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

INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

31 MARCH 2018

Building a better working world

Ernst & Young
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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 31 March 2018, and the related interim condensed consolidated statement of profit or loss, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the three-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
a) We draw attention to Note 9 to the interim condensed consolidated financial information, regarding material uncertainly relating to the outcome of the tax demand notice issued by the General Authority of Zakat and Tax ('GAZT'), Kingdom of Saudi Arabia in January 2016 ("tax claim"). Based on the advice obtained from an independent tax consultant, the Parent Company has recorded a provision in the books of account as at 31 March 2018, as detailed in Note 9, that represents the best estimate of the ultimate liability on the tax claim, by the management.

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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. (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 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 31 March 2018.

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, as amended, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the three-month period ended 31 March 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

10 May 2018
Kuwait

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

For the period ended 31 March 2018

	Notes	*Three months ended 31 March* 2018 KD	2017 KD
Operating revenue	3	**2,344,724**	2,038,073
Operating cost	3	**(2,507,073)**	(2,525,675)
Net results from hotel operations		**(162,349)**	(487,602)
Management fees		**270,203**	126,038
Net income from sukouk		**241,050**	145,735
Net income from investment properties		**308,315**	218,359
Unrealised gain from financial assets at fair value through profit or loss		**160,187**	61,070
Finance income		**13,834**	24,919
Dividend income		**1,250**	-
Other income		**74,437**	96,070
Share of results of associates	9	**(359,084)**	(162,747)
General and administrative expenses		**(744,597)**	(609,236)
Depreciation		**(7,090)**	(9,107)
Write-down of inventories		**-**	(4,830)
Finance costs		**(717,346)**	(497,167)
Net foreign exchange differences		**(256,356)**	(106,036)
Loss for the period before taxation		**(1,177,546)**	(1,204,534)
National Labour Support Tax ("NLST")		**(8,326)**	-
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")		**(110)**	-
Zakat and overseas taxation		**(479,159)**	(24,423)
Loss for the period		**(1,665,141)**	(1,228,957)
Attributable to:			
Equity holders of the Parent Company		**(1,593,477)**	(1,061,798)
Non-controlling interests		**(71,664)**	(167,159)
Loss for the period		**(1,665,141)**	(1,228,957)
Basic and diluted loss per share attributable to the equity holders of the Parent Company	4	**(5) Fils**	(3) 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 31 March 2018

	Three months ended 31 March	
	2018 ***KD***	*2017* *KD*
Loss for the period	**(1,665,141)**	(1,228,957)
Other comprehensive income (loss):		
Other comprehensive income (loss) to be reclassified to interim condensed consolidated statement of profit or loss in subsequent periods		
Share of other comprehensive income (loss) of an associate	**1,758**	(13,662)
Exchange differences on translation of foreign operations	**(25,880)**	350,682
Net other comprehensive (loss) income to be reclassified to interim condensed consolidated statement of profit or loss in subsequent periods	**(24,122)**	337,020
Other comprehensive loss not to be reclassified to interim condensed consolidated statement of profit or loss in subsequent periods		
Change in fair value of financial assets at fair value through other comprehensive income	**(34,518)**	-
Share of revaluation reserve of an associate	**-**	(344,730)
Net other comprehensive loss not to be reclassified to interim condensed consolidated statement of profit or loss in subsequent periods	**(34,518)**	(344,730)
Other comprehensive loss for the period	**(58,640)**	(7,710)
Total comprehensive loss for the period	**(1,723,781)**	(1,236,667)
Attributable to:		
- Equity holders of the Parent Company	**(1,635,284)**	(1,066,378)
- Non-controlling interests	**(88,497)**	(170,289)
	(1,723,781)	(1,236,667)

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 31 March 2018

	Notes	*31 March 2018 KD*	*(Audited) 31 December 2017 KD*	*31 March 2017 KD*
ASSETS				
Non-current assets				
Furniture and computers		**43,844**	48,472	63,530
Leasehold property	5	**91,131,774**	92,348,445	68,455,211
Investment properties	5	**17,632,696**	17,880,374	18,588,186
Prepaid operating lease		**1,772,540**	1,772,540	2,042,250
Investment in associates		**36,027,016**	34,185,681	39,548,032
Available-for-sale financial assets		**-**	6,200,329	6,802,592
Financial asset at fair value through profit or loss		**5,480,299**	-	-
Financial asset at fair value through other comprehensive income		**1,095,290**	-	-
		153,183,459	152,435,841	135,499,801
Current assets				
Financial asset at fair value through profit or loss		**-**	249,590	246,935
Accounts receivable and prepayments		**13,218,727**	17,655,908	8,210,185
Trading properties		**530,370**	530,370	519,926
Inventories		**998,945**	922,684	893,598
Wakala receivable		**640,520**	541,669	-
Bank balances and cash		**9,599,438**	4,637,943	6,057,896
		24,988,000	24,538,164	15,928,540
TOTAL ASSETS		**178,171,459**	176,974,005	151,428,341
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		**(1,295,809)**	1,338,442	1,400,164
Asset revaluation surplus		**6,770,783**	6,770,783	2,401,206
Foreign currency translation reserve		**(486,489)**	(477,442)	44,610
Retained earnings		**10,606,971**	9,598,957	5,556,749
Equity attributable to equity holders of the Parent Company		**79,646,774**	81,282,058	72,008,079
Non-controlling interests		**2,451,139**	2,539,636	579,204
Total equity		**82,097,913**	83,821,694	72,587,283
Liabilities				
Non-current liabilities				
Employees' end of service benefits		**1,176,094**	1,071,784	994,858
Islamic finance payables	8	**18,743,967**	19,928,194	20,522,485
Obligations under finance lease		**15,274,025**	15,132,481	1,724,682
Accounts payable and accruals		**232,334**	202,559	2,376,597
		35,426,420	36,335,018	25,618,622
Current liabilities				
Islamic finance payables	8	**7,187,794**	7,197,684	6,000,000
Obligations under finance lease		**1,280,641**	1,289,121	76,464
Accounts payable and accruals	9	**52,178,691**	48,330,488	47,145,972
		60,647,126	56,817,293	53,222,436
Total liabilities		**96,073,546**	93,152,311	78,841,058
TOTAL EQUITY AND LIABILITIES		**178,171,459**	176,974,005	151,428,341

Dawood Sulaiman Al Busairi
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 31 March 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 2.2)	-	-	-	-	(2,601,491)	-	-	2,601,491	-	-	-
Adjusted balance as at 1 January 2018	32,200,000	12,400,000	11,939,162	7,512,156	(1,263,049)	6,770,783	(477,442)	12,200,448	81,282,058	2,539,636	83,821,694
Loss for the period	-	-	-	-	-	-	-	(1,593,477)	(1,593,477)	(71,664)	(1,665,141)
Other comprehensive loss for the period	-	-	-	-	(32,760)	-	(9,047)	-	(41,807)	(16,833)	(58,640)
Total comprehensive loss for the period	-	-	-	-	(32,760)	-	(9,047)	(1,593,477)	(1,635,284)	(88,497)	(1,723,781)
Balance as at 31 March 2018	**32,200,000**	**12,400,000**	**11,939,162**	**7,512,156**	**(1,295,809)**	**6,770,783**	**(486,489)**	**10,606,971**	**79,646,774**	**2,451,139**	**82,097,913**
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
Loss for the period	-	-	-	-	-	-	-	(1,061,798)	(1,061,798)	(167,159)	(1,228,957)
Other comprehensive (loss) income for the period	-	-	-	-	(13,662)	(344,730)	353,812	-	(4,580)	(3,130)	(7,710)
Total comprehensive (loss) income for the period	-	-	-	-	(13,662)	(344,730)	353,812	(1,061,798)	(1,066,378)	(170,289)	(1,236,667)
Transfers	-	-	-	-	-	(10,404)	-	10,404	-	-	-
Balance as at 31 March 2017	32,200,000	12,400,000	11,216,178	6,789,172	1,400,164	2,401,206	44,610	5,556,749	72,008,079	579,204	72,587,283

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 31 March 2018

	Notes	*Three months ended 31 March* 2018 KD	2017 KD
OPERATING ACTIVITIES			
Loss for the period before taxation		**(1,177,546)**	(1,204,534)
Adjustments to reconcile loss for the period to net cash flows:			
Amortisation of leasehold property	3	**954,883**	1,024,855
Fair valuation loss from investment properties	5	**199,092**	264,583
Unrealised gain from financial assets at fair value through profit or loss		**(160,187)**	(61,070)
Finance income		**(13,834)**	(24,919)
Dividend income		**(1,250)**	-
Share of results of associates		**359,084**	162,747
Depreciation		**7,090**	9,107
Finance costs		**717,346**	497,167
Net foreign exchange differences		**256,356**	106,036
Provision for employees' end of service benefits		**106,734**	40,606
		1,247,768	814,578
Working capital adjustments:			
Accounts receivable and prepayments		**4,437,181**	1,498,125
Inventories		**(76,261)**	(2,293)
Accounts payable and accruals		**1,274,943**	(252,660)
Cash flows from operations		**6,883,631**	2,057,750
Employees' end of service benefits paid		**(2,424)**	(19,958)
Net cash flows from operating activities		**6,881,207**	2,037,792
INVESTING ACTIVITIES			
Purchase of furniture and computers		**(2,462)**	(4,638)
Additions to leasehold property	5	**(33,892)**	(32,851)
Investment in wakala receivables		**(98,851)**	317,353
Dividend income received		**1,250**	-
Finance income received		**13,834**	24,919
Net cash flows (used in) from investing activities		**(120,121)**	304,783
FINANCING ACTIVITIES			
Net movement in Islamic finance payables		**(1,396,347)**	-
Finance costs paid		**(363,214)**	(36,164)
Dividends paid to non-controlling interests		**(2,220)**	-
Net cash flows used in financing activities		**(1,761,781)**	(36,164)
Foreign currency translation adjustment		**(37,810)**	(104,136)
NET INCREASE IN BANK BALANCES AND CASH		**4,961,495**	2,202,275
Bank balances and cash at the beginning of the period		**4,637,943**	3,855,621
BANK BALANCES AND CASH AT THE END OF THE PERIOD		**9,599,438**	6,057,896

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 established in Kuwait whose shares are publicly traded on the Kuwait Stock Exchange ("KSE"). 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 at Floor 43, Arraya Tower 2, Sharq, Shuhada Street, State of Kuwait. The Parent Company carries out its activities in accordance with Islamic Shari'ah.

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 interim condensed consolidated financial information of the Parent Company and its subsidiaries (collectively, "the Group") for the period ended 31 March 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 7 May 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 International Accounting Standard 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 audited consolidated financial statements, and should be read in conjunction with the Group's annual audited 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 not yet effective.

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* that requires retrospective application. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 and IFRS 15 are summarised below:

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.*

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 31 March 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.

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

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

IFRS 9 Financial Instruments (continued)

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.

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

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

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

IFRS 9 Financial Instruments (continued)
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 interim condensed consolidated statement of other comprehensive income ("OCI") with no subsequent reclassification to the interim condensed consolidated statement of 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 interim condensed consolidated statement of profit or loss. Dividends are recognised in interim condensed consolidated 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 interim condensed consolidated 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 interim condensed consolidated statement of profit or loss. Dividend income from equity investments measured at FVTPL is recognised in the interim condensed consolidated statement of profit or loss when the right to the payment has been established.

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 counter parties and the economic environment.

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

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

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 assessment adoption of IFRS 9, ECL model did not result in any impact on the interim condensed consolidated financial information.

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.

	Classification under IAS 39	*Classification under IFRS 9*	*Carrying amount under IAS 39*	*Carrying amount under IFRS 9*
			KD	*KD*
Available-for-sale financial assets	Available-for-sale	Financial assets at FVOCI	**880,218**	**880,218**
Available-for-sale financial assets	Available-for-sale	Financial assets at FVTPL	**5,320,111**	**5,320,111**
Financial assets at fair value through profit or loss	Financial assets at FVTPL	Financial assets at 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.

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:		
Reclassify equity securities from AFS to FVOCI	(116,824)	116,824
Reclassify equity securities from FVPL to FVOCI	(1,273,232)	1,273,232
Reclassify equity securities from AFS to FVPL	(1,211,435)	1,211,435
Opening balance under IFRS 9 on date of initial application as of 1 January 2018	**(1,263,049)**	**12,200,448**

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.

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

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

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 31 March	
	2018	*2017*
	KD	*KD*
Operating revenue		
Hotel revenue	**2,344,724**	2,038,073
Operating cost		
Hotel operating cost	**(1,552,190)**	(1,500,820)
Amortisation of leasehold property (Note 5)	**(954,883)**	(1,024,855)
	(2,507,073)	(2,525,675)

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:

	Three months ended 31 March	
	2018	*2017*
Loss for the period attributable to the equity holders of the Parent Company (KD)	**(1,593,477)**	(1,061,798)
Weighted average number of ordinary shares outstanding during the period (shares)	**322,000,000**	322,000,000
Basic and diluted loss per share attributable to the equity holders of the Parent Company	**(5) Fils**	(3) 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:

	31 March 2018 KD	*31 December 2017 (Audited) KD*	*31 March 2017 KD*
At the beginning of the period/year	**92,348,445**	69,584,596	69,584,596
Reversal of impairment*	-	6,541,543	-
Revaluation gain*	-	6,112,532	-
Amortisation	**(954,883)**	(3,775,056)	(1,024,855)
Additions*	**33,892**	14,397,863	32,937
Net foreign exchange difference	**(295,680)**	(513,033)	(137,467)
At the end of the period/year	**91,131,774**	92,348,445	68,455,211

* 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 by Madina development Authority (MDA) for Al Qeblah tower.

A reclassification amounting to KD 3,554,811 was made to the leasehold property as on 31 December 2016 and the same has been adjusted with other payables. This reclassification pertains to provision for construction cost of leasehold property.

b. Investment properties

The movement in investment properties is, as follows:

	31 March 2018 KD	*31 December 2017 (Audited) KD*	*31 March 2017 KD*
At the beginning of the period/year	**17,880,374**	18,887,585	18,887,585
Additions	-	3,634,071	-
Disposal	-	(3,634,071)	-
Change in fair value	**(199,092)**	(877,196)	(264,583)
Net foreign exchange differences	**(48,586)**	(130,015)	(34,816)
At the end of the period/year	**17,632,696**	17,880,374	18,588,186

6 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 profit or loss are as follows:

	Ultimate Parent Company KD	*Associates KD*	*Other related parties KD*	*Three months ended 31 March* ***2018 KD***	*Three months ended 31 March 2017 KD*
Management fees revenue	-	164,831	105,373	**270,204**	126,038
Finance income	4,099	-	-	**4,099**	23,903
Finance costs	(275,190)	-	-	**(275,190)**	(276,389)
Management fees cost	-	-	(61,663)	**(61,663)**	(54,233)

6 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*	***31 March 2018*** ***KD***	*(Audited) 31 December 2017* *KD*	*31 March 2017* *KD*
Financial asset at fair value through profit or loss	-	-	-	3,828,238	**3,828,238**	249,590	246,935
Financial asset at fair value through other comprehensive income	-	-	-	215,072	**215,072**	-	-
Available-for-sale financial assets	-	-	-	-	-	3,828,238	4,144,431
Bank balances and cash	2,143,181	-	-	-	**2,143,181**	2,308,177	2,838,114
Accounts receivable and prepayments	-	1,362,582	-	6,961,150	**8,323,733**	12,193,575	3,172,308
Accounts payable and accruals (current and non-current)	-	251,361	8,084,441	74,431	**8,410,233**	3,195,490	13,286,618
Islamic finance payables	20,226,354	-	-	-	**20,226,354**	21,420,471	20,522,485

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 31 March		*Transaction values for three months ended 31 March*	
	2018 ***KD***	*2017* *KD*	***2018*** ***KD***	*2017* *KD*
Salaries and short-term benefits	**26,636**	27,824	**160,629**	162,103
Post-employment benefits	**438,730**	405,554	**44,120**	14,984
	465,366	433,378	**204,749**	177,087

7 SHARE CAPITAL

	31 March 2018 KD	*(Audited) 31 December 2017 KD*	*31 March 2017 KD*
Authorised, issued and paid up capital consists of 322,000,000 (31 December 2017: 322,000,000 and 31 March 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. This proposal was approved by the shareholders at the Annual General Assembly meeting (AGM) held on 27 March 2018 (2016: nil).

8 ISLAMIC FINANCE PAYABLES

	31 March 2018 KD	*(Audited) 31 December 2017 KD*	*31 March 2017 KD*
Murabaha payables - current	**5,707,204**	5,707,204	6,017,178
Ijara payable – current	**1,482,388**	1,492,278	-
Less: deferred finance costs payable	**(1,798)**	(1,798)	(17,178)
Islamic finance payables - current	**7,187,794**	7,197,684	6,000,000
Ijara payable – non-current	**18,743,967**	19,928,194	20,522,485
	25,931,761	27,125,878	26,522,485

Murabaha payables amounting to KD 5,707,204 (31 December 2017: KD 5,707,204 and 31 March 2017: KD 6,017,178) are secured by an investment property with a carrying amount of KD 10,550,000 (31 December 2017: KD 10,550,000 and 31 March 2017: KD 10,550,000).

Ijara payable represents facility limit amounting to KD 25 million (31 December 2017: KD 25 million and 31 March 2017: KD 25 million) obtained from the Ultimate Parent Company on 4 January 2012 for a period of 5 years starting from the first draw down date and to be automatically and compulsorily renewed till the complete repayment of the financing amount and profits. During 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 the Al Qeblah tower. The amount of Ijara repayment to be made till March 2019 has been classified as current.

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"), 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 received from the tax consultant, has computed the estimated impact of the tax at the Group level and recorded a tax liability of KD 30,026,351 as at 31 March 2018 (31 December 2017: KD 30,444,311 and 31 March 2017: KD 14,994,438), including the aforesaid tax claim, and included the same under accounts payable and accruals. However, as on the date of these interim condensed consolidated financial information there is a significant uncertainty relating 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.

9 ACCOUNTS PAYABLE AND ACCRUALS (continued)

During the period, the management of the Parent Company has reassessed the allocation of the above tax liability between one of the associates of the Group and the Parent Company. This reassessment has resulted in a net impact of KD 515,923 in the share of results of associates disclosed in the interim condensed consolidated statement of profit or loss."

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 31 March 2018 (31 December 2017: KD Nil and 31 March 2017: KD Nil).

11 FAIR VALUES

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.

As at 31 March 2018, 31 December 2017 and 31 March 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***
31 March 2018			
Financial asset at fair value through other comprehensive income	**1,095,290**	**215,072**	**880,218**
Financial asset at fair value through profit or loss	**5,480,299**	**-**	**5,480,299**
31 December 2017 *(Audited)*			
Available-for-sale financial assets	5,791,069	-	5,791,069
Financial asset at fair value through profit or loss	249,590	249,590	-
31 March 2017			
Available-for-sale financial assets	6,284,559	-	6,284,559
Financial asset at fair value through profit or loss	246,935	246,935	-

11 FAIR VALUES (continued)

During the three months ended 31 March 2018, 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 securities were altered by 5%.

Movement in the Level 3 financial instruments is as follows:

	*As at 1 January 2018** *KD*	*Gain recorded in interim condensed consolidated statement of profit or loss* *KD*	*Loss recorded in interim condensed consolidated statement of comprehensive income* *KD*	*As at 31 March 2018* *KD*
31 March 2018				
Assets measured at fair value				
Financial asset at fair value through profit or loss	**5,320,112**	**160,187**	**-**	**5,480,299**
Financial asset at fair value through other comprehensive income	**1,129,808**	**-**	**(34,518)**	**1,095,290**
	6,449,920	**160,187**	**(34,518)**	**6,575,589**

* Refer note 2.2 for transition adjustment on initial application of IFRS 9 at 1 January 2018.

	As at 1 January 2017 *KD*	*Remeasurement recognised in OCI* *KD*	*Impairment/ redemptions* *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

	As at 1 January 2017 *KD*	*Remeasurement recognised in OCI* *KD*	*Impairment/ redemptions* *KD*	*As at 31 March 2017* *KD*
31 March 2017				
Assets measured at fair value				
Available-for-sale financial assets	6,284,559	-	-	6,284,559

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.