

**PALMS AGRO PRODUCTION COMPANY
K.S.C.P. AND SUBSIDIARY**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)**

30 JUNE 2020



EY

**Building a better
working world**

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF PALMS AGRO PRODUCTION COMPANY K.S.C.P.

Report on Review of Interim Condensed Consolidated Financial Information

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Palms Argo Production Company K.S.C.P. (the “Parent Company”) and its subsidiary (collectively, the “Group”) as at 30 June 2020 and the related interim condensed consolidated statement of profit or loss and interim condensed consolidated statement of comprehensive income for the three months and six months periods then ended, and the related interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six months period then ended. The management of the Parent Company is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard IAS 34 *Interim Financial Reporting* (“IAS 34”). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

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

Basis for Qualified Conclusion

The Group’s interim condensed consolidated financial information include an investment in Al Dhafra Irrigation Systems L.L.C., a foreign associate accounted for using the equity method and carried at KD 116,352 on the interim condensed consolidated financial position as at 30 June 2020 (31 December 2019: KD 220,995 and 30 June 2019: KD 260,077) and the Group’s related share of loss from the associate included in the interim condensed consolidated financial information amounted to KD 108,949 for the six months period then ended (30 June 2019: KD 108,987).

The management of the foreign associate had not assessed the associate’s financial assets carried at amortised cost for impairment in accordance with IFRS 9 – *Financial instruments* as of that date. Consequently, we were unable to determine whether any adjustments to these amounts were necessary to the Group’s interim condensed consolidated financial information and related disclosures as at and for the six-month period then ended 30 June 2020.

This matter gave rise to the modification of the predecessor auditor opinion and conclusion in the prior year.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF PALMS AGRO PRODUCTION COMPANY K.S.C.P. (continued)

Report on Review of Interim Condensed Consolidated Financial Information (continued)

Qualified Conclusion

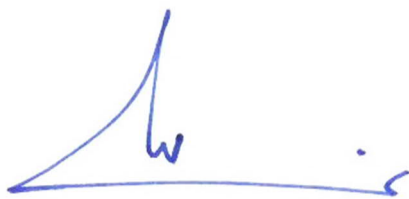
Except for the adjustments to the interim condensed consolidated financial information that we might have become aware of had it not been for the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34 – *Interim Financial Reporting*.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2019 and the interim condensed consolidated interim financial information for the six-month period ended 30 June 2019, were audited and reviewed, respectively by another auditor who expressed a modified opinion and conclusion on those statements on 31 March 2020 and 21 August 2019, respectively.

Report on Other Legal and Regulatory Matters

Furthermore, based on our review, except for the matter described in the “Basis for Qualified Conclusion” section of our report, the interim condensed consolidated financial information is in agreement with the books of account 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, as amended, and its executive regulations, as amended, nor of the Parent Company’s Articles of Association and Memorandum of Incorporation, as amended, during the six-month period ended 30 June 2020 that might have had a material effect on the business of the Parent Company or on its financial position.



BADER A. AL-ABDULJADER
LICENCE NO. 207 A
EY
AL AIBAN, AL OSAIMI & PARTNERS

15 August 2020
Kuwait

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(UNAUDITED)

For the period ended 30 June 2020

	Notes	Three months ended 30 June		Six months ended 30 June	
		2020 KD	2019 KD	2020 KD	2019 KD
Revenue from contracts with customers	3	726,229	691,775	1,434,859	1,345,264
Cost of sales and services rendered		(348,124)	(385,628)	(847,627)	(815,614)
GROSS PROFIT		378,105	306,147	587,232	529,650
Gain on sale of property and equipment		-	1,947	3,248	6,944
Net investment income (loss)	4	2,433	14,106	(15,724)	19,171
Selling and marketing expenses	5	(172,539)	(131,575)	(316,818)	(268,948)
Administrative expenses	6	(142,429)	(221,667)	(321,602)	(385,041)
Change in fair value of biological assets		3,247	12,115	8,105	22,980
Share of results of an associate	7	(49,179)	(50,000)	(108,949)	(108,987)
ECL on trade receivables and contract assets	3	(161,847)	-	(251,998)	(8,645)
ECL on retention receivables	9	(1,782)	-	(37,135)	-
Other expenses		-	(10,076)	-	(12,873)
LOSS FOR THE PERIOD		(143,991)	(79,003)	(453,641)	(205,749)
BASIC AND DILUTED LOSS PER SHARE	8	(2.75) fils	(1.51) fils	(8.67) fils	(3.93) fils

The attached notes 1 to 18 form 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)

For the period ended 30 June 2020

	<i>Three months ended</i> <i>30 June</i>		<i>Six months ended</i> <i>30 June</i>	
	2020	2019	2020	2019
	KD	KD	KD	KD
LOSS FOR THE PERIOD	(143,991)	(79,003)	(453,641)	(205,749)
Other comprehensive loss (income)				
<i>Other comprehensive (loss) income that may be reclassified to profit or loss in subsequent periods:</i>				
Exchange differences on translation of foreign operations	(467)	(1,155)	4,306	(2,278)
Other comprehensive (loss) income for the period	(467)	(1,155)	4,306	(2,278)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(144,458)	(80,158)	(449,335)	(208,027)

The attached notes 1 to 18 form 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)

As at 30 June 2020

	Notes	30 June 2020 KD	(Audited) 31 December 2019 KD	(Restated)* 30 June 2019 KD
ASSETS				
Non-current assets				
Property and equipment		907,111	741,568	775,955
Right-of-use assets		178,899	200,962	194,050
Investment in associates	7	116,352	220,995	260,077
Prepayments and other receivables	9	15,070	15,070	384,425
		<u>1,217,432</u>	<u>1,178,595</u>	<u>1,614,507</u>
Current assets				
Inventories		1,435,503	1,357,850	1,461,077
Biological assets	16	502,306	532,048	509,179
Trade receivables and contact assets	3	699,481	867,406	817,614
Prepayments and other receivables	9	664,879	616,746	85,624
Amounts due from related parties	10	6,161	6,161	12,261
Financial assets at fair value through profit or loss		36,843	59,162	49,479
Cash and cash equivalents	11	2,945,307	3,221,442	3,637,105
		<u>6,290,480</u>	<u>6,660,815</u>	<u>6,572,339</u>
TOTAL ASSETS		<u>7,507,912</u>	<u>7,839,410</u>	<u>8,186,846</u>
EQUITY AND LIABILITIES				
Equity				
Share capital		5,239,900	5,239,900	5,239,900
Share premium		225,000	225,000	225,000
Treasure shares	12	(3,573)	(3,573)	(3,573)
Statutory reserve		1,033,497	1,033,497	1,033,497
Voluntary reserve		429,242	429,242	429,242
Foreign currency translation reserve		93,854	89,548	89,791
Accumulated losses		(1,261,534)	(807,893)	(939,430)
Total equity		<u>5,756,386</u>	<u>6,205,721</u>	<u>6,074,427</u>
Non-current liabilities				
Employees' end of service benefits		564,637	544,272	538,708
Lease liabilities		162,980	155,564	137,649
		<u>727,617</u>	<u>699,836</u>	<u>676,357</u>
Current liabilities				
Advances on contracts		39,920	41,867	1,129
Trade and other payables	13	943,675	825,361	1,399,053
Contract liabilities	3	8,677	26,677	562
Lease liabilities		31,637	39,948	35,318
		<u>1,023,909</u>	<u>933,853</u>	<u>1,436,062</u>
Total liabilities		<u>1,751,526</u>	<u>1,633,689</u>	<u>2,112,419</u>
TOTAL EQUITY AND LIABILITIES		<u>7,507,912</u>	<u>7,839,410</u>	<u>8,186,846</u>

* Certain amounts shown here do not correspond to the interim condensed consolidated financial information as at 30 June 2019 and reflect adjustments made as detailed in Note 17.

Bader Hamad Al-Rabiah
Chairman

Faisal Fares Al-Fares
Vice Chairman and CEO

The attached notes 1 to 18 form 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)

For the period ended 30 June 2020

	Share capital KD	Share premium KD	Treasury shares KD	Statutory reserve KD	Voluntary reserve KD	Foreign currency translation reserve KD	Accumulated losses KD	Total KD
As at 1 January 2020 (<i>Audited</i>)	5,239,900	225,000	(3,573)	1,033,497	429,242	89,548	(807,893)	6,205,721
Loss for the period	-	-	-	-	-	-	(453,641)	(453,641)
Other comprehensive income for the period	-	-	-	-	-	4,306	-	4,306
Total comprehensive income (loss) for the period	-	-	-	-	-	4,306	(453,641)	(449,335)
At 30 June 2020	5,239,900	225,000	(3,573)	1,033,497	429,242	93,854	(1,261,534)	5,756,386
As at 1 January 2019 (<i>as previously reported</i>)	5,239,900	225,000	(3,573)	1,033,497	952,400	92,069	(35,141)	7,504,152
Impact of adopting of IFRS 9	-	-	-	-	-	-	(698,540)	(698,540)
Restated balance at 1 January 2019*	5,239,900	225,000	(3,573)	1,033,497	952,400	92,069	(733,681)	6,805,612
Loss for the period	-	-	-	-	-	(2,278)	(205,749)	(208,027)
Total comprehensive loss for the period	-	-	-	-	-	(2,278)	(205,749)	(208,027)
Dividends	-	-	-	-	(523,158)	-	-	(523,158)
At 30 June 2019	5,239,900	225,000	(3,573)	1,033,497	429,242	89,791	(939,430)	6,074,427

* Certain amounts shown here do not correspond to the interim condensed consolidated financial information as at 30 June 2019 and reflect adjustments made as detailed in Note 17.

The attached notes 1 to 18 form 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)

For the period ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 KD	2019 KD
OPERATING ACTIVITIES			
Loss for the period		(453,641)	(205,749)
<i>Adjustments to reconcile loss for the period to net cash flows:</i>			
Depreciation on property and equipment		91,735	79,140
Depreciation on right-of-use assets		22,063	18,281
Murabaha income	4	(6,595)	(16,809)
Gain on disposal of property and equipment		(3,248)	(6,944)
ECL on trade receivables and contract assets	3	251,998	8,645
ECL on retention receivables	9	37,135	-
Provision for obsolete and slow-moving inventories		23,240	19,819
Change in fair value of biological assets		(8,105)	(22,980)
Share of results of an associate	7	108,949	108,987
Change in fair value of financial assets at fair value through profit or loss	4	22,319	(2,362)
Interest on lease obligations	6	4,196	4,570
Provision for employees' end of service benefits		36,178	32,790
		<u>126,224</u>	<u>17,388</u>
Working capital adjustments:			
Inventories		(100,893)	(106,477)
Biological assets		37,847	24,368
Trade receivables and contract assets		(84,073)	362,533
Prepayments and other receivables		(85,268)	1,733,377
Trade and other payables		118,690	(160,340)
Contract liabilities		(18,000)	(35,912)
Advances on contracts		(1,947)	(19,326)
		<u>(7,420)</u>	<u>1,815,611</u>
Cash flow (used in) from operations		(7,420)	1,815,611
Employees' end of service benefits paid		(15,813)	(28,191)
		<u>(23,233)</u>	<u>1,787,420</u>
Net cash flows (used in) from operating activities			
INVESTING ACTIVITIES			
Purchase of property and equipment		(257,280)	(30,744)
Proceeds from disposal of property and equipment		3,250	23,750
Murabaha income received	4	6,595	16,809
		<u>(247,435)</u>	<u>9,815</u>
Net cash flows (used in) from investing activities			
FINANCING ACTIVITIES			
Dividends paid		(376)	(13,427)
Payment of lease liabilities		(5,091)	(34,760)
		<u>(5,467)</u>	<u>(48,187)</u>
Net cash flows used in financing activities			
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		<u>(276,135)</u>	<u>1,749,048</u>
Cash and cash equivalent at the beginning of the period		3,221,442	1,888,057
CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD	11	<u><u>2,945,307</u></u>	<u><u>3,637,105</u></u>
Non-cash items excluded from the interim condensed consolidated statement of cash flows:			
Dividends		-	(523,158)
Accounts payable and accruals		-	523,158

The attached notes 1 to 18 form 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)

As at and for the period ended 30 June 2020

1 CORPORATE INFORMATION

The interim condensed consolidated financial information of Palms Agro Production Company K.S.C.P. (the “Parent Company”) and its subsidiary (collectively, the “Group”) for the six months ended 30 June 2020 was authorised for issue in accordance with a resolution of the Board of Directors of the Parent Company on 15 August 2020.

The consolidated financial statements of the Group for the year ended 31 December 2019 were approved in the annual general assembly meeting (AGM) of the shareholders held on 7 July 2020. No dividends have been declared by the Parent Company.

The Parent Company is a public shareholding company, incorporated and domiciled in the State of Kuwait, and whose shares are publicly traded in Boursa Kuwait. The Parent Company’s head office is located at Al Rai, 4th ring road, plot #56 and its registered postal address is P.O. Box 1976, Safat 13020, State of Kuwait.

The Group principally operates in Kuwait and engages in 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 specialised 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 is a subsidiary of Bayan Holding Company K.S.C. (the “Ultimate Parent Company”).

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard 34: “Interim Financial Reporting” (“IAS 34”).

The interim condensed consolidated financial information has been presented in Kuwaiti Dinar (“KD”), which is also the functional currency of the Parent Company.

The interim condensed consolidated financial information does not contain all information and disclosures required for full consolidated financial statements prepared in accordance with the International Financial Reporting Standards (“IFRS”) and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2019.

The interim condensed consolidated financial information provide comparative information in respect of the previous period. Certain prior period amounts have been reclassified to conform to the current period presentation. There is no effect of these reclassifications on the previously reported equity and loss for the period then ended.

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim condensed consolidated financial statements of the Group.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2020

**2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES
(continued)**

2.2 New standards, interpretations and amendments adopted by the Group (continued)

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the interim consolidated financial information of the Group.

3 REVENUE FROM CONTRACTS WITH CUSTOMERS

3.1 Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers based on type of sales and services

	<i>Three months ended 30 June</i>		<i>Six months ended 30 June</i>	
	<i>2020 KD</i>	<i>2019 KD</i>	<i>2020 KD</i>	<i>2019 KD</i>
Type of goods or service				
Sale of goods	509,927	20,598	968,859	453,290
Rendering of services				
- Plantation Projects	216,302	671,177	466,000	891,974
Total revenue from contracts with customers	726,229	691,775	1,434,859	1,345,264
Geographical markets				
Kuwait	726,229	691,775	1,434,859	1,345,264
Timing of revenue recognition				
Goods and services transferred at a point in time	509,927	20,598	968,859	453,290
Goods and services transferred over time	216,302	671,177	466,000	891,974
	726,229	691,775	1,434,859	1,345,264

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2020

3 REVENUE FROM CONTRACTS WITH CUSTOMERS (continued)

3.2 Trade receivables and contract balances

	30 June 2020 KD	<i>(Audited)</i> 31 December 2019 KD	<i>(Restated)</i> 30 June 2019 KD
Trade receivables	1,084,853	1,155,011	1,151,568
Allowance for expected credit losses`	(701,431)	(457,142)	(548,694)
	383,422	697,869	602,874
Contract assets	336,752	182,521	232,755
Allowance for expected credit losses	(20,693)	(12,984)	(18,015)
	699,481	867,406	817,614
Contract liabilities	8,677	26,677	562

Contract assets relate to revenue earned from ongoing plantation project services. As such, the balances of this account vary and depend on the number of ongoing plantation project services at the reporting date.

Contract liabilities include short-term advances received to render plantation project services.

Set out below is the movement in the allowance for expected credit losses of trade receivables and contract assets:

	<i>Six months ended 30 June</i>	
	2020 KD	2019 KD
As at 1 January	470,126	558,064
Provision for expected credit losses	251,998	8,645
As at 30 June	722,124	566,709

4 NET INVESTMENT (LOSS) INCOME

	<i>Three months ended 30 June</i>		<i>Six months ended 30 June</i>	
	2020 KD	2019 KD	2020 KD	2019 KD
Murabaha income	1,370	8,319	6,595	16,809
Change in fair value of financial assets at fair value through profit or loss	1,063	5,787	(22,319)	2,362
	2,433	14,106	(15,724)	19,171

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2020

5 SELLING AND MARKETING EXPENSES

	<i>Three months ended 30 June</i>		<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Salaries and other staff costs	140,060	110,628	259,274	226,463
Depreciation on property and equipment	32,480	20,064	56,976	40,223
Others	-	883	568	2,262
	172,540	131,575	316,818	268,948

6 ADMINISTRATIVE EXPENSES

	<i>Three months ended 30 June</i>		<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Salaries and other staff costs	51,514	58,024	103,989	107,997
Depreciation on property and equipment	16,361	25,654	32,831	33,071
Depreciation on right-of-use assets	9,895	9,154	20,032	18,281
Maintenance and repair	6,934	12,662	21,766	25,041
Insurance Expenses	1,050	745	6,576	11,372
Interest on lease obligations	2,117	2,151	4,196	4,570
Others	54,558	113,277	132,212	184,709
	142,429	221,667	321,602	385,041

7 INVESTMENT IN ASSOCIATES

Set out below are the associates of the Group as at the reporting date:

Name of entity	Country of domicile	% equity interest			Principal activities	Carrying amounts		
		<i>30 June</i>	<i>31 December</i>	<i>30 June</i>		<i>30 June</i>	<i>31 December</i>	<i>30 June</i>
		<i>2020</i>	<i>2019</i>	<i>2019</i>		<i>2020</i>	<i>2019</i>	<i>2019</i>
		<i>KD</i>	<i>KD</i>	<i>KD</i>		<i>KD</i>	<i>KD</i>	<i>KD</i>
Al Dhafra Irrigation Systems L.L.C.	UAE	33%	33%	33%	Agriculture	116,352	220,995	227,077
Durra Al-Nakeel Real Estate Company W.L.L.	Kuwait	-	-	33%	Real Estate	-	-	33,000
		116,352	220,995	260,077				

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2020

7 INVESTMENT IN ASSOCIATES (continued)

Reconciliation to carrying amounts:

	30 June 2020 KD	<i>(Audited)</i> 31 December 2019 KD	30 June 2019 KD
At the beginning of the period/ year	220,995	371,342	371,342
Capital redemption *	-	(33,000)	-
Share of loss	(108,949)	(114,826)	(108,987)
Foreign exchange adjustments	4,306	(2,521)	(2,278)
	116,352	220,995	260,077

* During the year ended December 2019, Durra Al- Nakeel Real Estate Company W.L.L (“associate”) has been liquidated and the Parent Company has received the final liquidation proceeds amounting to KD 33,000. No gain or loss is recognised in profit or loss on liquidation.

8 (LOSS) PER SHARE (EPS)

Basic EPS amounts are calculated by dividing the profit (loss) for the period attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by dividing the profit (loss) attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. As there are no dilutive instruments outstanding, basic and diluted EPS are identical.

	<i>Three months ended 30 June</i>		<i>Six months ended 30 June</i>	
	2020	2019	2020	2019
Loss for the period (KD)	(143,991)	(79,003)	(453,641)	(205,749)
Weighted average number of ordinary shares outstanding during the period (shares)*	52,315,800	52,315,800	52,315,800	52,315,800
Basic and diluted loss per share (fils)	(2.75)	(1.51)	(8.67)	(3.93)

* The weighted average number of shares takes into account the weighted average effect of changes in treasury shares during the period.

There have been no transactions involving ordinary shares between the reporting date and the date of authorisation of this interim condensed consolidated financial information which would require the restatement of EPS.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2020

9 ACCOUNT RECEIVABLES PREPAYMENTS

	30 June 2020 KD	(Audited) 31 December 2019 KD	(Restated) 30 June 2019 KD
Non-current			
Retention receivables	16,080	16,080	384,425
Allowance for expected credit losses	(1,010)	(1,010)	-
	<u>15,070</u>	<u>15,070</u>	<u>384,425</u>
Current			
Retention receivables	522,686	519,762	4,304
Allowance for expected credit losses	(113,522)	(76,387)	(69,537)
	<u>409,164</u>	<u>443,375</u>	<u>(65,233)</u>
Prepaid expenses	35,574	28,739	32,576
Advances to suppliers	72,468	90,105	85,647
Other receivables	147,673	54,527	32,634
	<u>664,879</u>	<u>616,746</u>	<u>85,624</u>
	<u>679,949</u>	<u>631,816</u>	<u>470,049</u>

Set out below is the movement in the allowance for expected credit losses of retention receivables:

	Six months ended 30 June	
	2020 KD	2019 KD
As at 1 January	77,397	69,537
Provision for expected credit losses	37,135	-
As at 30 June	<u>114,532</u>	<u>69,537</u>

10 RELATED PARTY DISCLOSURES

The Group's related parties include its associates and joint ventures, major shareholders, entities under common control, directors and executive officers of the Group, close members of their families and entities of which they are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the Group's management.

The following tables provides the total amount of outstanding balances with related parties as at 30 June 2020, 31 December 2019 and 30 June 2019:

Interim condensed consolidated statement of financial position

	Associate KD	Other related parties KD	30 June 2020 KD	(Audited) 31 December 2020 KD	Restated 30 June 2019 KD
Amounts due from related parties*	6,161	-	6,161	6,161	12,261
Financial assets at fair value through profit or loss	-	36,843	36,843	59,162	49,479

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

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As at and for the period ended 30 June 2020

10 RELATED PARTY DISCLOSURES (continued)

* As at the reporting date, the Group has receivables from the Ultimate Parent Company of KD 8,911 (31 December 2019: KD 8,911 and 30 June 2019: KD 8,911) which is net of an allowance for expected credit losses of KD 8,911 (31 December 2019: KD 8,911 and 30 June 2019: KD 8,911).

Transactions with key management personnel

Key management personnel comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The aggregate value of transactions and outstanding balances related to key management personnel were as follows.

	<i>Three months</i> <i>Transaction values for the</i> <i>period ended</i>		<i>Six months</i> <i>Transaction values for the</i> <i>period ended</i>	
	<i>30 June</i> <i>2020</i> <i>KD</i>	<i>30 June</i> <i>2019</i> <i>KD</i>	<i>30 June</i> <i>2020</i> <i>KD</i>	<i>30 June</i> <i>2019</i> <i>KD</i>
Salaries and other short-term benefits	13,726	12,000	27,452	24,000
Employees end of service benefits	1,726	1,730	3,452	3,460
	<u>15,452</u>	<u>13,730</u>	<u>30,904</u>	<u>27,460</u>
	<i>Outstanding Balance as at period ended</i> <i>(Audited)</i>			
	<i>30 June</i> <i>2020</i> <i>KD</i>	<i>31 December</i> <i>2019</i> <i>KD</i>	<i>30 June</i> <i>2019</i> <i>KD</i>	
Salaries and other short-term benefits	41,471	39,403	38,836	
Employees end of service benefits	84,291	80,839	77,349	
	<u>125,762</u>	<u>120,242</u>	<u>116,185</u>	

The Board of Directors at the meeting held on 31 March 2020 proposed no directors' remuneration for the year ended 31 December 2019. This proposal was approved by the shareholders at the AGM held on 7 July 2020.

11 CASH AND CASH EQUIVALENTS

For the purpose of the interim condensed consolidated statement of cash flows, cash and cash equivalents are comprised of the following:

	<i>30 June</i> <i>2020</i> <i>KD</i>	<i>(Audited)</i> <i>31 December</i> <i>2019</i> <i>KD</i>	<i>30 June</i> <i>2019</i> <i>KD</i>
Cash at banks	1,705,020	1,989,833	2,424,540
Cash on hand	12,850	12,369	9,870
Short-term deposits	1,216,755	1,208,524	1,191,941
Cash held in managed portfolios	10,682	10,716	10,754
	<u>2,945,307</u>	<u>3,221,442</u>	<u>3,637,105</u>

Short-term deposits are made for varying periods of between one and six months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

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

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12 TREASURY SHARES

	30 June 2020	(Audited) 31 December 2019	30 June 2019
Number of treasury shares	83,200	83,200	83,200
Percentage of issued share capital	0.043%	0.16%	0.16%
Cost – KD	3,573	3,573	3,573
Market value – KD	4,992	3,345	5,824

Reserves equivalent to the cost of the treasury shares held are not available for distribution during the holding period of such shares as per CMA guidelines.

13 TRADE AND OTHER PAYABLES

	30 June 2020 KD	(Audited) 31 December 2019 KD	30 June 2019 KD
Trade payables	178,268	88,563	83,923
Retention payables	5,188	5,188	5,179
Accrued expenses	365,450	349,584	364,930
Dividends payable	226,853	227,229	734,961
Other payables	167,916	154,797	210,060
	943,675	825,361	1,399,053

14 CONTINGENCIES

As at 30 June 2020, the Parent Company's bankers have provided bank guarantees of KD 2,544,550 (31 December 2019: KD 4,060,004 and 30 June 2019: KD 2,405,832) to an unrelated party for the performance in a contract by the Parent Company from which it is anticipated that no material liabilities will arise.

15 SEGMENT INFORMATION

For management purposes, the Group is organised into three major business segments. The principal activities and services under these segments are as follows:

- ▶ **Commercial:** production and sale of nurseries and ornamental plants
- ▶ **Projects:** gardening and maintenance services
- ▶ **Investments:** investment in an associates and equity securities.

	30 June 2020			
	Commercial KD	Projects KD	Investment KD	Total KD
Assets	4,726,590	1,411,373	1,369,949	7,507,912
Liabilities	1,232,143	519,383	-	1,751,526
Income	1,171,682	274,530	(124,673)	1,321,539
Expenses	1,292,731	482,449	-	1,775,180
Segment loss	(121,049)	(207,919)	(124,673)	(453,641)
Other disclosures:				
Depreciation of property and equipment	88,922	2,813	-	91,735
Depreciation of right of use assets	20,063	2,000	-	22,063
Capital expenditure	257,280	-	-	257,280

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2020

15 SEGMENT INFORMATION (continued)

	30 June 2019 (restated)			
	Commercial KD	Projects KD	Investment KD	Total KD
Assets	4,814,807	1,838,616	1,533,423	8,186,846
Liabilities	1,408,063	704,356	-	2,112,419
Income	1,123,537	251,651	(89,816)	1,285,372
Expenses	1,124,148	366,973	-	1,491,121
Segment loss	(611)	(115,322)	(89,816)	(205,749)
<i>Other disclosures:</i>				
Depreciation of property and equipment	56,450	22,690	-	79,140
Depreciation of right of use assets	18,281	-	-	18,281
Capital expenditure	30,744	-	-	30,744
	31 December 2019			
	Commercial KD	Projects KD	Investment KD	Total KD
Assets	4,650,029	1,683,823	1,505,558	7,839,410
Liabilities	1,008,438	625,251	-	1,633,689

16 FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date.

Fair value hierarchy

All financial and non-financial assets for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- ▶ Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- ▶ Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- ▶ Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2020

16 FAIR VALUE MEASUREMENT (continued)

Fair value hierarchy (continued)

For assets and liabilities that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Valuation methods and assumptions

The following methods and assumptions were used to estimate the fair values:

Biological assets

The fair value of biological assets is determined by reference to expected yields and quality, expected costs to reach maturity, and the market prices for each variety of asset in the local area and the market price paid to independent grape growers. Any gains or losses on remeasuring fair value are included within in profit or loss. The Group classifies the fair value of biological assets as Level 3 of the hierarchy.

Listed investment in equity securities

Fair values of publicly traded equity securities are based on quoted market prices in an active market for identical assets without any adjustments. The Group classifies the fair value of these investments as Level 1 of the hierarchy.

There were no changes in the Group's valuation processes, valuation techniques, and types of inputs used in the fair value measurements during the period.

Other financial assets and liabilities

Fair value of other financial instruments is not materially different from their carrying values, at the reporting date, as most of these instruments are of short-term maturity or re-priced immediately based on market movement in interest rates. The fair value of financial assets and financial liabilities with a demand feature is not less than its face value.

Set out below that are a summary of financial instruments and non-financial assets measured at fair value on a recurring basis, other than those with carrying amounts that are reasonable approximations of fair values:

	Fair value measurement using		
	Quoted prices in active markets (Level 1) KD	Significant unobservable inputs (Level 3) KD	Total KD
30 June 2020			
<i>Financial instruments:</i>			
Financial assets at FVPL	36,843	-	36,843
<i>Non-financial assets</i>			
Biological assets	-	502,306	502,306

There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the six months ended 30 June 2020.

	Fair value measurement using		
	Quoted prices in active markets (Level 1) KD	Significant unobservable inputs (Level 3) KD	Total KD
As at 31 December 2019			
<i>Financial instruments:</i>			
Financial assets at FVPL	59,162	-	59,162
<i>Non-financial assets:</i>			
Biological assets	-	532,048	532,048

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

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16 FAIR VALUE MEASUREMENT (continued)

	Fair value measurement using		
	Quoted prices in active markets (Level 1) KD	Significant unobservable inputs (Level 3) KD	Total KD
<i>As at 30 June 2019</i>			
<i>Financial instruments:</i>			
Financial assets at FVPL	49,479	-	49,479
<i>Non-financial assets</i>			
Biological assets	-	509,179	509,179

Reconciliation of recurring fair value measurements categorised within Level 3 of the fair value hierarchy:

	Biological assets		
	30 June 2020 KD	31 December 2019 KD	30 June 2019 KD
Opening balance	532,048	510,567	510,567
Change in fair value due to biological transformation	8,105	45,154	22,980
Change in fair value due to price changes	-	17,674	-
Purchases	12,935	82,571	25,509
Disposals	(50,782)	(123,918)	(49,877)
Closing balance	502,306	532,048	509,179

The Group has performed a sensitivity analysis to the range of significant unobservable inputs used in the fair value measurements during the period. Based on such analysis, there is no material impact on the interim condensed consolidated financial information.

17 RETROSPECTIVE RESTATEMENT

As at 31 December 2019, the Group's financial assets have been assessed for impairment in accordance with the requirements of IFRS 9 "Financial Instruments" which has not been applied previously on the initial application of IFRS 9 at 1 January 2018. This error resulted in an understatement of loss allowance recognised for the year ended 31 December 2018 and 1 January 2018 and a corresponding overstatement of trade and other receivables. As a result, the comparative information for the prior period ended 30 June 2019 has been restated to reflect the effect of adopting IFRS 9 since the initial application date.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 2020

17 RETROSPECTIVE RESTATEMENT (continued)

Interim condensed consolidated statement of financial position

	Impact of correction of error		
	As previously reported KD	Adjustments KD	As restated KD
As at 30 June 2019			
ASSETS			
Non-current asset			
Prepayments and other receivables	383,379	1,046	384,425
Current assets			
Amounts due from related parties	21,172	(8,911)	12,261
Trade receivables and contract assets	1,330,053	(512,439)	817,614
Prepayments and other receivable	263,860	(178,236)	85,624
	1,615,085	(699,586)	915,499
	1,998,464	(698,540)	1,299,924
EQUITY AND LIABILITIES			
Equity			
Accumulated losses	(240,890)	(698,540)	(939,430)

There is no impact of the restatement on the interim condensed consolidated statement of profit or loss, interim condensed consolidated statement of comprehensive income and interim condensed consolidated statement of cash flows for the period ended 30 June 2019.

18 IMPACT OF COVID-19

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections. Measures taken by various governments to contain the virus have affected economic activity and the Group's business in various significant ways.

The currently known impact of COVID-19 on the Group are:

- ▶ Revenue of KD 1,434,859 for the period down by 17% sequentially primarily driven by seasonal declines and lower trading activities posed by COVID-19.
- ▶ Fair value decrease in financial assets at fair value through profit or loss for the first six months of 2020 by 37.73% since 31 December 2019, mainly due to deterioration in financial markets and respective market index.
- ▶ Allowance for expected credit losses of trade receivables in the first three months of 2020 for an amount of KD 289,133 due to significant increase in credit risk of certain customers and delays in projects in light of the current economic circumstances.

In addition to the already known effects of the COVID-19 outbreak and resulting government measures, the macroeconomic uncertainty causes disruption to economic activity, and it is unknown what the longer term impact on the Group's business may be. The COVID-19 virus can evolve in various directions. If society, and as a consequence business, is exposed to COVID-19 for a longer period of time, this may result in prolonged negative results and pressure on the Group's liquidity.

Depending on the duration of the COVID-19 crisis and continued negative impact on economic activity, the Group may experience further negative results, liquidity restraints and incur additional impairments on its assets in 2020. Given the ongoing economic uncertainty, the exact impact on the Group's activities in the remainder of 2020 and thereafter cannot be predicted at this stage.

This note describes the impact of the outbreak on the Group's operations and the significant estimates and judgements applied by management in assessing the values of assets and liabilities as at 30 June 2020.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
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As at and for the period ended 30 June 2020

18 IMPACT OF COVID-19 (continued)

18.1 Risk management

The management is monitoring and reassessing the risk management objectives and policies based on the current updates on COVID-19. For the period ended 30 June 2020, there were no significant changes to the risk management objectives and policies as compared to the audited consolidated financial statements as at 31 December 2019.

18.1.1 Credit risk

The Group is mainly exposed to credit risk on its trade receivables and contract assets. As at 30 June 2020, the Group has considered the impact of COVID-19 on the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. There were no changes to the payment period given to customers during the period, however, the Group will continue to individually assess the situation as more reliable data becomes available and accordingly may change the payment period for certain customers in the subsequent reporting periods. Refer to Note 18.2 for the estimates and assumptions used by the Group to determine ECL on its trade receivables and contract assets.

18.1.2 Liquidity risk

As at 30 June 2020, the Group has considered the impact of COVID-19 on the factors that may influence the liquidity risk. The Group has amended its contingency plans for managing liquidity risk to reflect the impact from the COVID-19 outbreak. The Group maintains rolling forecasts of the overall liquidity position on the basis of expected cash flows. The Group also have sufficient liquidity and has lines of credit that it can access to meet liquidity need.

18.2 Use of estimates and assumptions

The Group based its assumptions and estimates on parameters available when the interim condensed consolidated financial information is prepared. The COVID-19 outbreak has created uncertainty for revenue forecasts, sourcing and workforce availability, credit ratings, etc. but also volatility in stock prices, interest and currency exchange rates. Estimates based on such metrics may be subject to change due to market changes in the near term or circumstances arising that are beyond the control of the Group.

Information about key assumptions and estimation uncertainties at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets is described below:

Property and equipment, right-of-use assets, investment in an associate and inventories (non-financial assets)

As at the reporting date, the Group has considered the potential impact of the current economic volatility in the determination of the reported amounts of the Group's non-financial assets and the unobservable inputs are developed using the best available information about the assumptions that market participants would make in pricing these assets at the reporting date. The markets however remain volatile and the recorded amounts remain sensitive to market fluctuations.

The Group acknowledges that certain geographies and sectors in which these assets are located are negatively impacted, and as the situation continues to unfold, the Group will continuously monitor the market outlook and use relevant assumptions in reflecting the values of these non-financial assets as and when they occur.

Trade receivables and contract assets and retention receivables (financial assets)

The Group uses the simplified model in calculation the ECL for trade receivables by establishing a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. However, the segmentation applied in previous periods may no longer be appropriate and may need to be revised to reflect the different ways in which the COVID-19 outbreak affects different types of customers (e.g. by extending payment terms for trade receivables).

The Group will continue to individually assess significant exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

18.3 Subsequent events

The implications of COVID-19 are ongoing and the ultimate outcome of this event is unknown and therefore the full impact on the Group for events and circumstances that arose after the reporting date cannot be reasonably quantified at the authorisation date of this interim condensed consolidated financial information. The effect of COVID-19 on the Group as and when known will be incorporated into the determination of the Group's estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities.

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