

**MUNSHAAT REAL ESTATE PROJECTS
COMPANY K.S.C.P. AND SUBSIDIARIES**

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

30 JUNE 2017

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF MUNSHAAT REAL ESTATE PROJECTS COMPANY K.S.C.P.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Munshaat Real Estate Projects Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively the "Group"), as at 30 June 2017, and the related interim condensed consolidated statement of income and interim condensed consolidated statement of comprehensive income for the three 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 Financial Reporting 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

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, it 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.

Conclusion

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 IAS 34.

Emphasis of Matter

- a) We draw attention to Note 8 to the interim condensed consolidated financial information, which states that Parent Company has received a tax demand notice amounting to SAR 1,891 million (equivalent to KD 153 million) from the General Authority of Zakat and Tax ("GAZT"), Kingdom of Saudi Arabia ("tax claim"). In response to the tax claim, the Parent Company has filed an objection letter with GAZT. Based on the advice obtained from an independent tax consultant, the management of the Parent Company has estimated and recorded a potential tax liability, including the aforementioned tax claim of KD 15.36 million in the interim condensed consolidated statement of financial position as at 30 June 2017 (31 December 2016: KD 14.5 million and 30 June 2016: KD 12.4 million) that includes Parent Company's share of KD 6.4 million (31 December 2016: KD 6.4 million and 30 June 2016: KD 6.3 million) relating to this claim as detailed in Note 8. Notwithstanding the above facts, there is a significant material uncertainty as to the outcome of the tax claim. The provision made in the books as at 30 June 2017 represents the best estimate from the management of the Parent Company.

**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION TO THE BOARD OF DIRECTORS OF MUNSHAAT REAL ESTATE
PROJECTS COMPANY K.S.C.P. (continued)**

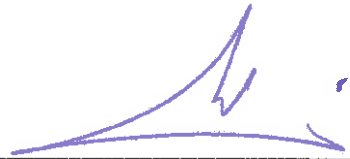
Emphasis of Matter (continued)

- b) We draw attention to Note 10 to the interim condensed consolidated financial information, which describes that, during the year 2015, the contractor of one of the properties of the Group in the Kingdom of Saudi Arabia has claimed an amount of SAR 501 million (equivalent to KD 41 million) from the Parent Company and the Parent Company has filed a counter claim for an amount of SAR 627 million (equivalent to KD 51 million) against the same contractor for the delay in completing the project. The claim is currently under arbitration with the Saudi Arbitration Committee. The management of the Parent Company, based on the advice from an independent legal counsel, believes that the outcome of the arbitration ruling would most probably be in favour of the Parent Company, accordingly no provision has been made for this claim in the interim condensed consolidated financial information as at and for the six months period ended 30 June 2017.


Our conclusion is not modified in respect of these matters.

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, 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 Companies Law No. 1 of 2016, as amended, and its executive regulations, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the six months period ended 30 June 2017 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



DR. SAUD HAMAD AL-HUMAIIDI
LICENCE NO. 51 A
DR. SAUD HAMAD AL-HUMAIIDI & PARTNERS
MEMBER OF BAKER TILLY INTERNATIONAL

26 July 2017
Kuwait

Munshaat Real Estate Projects Company K.S.C.P. and Subsidiaries
INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

For the period ended 30 June 2017

	<i>Notes</i>	<i>Three months ended 30 June</i>		<i>Six months ended 30 June</i>	
		<i>2017 KD</i>	<i>2016 KD</i>	<i>2017 KD</i>	<i>2016 KD</i>
Operating revenue	3	2,790,887	1,369,802	4,828,960	1,779,136
Operating cost	3	(2,717,694)	(2,581,452)	(5,243,369)	(4,481,186)
Gross profit (loss)		73,193	(1,211,650)	(414,409)	(2,702,050)
Income					
Management fees		155,300	137,833	281,338	282,149
Net income from investment properties		216,624	302,018	434,983	598,919
Unrealised (loss) gain from financial asset at fair value through statement of income		(2,655)	4,613	58,415	(66,277)
Net income from sukouk		475,775	662,437	612,578	993,085
Finance income		528	2,192	25,447	9,309
Dividend income		-	72,559	-	72,559
Other income		102,897	69,274	207,899	218,775
Share of results of associates		192,281	(265,249)	29,534	(129,029)
		1,140,750	985,677	1,650,194	1,979,490
Expenses					
General and administrative expenses		(685,292)	(862,038)	(1,294,528)	(1,738,227)
Depreciation		(8,871)	(8,681)	(17,978)	(18,609)
Write-down of inventories		(44,309)	-	(49,139)	-
Finance costs		(556,059)	(469,518)	(1,053,226)	(770,201)
Foreign exchange (loss) gain		(231,858)	84,762	(337,894)	(42,973)
		(1,526,389)	(1,255,475)	(2,752,765)	(2,570,010)
Loss for the period before overseas taxation		(312,446)	(1,481,448)	(1,516,980)	(3,292,570)
Overseas taxation		(30,214)	(47,434)	(54,637)	(65,078)
Loss for the period		(342,660)	(1,528,882)	(1,571,617)	(3,357,648)
Attributable to:					
Equity holders of the Parent Company		(236,624)	(1,219,607)	(1,298,422)	(2,713,100)
Non-controlling interests		(106,036)	(309,275)	(273,195)	(644,548)
Loss for the period		(342,660)	(1,528,882)	(1,571,617)	(3,357,648)
Basic and diluted loss per share attributable to the equity holders of the Parent Company	4	(1) Fils	(4) Fils	(4) Fils	(8) Fils

The attached notes 1 to 11 form part of this interim condensed consolidated financial information.

Munshaat Real Estate Projects Company K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the period ended 30 June 2017

	<i>Three months ended</i> <i>30 June</i>		<i>Six months ended</i> <i>30 June</i>	
	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
Loss for the period	(342,660)	(1,528,882)	(1,571,617)	(3,357,648)
Other comprehensive income (loss):				
<i>Items that are (or) may be reclassified to the interim condensed consolidated statement of income in subsequent periods:</i>				
Share of other comprehensive income (loss) of an associate	13,477	-	(185)	-
Change in fair value of financial assets available for sale	-	(1,793)	-	(1,793)
Exchange differences on translation of foreign operations	1,912	(684,930)	352,594	(505,675)
Net other comprehensive income (loss) for the period to be reclassified to interim condensed consolidated statement of income in subsequent periods	15,389	(686,723)	352,409	(507,468)
<i>Items that are not to be reclassified to the interim condensed consolidated statement of income in subsequent periods:</i>				
Share of revaluation reserve of an associate	-	-	(344,730)	-
Other comprehensive loss for the period not to be reclassified to the interim condensed consolidated statement of income in subsequent periods	-	-	(344,730)	-
Other comprehensive income (loss) for the period	15,389	(686,723)	7,679	(507,468)
Total comprehensive loss for the period	(327,271)	(2,215,605)	(1,563,938)	(3,865,116)
Attributable to:				
- Equity holders of the Parent Company	(215,733)	(1,231,370)	(1,282,111)	(2,683,229)
- Non-controlling interests	(111,538)	(984,235)	(281,827)	(1,181,887)
	(327,271)	(2,215,605)	(1,563,938)	(3,865,116)

The attached notes 1 to 11 form part of this interim condensed consolidated financial information.

Munshaat Real Estate Projects Company K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 June 2017

	Notes	30 June 2017 KD	(Audited) 31 December 2016 KD	30 June 2016 KD
ASSETS				
Non-current assets				
Furniture and computers		61,342	67,999	73,511
Leasehold property		63,653,400	66,029,785	72,036,554
Investment properties		18,266,304	18,887,585	18,972,138
Prepaid operating lease		2,042,250	2,042,250	2,430,300
Investment in associates		37,971,056	39,734,702	41,166,311
Financial assets available for sale		6,510,853	6,802,592	6,822,380
		<u>128,505,205</u>	<u>133,564,913</u>	<u>141,501,194</u>
Current assets				
Financial asset at fair value through statement of income		244,280	185,865	177,899
Accounts receivable and prepayments		9,404,975	9,733,229	7,367,974
Trading properties		519,926	519,926	545,902
Inventories		838,296	891,305	754,971
Wakala receivable		-	317,353	257,218
Bank balances and cash		8,777,877	3,855,621	8,956,021
		<u>19,785,354</u>	<u>15,503,299</u>	<u>18,059,985</u>
TOTAL ASSETS		<u>148,290,559</u>	<u>149,068,212</u>	<u>159,561,179</u>
EQUITY AND LIABILITIES				
Equity				
Share capital	6	32,200,000	32,200,000	32,200,000
Share premium		12,400,000	12,400,000	12,400,000
Statutory reserve		11,216,178	11,216,178	11,216,178
Voluntary reserve		6,789,172	6,789,172	6,789,172
Cumulative changes in fair values		1,413,641	1,413,826	1,041,062
Revaluation reserve		2,349,185	2,756,340	2,484,334
Foreign currency translation reserve		52,024	(309,202)	(150,029)
Retained earnings		5,372,146	6,608,143	11,830,168
Equity attributable to equity holders of the Parent Company		<u>71,792,346</u>	<u>73,074,457</u>	<u>77,810,885</u>
Non-controlling interests		(271,665)	749,493	1,953,172
Total equity		<u>71,520,681</u>	<u>73,823,950</u>	<u>79,764,057</u>
Liabilities				
Non-current liabilities				
Employees' end of service benefits		1,052,338	974,210	892,806
Islamic finance payables	7	20,855,405	20,246,096	20,775,204
Obligations under finance leases		1,585,296	1,702,378	1,622,234
Accounts payable and accruals		2,396,882	2,365,488	2,936,543
		<u>25,889,921</u>	<u>25,288,172</u>	<u>26,226,787</u>
Current liabilities				
Islamic finance payables	7	6,000,000	6,000,000	6,898,092
Obligations under finance leases		71,365	76,737	75,687
Accounts payable and accruals	8	44,808,592	43,879,353	46,596,556
		<u>50,879,957</u>	<u>49,956,090</u>	<u>53,570,335</u>
Total liabilities		<u>76,769,878</u>	<u>75,244,262</u>	<u>79,797,122</u>
TOTAL EQUITY AND LIABILITIES		<u>148,290,559</u>	<u>149,068,212</u>	<u>159,561,179</u>

Emad Yousef Almonayea
Chairman

Abdulaziz Ahmad Yousef Alsaqer
Chief Executive Officer

The attached notes 1 to 11 form part of this interim condensed consolidated financial information.

Munshaat Real Estate Projects Company K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period ended 30 June 2017

Equity attributable to equity holders of the Parent Company

	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Cumulative changes in fair values KD	Revaluation reserve KD	Foreign currency translation reserve KD	Retained earnings KD	Sub-total KD	Non-controlling interests KD	Total equity KD
As at 1 January 2017	32,200,000	12,400,000	11,216,178	6,789,172	1,413,826	2,756,340	(309,202)	6,608,143	73,074,457	749,493	73,823,950
Loss for the period	-	-	-	-	-	-	-	(1,298,422)	(1,298,422)	(273,195)	(1,571,617)
Other comprehensive (loss) income for the period	-	-	-	-	(185)	(344,730)	361,226	-	16,311	(8,632)	7,679
Total comprehensive (loss) income for the period	-	-	-	-	(185)	(344,730)	361,226	(1,298,422)	(1,282,111)	(281,827)	(1,563,938)
Dividends paid to non-controlling interest	-	-	-	-	-	(62,425)	-	-	-	(739,331)	(739,331)
Transfers	-	-	-	-	-	-	-	62,425	-	-	-
As at 30 June 2017	32,200,000	12,400,000	11,216,178	6,789,172	1,413,641	2,349,185	52,024	5,372,146	71,792,346	(271,665)	71,520,681
As at 1 January 2016	32,200,000	12,400,000	11,216,178	6,789,172	1,042,855	2,532,504	(181,693)	14,495,098	80,494,114	3,135,059	83,629,173
Loss for the period	-	-	-	-	-	-	-	(2,713,100)	(2,713,100)	(644,548)	(3,357,648)
Other comprehensive (loss) income for the period	-	-	-	-	(1,793)	-	31,664	-	29,871	(537,339)	(507,468)
Total comprehensive (loss) income for the period	-	-	-	-	(1,793)	(48,170)	31,664	(2,713,100)	(2,683,229)	(1,181,887)	(3,865,116)
Transfers	-	-	-	-	-	-	-	48,170	-	-	-
As at 30 June 2016	32,200,000	12,400,000	11,216,178	6,789,172	1,041,062	2,484,334	(150,029)	11,830,168	77,810,885	1,953,172	79,764,057

The attached notes 1 to 11 form part of this interim condensed consolidated financial information.

Munshaat Real Estate Projects Company K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the period ended at 30 June 2017

		Six months ended 30 June	
		2017 KD	2016 KD
	Note		
OPERATING ACTIVITIES			
Loss for the period before overseas taxation		(1,516,980)	(3,292,570)
Adjustments for:			
Amortisation of leasehold property	3	2,039,951	1,867,353
Change in fair value of investment properties		525,266	362,721
Unrealised (gain) loss from financial assets at fair value through statement of income		(58,415)	66,277
Other income		-	(169,871)
Finance income		(25,447)	(9,309)
Dividend income		-	(72,559)
Share of results of associates		(29,534)	129,029
Depreciation		6,657	18,609
Finance costs		1,053,226	770,201
Foreign exchange loss		337,894	42,973
Write-down of inventories		49,139	-
Provision for employees' end of service benefits		125,994	82,635
		<u>2,507,751</u>	<u>(204,511)</u>
Working capital changes:			
Accounts receivable and prepayments		328,254	504,551
Accounts payable and accruals		680,518	(4,632,664)
Inventories		(3,870)	-
		<u>3,512,653</u>	<u>(4,332,624)</u>
Cash flows from (used in) operations		3,512,653	(4,332,624)
Employees' end of service benefits paid		(47,866)	-
		<u>3,464,787</u>	<u>(4,332,624)</u>
Net cash flows from (used in) operating activities		<u>3,464,787</u>	<u>(4,332,624)</u>
INVESTING ACTIVITIES			
Purchase of furniture and computers		-	(10,458)
Dividend income received		-	72,559
Proceeds from sale of financial assets available for sale		-	350,703
Proceeds from capital redemption of financial assets available for sale		291,739	-
Proceeds from capital redemption of an associate		1,759,030	-
Proceeds from wakala receivables		317,353	-
Additions to leasehold property		(42,588)	-
Proceeds from sale of investment properties		-	1,838,744
Additions to investment properties		-	(25,713)
		<u>2,325,534</u>	<u>2,225,835</u>
Net cash flows from investing activities		<u>2,325,534</u>	<u>2,225,835</u>
FINANCING ACTIVITIES			
Proceeds from in Islamic finance payables		-	1,545,107
Repayment towards Islamic finance payables		(161,820)	-
Dividends paid		(739,331)	-
Finance costs paid		(218,439)	(543,477)
		<u>(1,119,590)</u>	<u>1,001,630</u>
Net cash flows (used in) from financing activities		<u>(1,119,590)</u>	<u>1,001,630</u>
NET INCREASE (DECREASE) IN BANK BALANCES AND CASH		4,670,731	(1,105,159)
Net foreign exchange difference		251,525	(462,659)
Bank balances and cash at the beginning of the period		3,855,621	10,523,839
BANK BALANCES AND CASH AT THE END OF THE PERIOD		8,777,877	8,956,021

The attached notes 1 to 11 form part of this interim condensed consolidated financial information.

Munshaat Real Estate Projects Company K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 June 2017

1 ACTIVITIES

Munshaat Real Estate Projects Company K.S.C.P. (the "Parent Company") is a public shareholding company established in Kuwait and is listed on the Kuwait Stock Exchange. The Parent Company was established on 8 April 2003 in accordance with the articles of association authenticated at Real Estate Registration and Authentication Department in the Ministry of Justice under No. 1416/Vol.1. The registered office of the Parent Company is located at Floor 43, Arraya Tower 2, Sharq, Shuhada St., Kuwait City Kuwait. The Parent Company carries out its activities as per Islamic Shari'ah and is mainly engaged in investment in local and foreign companies, real estate properties and consultancy services.

The Parent Company is a subsidiary of Aref Investment Group S.A.K ("Aref") (the "Intermediate Parent Company"), a share holding company incorporated in the State of Kuwait. Aref is a subsidiary of Kuwait Finance House K.S.C.P. ("the Ultimate Parent Company"), a registered Islamic Bank with the Central Bank of Kuwait and its shares are listed on the Kuwait Stock Exchange.

The interim condensed consolidated financial information of the Parent Company and its subsidiaries (collectively "the Group") for the six months period ended 30 June 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 26 July 2017.

2 BASIS OF PRESENTATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Basis of presentation

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

The interim condensed consolidated financial information does not contain all information and disclosures required for full financial statements prepared in accordance with IFRS and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2016. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included.

Operating results for the six months period ended 30 June 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017. The interim condensed consolidated financial information is presented in Kuwaiti Dinars ("KD") which is the functional and presentation currency of the Parent Company.

Changes in accounting policy and disclosures

The accounting policies used in the preparation of this interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of the amendments to the existing standards relevant to the Group, effective as of 1 January 2017. The adoption of these amendments and annual improvements to IFRS has no significant impact on the interim condensed consolidated financial information of the Group.

Munshaat Real Estate Projects Company K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 June 2017

3 OPERATING REVENUE AND COST

	<i>Three months ended 30 June</i>		<i>Six months ended 30 June</i>	
	<i>2017 KD</i>	<i>2016 KD</i>	<i>2017 KD</i>	<i>2016 KD</i>
Operating revenue				
Hotel revenue	2,790,887	1,369,802	4,828,960	1,779,136
Operating cost				
Hotel operating cost	(1,702,598)	(1,461,209)	(3,203,418)	(2,613,833)
Amortisation of leasehold property	(1,015,096)	(1,120,243)	(2,039,951)	(1,867,353)
	(2,717,694)	(2,581,452)	(5,243,369)	(4,481,186)

4 BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share attributable to the equity holders of the Parent Company are calculated by dividing the loss for the period attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the period as follows:

	<i>Three months ended 30 June</i>		<i>Six months ended 30 June</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
Loss for the period attributable to the equity holders of the Parent Company (KD)	(236,624)	(1,219,607)	(1,298,422)	(2,713,100)
Weighted average number of ordinary shares outstanding during the period (shares)	322,000,000	322,000,000	322,000,000	322,000,000
Basic and diluted loss per share attributable to the equity holders of the Parent Company	(1) Fils	(4) Fils	(4) Fils	(8) Fils

As there are no dilutive instruments outstanding, basic and diluted loss per share are identical.

5 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, associates, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties including hotel operator. Pricing policies and terms of these transactions are approved by the Parent Company's management.

Transactions with related parties included in the interim condensed consolidated statement of income are as follows:

	<i>Ultimate Parent Company KD</i>	<i>Associates KD</i>	<i>Other related parties KD</i>	<i>Six months ended 30 June</i>	
				<i>2017 KD</i>	<i>2016 KD</i>
Management fees	-	109,663	171,675	281,338	282,149
Finance income	24,387	-	-	24,387	7,155
Finance costs	(604,349)	-	-	(604,349)	(664,633)

Munshaat Real Estate Projects Company K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 June 2017

5 RELATED PARTY TRANSACTIONS (continued)

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

	Ultimate Parent Company KD	Major shareholders KD	Associates KD	Other related parties KD	30 June 2017 KD	(Audited) 31 December 2016 KD	30 June 2016 KD
Financial assets available for sale	-	-	-	3,852,692	3,852,692	4,144,431	3,828,084
Financial asset at fair value through statement of income	-	244,280	-	-	244,280	185,865	177,899
Bank balances and cash	2,138,277	-	-	-	2,138,277	2,454,252	2,157,137
Accounts receivable and prepayments	-	-	-	3,571,224	3,571,224	4,378,248	1,328,943
Accounts payable and accruals (current and non-current)	-	2,415,908	10,441,206	336,715	13,193,829	13,563,280	15,646,137
Islamic finance payables	20,855,405	-	-	-	20,855,405	20,246,096	21,673,296

Compensation of key management personnel

The remuneration of directors in their capacity as executives and other members of key management, during the periods were as follows:

	Three months ended 30 June		Six months ended 30 June	
	2017 KD	2016 KD	2017 KD	2016 KD
Salaries and short-term benefits	161,590	162,931	323,693	324,955
Employee's end of service benefits	(14,386)	14,868	598	43,013
	<u>147,204</u>	<u>177,799</u>	<u>324,291</u>	<u>367,968</u>

Munshaat Real Estate Projects Company K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at 30 June 2017

6 SHARE CAPITAL

	30 June 2017 KD	(Audited) 31 December 2016 KD	30 June 2016 KD
Authorised, issued and paid up capital consists of 322,000,000 (31 December 2016: 322,000,000 and 30 June 2016: 322,000,000) shares of 100 fils each, paid in cash.	32,200,000	32,200,000	32,200,000

The board of directors has not proposed any dividends for the financial year ended 31 December 2016 which was approved at the Annual General Meeting of the shareholders held on 25 May 2017 (2015 : nil).

7 ISLAMIC FINANCE PAYABLES

	30 June 2017 KD	(Audited) 31 December 2016 KD	30 June 2016 KD
Murabaha payables - current	6,030,247	6,045,205	6,910,174
Less: deferred profit payable	(30,247)	(45,205)	(12,082)
	6,000,000	6,000,000	6,898,092
Ijara payable – non-current	20,855,405	20,246,096	20,775,204
	26,855,405	26,246,096	27,673,296

Murabaha payables amounting to KD 6,030,247 (31 December 2016: KD 6,045,205 and 30 June 2016: KD 6,910,174) are secured by an investment property with a carrying value of KD 10,550,000 (31 December 2016: KD 10,550,000 and 30 June 2016: KD 10,550,000).

Ijara payable represents a facility amounting to KD 20,855,405 (31 December 2016: KD 20,246,096 and 30 June 2016: KD 20,775,204) taken by one of the subsidiaries of the Group from the Ultimate Parent Company for a period of 5 years, which will be automatically and compulsorily renewed till the complete payment of the financing amount and profit.

8 ACCOUNTS PAYABLE AND ACCRUALS

On 5 January 2016, the Parent Company received a demand notice for SAR 1,891 million (equivalent to KD 153 million) from the General Authority of Zakat and Tax ("GAZT"), Kingdom of Saudi Arabia for the years 2003 to 2013 and claimed Capital gains tax, corporate income tax, withholding tax and penalties ("tax claim").

The management of the Parent Company believes that the tax claim does not reflect the correct application of tax laws in the Kingdom of Saudi Arabia, the correct nature of the operations of the Parent Company and also the underlying numbers used in the computation of tax claim are significantly different from the actual results of operations. Further, the management of the Parent Company has appointed a tax consultant in the Kingdom of Saudi Arabia to review the tax claim and has filed an objection letter dated 2 March 2016 with GAZT.

The management of Parent Company, based on the advice from a tax consultant, has computed the estimated impact of the tax at the Group level and recorded a tax liability of KD 15,361,818 as at 30 June 2017 (31 December 2016: KD 14,548,428 and 30 June 2016: KD 12,402,797), including the aforesaid tax claim and included in accounts payable and accruals. However, as on the date of these interim condensed consolidated financial information there is a significant uncertainty as to the outcome of the tax claim. The provision recorded represents the best estimate of the tax liability that may arise from the tax claim.

Munshaat Real Estate Projects Company K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 June 2017

9 SEGMENTAL INFORMATION

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

Real estate & property management: Purchase, sale, development, renting and managing of properties.

Investment: Managing portfolio of investments.

The following table presents information relating to revenue and results of the Group for the six months ended 30 June 2017 and 30 June 2016.

Six months ended 30 June 2017	<i>Real estate & property management KD</i>	<i>Investment KD</i>	<i>Others KD</i>	<i>Total KD</i>
Segment revenue	6,157,859	87,949	233,346	6,479,154
Segment results	(1,537,040)	87,949	(122,526)	(1,571,617)
Six months ended 30 June 2016	<i>Real estate & property management KD</i>	<i>Investment KD</i>	<i>Others KD</i>	<i>Total KD</i>
Segment revenue	3,653,289	(122,747)	228,084	3,758,626
Segment results	(3,401,403)	(122,747)	166,502	(3,357,648)

The following table presents segment assets and liabilities of the Group's operating segments as at 30 June 2017, 31 December 2016 and 30 June 2016:

	<i>Real estate & property management KD</i>	<i>Investment KD</i>	<i>Others KD</i>	<i>Total KD</i>
As at 30 June 2017				
Segment assets	94,063,660	44,726,189	9,500,710	148,290,559
Segment liabilities	71,631,149	-	5,138,729	76,769,878
As at 31 December 2016(Audited)				
Segment assets	97,104,141	47,040,512	4,923,559	149,068,212
Segment liabilities	71,332,380	-	3,911,882	75,244,262
As at 30 June 2016				
Segment assets	100,427,065	48,166,591	10,967,523	159,561,179
Segment liabilities	78,478,525	-	1,318,597	79,797,122

The Group's real estate & property management segment is subject to seasonal fluctuations as a result of Hajj and Umrah timing.

Munshaat Real Estate Projects Company K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 June 2017

10 COMMITMENTS AND CONTINGENT LIABILITIES

At 30 June 2017, the Group had capital commitments in respect of construction cost amounting to KD Nil (31 December 2016: KD Nil and 30 June 2016: KD 3,218,437).

During the year 2015, the contractor of one of the properties of the Group in the Kingdom of Saudi Arabia has claimed a penalty of SAR 501 million (equivalent to KD 41 million) from the Parent Company for the delay in the execution of the project and various other related costs and the Parent Company has filed a counter claim for an amount of SAR 627 million (equivalent to KD 51 million) against the same contractor for the delay in handing over the project and operational losses. The dispute has been referred to Saudi Arbitration Committee ("SAC") and as on the date of this interim condensed consolidated financial information, the trial is in progress and the management of the Parent Company, based on the advice from the legal counsel representing the Parent Company in the aforesaid arbitration, believes that the outcome of the arbitration ruling will be in favour of Parent Company and also the counter claim filed by the Parent Company on the contractor is higher than the amount claimed by the contractor. Accordingly, as at 30 June 2017, the Group has not made any provision against this claim in the interim condensed consolidated financial information (31 December 2016: KD Nil and 30 June 2016: KD Nil).

During the period, the expert department has submitted its report to SAC and as at the reporting date the expert's reports are being evaluated by SAC.

11 FAIR VALUES

Fair value hierarchy

Financial assets

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

Level 1 — Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities.

Level 2 — Valuation techniques (for which the lowest level input that is significant to the fair value measurements directly or indirectly observable).

Level 3 — Valuation techniques (for which the lowest level input that is significant to the fair value measurements unobservable).

For financial instruments 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.

As at 30 June 2017, 31 December 2016 and 30 June 2016, the Group held the following classes of financial instruments measured at fair value:

Financial assets measured at fair value	Total KD	Level 1 KD	Level 3 KD
30 June 2017			
Financial assets available for sale	5,992,820	-	5,992,820
Financial asset at fair value through statement of income	244,280	-	244,280
31 December 2016(Audited)			
Financial assets available for sale	6,284,559	-	6,284,559
Financial asset at fair value through statement of income	185,865	185,865	-
30 June 2016			
Financial assets available for sale	6,257,765	-	6,257,765
Financial asset at fair value through statement of income	177,899	177,899	-

During the six months period ended 30 June 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

The fair values of financial instruments (financial assets and financial liabilities), with the exception of certain financial assets available for sale carried at cost amounting to KD 518,033 (31 December 2016: KD 518,033 and 30 June 2016: KD 564,615) are not materially different from their carrying values.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 30 June 2017

11 FAIR VALUES (continued)

Financial assets (continued)

The impact on the interim condensed consolidated statement of financial position or the interim condensed consolidated statement of changes in equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by 5%.

Movement in the Level 3 financial instruments is as follows:

	<i>As at the beginning of the period/year KD</i>	<i>Gain recorded in other comprehensive income KD</i>	<i>Redemption recorded during the period/year KD</i>	<i>As at the end of the period/year KD</i>
<i>Financial assets available for sale</i>				
30 June 2017	6,284,559	0	(291,739)	5,992,820
31 December 2016 (Audited)	6,608,468	316,833	(640,742)	6,284,559
30 June 2016	6,608,468	0	(350,703)	6,257,765

	<i>As at the beginning of the period/year KD</i>	<i>Unrealised gain (loss) recorded in statement of income KD</i>	<i>As at the end of the period/year KD</i>
<i>Financial asset at fair value through statement of income</i>			
30 June 2017	185,865	58,415	244,280
31 December 2016 (Audited)	244,176	(58,311)	185,865
30 June 2016	244,176	(66,277)	177,899

Non-financial assets

Non-financial assets consists of leasehold property and investment properties. The fair value of the leasehold property and investment properties is categorised under level 3 of the fair value hierarchy and the major movement during the period is due to amortisation.