(112)
Investment income	14	5,065	1,493
Share of results of associate	5	(58,987)	(52,110)
Loss for the period		(126,746)	(50,729)
Basic and diluted losses per share	11	(2.42) fils	(0.97) fils

The accompanying notes on pages 8 to 17 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	
	2019	2018
Loss for the period	(126,746)	(50,729)
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange differences arising on translation of foreign operations	(1,123)	(4,126)
Total other comprehensive loss for the period	(1,123)	(4,126)
Total comprehensive loss for the period	(127,869)	(54,855)


The accompanying notes on pages 8 to 17 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 2019	31 December 2018 (audited)	31 March 2018
Assets				
Non-current assets				
Property and equipment		813,654	841,157	925,727
Investment in associates	5	311,232	371,342	435,664
Right-of-use assets	17	203,204	-	-
Accounts receivable and prepayments	6	379,560	372,560	1,207,156
		<u>1,707,650</u>	<u>1,585,059</u>	<u>2,568,547</u>
Current assets				
Inventories		1,345,929	1,374,419	1,431,227
Biological assets		471,357	510,567	327,906
Amounts due from related parties	13	21,172	21,172	21,172
Contracts assets		173,606	194,580	-
Accounts receivable and prepayments	6	2,732,319	3,523,881	3,439,518
Financial assets at fair value through profit or loss	12	43,692	47,117	59,044
Term deposit		-	-	252,532
Cash and cash equivalents	7	2,647,219	1,888,057	1,786,633
		<u>7,435,294</u>	<u>7,559,793</u>	<u>7,318,032</u>
Total assets		<u>9,142,944</u>	<u>9,144,852</u>	<u>9,886,579</u>
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	1,033,497
General reserve		952,400	952,400	1,033,497
Foreign currency translation reserve		90,946	92,069	86,881
(Accumulated losses) / retained earnings		(161,887)	(35,141)	391,332
Net equity		<u>7,376,283</u>	<u>7,504,152</u>	<u>8,006,534</u>
LIABILITIES				
Non-current liability				
Employees' end of service benefits		538,998	534,109	592,108
Lease liabilities - non-current	17	172,846	-	-
		<u>711,844</u>	<u>534,109</u>	<u>592,108</u>
Current liabilities				
Advances on contracts		12,148	20,455	121,147
Accounts payable and accruals	9	1,009,411	1,049,662	1,166,790
Contract liabilities		1,548	36,474	-
Lease liabilities – current	17	31,710	-	-
		<u>1,054,817</u>	<u>1,106,591</u>	<u>1,287,937</u>
Total liabilities		<u>1,766,661</u>	<u>1,640,700</u>	<u>1,880,045</u>
Total equity and liabilities		<u>9,142,944</u>	<u>9,144,852</u>	<u>9,886,579</u>


Bader Hamad Al-Rabiah
Chairman


Faisal Fares Al-Fares
Vice Chairman and CEO

The accompanying notes on pages 8 to 17 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 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 / (accumulated losses)	Total
Balance as of 1 January 2018 (audited)	5,239,900	225,000	(3,573)	1,033,497	1,033,497	91,007	442,061	8,061,389
Total comprehensive loss for the period	-	-	-	-	-	(4,126)	(50,729)	(54,855)
Balance as of 31 March 2018	<u>5,239,900</u>	<u>225,000</u>	<u>(3,573)</u>	<u>1,033,497</u>	<u>1,033,497</u>	<u>86,881</u>	<u>391,332</u>	<u>8,006,534</u>
Balance as of 1 January 2019 (audited)	5,239,900	225,000	(3,573)	1,033,497	952,400	92,069	(35,141)	7,504,152
Total comprehensive loss for the period	-	-	-	-	-	(1,123)	(126,746)	(127,869)
Balance as of 31 March 2019	<u>5,239,900</u>	<u>225,000</u>	<u>(3,573)</u>	<u>1,033,497</u>	<u>952,400</u>	<u>90,946</u>	<u>(161,887)</u>	<u>7,376,283</u>

The accompanying notes on pages 8 to 17 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	
		2019	2018
Operating activities			
Loss for the period		(126,746)	(50,729)
Adjustments for:			
Depreciation		49,015	48,845
Murabaha income	14	(8,490)	(5,035)
Provision for obsolete and slow moving inventories		7,794	9,250
Provision for impairment of trade receivables		8,645	-
Gain on disposal of property and equipment		(4,997)	-
Share of results of associate	5	58,987	52,110
Change in fair value of financial assets at fair value through profit or loss	14	3,425	3,542
Interest expense – lease liability		2,419	-
Employees’ end of service benefits		18,150	17,438
Operating profits before changes in working capital		8,202	75,421
Accounts receivable and prepayments		766,743	(156,577)
Inventories		20,696	(65,273)
Biological assets		39,210	83,669
Contract assets		20,974	-
Accounts payable and accruals		(37,425)	(3,296)
Contract liabilities		(34,926)	-
Advances on contracts		(8,307)	(10,881)
Employees’ end of service benefits paid		(13,261)	(20,507)
Net cash generated from / (used in) operating activities		761,906	(97,444)
Investing activities			
Purchase of property and equipment		(29,188)	(39,470)
Proceeds from disposal of property and equipment		21,800	-
Murabaha income received		8,490	5,035
Net cash generated from / (used in) investing activities		1,102	(34,435)
Financing activity			
Cash dividends paid		(2,826)	(3,520)
Principal elements of lease payments		(1,020)	-
Net cash used in financing activities		(3,846)	(3,520)
Increase / (decrease) in cash and cash equivalents		759,162	(135,399)
Cash and cash equivalents at beginning of the period		1,888,057	1,922,032
Cash and cash equivalents at end of the period	7	2,647,219	1,786,633

The accompanying notes on pages 8 to 17 form an integral part of this interim condensed consolidated financial information.

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

Notes to the interim condensed consolidated financial information (unaudited)

(All amounts are in Kuwaiti Dinars unless otherwise stated)

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.

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 accompanying interim condensed consolidated financial information of Palms Agro Production Company K.S.C.P ("the parent company") and its subsidiary (together referred to as "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 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 of 15 May 2019.

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 consolidated financial statements for the year ended 31 December 2018. 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 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019. For further information, refer to the annual audited consolidated financial statements for the year ended 31 December 2018.

2.2 Accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial information for this financial interim period are consistent with those followed in the preparation of annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards and amendments effective as of 1 January 2019.

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

Notes to the interim condensed consolidated financial information (unaudited)

(All amounts are in Kuwaiti Dinars unless otherwise stated)

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Accounting policies (Continued)

(a) New standards, amendments and interpretations effective for the financial period beginning on 1 January 2019

- IFRS 16 - 'Leases' (effective 1 January 2019). IFRS 16 supersedes IAS 17 'Lease' and related interpretations. It resulted in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessor did not significantly change.

The impact of the adoption of the standard and the new accounting policies are disclosed in note 17.

There are no other standards, amendments or interpretations that have significant effect on the group's interim condensed consolidated financial information.

(b) New standards, amendments and interpretations not yet effective for the financial period beginning on 1 January 2019 and have not been early adopted by the group

There are no applicable new standards or amendments to published standards or International Financial Reporting Interpretations Committee (IFRIC) interpretations that have been issued but are not effective for the first time for the group's financial year beginning on 1 January 2019 and are expected to have a significant impact on the group's interim condensed consolidated financial information.

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 2018.

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

Notes to the interim condensed consolidated financial information (unaudited)

(All amounts are in Kuwaiti Dinars unless otherwise stated)

3 SELLING AND MARKETING EXPENSES

	Three months ended 31	
	March	
	2019	2019
Salaries and related costs	113,486	109,527
Depreciation	20,159	26,478
Others	3,728	1,140
	137,373	137,145

4 GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 31	
	March	
	2019	2018
Salaries and related costs	49,973	59,626
Depreciation	25,670	16,637
Rent	2,674	12,526
Maintenance and repair	6,793	6,863
Electricity and water	3,599	7,259
Insurance	10,627	13,553
Travelling expenses	1,085	800
Interest expense – lease liability	2,419	-
Others	60,534	36,898
	163,374	154,162

5 INVESTMENT IN ASSOCIATES

The parent company has the following investment in associates:

Name	County of incorporation	Equity Interest		
		31 March	31 December	31 March
		2019	2018 (Audited)	2018
	United Arab			
Al Dhafra Irrigation Systems (L.L.C.)	Emirates	33%	33%	33%
Durra Al- Nakeel Real Estate Company W.L.L	Kuwait	33%	33%	33%

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

	31 March	31 December	31 March
	2019	2018	2018
	2019	(Audited)	2018
Opening balances	371,342	491,900	491,900
Share of results of associate	(58,987)	(121,620)	(52,110)
Foreign currency translation adjustment	(1,123)	1,062	(4,126)
Ending balances	311,232	371,342	435,664

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

Notes to the interim condensed consolidated financial information (unaudited)

(All amounts are in Kuwaiti Dinars unless otherwise stated)

6 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 March 2019	31 December 2018 (Audited)	31 March 2018
Non-current			
Retentions receivable	379,560	372,560	1,207,156
Current			
Trade receivables – gross	1,213,387	1,543,651	1,932,353
Loss allowance	(54,270)	(45,625)	(45,625)
Trade receivables – net	1,159,117	1,498,026	1,886,728
Accrued income	-	-	349,099
Retentions receivable	1,328,998	1,889,013	1,039,937
Prepaid expenses	30,101	12,961	19,897
Advance payments	159,526	63,561	108,061
Other receivables	54,577	60,320	35,796
	2,732,319	3,523,881	3,439,518

Movement in the loss allowances for trade receivables is as follows:

	Period ended 31 March	
	2018	2017
Balance at beginning of the period	45,625	45,625
Increase in loss allowance recognised in the interim condensed consolidated statement of income	8,645	-
	54,270	45,625

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 2019	31 December 2018 (Audited)	31 March 2018
Bank balances	1,443,199	690,870	869,099
Cash on hand	9,620	11,110	12,530
Fixed deposits with original maturity less than 3 months	1,183,627	1,175,285	897,600
Cash held at portfolio	10,773	10,792	7,404
	2,647,219	1,888,057	1,786,633

Fixed deposits represent deposits with local financial institutions maturing within three months from date of placement with an average rate of profit of 2.7 % (31 December 2018: 2.177 % and 31 March 2018: 1.775%).

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 2018 and the recommendations proposed by the board of directors as disclosed in the consolidated financial statements for the year ended 31 December 2018.

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

Notes to the interim condensed consolidated financial information (unaudited)

(All amounts are in Kuwaiti Dinars unless otherwise stated)

9 ACCOUNTS PAYABLE AND ACCRUALS

	<u>31 March 2019</u>	<u>31 December 2018 (Audited)</u>	<u>31 March 2018</u>
Trade payables	194,558	203,224	366,053
Retention payables	142,061	150,239	152,372
Other payables	92,727	108,561	58,652
Accrued expenses	357,661	362,408	387,351
Dividends payable	222,404	225,230	202,362
	<u>1,009,411</u>	<u>1,049,662</u>	<u>1,166,790</u>

10 TREASURY SHARES

	<u>31 March 2019</u>	<u>31 December 2018 (Audited)</u>	<u>31 March 2018</u>
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)	5,741	3,910	6,656

11 BASIC AND DILUTED LOSSES PER SHARE

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

	<u>Three months ended 31 March</u>	
	<u>2019</u>	<u>2018</u>
Loss for the period (KD)	<u>(126,746)</u>	<u>(50,729)</u>
Weighted average number of ordinary shares outstanding during the period (excluding treasury shares)	<u>52,315,800</u>	<u>52,315,800</u>
Basic and diluted losses per share	<u>(2.42) fils</u>	<u>(0.97) fils</u>

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.

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

Notes to the interim condensed consolidated financial information (unaudited)

(All amounts are in Kuwaiti Dinars unless otherwise stated)

12 FAIR VALUE ESTIMATION (Continued)

31 March 2019	Level 1	Total
Financial assets at fair value through profit or loss		
Quoted securities	<u>43,692</u>	<u>43,692</u>
31 December 2018		
Financial assets at fair value through profit or loss		
Quoted securities	<u>47,117</u>	<u>47,117</u>
31 March 2018		
Financial assets at fair value through profit or loss		
Quoted securities	<u>59,044</u>	<u>59,044</u>

(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:

	31 March 2019	31 December 2018 (Audited)	31 March 2018
Balances included in the interim condensed consolidated statement of financial position			
Amounts due from associate	<u>12,261</u>	<u>12,261</u>	<u>12,261</u>
Amounts due from the Ultimate Parent Company	<u>8,911</u>	<u>8,911</u>	<u>8,911</u>
Total	<u>21,172</u>	<u>21,172</u>	<u>21,172</u>
Financial assets at fair value through profit or loss - Al-Salbookh Trading Company K.S.C.P.	<u>43,692</u>	<u>47,117</u>	<u>59,044</u>
Key management compensation		Three months ended 31 March	
		2019	2018
Short-term benefits		<u>12,000</u>	<u>12,000</u>
End of service benefits		<u>1,730</u>	<u>1,730</u>
		<u>13,730</u>	<u>13,730</u>

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

Notes to the interim condensed consolidated financial information (unaudited)
(All amounts are in Kuwaiti Dinars unless otherwise stated)

14 INVESTMENT INCOME

	Three months ended 31 March	
	2019	2018
Murabaha income	8,490	5,035
Change in fair value of financial assets at fair value through profit or loss	(3,425)	(3,542)
	5,065	1,493

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.

	31 March 2019			
	Commercial segment	Projects segment	Investment segment	Total
Segment revenue	554,093	120,255	(53,922)	620,426
Segment expense	561,335	185,837	-	747,172
Segment profit	(7,242)	(65,582)	(53,922)	(126,746)
Depreciation	37,352	11,663	-	49,015
Purchase of property and equipment	29,188	-	-	29,188

	31 March 2018			
	Commercial segment	Projects segment	Investment segment	Total
Segment revenue	629,708	335,359	(50,617)	914,450
Segment expense	612,611	352,568	-	965,179
Segment profit	17,097	(17,209)	(50,617)	(50,729)
Depreciation	24,735	24,110	-	48,845
Purchase of property and equipment	21,518	17,952	-	39,470

Segmental distribution of assets and liabilities

	Commercial segment	Projects segment	Investment segment	Total
	Total segment assets			
31 March 2019	4,303,176	3,269,272	1,570,496	9,142,944
31 December 2018	3,942,243	3,576,901	1,625,708	9,144,852
31 March 2018	4,414,391	3,798,772	1,673,416	9,886,579
Total segment liabilities				
31 March 2019	875,461	891,200	-	1,766,661
31 December 2018	727,158	913,542	-	1,640,700
31 March 2018	721,854	1,158,191	-	1,880,045

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

Notes to the interim condensed consolidated financial information (unaudited)

(All amounts are in Kuwaiti Dinars unless otherwise stated)

16 CONTINGENCIES

The parent company had letters of guarantee towards foreign purchases amounting to 2,405,832 (31 December 2018: KD 2,669,906 and 31 March 2018: 2,944,054).

17 LEASES

This note explains the impact of the adoption of IFRS 16 "Leases" on the interim condensed consolidated financial information and discloses the new accounting policies that have been applied from 1 January 2019.

The group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019.

a) The group's leases' accounting policy

The group leases various properties. Rental contracts are typically made for fixed periods between 1 to 20 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of properties were classified as operating leases. Payments made under operating leases were charged to the interim condensed consolidated statement of income on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to interim condensed 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 right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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

Notes to the interim condensed consolidated financial information (unaudited)

(All amounts are in Kuwaiti Dinars unless otherwise stated)

17 LEASES (Continued)

a) The group's leases' accounting policy (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the interim condensed consolidated statement of income. Short-term leases are leases with a lease term of 12 months or less.

b) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using incremental borrowing rate of 4.75%.

	2019
Borrowing rate at the date of initial application	4.75%
Lease liability recognised as at 1 January 2019 (discounted)	203,157
Of which are:	
Current lease liabilities	31,710
Non-current lease liabilities	171,447
	203,157

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	31 March 2019	1 January 2019
Properties	203,204	212,331

The change in accounting policy affected the following items in the interim condensed consolidated statement of financial position on 1 January 2019:

- right-of-use assets – increase by KD 212,331
- lease liabilities – increase by KD 203,157

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

Notes to the interim condensed consolidated financial information (unaudited)

(All amounts are in Kuwaiti Dinars unless otherwise stated)

17 LEASES (Continued)

b) Adjustments recognised on adoption of IFRS 16 (continued)

The movement in the right-of-use assets is as follows:

Balance beginning of period	212,331
Depreciation	(9,127)
Balance end of period	<u>203,204</u>

Finance cost from lease liabilities of KD 2,419 is recognised in the interim condensed consolidated statement of income.

There was no impact on retained earnings on 1 January 2019 as the group did not have any finance lease as at 31 December 2018.

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 in determining whether an arrangement contains a Lease.

c) Estimates applied on adoption of IFRS 16

Extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.