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

INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

30 SEPTEMBER 2018

EY
Building a better working world

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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 September 2018, and the related interim condensed consolidated statement of profit or loss and interim condensed consolidated statement of comprehensive income for the three and nine-month periods then ended and the related interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the nine-month 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
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 equivalent to KD 41 million from the Parent Company and the Parent Company has filed a counter claim against the same contractor for delay in completing the project for an amount equivalent to KD 51 million. The ultimate outcome of the matter cannot presently be determined, and accordingly no provision for any liability that may result has been made in the interim condensed consolidated financial information as at 30 September 2018.

Our conclusion is not modified in respect of this matter.

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)

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, as amended, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the nine-month period ended 30 September 2018 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

5 November 2018
Kuwait

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

For the period ended 30 September 2018

		Three months ended 30 September		*Nine months ended 30 September*	
		2018	*2017*	***2018***	*2017*
	Notes	***KD***	*KD*	***KD***	*KD*
Operating revenue	3	**3,669,006**	3,184,147	**8,802,845**	8,013,107
Operating cost	3	**(3,072,352)**	(3,614,090)	**(8,267,979)**	(8,857,459)
Net results from hotel operations		**596,654**	(429,943)	**534,866**	(844,352)
Management fees		**164,803**	132,435	**608,827**	413,773
Net income from Sukuk		**292,854**	215,112	**1,002,637**	827,690
Net income from investment properties		**132,685**	90,072	**759,050**	525,055
Unrealised gain from financial assets at fair value through profit or loss		**377,912**	4,779	**538,099**	63,194
Finance income		**10,274**	3,717	**34,882**	29,164
Dividend income		**-**	-	**1,250**	-
Other income		**105,753**	100,946	**259,744**	308,845
Share of results of associates		**1,199,210**	191,832	**1,150,662**	221,366
General and administrative expenses		**(429,888)**	(847,161)	**(1,819,212)**	(2,141,689)
Depreciation		**(7,019)**	(8,289)	**(20,868)**	(26,267)
Write-down of inventories		**(23,714)**	(12,338)	**(68,708)**	(61,477)
Finance costs		**(727,845)**	(513,117)	**(2,170,708)**	(1,566,343)
Net foreign exchange differences		**29,244**	(88,268)	**(65,511)**	(426,162)
Reversal of impairment on leasehold property		**-**	5,943,339	**-**	5,943,339
Income from partial disposal of leasehold property		**-**	2,136,172	**-**	2,136,172
Reversal of provisions no longer required		**38,769**	6,097,771	**38,769**	6,097,771
Allowance for credit loss	9	**(1,832,207)**	-	**(1,832,207)**	-
		(669,169)	13,447,002	**(1,583,294)**	12,344,431
(Loss) profit for the period before tax		**(72,515)**	13,017,059	**(1,048,428)**	11,500,079
National Labour Support Tax ("NLST")		**-**	(247,160)	**(8,326)**	(247,160)
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")		**(95)**	(89,173)	**(311)**	(89,173)
Zakat and overseas taxation	9	**(2,757,718)**	(118,273)	**(3,633,482)**	(172,910)
Board of directors' remuneration		**-**	(6,600)	**-**	(6,600)
(Loss) profit for the period		**(2,830,328)**	12,555,853	**(4,690,547)**	10,984,236
Attributable to:					
Equity holders of the Parent Company		**(3,083,150)**	9,444,444	**(5,076,513)**	8,146,022
Non-controlling interests		**252,822**	3,111,409	**385,966**	2,838,214
(Loss) profit for the period		**(2,830,328)**	12,555,853	**(4,690,547)**	10,984,236
Basic and diluted (loss) earnings per share attributable to the equity holders of the Parent Company	4	**(10) Fils**	29 Fils	**(16) Fils**	25 Fils

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the period ended 30 September 2018

	Three months ended 30 September		*Nine months ended 30 September*	
	2018 KD	*2017 KD*	***2018 KD***	*2017 KD*
(Loss) profit for the period	**(2,830,328)**	12,555,853	**(4,690,547)**	10,984,236
Other comprehensive (loss) income:				
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods				
Share of other comprehensive (loss) income of an associate	**-**	235	**(1,638)**	50
Change in fair value of available-for-sale financial assets	**-**	132,463	**-**	132,463
Exchange differences on translation of foreign operations	**(157,383)**	7,103	**(404,627)**	359,697
Net other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods	**(157,383)**	139,801	**(406,265)**	492,210
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods				
Change in fair value of financial assets at fair value through other comprehensive income	**28,677**	-	**(15,400)**	-
Revaluation of leasehold property	**-**	5,956,371	**-**	5,611,641
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	**28,677**	5,956,371	**(15,400)**	5,611,641
Other comprehensive (loss) income for the period	**(128,706)**	6,096,172	**(421,665)**	6,103,851
Total comprehensive (loss) income for the period	**(2,959,034)**	18,652,025	**(5,112,212)**	17,088,087
Attributable to:				
- Equity holders of the Parent Company	**(3,060,096)**	15,540,620	**(5,095,460)**	14,258,509
- Non-controlling interests	**101,062**	3,111,405	**(16,752)**	2,829,578
	(2,959,034)	18,652,025	**(5,112,212)**	17,088,087

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 September 2018

	Notes	***30 September 2018 KD***	*(Audited) 31 December 2017 KD*	*30 September 2017 KD*
ASSETS				
Non-current assets				
Furniture and computers		**53,418**	48,472	53,525
Leasehold property	5	**89,706,546**	92,348,445	92,357,198
Investment properties	5	**17,181,585**	17,880,374	21,881,748
Prepaid operating lease		**1,772,540**	1,772,540	2,042,250
Investment in associates		**34,858,080**	34,185,681	38,154,366
Available-for-sale financial assets		**-**	6,200,329	6,643,316
Financial asset at fair value through profit or loss		**5,349,506**	-	-
Financial asset at fair value through other comprehensive income		**1,114,407**	-	-
		150,036,082	152,435,841	161,132,403
Current assets				
Financial assets at fair value through profit or loss		**-**	249,590	249,059
Accounts receivable and prepayments		**15,100,686**	17,655,908	10,315,342
Trading properties		**530,370**	530,370	519,926
Inventories		**911,145**	922,684	840,325
Wakala receivables		**234,764**	541,669	463,269
Bank balances and cash		**17,738,527**	4,637,943	6,394,859
		34,515,492	24,538,164	18,782,780
TOTAL ASSETS		**184,551,574**	176,974,005	179,915,183
EQUITY AND LIABILITIES				
Equity				
Share capital	7	**32,200,000**	32,200,000	32,200,000
Share premium		**12,400,000**	12,400,000	12,400,000
Statutory reserve		**11,939,162**	11,939,162	11,216,178
Voluntary reserve		**7,512,156**	7,512,156	6,789,172
Fair value reserve		**(1,331,654)**	1,338,442	1,546,339
Asset revaluation surplus		**6,770,783**	6,770,783	8,222,322
Foreign currency translation reserve		**(479,351)**	(477,442)	59,131
Retained earnings		**7,175,502**	9,598,957	14,899,824
Equity attributable to equity holders of the Parent Company		**76,186,598**	81,282,058	87,332,966
Non-controlling interests		**2,522,884**	2,539,636	2,839,720
Total equity		**78,709,482**	83,821,694	90,172,686
Liabilities				
Non-current liabilities				
Employees' end of service benefits		**1,144,558**	1,071,784	984,433
Islamic finance payables	8	**19,292,467**	19,928,194	21,141,009
Obligations under finance lease		**14,709,814**	15,132,481	17,420,788
Accounts payable and accruals		**304,870**	202,559	187,736
		35,451,709	36,335,018	39,733,966
Current liabilities				
Islamic finance payables	8	**7,204,361**	7,197,684	6,056,712
Obligations under finance lease		**1,221,585**	1,289,121	3,448,970
Accounts payable and accruals	9	**61,964,437**	48,330,488	40,502,849
		70,390,383	56,817,293	50,008,531
Total liabilities		**105,842,092**	93,152,311	89,742,497
TOTAL EQUITY AND LIABILITIES		**184,551,574**	176,974,005	179,915,183

Abdullah Fuad Abdullah Althaqeb
Chairman

Abdulaziz Ahmad Yousef Alsaqer
Chief Executive Officer

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period ended 30 September 2018

	Equity attributable to equity holders of the Parent Company										
	Share capital KD	*Share premium KD*	*Statutory reserve KD*	*Voluntary reserve KD*	*Fair value reserve KD*	*Asset revaluation surplus KD*	*Foreign currency translation reserve KD*	*Retained earnings KD*	*Sub-total KD*	*Non-controlling interests KD*	*Total equity KD*
Balance at 1 January 2018 before the adoption of IFRS 9 (Audited)	32,200,000	12,400,000	11,939,162	7,512,156	1,338,442	6,770,783	(477,442)	9,598,957	81,282,058	2,539,636	83,821,694
Transition adjustment on initial application of IFRS 9 at 1 January 2018 (Note 2.3)	-	-	-	-	(2,653,058)	-	-	2,653,058	-	-	-
Balance as at 1 January 2018 (restated)	32,200,000	12,400,000	11,939,162	7,512,156	(1,314,616)	6,770,783	(477,442)	12,252,015	81,282,058	2,539,636	83,821,694
Loss for the period	-	-	-	-	-	-	-	(5,076,513)	(5,076,513)	385,966	(4,690,547)
Other comprehensive loss for the period	-	-	-	-	(17,038)	-	(1,909)	-	(18,947)	(402,718)	(421,665)
Total comprehensive loss for the period	-	-	-	-	(17,038)	-	(1,909)	(5,076,513)	(5,095,460)	(16,752)	(5,112,212)
Balance as at 30 September 2018	**32,200,000**	**12,400,000**	**11,939,162**	**7,512,156**	**(1,331,654)**	**6,770,783**	**(479,351)**	**7,175,502**	**76,186,598**	**2,522,884**	**78,709,482**
Balance 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
Profit for the period	-	-	-	-	-	-	-	8,146,022	8,146,022	2,838,214	10,984,236
Other comprehensive income for the period	-	-	-	-	132,513	5,611,641	368,333	-	6,112,487	(8,636)	6,103,851
Total comprehensive income for the period	-	-	-	-	132,513	5,611,641	368,333	8,146,022	14,258,509	2,829,578	17,088,087
Capital redemption paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(739,351)	(739,351)
Transfers	-	-	-	-	-	(145,659)	-	145,659	-	-	-
Balance as at 30 September 2017	32,200,000	12,400,000	11,216,178	6,789,172	1,546,339	8,222,322	59,131	14,899,824	87,332,966	2,839,720	90,172,686

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the period ended at 30 September 2018

	Notes	*Nine months ended 30 September* 2018 KD	*Nine months ended 30 September* 2017 KD
OPERATING ACTIVITIES			
(Loss) profit for the period before taxation and after board of directors' remuneration		**(1,048,428)**	11,493,479
Adjustments to reconcile (loss)income for the period to net cash flows:			
Amortisation of leasehold property	3	**2,878,385**	3,054,397
Valuation loss of investment properties	5	**731,584**	564,084
Unrealised gain from financial assets at fair value through profit or loss		**(538,099)**	(63,194)
Income from partial disposal of leasehold property		**-**	(2,136,172)
Reversal of provisions no longer required		**(38,769)**	(6,097,771)
Allowance for credit loss	9	**1,832,207**	-
Reversal of impairment on leasehold property		**-**	(5,943,339)
Finance income		**(34,882)**	(29,164)
Dividend income		**(1,250)**	-
Share of results of associates		**(1,150,662)**	(221,366)
Depreciation		**20,868**	26,267
Finance costs		**2,170,708**	1,566,343
Net foreign exchange differences		**65,511**	426,162
Write-down of inventories		**68,708**	61,477
Provision for employees' end of service benefits		**221,417**	127,457
		5,177,298	2,828,660
Working capital adjustments:			
Accounts receivable and prepayments		**9,594,349**	(582,113)
Inventories		**(57,169)**	322,338
Accounts payable and accruals		**(1,020,439)**	(10,497)
Cash flows from operations		**13,694,039**	2,558,388
Employees' end of service benefits paid		**(148,643)**	(117,234)
Net cash flows from operating activities		**13,545,396**	2,441,154
INVESTING ACTIVITIES			
Proceeds from capital redemption of available for sale financial assets		**-**	291,739
Proceeds from capital redemption of financial asset at fair value through profit or loss		**241,600**	-
Proceeds from capital redemption in an associate		**2,684,279**	1,759,030
Proceeds from (investment in) wakala receivables		**306,905**	(145,916)
Additions to leasehold property		**(36,902)**	(1,310,967)
Purchase of furniture and computers		**(25,814)**	(11,793)
Net cash flows from investing activities		**3,170,068**	582,093
FINANCING ACTIVITIES			
Net proceeds from (repayment of) Islamic finance payables		**(629,050)**	951,625
Net repayment of obligation under finance lease		**(1,294,880)**	(344,131)
Finance costs paid		**(1,730,085)**	(338,534)
Dividends paid to non-controlling interests		**-**	(739,351)
Net cash flows used in financing activities		**(3,654,015)**	(470,391)
NET INCREASE IN BANK BALANCES AND CASH		**13,061,449**	2,552,856
Foreign currency translation adjustment		**39,135**	(13,618)
Bank balances and cash at 1 January		**4,637,943**	3,855,621
BANK BALANCES AND CASH AT 30 SEPTEMBER		**17,738,527**	6,394,859

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

1 CORPORATE INFORMATION

Munshaat Real Estate Projects Company K.S.C.P. (the "Parent Company") is a public shareholding company incorporated and domiciled in Kuwait, and whose shares are publicly traded on the Kuwait Stock Exchange (Boursa Kuwait). The Parent Company was established on 8 April 2003 as a real estate company. The registered office of the Parent Company is at Floor 43, Arraya Tower 2, Sharq, Shuhada Street, State of Kuwait.

The Group is primarily engaged in real estate activities. Geographically the Group's assets are located predominantly in Kuwait and GCC. As a result, no separate information is provided.

The Parent Company is a subsidiary of Aref Investment Group S.A.K ("Aref") (the "Ultimate Parent Company"), a closed shareholding company incorporated in the State of Kuwait. The Ultimate Parent Company is regulated by the Central Bank of Kuwait (CBK) as an investment and finance company and is subject to the supervision of Capital Markets Authority (CMA).

The Ultimate Parent Company carries its activities in accordance with the Islamic Sharia as approved by the Group's Fatwa and Sharia's Supervisory Board.

The interim condensed consolidated financial information of the Parent Company and its subsidiaries (collectively, "the Group") for the nine months ended 30 September 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 5 November 2018.

2 BASIS OF PREPERATION 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 IAS 34 "*Interim Financial Reporting*".

The interim condensed consolidated financial information is presented in Kuwaiti Dinars ("KD"), which is the functional currency of the Parent Company.

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017.

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 annual consolidated financial statements for the financial year ended 31 December 2017, except for the adoption of new standard effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial information of the Group.

The Group applies, for the first time, IFRS 15 "*Revenue from Contracts with Customers*" and IFRS 9 "*Financial Instruments*" that requires retrospective application. As required by IAS 34, the nature and effect of these changes are disclosed below.

2.3 Impact of changes in accounting policies due to adoption of new standards

Adoption of IFRS 9 – Financial Instruments
The Group has adopted IFRS 9 *Financial Instruments* effective from 1 January 2018, which brings together the requirements for classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting. This standard replaces *IAS 39 Financial Instruments: Recognition and Measurement.*

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

2.3 Impact of changes in accounting policies due to adoption of new standards (continued)

Adoption of IFRS 9 – Financial Instruments (continued)
The Group has not restated comparative information for 2017 as permitted by the transitional provisions of the standard. Therefore, the information presented for 2017 does not reflect the requirements of IFRS 9 and is not comparable to the information presented for the period ended 30 September 2018. Differences in the carrying amount of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018.

The key changes to the Group's accounting policies resulting from the adoption of IFRS 9 are summarised below:

Classification of financial assets and financial liabilities
To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Business model assessment
The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis but at a higher level of aggregated portfolios and is based on a number of observable factors. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Assessment of whether contractual cashflows are solely payments of principal and interest (SPPI test)
The Group assesses whether the financial instruments' cash flows represent Solely Payments of Principal and Interest (the 'SPPI test').

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition that may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of profit within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the profit rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

The Group reclassifies when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

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

2.3 Impact of changes in accounting policies due to adoption of new standards (continued)

Measurement categories of financial assets and liabilities
The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVTPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent reclassification to the profit or loss.

Debt instruments at amortised cost
Classification
A financial asset which is a debt instrument, is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit (SPPI) on the principal amount outstanding.

Accounts receivables, wakala receivables and bank balances are classified as debt instruments at amortised cost.

Subsequent measurement
Debt instruments catogorised at amortised cost are subsequently measured at amortised cost using the effective yield method adjusted for impairment losses, if any.

Equity instruments at FVOCI
Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 *Financial Instruments: Presentation and disclosures* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to statement of profit or loss. Dividends are recognised in statement of profit or loss when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal cumulative gains or losses are reclassified from fair value reserve to retained earnings in the statement of changes in equity.

Financial assets carried at fair value through profit or loss
Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument at FVTPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cashflows not representing solely payment of principal and interest are mandatorily required to be measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the profit or loss. Dividend income from equity investments measured at FVTPL is recognised in the profit or loss when the right to the payment has been established.

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

2.3 Impact of changes in accounting policies due to adoption of new standards (continued)

Impairment of financial assets
The Group previously recognized impairment losses on financial assets based on incurred loss model, under IAS 39.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

For the Group's financial assets, the management has applied the standard's simplified approach and has determined lifetime expected credit losses on these instruments. The management has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the counterparties and the economic environment.

The management considers a financial asset in default when the contractual payments are 90 days past due or on a case to case basis to assess whether the past due days are indicators of probable default. However, in certain cases, the management may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full.

Based on management's assessment, the effect of ECL on the financial assets carried at amortised cost is immaterial to the Group's interim condensed consolidated financial information.

Transition

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9
The following table shows reconciliation of original classification categories and carrying value in accordance with IAS 39 and the new classification categories under IFRS 9 for the Group's financial assets as at 1 January 2018.

	Original classification under IAS 39	*New classification under IFRS 9*	*Original carrying amount under IAS 39 KD*	*Transition adjustments (reclassification) KD*	*New carrying amount under IFRS 9 KD*
Available-for-sale financial assets	AFS	FVOCI	**880,218**	-	**880,218**
Available-for-sale financial assets	AFS	FVTPL	**5,320,111**	-	**5,320,111**
Financial assets at fair value through profit or loss	FVTPL	FVOCI	**249,590**	-	**249,590**
Accounts receivable and prepayments	Loans and receivables	Amortised cost	**3,151,336**	-	**3,151,336**
Bank balances	Loans and receivables	Amortised cost	**4,637,943**	-	**4,637,943**

Adoption of IFRS 9 did not result in any change in classification or measurement of financial liabilities.

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

2.3 Impact of changes in accounting policies due to adoption of new standards (continued)

Transition (continued)

Impact of Adopting IFRS 9
The following table analyses the impact of transition to IFRS 9 on reserves and retained earnings.

	Fair value reserve KD	Retained earnings KD
Closing balance under IAS 39 (31 December 2017)	1,338,442	9,598,957
Impact on reclassification and re-measurements:		
Reclassification of equity securities from AFS to FVOCI	(116,824)	116,824
Reclassification of equity securities from FVTPL to FVOCI	(1,273,232)	1,273,232
Reclassification of equity securities from AFS to FVTPL	(1,211,435)	1,211,435
Reclassification of equity securities from AFS to FVTPL in an associate	(51,567)	51,567
Opening balance under IFRS 9 on date of initial application as of 1 January 2018	**(1,314,616)**	**12,252,015**

Hedge accounting
The Group did not have any impact resulting from the new guidance relating to hedge accounting included in IFRS 9, as the Group is not dealing in any derivative instruments.

Adoption of IFRS 15 'Revenue from Contracts with Customers'

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* effective from 1 January 2018. This standard supersedes IAS 11 *Construction Contracts* and IAS 18 *Revenue* along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. This standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. The adoption of this standard does not have any material effect on the Group's interim condensed consolidated financial information.

3 OPERATING REVENUE AND COST

	Three months ended 30 September		*Nine months ended 30 September*	
	2018 KD	*2017 KD*	***2018 KD***	*2017 KD*
Operating revenue				
Hotel revenue	**3,669,006**	3,184,147	**8,802,845**	8,013,107
Operating cost				
Hotel operating cost	**(2,109,728)**	(2,599,644)	**(5,389,594)**	(5,803,062)
Amortisation of leasehold property (Note 5)	**(962,624)**	(1,014,446)	**(2,878,385)**	(3,054,397)
	(3,072,352)	(3,614,090)	**(8,267,979)**	(8,857,459)

4 BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

Basic and diluted (loss) earnings per share attributable to the equity holders of the Parent Company is calculated by dividing the (loss) profit 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:

	Three months ended 30 September		*Nine months ended 30 September*	
	2018	*2017*	***2018***	*2017*
(Loss) profit for the period attributable to the equity holders of the Parent Company (KD)	**(3,083,150)**	9,444,444	**(5,076,513)**	8,146,022
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) earnings per share attributable to the equity holders of the Parent Company	**(10) Fils**	29 Fils	**(16) Fils**	25 Fils

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

5 LEASEHOLD PROPERTY AND INVESTMENT PROPERTIES

a. Leasehold property

Leasehold property represents "Qeblah Tower", a property located in the Kingdom of Saudi Arabia and is operating as a hotel through an agreement with an international hotel operator.

The movement in leasehold property is as follows:

	30 September 2018 KD	*(Audited) 31 December 2017 KD*	*30 September 2017 KD*
At the beginning of the period/year	**92,348,445**	69,584,596	69,584,596
Reversal of impairment*	**-**	6,541,543	5,943,339
Revaluation gain*	**-**	6,112,532	5,956,371
Amortisation (note 3)	**(2,878,385)**	(3,775,056)	(3,054,397)
Additions*	**36,902**	14,397,863	14,397,389
Net foreign exchange differences	**199,584**	(513,033)	(470,100)
At the end of the period/year	**89,706,546**	92,348,445	92,357,198

* The reversal of impairment, revaluation gain and additions in leasehold property during the year ended 31 December 2017 resulted from the extension of leasehold period granted by Madina Development Authority (MDA) for Al Qeblah tower.

A reclassification amounting to KD 3,554,811 was made to the leasehold property as of 1 January 2017 and the same has been adjusted with other payables. This reclassification pertains to provision for construction cost of leasehold property.

5 LEASEHOLD PROPERTY AND INVESTMENT PROPERTIES (continued)

b. Investment properties

The movement in investment properties is, as follows:

	30 September 2018 KD	*(Audited) 31 December 2017 KD*	*30 September 2017 KD*
At the beginning of the period/year	**17,880,374**	18,887,585	18,887,585
Additions	**-**	3,634,071	3,677,382
Disposal	**-**	(3,634,071)	-
Valuation loss	**(731,584)**	(877,196)	(564,084)
Net foreign exchange differences	**32,795**	(130,015)	(119,135)
At the end of the period/year	**17,181,585**	17,880,374	21,881,748

6 RELATED PARTY DISCLOSURES

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 profit or loss are, as follows:

	Major shareholder of the Ultimate Parent Company KD	*Associates KD*	*Other related parties KD*	*Nine months ended 30 September* ***2018 KD***	*2017 KD*
Management fees income	-	336,469	272,358	**608,827**	413,773
Finance income	8,995	-	-	**8,995**	28,031
Finance costs	(842,628)	-	-	**(842,628)**	(887,723)
Management fees expense	-	-	(285,028)	**(285,028)**	(265,916)
Income from partial disposal of leasehold property	-	-	-	**-**	2,136,172

6 RELATED PARTY DISCLOSURES (continued)

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

	Major shareholder of the Ultimate Parent Company KD	*Ultimate Parent Company*	*Associates KD*	*Other related parties KD*	***30 September 2018 KD***	*(Audited) 31 December 2017 KD*	*30 September 2017 KD*
Financial asset at fair value through profit or loss	-	-	-	3,964,550	**3,964,550**	-	-
Financial asset at fair value through other comprehensive income	-	-	-	1,114,407	**1,114,407**	-	-
Available-for-sale financial assets	-	-	-	-	-	3,828,238	3,985,155
Financial assets carried at fair value through statement of income	-	-	-	-	-	249,590	249,059
Bank balances and cash	4,949,195	-	-	-	**4,949,195**	2,308,177	2,016,929
Accounts receivable and prepayments	-	2,404,361	-	7,689,432	**10,093,793**	12,193,575	5,127,722
Accounts payable and accruals (current and non-current)	-	-	8,400,934	3,769,800	**12,170,734**	3,195,490	10,479,803
Islamic finance payables (note 8)	20,791,421	-	-	-	**20,791,421**	21,420,471	21,141,009

Compensation of 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:

	Balance outstanding as at 30 September		*Transaction values for the nine months ended 30 September*	
	2018 KD	*2017 KD*	***2018 KD***	*2017 KD*
Salaries and short-term benefits	**86,281**	83,978	**401,483**	474,479
Post-employment benefits	**330,495**	370,430	**70,388**	28,905
	416,776	454,408	**471,871**	503,384

7 SHARE CAPITAL

	30 September 2018 KD	*(Audited) 31 December 2017 KD*	*30 September 2017 KD*
Authorised, issued and paid up capital consists of 322,000,000 (31 December 2017: 322,000,000 and 30 September 2017: 322,000,000) shares of 100 fils each, paid in cash.	**32,200,000**	32,200,000	32,200,000

The board of directors did not propose any dividends for the year ended 31 December 2017 that was approved at the Annual General Assembly meeting (AGM) held on 27 March 2018 (2016: nil).

8 ISLAMIC FINANCE PAYABLES

	30 September 2018 KD	*(Audited) 31 December 2017 KD*	*30 September 2017 KD*
Murabaha payables - current	**5,707,283**	5,707,204	6,057,657
Ijara payable – current	**1,498,954**	1,492,278	-
Less: deferred finance costs payable	**(1,876)**	(1,798)	(945)
Islamic finance payables - current	**7,204,361**	7,197,684	6,056,712
Ijara payable – non-current	**19,292,467**	19,928,194	21,141,009
	26,496,828	27,125,878	27,197,721

Murabaha payables amounting to KD 5,707,283 (31 December 2017: KD 5,707,204 and 30 September 2017: KD 6,057,658) are secured by an investment property with a carrying amount of KD 10,550,000 (31 December 2017: KD 10,550,000 and 30 September 2017: KD 10,550,000).

Ijara payable represents a facility limit amounting to KD 25 million (31 December 2017: KD 25 million and 30 September 2017: KD 25 million) obtained from a local financial institution on 4 January 2012 for a period of 5 years starting from the first drawdown date and to be automatically and compulsorily renewed till the complete repayment of the financing amount and related finance costs. During the previous year, the Ijara payable contract matured and has been automatically renewed. The repayment of the Ijara facility is to be made from the net operating cash flows of Al Qeblah tower.

9 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") – formerly known as the Department of Zakat and Income Tax ("DZIT"), in the Kingdom of Saudi Arabia ("KSA") for the years 2003 to 2013 claiming capital gains tax, corporate income tax, withholding tax and delay penalties ("tax claim").

The management of the Parent Company appointed a tax advisor in KSA to review the tax claim and file an objection letter with GAZT. Accordingly, the tax advisor filed an objection letter on 2 March 2016 with GAZT.

Based on the advice received from the tax advisor, the management of the Parent Company estimated and recorded a potential tax liability, including the aforementioned tax claim amounting to KD 30,444,311 in the consolidated statement of financial position as of the end of the immediately preceding financial year ended 31 December 2017. The potential tax liability recognised represented management's best estimate of the tax liability attributable to the Parent Company and other related parties (together referred to as the "Tax group entities") as of that date.

During the nine months ended 30 September 2018, the Parent Company received an offer from GAZT to settle the tax claim (the "offer") amounting to SAR 288,536,073 for the fiscal period from 2003 to 2013 and SAR 122,920,182 for the fiscal period from 2014 to 2017, totalling to an amount of SAR 411,456,254 (equivalent to KD 33,299,155).

9 ACCOUNTS PAYABLE AND ACCRUALS (continued)

The board of directors of the Parent Company in their meeting on 23 September 2018 resolved, on recommendation of the tax advisor, to accept the offer for the best interest of the Parent Company and invite the shareholders for an ordinary general meeting for approval. Further, the Parent Company formed an action committee to determine and allocate the tax liability attributable to each of the group entities and appointed an independent advisor to perform the allocation exercise. The allocation exercise was completed on 17 October 2018 and approved by the board of directors as of that date. Accordingly, the ordinary shareholders meeting on 21 October 2018 approved the board of directors' recommendation and authorized the directors to take the necessary measures that conserve the company's rights and to move forward to finalize the settlement process.

As a result, the Group recognised an additional tax expense of SAR 28,677,075 (equivalent to KD 2,320,836) during the nine months ended 30 September 2018 within 'Zakat and overseas taxation' in the statement of profit or loss to reflect the tax settlement as of that date. The total tax liability recognised by the Group on the statement of financial position as at the reporting date amounted to SAR 447,682,629 (equivalent to KD 36,228,263) out of which an amount of SAR 264,313,978 (equivalent to KD 21,390,930) represents the share of the Tax group entities correspondingly recorded as a receivable.

At the reporting date, the Group assessed the underlying receivables from the Tax group entities for impairment based on objective evidence and the carrying amount is reduced by KD 1,832,207 through the use of an allowance account. Changes in the carrying amount of the allowances account are recognised in profit or loss.

As at the date of authorisation of these consolidated financial statements, the legal formalities with GAZT relating to the tax settlement are still in progress.

10 COMMITMENTS AND CONTINGENT LIABILITIES

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. 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 the Saudi Arbitration Committee ("SAC"). The trial proceedings and hearings are still in progress as of the date of authorisation of this interim condensed consolidated financial information. However 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 most likely be in favour of Parent Company. Further, the counter claim filed by the Parent Company against the contractor is higher than the amount claimed by the contractor. Accordingly, the Group has not made any provision against this claim in the interim condensed consolidated financial information as at and for the period ended 30 September 2018 (31 December 2017: KD Nil and 30 September 2017: KD Nil).

During the prior year, 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 VALUE MEASUREMENT

Fair value hierarchy
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.

11 FAIR VALUE MEASUREMENT (continued)

Fair value hierarchy (continued)
As at 30 September 2018, 31 December 2017 and 30 September 2017, 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 September 2018			
Financial assets at fair value through other comprehensive income	**1,114,407**	**234,190**	**880,217**
Financial assets at fair value through profit or loss	**5,349,506**	**-**	**5,349,506**
31 December 2017 *(Audited)*			
Available-for-sale financial assets	5,791,069	-	5,791,069
Financial assets at fair value through profit or loss	249,590	249,590	-
30 September 2017			
Available-for-sale financial assets	6,125,283	-	6,125,283
Financial assets at fair value through profit or loss	249,059	249,059	-

Certain unquoted equity securities amounting to KD 409,260 and KD 518,033 as at 31 December 2017 and 30 September 2017, respectively were accounted at cost less impairment (in accordance with IAS 39). At the date of initial application of IFRS 9, the Group measured these investments at fair value. As a result, the fair value measurement of these securities was recognised in level 3 for the first time.

During the Period, 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 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 equity securities were altered by 5%.

Reconciliation of fair value measurement of investment in unquoted equity securities categorised under level 3:

	As at 1 January 2018* KD	***Total gains recognised in profit or loss KD***	***Redemptions during the period KD***	***Disposals during the period KD***	***Total losses recognised in OCI KD***	***As at 30 September 2018 KD***
30 September 2018						
Assets measured at fair value						
Financial asset at fair value through profit or loss	**5,320,112**	**538,099**	**(241,600)**	**(267,105)**	**-**	**5,349,506**
Financial asset at fair value through other comprehensive income	**1,129,807**	**-**	**-**	**-**	**(15,400)**	**1,114,407**
	6,449,919	**538,099**	**(241,600)**	**(267,105)**	**(15,400)**	**6,463,913**

* Refer to note 2.3 for transition adjustment on initial application of IFRS 9 at 1 January 2018.

	As at 1 January 2017 KD	*Remeasurement recognised in OCI KD*	*Redemption recorded during the year KD*	*As at 31 December 2017 KD*
31 December 2017				
Assets measured at fair value				
Available-for-sale financial assets	6,284,559	(80,890)	(412,600)	5,791,069

11 FAIR VALUE MEASUREMENT (continued)

	As at 1 January 2017 *KD*	*Remeasurement recognised in OCI* *KD*	*Redemption recorded during the year* *KD*	*As at 30 September 2017* *KD*
30 September 2017				
Assets measured at fair value				
Available-for-sale financial assets	6,284,559	132,463	(291,739)	6,125,283

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. The movement for leasehold property and investment properties is provided in Note 5.