

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

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

31 MARCH 2020





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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE SHAREHOLDERS OF MUNSHAAT REAL ESTATE PROJECTS 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 2020, 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 the interim condensed consolidated financial information in accordance with International Accounting Standard IAS 34, *Interim Financial Reporting* (“IAS 34”). Our responsibility is to express a conclusion on the interim condensed consolidated financial information based on our review.

Scope of review

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

Basis for Qualified Conclusion

The Group is required to assess at the reporting date, for all assets in scope of IAS 36 ‘*Impairment of Assets*’, whether there are any indicators of impairment. With the recent developments of the Covid-19 pandemic the Group decided to cease operations of its hotels in Mecca and Medina until further notice, hence there are both external and internal sources of information indicating that certain non-financial assets (right-of-use assets and investment in associates) may trigger the requirement for impairment tests. As a result, the Group is required to apply judgement to determine the most representative value in use (VIU) of these assets in the circumstances.

During the current period, the management engaged an independent real estate valuation expert to assist in the impairment assessment of right-of-use assets and investment in associate carried at KD 53,740,422 and KD 29,490,210 respectively in the interim condensed consolidated financial position as at 31 March 2020. However, management is still in the process of obtaining the valuation as at the authorisation date of this interim condensed consolidated financial information since the independent real estate valuation expert has not completed the exercise. Consequently, we were unable to determine whether any adjustments might be necessary to the interim condensed consolidated financial information.

Conclusion

Except for the adjustments to the interim condensed consolidated financial information that we might have become aware of had it not been for the situation described above, 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.

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

Material Uncertainty Related to Going Concern and Impact of Covid-19

We draw attention to Note 2 to interim condensed consolidated financial information, which indicates that the Group incurred a net loss of KD 960,602 during the three months ended 31 March 2020 and as at that date the Group's current liabilities exceeded its current assets by KD 6,852,918. Further, the Group has significant debt exposure and there is a risk that the Group will not be able to meet the mandatory repayment terms of its banking facilities as a result of the inherent uncertainties in relation to the impact of COVID-19 pandemic. These events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

Our conclusion is not modified in respect of this matter.

Emphasis of Matter

We draw attention to Note 11 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 this interim condensed consolidated financial information of the Group as at 31 March 2020.

Our conclusion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

Furthermore, except for the matter described in the 'Basis for Qualified Conclusion' paragraph above, 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 the 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, during the three-month period ended 31 March 2020 that might have had a material effect on the business of the Parent Company or on its financial position.



BADER A. AL-ABDULJADER

LICENCE NO. 207 A

EY

AL AIBAN, AL OSAIMI & PARTNERS

16 August 2020
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 31 March 2020

	<i>Notes</i>	<i>Three months ended 31 March</i>	
		<i>2020</i>	<i>2019</i>
		<i>KD</i>	<i>KD</i>
Operating revenue	4	2,179,156	2,168,295
Operating costs	4	(2,143,861)	(2,190,692)
Net results from hotel operations		35,295	(22,397)
Management fees		116,277	136,129
Net income from Sukuks		108,313	116,240
Net (loss) income from investment properties		(119,094)	113,112
Unrealised loss from financial assets at fair value through profit or loss		(262,381)	(211,722)
Finance income		6,014	7,318
Dividend income		197,243	-
Other income		81,099	130,373
Share of results of associates		(101,801)	47,021
General and administrative expenses		(859,511)	(769,724)
Depreciation expense		(36,123)	(19,943)
Finance cost on Islamic finance payables		(675,410)	(758,480)
Finance cost on lease obligations		(222,966)	(240,815)
Net foreign exchange differences		775,121	129,004
Loss before tax		(957,924)	(1,343,884)
Zakat and overseas taxation		(2,678)	(64,472)
LOSS FOR THE PERIOD		(960,602)	(1,408,356)
Attributable to:			
Equity holders of the Parent Company		(953,550)	(1,446,710)
Non-controlling interests		(7,052)	38,354
LOSS FOR THE PERIOD		(960,602)	(1,408,356)
BASIC AND DILUTED LOSS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY	5	(3) fils	(4) fils

The attached notes 1 to 13 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 31 March 2020

	<i>Three months ended 31 March</i>	
	2020	2019
	KD	KD
Loss for the period	(960,602)	(1,408,356)
Other comprehensive loss		
<i>Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	(225,934)	(26,942)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(225,934)	(26,942)
<i>Other comprehensive loss 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	(87,031)	(24,428)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	(87,031)	(24,428)
Other comprehensive loss for the period	(312,965)	(51,370)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(1,273,567)	(1,459,726)
Attributable to:		
Equity holders of the Parent Company	(1,212,010)	(1,493,358)
Non-controlling interests	(61,557)	33,632
	(1,273,567)	(1,459,726)

The attached notes 1 to 13 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 31 March 2020

		31 March 2020 KD	(Audited) 31 December 2019 KD	31 March 2019 KD
	Notes			
ASSETS				
Non-current assets				
Property and equipment		525,433	338,361	335,821
Right-of-use asset (Leasehold property)	6	53,740,422	53,849,054	65,749,284
Investment properties	6	22,040,693	22,588,450	15,260,617
Prepaid operating lease		-	-	1,772,540
Investment in associates	7	29,490,210	30,182,157	31,107,398
Financial asset at fair value through profit or loss	12	4,487,303	4,749,684	4,741,308
Financial asset at fair value through other comprehensive income	12	746,932	833,964	828,654
		<u>111,030,993</u>	<u>112,541,670</u>	<u>119,795,622</u>
Current assets				
Accounts receivable and prepayments		10,276,517	9,451,262	11,665,288
Trading properties		530,370	530,370	530,370
Inventories		1,082,191	1,096,172	947,528
Wakala receivables		199,960	273,591	203,052
Bank balances and cash		6,348,105	5,880,812	5,478,089
		<u>18,437,143</u>	<u>17,232,207</u>	<u>18,824,327</u>
TOTAL ASSETS		<u>129,468,136</u>	<u>129,773,877</u>	<u>138,619,949</u>
EQUITY AND LIABILITIES				
Equity				
Share capital	9	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		-	-	7,512,156
Other reserve		(309,291)	(309,291)	-
Fair value reserve		(1,699,130)	(1,612,099)	(1,617,409)
Asset revaluation surplus		-	-	658,251
Foreign currency translation reserve		(510,289)	(338,860)	(358,120)
Accumulated losses		(7,881,473)	(6,927,923)	(17,418,759)
Equity attributable to equity holders of the Parent Company		<u>46,138,979</u>	<u>47,350,989</u>	<u>45,315,281</u>
Non-controlling interests		<u>(3,064,780)</u>	<u>(3,003,223)</u>	<u>(2,223,059)</u>
Total equity		<u>43,074,199</u>	<u>44,347,766</u>	<u>43,092,222</u>
Liabilities				
Non-current liabilities				
Employees' end of service benefits		911,725	984,411	1,256,576
Islamic finance payables	10	40,644,066	40,644,066	43,054,000
Obligations under finance lease		14,464,381	13,806,626	15,284,450
Accounts payable and accruals		5,083,704	4,993,000	4,537,227
		<u>61,103,876</u>	<u>60,428,103</u>	<u>64,132,253</u>
Current liabilities				
Islamic finance payables	10	7,538,665	7,817,608	7,585,407
Obligations under finance lease		1,032,135	1,007,040	1,334,191
Accounts payable and accruals		16,719,261	16,173,360	22,475,876
		<u>25,290,061</u>	<u>24,998,008</u>	<u>31,395,474</u>
Total liabilities		<u>86,393,937</u>	<u>85,426,111</u>	<u>95,527,727</u>
TOTAL EQUITY AND LIABILITIES		<u>129,468,136</u>	<u>129,773,877</u>	<u>138,619,949</u>

Abdullah Fuad Abdulrahman Althaqeb
Chairman

Abdulaziz Ahmad Yousef Alsaqr
Chief Executive Officer

The attached notes 1 to 13 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 31 March 2020

	Equity attributable to equity holders of the Parent Company											
	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Other reserve KD	Fair value reserve KD	Asset revaluation surplus KD	Foreign currency translation reserve KD	Accumulated losses KD	Sub-total KD	Non-controlling interests KD	Total equity KD
As at 1 January 2020	32,200,000	12,400,000	11,939,162	-	(309,291)	(1,612,099)	-	(338,860)	(6,927,923)	47,350,989	(3,003,223)	44,347,766
Loss for the period	-	-	-	-	-	-	-	-	(953,550)	(953,550)	(7,052)	(960,602)
Other comprehensive loss for the period	-	-	-	-	-	(87,031)	-	(171,429)	-	(258,460)	(54,505)	(312,965)
Total comprehensive loss for the period	-	-	-	-	-	(87,031)	-	(171,429)	(953,550)	(1,212,010)	(61,557)	(1,273,567)
At 31 March 2020	32,200,000	12,400,000	11,939,162	-	(309,291)	(1,699,130)	-	(510,289)	(7,881,473)	46,138,979	(3,064,780)	43,074,199
Balance 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
(Loss) profit for the period	-	-	-	-	-	-	-	-	(1,446,710)	(1,446,710)	38,354	(1,408,356)
Other comprehensive loss for the period	-	-	-	-	-	(24,428)	-	(22,220)	-	(46,648)	(4,722)	(51,370)
Total comprehensive (loss) profit for the period	-	-	-	-	-	(24,428)	-	(22,220)	(1,446,710)	(1,493,358)	33,632	(1,459,726)
Non-controlling interest share of capital redemption of a subsidiary	-	-	-	-	-	-	-	-	-	-	(665,473)	(665,473)
At 31 March 2019	32,200,000	12,400,000	11,939,162	7,512,156	-	(1,617,409)	658,251	(358,120)	(17,418,759)	45,315,281	(2,223,059)	43,092,222

The attached notes 1 to 13 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 31 March 2020

		<i>Three months ended</i> <i>31 March</i>	
		<i>2020</i> <i>KD</i>	<i>2019</i> <i>KD</i>
OPERATING ACTIVITIES	<i>Notes</i>		
Loss before tax		(957,924)	(1,343,884)
<i>Adjustments to reconcile loss before tax to net cash flows:</i>			
Depreciation of right-of-use asset (leasehold property)	6	707,484	723,395
Valuation loss of investment properties	6	627,537	380,089
Unrealised loss from financial assets at fair value through profit or loss		262,381	211,722
Finance income		(6,014)	(7,318)
Dividend income		(197,243)	-
Share of results of associates		101,801	(47,021)
Depreciation expense		36,123	19,943
Finance costs		898,376	999,295
Net foreign exchange differences		(775,121)	(129,004)
Provision for employees' end of service benefits		36,034	111,583
		733,434	918,800
<i>Working capital adjustments:</i>			
Accounts receivable and prepayments		(825,255)	(3,351,631)
Inventories		13,981	(12,115)
Accounts payable and accruals		419,971	2,185,914
Cash flows from (used in) operations		342,131	(259,032)
Employees' end of service benefits paid		(108,720)	(35,893)
Net cash flows from (used in) operating activities		233,411	(294,925)
INVESTING ACTIVITIES			
Purchase of furniture and computers		(10,807)	(105,024)
Additions to right-of-use asset (leasehold property)	6	(46,877)	-
Dividends received from an associate		574,996	879,221
Dividend income received		197,243	162,869
Finance income received		6,014	7,318
Net movement in wakala receivables		79,453	(5,033)
Net cash flows from investing activities		800,022	939,351
FINANCING ACTIVITIES			
Net repayment of Islamic finance payables		(300,000)	-
Net repayment of obligations under finance lease		(9,000)	-
Finance costs paid		(297,715)	(79,970)
Capital redemption paid to non-controlling interests		-	(665,473)
Payment of prior year's dividends		(1,250)	(1,445)
Net cash flows used in financing activities		(607,965)	(746,888)
NET INCREASE (DECREASE) IN BANK BALANCES AND CASH		425,468	(102,462)
Foreign currency translation adjustment		41,825	5,138
Bank balances and cash 1 January		5,880,812	5,575,413
BANK BALANCES AND CASH AT 31 MARCH		6,348,105	5,478,089

The attached notes 1 to 13 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 31 March 2020

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 three months ended 31 March 2020 was authorised for issue in accordance with a resolution of the board of directors of the Parent Company on 16 August 2020.

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 2019 were approved by the Parent Company's shareholders at the annual general assembly meeting ("AGM") held on 25 June 2020. 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.

2 FUNDAMENTAL ACCOUNTING CONCEPT AND IMPACT OF COVID-19

The COVID-19 outbreak has developed rapidly in 2020 and measures taken by various governments to contain the virus have negatively affected the Group's results. The Group has reported a net losses of KD 960,602 for the three months ended 31 March 2020 and as at that date its current liabilities exceed its current assets by KD 6,852,918. The currently known impact of COVID-19 on the Group are:

- ▶ A decline in total revenues for the first six months of 2020 compared to the same period in 2019 of 54%.
- ▶ Net loss from investment properties of KD 119,094 (31 March 2019: income of KD 113,112).
- ▶ Share of loss from associates of KD 101,801 (31 March 2019: profit of KD 47,021).
- ▶ Closure of the Group's hotels from 1 April 2020 until further notice, which will reduce the income further down and cash inflows going forward.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2020

2 FUNDAMENTAL ACCOUNTING CONCEPT AND IMPACT OF COVID-19 (continued)

These developments result in a preliminary net loss of approximately KD 960,602 in the first three months of 2020 excluding the impairment losses on right-of-use asset and investment in associates as explained in note 6 and 7 below.

Based on the current financial position and results, there is a risk that the Group will not be able to meet the mandatory repayment terms of the banking facilities disclosed in Note 10. The Group is currently discussing rescheduling the principle repayment that is due in November 2020 with the lenders.

In addition to the already known effects of the COVID-19 outbreak and resulting government measures, the macroeconomic uncertainty causes disruption to economic activity, and it is unknown what the long term impact on the Group's business will be.

Management seeks to obtain the best possible information to enable us to assess these risks and implement appropriate measures to respond. The Group has taken and will take a number of measures to monitor and prevent the effects of the COVID-19 virus. This includes, however not limited to the steps noted below;

- ▶ Managing the Group's cash flows to ensure the continuity of the operation of the Group and begin negotiation with lenders to reschedule principle repayment.
- ▶ Reducing expenses at the level of the Parent Company and subsidiaries and deferring non-essential capex.
- ▶ Reducing operating losses by ceasing the hotels owned and managed by the Group in KSA.
- ▶ Initiate discussion with lessor to obtain extension of the leasehold rights owned or managed by the Group to compensate for the periods of downtime for the hotels due to Covid-19.

Based on the facts and circumstances known at this moment and the possible scenarios about how the COVID-19 virus and resulting government measures could evolve, management has determined that the use of the going concern assumption is appropriate, however there is a material uncertainty resulting from COVID-19 that may cast significant doubt upon the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business without the support from the lenders.

Based on the circumstances described above, the interim condensed consolidated financial information is prepared on the assumption that the Group is a going concern.

3 BASIS OF PREPERATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

3.1 Basis of preparation

The interim condensed consolidated financial information of the Group for the three months ended 31 March 2020 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 2019.

3.2 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 2019, except for the adoption of new standard effective as of 1 January 2020. 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 2020, but do not have a material impact on the interim condensed consolidated financial information of the Group.

Amendments to IFRS 3: Definition of a Business

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

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 31 March 2020

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

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

Amendments to IAS 1 and IAS 8: Definition of Material

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

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements.

A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim consolidated financial statements of, nor is there expected to be any future impact to the Group.

These amendments had no impact on the consolidated financial statements of the Group.

4 OPERATING REVENUE AND COSTS

	<i>Three months ended 31 March</i>	
	<i>2020</i>	<i>2019</i>
	<i>KD</i>	<i>KD</i>
Operating revenue		
Hotel revenue	2,179,156	2,168,295
Operating costs		
Hotel operating costs	(1,436,377)	(1,467,297)
Depreciation of right-of-use asset (Note 6)	(707,484)	(723,395)
	(2,143,861)	(2,190,692)

5 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 31 March</i>	
	<i>2020</i>	<i>2019</i>
Loss for the period attributable to the equity holders of the Parent Company (KD)	(953,550)	(1,446,710)
Weighted average number of ordinary shares outstanding during the period (shares)	322,000,000	322,000,000
Basic and diluted EPS (fils)	(3) fils	(4) 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.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
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As at and for the period ended 31 March 2020

6 RIGHT-OF-USE (LEASEHOLD PROPERTY) AND INVESTMENT PROPERTIES

a. Right-of-use asset (Leasehold property)

Leasehold property represents “Qebalah 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 2020 KD	<i>(Audited)</i> 31 December 2019 KD	31 March 2019 KD
At the beginning of the period / year	53,849,054	66,375,239	66,375,239
Transfer to Investment property	-	(9,371,749)	-
Transfer from prepaid operating lease	-	1,772,540	-
Impairment of right-of-use asset	-	(246,740)	-
Discount received on future lease payments	-	(1,449,542)	-
Depreciation on right-of-use asset (Note 4)	(707,484)	(3,309,184)	(723,395)
Additions	46,877	124,188	-
Net foreign exchange differences	551,976	(45,698)	97,440
At the end of the period / year	<u>53,740,422</u>	<u>53,849,054</u>	<u>65,749,284</u>

The right-of-use asset is subject to impairment for which the Group had carried out an annual assessment as at 31 December 2019. The assessment was conducted by determining the value in use (VIU) of properties located in Kingdom of Saudi Arabia (“KSA”) using a discounted cash flow method (“DCF”). These VIU estimates were performed by accredited independent valuers with recognised and relevant professional qualifications and recent experience in the location and category of the properties being valued.

As detailed in note 2 above, due to the outbreak of Covid-19 pandemic, the Group ceased the hotel operations in KSA until further notice. These conditions are indicative of existence of an impairment in the carrying value of right-of-use asset. The Group has engaged the same accredited independent valuers to assess the impairment as at the reporting date. However, as at the date of authorization of these financial statement for issuance the independent valuers have not completed the assessment. Accordingly, the management is unable to determine the impact on the carrying value of the right-of-use asset.

b. Investment properties

The movement in investment properties is, as follows:

	31 March 2020 KD	<i>(Audited)</i> 31 December 2019 KD	31 March 2019 KD
At the beginning of the period/year	22,588,450	15,621,744	15,621,744
Transfer from right-of-use asset	-	9,371,749	-
Change in fair value	(627,537)	(2,403,468)	(380,089)
Net foreign exchange differences	79,780	(1,575)	18,962
At the end of the period/year	<u>22,040,693</u>	<u>22,588,450</u>	<u>15,260,617</u>

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As at and for the period ended 31 March 2020

6 RIGHT-OF-USE (LEASEHOLD PROPERTY) AND INVESTMENT PROPERTIES (continued)

b. Investment properties (continued)

- a) The fair value of investment properties was independently determined at 31 December 2019 by accredited independent valuers who are specialised in valuing such type of properties using a discounted cash flow method ("DCF").

For the current period, as a result of the recent outbreak of COVID-19, management acknowledges that there is increased uncertainty to input factors on fair value of investment properties, including discount rates and due to a lack of market transactions since early March 2020. Management has made general assumptions to sensitize cash flows based on expected scenarios which are anticipated to occur over the near- and mid-term period. The Group has assessed each of its property classes to determine the level of impact on cash flows after taking into account upcoming quarter rent collection rates, and the credit quality of its tenant base. It is likely that there will be further cash flow and valuation metric changes in future periods as new information related to the pandemic are understood, including the continued impact on tenants as well as the evolution of government restrictions and travel limitations.

The Group will continue to assess further the impact on cash flows as well as valuation inputs in the upcoming quarters as there is new information to consider.

- b) Investment properties with a carrying value of KD 8,967,670 (31 December 2019: KD 8,967,670; 31 March 2019: KD 9,231,425) are pledged against Islamic finance payables (Note 10).

7 INVESTMENT IN ASSOCIATES

The investment in associate is subject to impairment for which the Group had carried out an annual assessment as at 31 December 2019. The assessment was conducted by determining the value in use (VIU) of underlying hotel properties located in Kingdom of Saudi Arabia ("KSA") using a discounted cash flow method ("DCF"). These VIU estimates were performed by accredited independent valuers with recognised and relevant professional qualifications and recent experience in the location and category of the properties being valued.

As detailed in note 2 above, due to the outbreak of Covid-19 pandemic, the Group ceased the hotel operations in KSA until further notice. These conditions are indicative of existence of an impairment in the carrying value of investment in associate. The Group has engaged the same accredited independent valuers to assess the impairment as at the reporting period. However, as at the date of authorization of these financial statement for issuance the independent valuers have not completed the assessment. Accordingly, the management is unable to determine the impact on the carrying value of the investment in associates.

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

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8 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	Three months ended 31 March	
				2020 KD	2019 KD
Statement of profit or loss:					
Management fees income	-	35,081	81,196	116,277	136,129
Finance income	320	-	-	320	3,575
Finance costs	(600,661)	-	-	(600,661)	(678,510)
Management fees expense	-	-	(58,750)	(58,750)	(57,416)

	Major shareholder of the Ultimate Parent Company KD	Parent Company KD	Major shareholders KD	Associates KD	Other related parties KD	31 March 2020 KD	(Audited) 31 December 2019 KD	31 March 2019 KD
Statement of financial position:								
Financial asset at fair value through profit or loss	-	-	-	-	3,473,864	3,473,864	3,647,906	3,617,523
Financial asset at fair value through other comprehensive income	-	-	124,795	-	622,137	746,932	833,964	828,654
Bank balances and cash	2,981,423	-	-	-	-	2,981,423	4,036,327	3,481,465
Accounts receivable and prepayments	-	1,034	1,034	-	3,602,325	3,604,393	2,830,720	5,966,655
Accounts payable and accruals (current and non-current)	-	-	73,647	1,154,174	448,326	1,676,147	1,402,476	454,312
Islamic finance payables	43,054,000	-	-	-	-	43,054,000	43,056,267	45,234,000

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8 RELATED PARTY DISCLOSURES (continued)

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:

	<i>Balance outstanding as at 31 March</i>		<i>Transaction values for the three months ended 31 March</i>	
	2020	2019	2020	2019
	KD	KD	KD	KD
Salaries and short-term benefits	114,865	106,266	109,631	112,829
Post-employment benefits	326,488	406,454	11,592	70,878
	441,353	512,720	121,223	183,707

The Board of Directors at the meeting held on 7 May 2020 proposed directors' remuneration for an independent board member of KD 10,000 for the year ended 31 December 2019. The remuneration was approved by the shareholders at the AGM held on 25 June 2020.

9 SHARE CAPITAL

	31 March 2020	<i>(Audited)</i> 31 December 2019	31 March 2019
	KD	KD	KD
Authorised, issued and paid up capital consists of 322,000,000 (31 December 2019: 322,000,000 and 31 March 2019: 322,000,000) shares of 100 fils each, paid in cash.	32,200,000	32,200,000	32,200,000

10 ISLAMIC FINANCE PAYABLES

	31 March 2020	<i>(Audited)</i> 31 December 2019	31 March 2019
	KD	KD	KD
Current			
Murabaha payables	5,128,731	5,433,508	5,405,407
Tawarruq payable	2,409,934	2,409,934	2,180,000
Less: deferred finance costs payable	-	(25,834)	-
	7,538,665	7,817,608	7,585,407
Non-current			
Tawarruq payable	40,644,066	40,644,066	43,054,000
	48,182,731	48,461,674	50,639,407

Islamic finance payables bear an average finance cost of 5.75 % (31 December 2019: 5.75%; 31 March 2019: 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

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11 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 final report issued on 2 February 2020 supported the Parent Company's position to a large extent.

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.

12 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 31 March 2020, 31 December 2019 and 31 March 2019, the Group held the following classes of financial instruments measured at fair value:

Financial assets measured at fair value	Fair value measurement using		
	Total KD	Quoted prices in active markets (Level 1) KD	Significant observable inputs (Level 3) KD
31 March 2020			
Financial assets at FVOCI	746,932	124,795	622,137
Financial assets at FVTPL	4,487,303	-	4,487,303
31 December 2019 (Audited)			
Financial assets at FVOCI	833,964	185,864	648,100
Financial assets at FVTPL	4,749,684	-	4,749,684
31 March 2019			
Financial assets at FVOCI	828,654	180,554	648,100
Financial assets at FVTPL	4,741,308	-	4,741,308

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.

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12 FAIR VALUE MEASUREMENT (continued)

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%.

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

	<i>Financial assets at FVOCI KD</i>	<i>Financial assets at FVTPL KD</i>
31 March 2020		
As at 1 January 2020	648,100	4,749,684
Remeasurement recognised in OCI	(25,963)	-
Remeasurement recognised in profit or loss	-	(262,381)
Purchases / sales / redemption (net)	-	-
As at 31 March 2020	622,137	4,487,303
31 December 2019		
As at 1 January 2019	648,100	4,953,030
Remeasurement recognised in OCI	-	-
Remeasurement recognised in profit or loss	-	122,911
Purchases / sales / redemption (net)	-	(326,257)
As at 31 December 2019	648,100	4,749,684
31 March 2019		
As at 1 January 2019	648,100	4,953,030
Remeasurement recognised in profit or loss	-	(211,722)
As at 31 March 2019	648,100	4,741,308

Non-financial assets

Non-financial assets consist of right-of-use asset (leasehold property) and investment properties. The fair value of the right-of-use assets 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 right-of-use asset (leasehold property) and investment properties is provided in Note 6.

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

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13 SEGMENT INFORMATION

For management purposes, the Group organises its operations by geographic territory in the first instance, primarily Kuwait and KSA.

The table below presents revenue and results and assets and liabilities information regarding the Group's geographic segments. The Group, including associate entities are primarily engaged in real estate activities and accordingly no business segment is presented.

	<i>Kuwait KD</i>	<i>KSA KD</i>	<i>Total 2020 KD</i>
<i>31 March 2020 (Unaudited)</i>			
<i>Statement of profit or loss</i>			
Revenue from contracts with customers	<u>122,291</u>	<u>2,877,011</u>	<u>2,999,302</u>
Segment results	<u>(138,928)</u>	<u>(818,996)</u>	<u>(957,924)</u>
<i>Other information</i>			
Depreciation and amortisation of right-of-use asset	<u>(34,486)</u>	<u>(707,484)</u>	<u>(741,970)</u>
Allowance for expected credit losses	<u>-</u>	<u>-</u>	<u>-</u>
Impairment	<u>-</u>	<u>-</u>	<u>-</u>
<i>Statement of financial position</i>			
Total assets	<u>16,954,980</u>	<u>112,513,156</u>	<u>129,468,136</u>
Total liabilities	<u>27,537,642</u>	<u>58,856,296</u>	<u>86,393,937</u>
	<i>Kuwait KD</i>	<i>KSA KD</i>	<i>Total 2019 KD</i>
<i>31 December 2019 (Audited)</i>			
<i>Statement of profit or loss</i>			
Revenue from contracts with customers	<u>621,182</u>	<u>14,955,120</u>	<u>15,576,302</u>
Segment results	<u>(1,474,532)</u>	<u>(53,321)</u>	<u>(1,527,853)</u>
<i>Other information</i>			
Depreciation and amortisation of right-of-use asset	<u>(86,535)</u>	<u>(3,309,184)</u>	<u>(3,395,719)</u>
Allowance for expected credit losses	<u>(131,368)</u>	<u>(360,808)</u>	<u>(492,176)</u>
Impairment	<u>-</u>	<u>(246,740)</u>	<u>(246,740)</u>
<i>Statement of financial position</i>			
Total assets	<u>17,750,799</u>	<u>112,023,078</u>	<u>129,773,877</u>
Total liabilities	<u>21,621,713</u>	<u>63,804,398</u>	<u>85,426,111</u>

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13 SEGMENT INFORMATION (continued)

	<i>Kuwait KD</i>	<i>KSA KD</i>	<i>Total 2019 KD</i>
<i>31 March 2019 (Unaudited)</i>			
<i>Statement of profit or loss</i>			
Revenue from contracts with customers	153,890	2,908,109	3,061,999
Segment results	(685,244)	(658,640)	(1,343,884)
<i>Other information</i>			
Depreciation and amortisation of right-of-use asset	(19,943)	(723,395)	(743,338)
Allowance for expected credit losses	-	-	-
Impairment	-	-	-
<i>Statement of financial position</i>			
Total assets	17,613,481	121,006,468	138,619,949
Total liabilities	28,462,117	67,065,610	95,527,727