

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

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

30 SEPTEMBER 2019

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 2019, and the related interim condensed consolidated statement of profit or loss and interim condensed consolidated statement of comprehensive income for the three-month 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 Accounting Standard 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

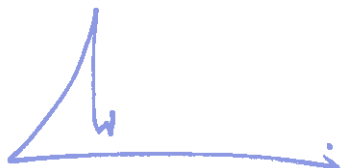
We draw attention to Note 9 to the interim condensed consolidated financial information, which describes that, during the year 2015, the contractor of one of the properties of the Group in the Kingdom of Saudi Arabia has claimed an amount equivalent to KD 41 million from the Parent Company and the Parent 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 2019.

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 2019 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

6 November 2019
Kuwait

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(UNAUDITED)**

For the period ended 30 September 2019

		<i>Three months ended 30 September</i>		<i>Nine months ended 30 September</i>	
		<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>Notes</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Operating revenue	3	4,144,311	3,669,006	8,965,537	8,802,845
Operating costs	3	(2,758,227)	(3,072,352)	(7,216,708)	(8,267,979)
Net results from hotel operations		1,386,084	596,654	1,748,829	534,866
Management fees		143,080	164,803	470,556	608,827
Net income from Sukuks		299,808	292,854	974,700	1,002,637
Net income from investment properties		115,567	132,685	342,655	759,050
Unrealised gain (loss) from financial assets at fair value through profit or loss		185,921	377,912	(25,801)	538,099
Finance income		6,934	10,274	19,771	34,882
Dividend income		-	-	-	1,250
Other income		163,787	105,753	335,792	259,744
Share of results of associates		697,504	1,199,210	1,375,141	1,150,662
General and administrative expenses		(474,585)	(429,888)	(1,973,975)	(1,819,212)
Depreciation expense		(21,825)	(7,019)	(63,087)	(20,868)
Write-down of inventories		-	(23,714)	(57,000)	(68,708)
Finance costs		(1,002,503)	(727,845)	(3,003,556)	(2,170,708)
Net foreign exchange differences		109,465	29,244	136,033	(65,511)
Reversal of provisions no longer required		-	38,769	-	38,769
Allowance for credit loss		(112,926)	(1,832,207)	(112,926)	(1,832,207)
Profit/(loss) before tax		1,496,311	(72,515)	167,132	(1,048,428)
National Labour Support Tax ("NLST")		-	-	-	(8,326)
Contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS")		-	(95)	-	(311)
Zakat and overseas taxation		34,972	(2,757,718)	(103,027)	(3,633,482)
Directors' remuneration		-	-	(10,000)	-
PROFIT/(LOSS) FOR THE PERIOD		1,531,283	(2,830,328)	54,105	(4,690,547)
Attributable to:					
Equity holders of the Parent Company		1,306,127	(3,083,150)	4,334	(5,076,513)
Non-controlling interests		225,156	252,822	49,771	385,966
PROFIT/(LOSS) FOR THE PERIOD		1,531,283	(2,830,328)	54,105	(4,690,547)
BASIC AND DILUTED PROFIT (LOSS) PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY	4	4 fils	(10) fils	0.01 fils	(16) fils

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

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

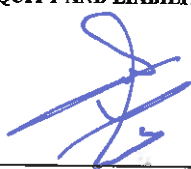
For the period ended 30 September 2019


	<i>Three months ended 30 September</i>		<i>Nine months ended 30 September</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Profit/(loss) for the period	1,531,283	(2,830,328)	54,105	(4,690,547)
Other comprehensive loss				
<i>Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:</i>				
Share of other comprehensive loss of an associate	-	-	-	(1,638)
Exchange differences on translation of foreign operations	(26,242)	(157,383)	(7,908)	(404,627)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(26,242)	(157,383)	(7,908)	(406,265)
<i>Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:</i>				
Change in fair value of financial assets at fair value through other comprehensive income	(2,124)	28,677	(35,049)	(15,400)
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods	(2,124)	28,677	(35,049)	(15,400)
Other comprehensive loss for the period	(28,366)	(128,706)	(42,957)	(421,665)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	1,502,917	(2,959,034)	11,148	(5,112,212)
Attributable to:				
Equity holders of the Parent Company	1,284,714	(3,060,096)	(35,056)	(5,095,460)
Non-controlling interests	218,203	101,062	46,204	(16,752)
	1,502,917	(2,959,034)	11,148	(5,112,212)

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

Munshaat Real Estate Projects Company K.S.C.P. and Subsidiaries
**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL
POSITION (UNAUDITED)**
As at 30 September 2019

		30 September 2019	(Audited) 31 December 2018	30 September 2018
	Notes	KD	KD	KD
ASSETS				
Non-current assets				
Property and equipment		343,638	102,268	53,418
Leasehold property	5	64,360,982	66,375,239	89,706,546
Investment properties	5	14,485,177	15,621,744	17,181,585
Prepaid operating lease		1,772,540	1,772,540	1,772,540
Investment in associates		31,431,759	32,798,051	34,858,080
Financial asset at fair value through profit or loss		4,622,979	4,953,030	5,349,506
Financial asset at fair value through other comprehensive income		818,033	853,082	1,114,407
		<u>117,835,108</u>	<u>122,475,954</u>	<u>150,036,082</u>
Current assets				
Accounts receivable and prepayments		11,346,019	8,313,657	15,100,686
Trading properties		530,370	530,370	530,370
Inventories		944,986	935,413	911,145
Wakala receivables		223,800	198,019	234,764
Bank balances and cash		8,198,069	5,575,413	17,738,527
		<u>21,243,244</u>	<u>15,552,872</u>	<u>34,515,492</u>
TOTAL ASSETS		<u>139,078,352</u>	<u>138,028,826</u>	<u>184,551,574</u>
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	11,939,162
Voluntary reserve	7	-	7,512,156	7,512,156
Fair value reserve		(1,628,030)	(1,592,981)	(1,331,654)
Asset revaluation surplus		658,251	658,251	6,770,783
Foreign currency translation reserve		(340,241)	(335,900)	(479,351)
(Accumulated losses) retained earnings		(8,455,559)	(15,972,049)	7,175,502
Equity attributable to equity holders of the Parent Company		<u>46,773,583</u>	<u>46,808,639</u>	<u>76,186,598</u>
Non-controlling interests		(2,210,487)	(1,591,218)	2,522,884
Total equity		<u>44,563,096</u>	<u>45,217,421</u>	<u>78,709,482</u>
Liabilities				
Non-current liabilities				
Employees' end of service benefits		1,103,090	1,180,887	1,144,558
Islamic finance payables	8	43,054,000	43,054,000	19,292,467
Obligations under finance lease		15,743,253	14,886,519	14,709,814
Accounts payable and accruals		4,382,220	4,580,418	304,870
		<u>64,282,563</u>	<u>63,701,824</u>	<u>35,451,709</u>
Current liabilities				
Islamic finance payables	8	7,585,407	7,585,407	7,204,361
Obligations under finance lease		358,758	1,295,840	1,221,585
Accounts payable and accruals		22,288,528	20,228,334	61,964,437
		<u>30,232,693</u>	<u>29,109,581</u>	<u>70,390,383</u>
Total liabilities		<u>94,515,256</u>	<u>92,811,405</u>	<u>105,842,092</u>
TOTAL EQUITY AND LIABILITIES		<u>139,078,352</u>	<u>138,028,826</u>	<u>184,551,574</u>


Abdullah Fuad Abdullah Althageb
Chairman


Abdulaziz Ahmad Yousef Alsaqer
Chief Executive Officer

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

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period ended 30 September 2019

	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	(Accumulated losses) retained earnings KD	Sub-total KD	Non-controlling interests KD	Total equity KD
As at 1 January 2019	32,200,000	12,400,000	11,939,162	7,512,156	(1,592,981)	658,251	(335,900)	(15,972,049)	46,808,639	(1,591,218)	45,217,421
Profit for the period	-	-	-	-	-	-	-	4,334	4,334	49,771	54,105
Other comprehensive loss for the period	-	-	-	-	(35,049)	-	(4,341)	-	(39,390)	(3,567)	(42,957)
Total comprehensive (loss) income for the period	-	-	-	-	(35,049)	-	(4,341)	4,334	(35,056)	46,204	11,148
Partial extinguishment of accumulated losses (Note 7)	-	-	-	(7,512,156)	-	-	-	7,512,156	-	-	-
Capital redemptions in a subsidiary	-	-	-	-	-	-	-	-	-	(665,473)	(665,473)
At 30 September 2019	32,200,000	12,400,000	11,939,162	-	(1,628,030)	658,251	(340,241)	(8,455,559)	46,773,583	(2,210,487)	44,563,096
As 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	-	-	-	-	(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) profit for the period	-	-	-	-	(17,038)	-	(1,909)	-	(18,947)	(402,718)	(421,665)
Total comprehensive (loss) profit for the period	-	-	-	-	(17,038)	-	(1,909)	(5,076,513)	(5,095,460)	(16,752)	(5,112,212)
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

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

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the period ended at 30 September 2019

	Notes	Nine months ended 30 September	
		2019 KD	2018 KD
OPERATING ACTIVITIES			
Profit/(loss) before tax		167,132	(1,048,428)
<i>Adjustments to reconcile profit/(loss) before tax to net cash flows:</i>			
Amortisation of leasehold property	5	2,168,414	2,878,385
Valuation loss of investment properties	5	1,151,421	731,584
Unrealised loss (gain) from financial assets at fair value through profit or loss		25,801	(538,099)
Reversal of provisions no longer required		-	(38,769)
Allowance for credit loss		112,926	1,832,207
Finance income		(19,771)	(34,882)
Dividend income		-	(1,250)
Share of results of associates		(1,375,141)	(1,150,662)
Depreciation expense		63,087	20,868
Finance costs		3,003,556	2,170,708
Net foreign exchange differences		(136,033)	65,511
Write-down of inventories		57,000	68,708
Provision for employees' end of service benefits		(1,615)	221,417
		5,216,777	5,177,298
<i>Working capital adjustments:</i>			
Accounts receivable and prepayments		(3,145,288)	9,594,349
Inventories		(66,573)	(57,169)
Accounts payable and accruals		1,627,533	(1,055,321)
Cash flows from operations		3,632,449	13,659,157
Employees' end of service benefits paid		(76,182)	(148,643)
Taxes paid		(1,874,200)	-
Net cash flows from operating activities		1,682,067	13,510,514
INVESTING ACTIVITIES			
Purchase of furniture and computers		(142,261)	(25,814)
Additions to leasehold property	5	(73,833)	(36,902)
Dividends received from an associate		479,571	-
Proceeds from capital redemption in an associate		2,261,609	2,684,279
Finance income received		19,771	34,882
Net movement in wakala receivables		(25,781)	306,905
Proceeds from capital redemption of financial assets at fair value through profit or loss		304,250	241,600
Net cash flows from investing activities		2,823,326	3,204,950
FINANCING ACTIVITIES			
Net repayment of Islamic finance payables		-	(629,050)
Net repayment of obligations under finance lease		(971,400)	(1,294,880)
Finance costs paid		(242,577)	(1,730,085)
Capital redemption paid to non-controlling interests		(665,473)	-
Payment of prior year's dividends		(9,060)	-
Net cash flows used in financing activities		(1,888,510)	(3,654,015)
NET INCREASE IN BANK BALANCES AND CASH		2,616,883	13,061,449
Foreign currency translation adjustment		5,773	39,135
Bank balances and cash 1 January		5,575,413	4,637,943
BANK BALANCES AND CASH AT 30 SEPTEMBER		8,198,069	17,738,527

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

Munshaat Real Estate Projects Company K.S.C.P. and Subsidiaries
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2019

1 CORPORATE INFORMATION

The interim condensed consolidated financial information of Munshaat Real Estate Projects Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively, the "Group") for the nine months ended 30 September 2019 was authorised for issue in accordance with a resolution of the board of directors of the Parent Company on 06 November 2019.

The Parent Company is a public shareholding company incorporated and domiciled in Kuwait and whose shares are publicly traded on Boursa Kuwait. The Parent Company's head office is located at ITS Tower, Mezzanine floor, Mubarak Al Kabeer Street, Sharq and its registered postal address is PO Box 1393, Dasman 15464, Kuwait.

The Parent Company of Munshaat Real Estate Projects Company K.S.C.P. is Aref Investment Group S.A.K. ("Ultimate Parent Company"), a closed shareholding company incorporated and domiciled in Kuwait.

The consolidated financial statements of the Group for the year ended 31 December 2018 were approved by the Parent Company's shareholders at the annual general assembly meeting ("AGM") held on 16 May 2019. No dividends were declared by the Parent Company.

The Group is principally engaged in managing real estate projects. The Parent Company's primary objectives as per the memorandum of incorporation are, as follows:

- ▶ To own, sell and acquire real estate properties and land and develop the same for the Parent Company's own account in the State of Kuwait and abroad; and to manage properties on behalf of third parties in accordance with the provisions stipulated under the existing laws and taking into consideration the restrictions stipulated under these laws.
- ▶ To own, sell and acquire shares and bonds of real estate companies for the Parent Company's own account in Kuwait and abroad.
- ▶ To prepare studies and provide consultancy work of all types in the real estate field; provided that the service provider meets the prerequisites.
- ▶ To own and manage hotels, health clubs and touristic facilities and to rent and lease the same.
- ▶ To carry-out all maintenance works in the buildings and real estate properties owned by the Parent Company, including all civil, mechanical and electrical works, elevators and air conditioning works in a way that maintains the safety of such properties.
- ▶ To manage, operate, invest, lease and rent hotels, clubs, motels, entertainment houses, rest places, gardens, parks, exhibitions, restaurants, cafes, residential compounds, touristic and health spas, entertainment and sports facilities and stores at different levels and grades, including all principal and auxiliary services, appended facilities and other services required therefore.
- ▶ To organise real estate exhibitions related to the real estate projects of the Parent Company pursuant to the regulations set forth by the Ministry Commerce and Industry.
- ▶ To organise real estate auctions pursuant to the regulations set forth by the Ministry of Commerce and Industry.
- ▶ To own and manage commercial complexes and residential compounds.
- ▶ To establish and manage real estate investment funds after obtaining the approval of the Capital Markets Authority.
- ▶ To utilise available financial surplus by investing the same in portfolios managed by specialised companies and entities.

The Group carries out its activities in accordance with the principles of Islamic Sharia as approved by the Fatwa and Sharia board appointed by the Parent Company.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2019

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 for the nine months ended 30 September 2019 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 consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018.

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 2018, except for the adoption of new standard effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group has applied, for the first time, IFRS 16 'Leases'. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial information of the Group.

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

Adoption of IFRS 16 'Leases'

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption IFRS 16 as at 1 January 2019 is as follows:

	KD
Assets	
Right-of-use assets (included under property and equipment)	221,953
Liabilities	
Lease liabilities (included under obligation under finance lease)	155,953

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2019

**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 16 'Leases' (continued)

a) Nature of the effect of adoption of IFRS 16

Before the adoption of IFRS 16, the Group classified its leases (as lessee) at the inception date as operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other assets and other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the borrowing rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of finance cost and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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**2 BASIS OF PREPARATION 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 16 'Leases' (continued)

b) Summary of new accounting policies (continued)

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2019 did not have any material impact on the accounting policies, financial position or performance of the Group.

c) Amounts recognised in the statement of financial position and profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	<i>Right-of-use assets KD</i>	<i>Lease liabilities KD</i>
At 1 January 2019		
Additions during the period	221,953	155,953
Depreciation expense	(33,202)	-
Finance costs	-	5,802
Payments	-	(27,000)
At 30 September 2019	188,751	134,755

The Group has discounted its future lease obligations using its incremental borrowing rate which is determined at 6% at the reporting date.

3 OPERATING REVENUE AND COSTS

	<i>Three months ended 30 September</i>		<i>Nine months ended 30 September</i>	
	<i>2019 KD</i>	<i>2018 KD</i>	<i>2019 KD</i>	<i>2018 KD</i>
Operating revenue				
Hotel revenue	4,144,311	3,669,006	8,965,537	8,802,845
Operating costs				
Hotel operating costs	(2,035,189)	(2,109,728)	(5,048,294)	(5,389,594)
Amortisation of leasehold property (Note 5)	(723,038)	(962,624)	(2,168,414)	(2,878,385)
	(2,758,227)	(3,072,352)	(7,216,708)	(8,267,979)

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4 EARNINGS (LOSS) PER SHARE (EPS)

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

	<i>Three months ended</i> <i>30 September</i>		<i>Nine months ended</i> <i>30 September</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
Profit (loss) for the period attributable to the equity holders of the Parent Company (KD)	1,306,127	(3,083,150)	4,334	(5,076,513)
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 EPS (fils)	4 fils	(10) fils	0.01 fils	(16) fils

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

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:

	<i>30 September</i> <i>2019</i> <i>KD</i>	<i>(Audited)</i> <i>31 December</i> <i>2018</i> <i>KD</i>	<i>30 September</i> <i>2018</i> <i>KD</i>
At the beginning of the period/year	66,375,239	92,348,445	92,348,445
Provision for impairment	-	(16,992,258)	-
Change in fair value	-	(6,112,532)	-
Amortisation (Note 3)	(2,168,414)	(3,835,345)	(2,878,385)
Additions	73,833	575,913	36,902
Net foreign exchange differences	80,324	391,016	199,584
At the end of the period/year	64,360,982	66,375,239	89,706,546

As at 31 December 2018, the management has determined the fair value of the leasehold property, based on external valuations by accredited independent valuers, using discounted cash flows method as there is a lack of comparable market data because of the nature of the properties.

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5 LEASEHOLD PROPERTY AND INVESTMENT PROPERTIES (continued)

b. Investment properties

The movement in investment properties is, as follows:

	30 September 2019 KD	(Audited) 31 December 2018 KD	30 September 2018 KD
At the beginning of the period/year	15,621,744	17,880,374	17,880,374
Change in fair value	(1,151,421)	(2,292,859)	(731,584)
Net foreign exchange differences	14,854	34,229	32,795
At the end of the period/year	14,485,177	15,621,744	17,181,585

The fair value of properties located in KSA are determined using a discounted cash flow method ("DCF"). The fair value of the property located in the State of Kuwait is determined using the market comparable approach. The valuations were performed by accredited independent valuers with recognised and relevant professional qualifications and experience in the locations and categories of the properties being valued as at 31 December 2018. The valuation models applied are consistent with the principles in IFRS 13.

Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) discount rate in isolation would result in a significantly lower (higher) fair value.

6 RELATED PARTY DISCLOSURES

Related parties represent major shareholders of Ultimate Parent Company, Ultimate Parent Company, 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.

The table below shows the aggregate value of transactions and outstanding balances with related parties:

	Major shareholder of the Ultimate Parent Company KD	Associates KD	Other related parties KD	Nine months ended 30 September	
				2019 KD	2018 KD
Statement of profit or loss:					
Management fees income	-	177,660	292,896	470,556	608,827
Finance income	6,058	-	-	6,058	8,995
Finance costs	(2,037,779)	-	-	(2,037,779)	(842,628)
Management fees expense	-	-	(151,026)	(151,026)	(285,028)

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6 RELATED PARTY DISCLOSURES (continued)

	Major shareholder of Ultimate Parent Company KD	Parent Company KD	Major shareholders KD	Associates KD	Other related parties KD	30 September 2019 KD	(Audited) 31 December 2018 KD	30 September 2018 KD
Statement of financial position:								
Financial asset at fair value through profit or loss	-	-	-	-	3,499,194	3,499,194	3,589,713	3,964,550
Financial asset at fair value through other comprehensive income	-	-	169,933	-	648,100	818,033	853,082	1,114,407
Bank balances and cash	5,956,760	-	-	-	-	5,956,760	3,764,362	4,949,195
Accounts receivable and prepayments	-	1,034	1,033	-	4,859,362	4,861,429	2,920,245	10,093,793
Accounts payable and accruals (current and non-current)	-	-	104,995	30,803	922,072	1,057,870	480,898	12,170,734
Islamic finance payables	45,234,000	-	-	-	-	45,234,000	45,234,000	20,791,421

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	
	2019 KD	2018 KD	2019 KD	2018 KD
Salaries and short-term benefits	115,155	86,281	382,179	401,483
Post-employment benefits	385,881	330,495	47,815	70,388
	<u>501,036</u>	<u>416,776</u>	<u>429,994</u>	<u>471,871</u>

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6 RELATED PARTY DISCLOSURES (continued)

Compensation of key management personnel (continued)

The Board of Directors at the meeting held on 11 April 2019 proposed directors' remuneration for an independent board member of KD 10,000 for the year ended 31 December 2018. The remuneration was approved by the shareholders at the AGM held on 16 May 2019.

7 SHARE CAPITAL

	30 September 2019 KD	(Audited) 31 December 2018 KD	30 September 2018 KD
Authorised, issued and paid up capital consists of 322,000,000 (31 December 2018: 322,000,000 and 30 September 2018:322,000,000) shares of 100 fils each, paid in cash.	32,200,000	32,200,000	32,200,000

At the AGM, the shareholders approved the partial extinguishment of accumulated losses as at 31 December 2018 amounted to KD 7,512,156 through utilising the full balance of voluntary reserve as of that date.

8 ISLAMIC FINANCE PAYABLES

	30 September 2019 KD	(Audited) 31 December 2018 KD	30 September 2018 KD
Current			
Murabaha payables	5,405,407	5,405,407	5,707,283
Tawarruq payable	2,180,000	2,180,000	-
Ijara payable	-	-	1,498,954
Less: deferred finance costs payable	-	-	(1,876)
	7,585,407	7,585,407	7,204,361
Non-current			
Tawarruq payable	43,054,000	43,054,000	19,292,467
	43,054,000	43,054,000	19,292,467
	50,639,407	50,639,407	26,496,828

Islamic finance payables bear an average finance cost of 6% (31 December 2018: 6%; 30 September 2018: 6%) per annum and are denominated in Kuwaiti Dinars.

Murabaha payables are secured over certain of the Group's investment properties. The tawarruq facility is secured over certain of the Group's investment properties, investment in associate and subsidiaries for which the legal formalities are still in progress as at the authorisation date of this interim condensed consolidated financial information.

9 COMMITMENTS AND CONTINGENT LIABILITIES

- During the year ended 31 December 2015, the contractor of one of the properties of the Group in KSA has claimed a penalty of SAR 501 million (equivalent to KD 41 million) from the Parent Company for the delay in the execution of a certain project and various other related costs associated with the project. 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 the operational losses incidental to the delay. The dispute has been referred to the Saudi Arbitration Committee ("SAC") and the trial proceedings are still in progress as at the authorisation date of these interim condensed consolidated financial information. However due to the considerable discrepancy in the technical reports submitted by the two parties in dispute, a specialised technical expert was appointed by SAC whose report issued on 20 March 2018 supported the Parent Company's position to a large extent.

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9 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The Group has been advised by its legal counsel that it is only possible, but not probable, that the action against the Group in the above case will succeed. Accordingly, no provision for any liability has been made in this interim condensed consolidated financial information.

- ii) During the current period, the Judicial Arbitration Council at the Court of Appeal issued a judgement against the Parent Company in relation to a joint venture managed by the Parent Company obliging the latter to settle to certain joint venture partners an amount of USD 1,000,000 (representing the full contribution amount in the joint venture), along with the share of profit at a rate of 15% and a temporary compensation of KD 5,001. However, the Parent Company and the adversary appealed against the ruling before the Court of Cassation and requested the suspension of execution of the verdict during the pendency of the appeal. The Court of Cassation, based on the legal advice received from the legal counsel, is expected to consider this appeal. Notwithstanding the above, there is an uncertainty with respect to the interpretation and implementation of the ruling at the date of authorization of this interim condensed consolidated financial information.

10 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.

As at 30 September 2019, 31 December 2018 and 30 September 2018, the Group held the following classes of financial instruments measured at fair value:

Financial assets measured at fair value

	Fair value measurement using		
	<i>Total</i> <i>KD</i>	<i>Quoted prices in active markets (Level 1)</i> <i>KD</i>	<i>Significant observable inputs (Level 3)</i> <i>KD</i>
30 September 2019			
Financial assets at FVOCI	818,033	169,933	648,100
Financial assets at FVTPL	4,622,979	-	4,622,979
31 December 2018 (Audited)			
Financial assets at FVOCI	853,082	204,982	648,100
Financial assets at FVTPL	4,953,030	-	4,953,030
30 September 2018			
Financial assets at FVOCI	1,114,407	234,189	880,218
Financial assets at FVTPL	5,349,506	-	5,349,506

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 financial information would be immaterial if the relevant risk variables used to fair value the unquoted equity securities were altered by 5%.

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10 FAIR VALUE MEASUREMENT (continued)

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

<i>30 September 2019</i>	<i>Financial assets at FVOCI KD</i>	<i>Financial assets at FVTPL KD</i>
As at 1 January 2019	648,100	4,953,030
Remeasurement recognised in profit or loss	-	(25,801)
Purchases / sales / redemption (net)	-	(304,250)
As at 30 September 2019	648,100	4,622,979
<i>31 December 2018</i>	<i>Financial assets at FVOCI KD</i>	<i>Financial assets at FVTPL KD</i>
As at 1 January 2018 (restated upon adoption IFRS 9)	880,218	5,320,111
Remeasurement recognised in OCI	(232,118)	-
Remeasurement recognised in profit or loss	-	141,623
Purchases / sales / redemption (net)	-	(508,704)
As at 31 December 2018	648,100	4,953,030
<i>30 September 2018</i>	<i>Financial assets at FVOCI KD</i>	<i>Financial assets at FVTPL KD</i>
As at 1 January 2018 (restated upon adoption IFRS 9)	880,218	5,320,112
Remeasurement recognised in profit or loss	-	538,099
Purchases / sales / redemption (net)	-	(508,705)
As at 30 September 2018	880,218	5,349,506

Non-financial assets

Non-financial assets consist 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 due to significant unobservable inputs used in assessing the fair values. The movement for leasehold property and investment properties is provided in Note 5.

11 SEGMENT INFORMATION

The Group, (including associate entities), is primarily engaged in real estate activities. Geographically, the Group's assets are located in the GCC region, predominantly in Kuwait and KSA. As a result, no segment information is provided.