

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

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

30 SEPTEMBER 2017

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Munshaat Real Estate Projects Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively the "Group"), as at 30 September 2017, and the related interim condensed consolidated statement of income and interim condensed consolidated statement of comprehensive income for the three and nine months periods then ended and the related interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the nine months period then ended. The management of the Parent Company is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Financial Reporting Standard, IAS 34: *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34.

Emphasis of Matter

- a) We draw attention to Note 9 to the interim condensed consolidated financial information, which states that Parent Company has received a tax demand notice amounting to SAR 1,891 million (equivalent to KD 153 million) from the General Authority of Zakat and Tax ('GAZT'), Kingdom of Saudi Arabia ("tax claim"). In response to the tax claim, the Parent Company has filed an objection letter with GAZT. Based on the advice obtained from an independent tax consultant, the management of the Parent Company has estimated and recorded a potential tax liability, including the aforementioned tax claim of KD 15.78 million in the interim condensed consolidated statement of financial position as at 30 September 2017 (31 December 2016: KD 14.5 million and 30 September 2016: KD 12.6 million) that includes Parent Company's share of KD 6.4 million (31 December 2016: KD 6.4 million and 30 September 2016: KD 6.3 million) relating to this tax claim as detailed in Note 9. Notwithstanding the above facts, there is a significant material uncertainty as to the outcome of the tax claim and the provision made in the books as at 30 September 2017 represents the best estimate from the management of the Parent Company.

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

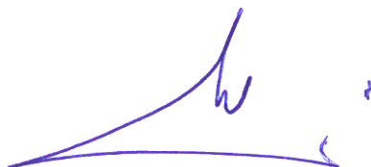
Emphasis of Matter (continued)

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

Our conclusion is not modified in respect of these matters.

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Parent Company. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the nine months period ended 30 September 2017 that might have had a material effect on the business of the Parent Company or on its financial position.



BADER A. AL-ABDULJADER
LICENCE NO. 207-A
EY
AL AIBAN, AL OSAIMI & PARTNERS



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

5 November 2017
Kuwait

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

For the nine months ended 30 September 2017

		<i>Three months ended 30 September</i>		<i>Nine months ended 30 September</i>	
	<i>Notes</i>	<i>2017 KD</i>	<i>2016 KD</i>	<i>2017 KD</i>	<i>2016 KD</i>
Hotel operations revenue	3	3,184,147	2,448,581	8,013,107	4,227,717
Hotel operations cost	3	(3,614,090)	(2,725,280)	(8,857,459)	(7,206,466)
Net results from hotel operations		(429,943)	(276,699)	(844,352)	(2,978,749)
Income					
Management fee income		132,435	149,920	413,773	432,069
Net income from sukouk		215,112	202,169	827,690	1,195,254
Net income from investment properties		90,072	306,229	525,055	905,148
Unrealised gain (loss) from financial asset at fair value through statement of income		4,779	(18,587)	63,194	(84,864)
Finance income		3,717	644	29,164	9,953
Dividend income		-	-	-	72,559
Other income		100,946	126,577	308,845	345,352
Share of results of associates		191,832	382,427	221,366	253,398
		738,893	1,149,379	2,389,087	3,128,869
Expenses					
General and administrative expenses		(847,161)	(658,859)	(2,141,689)	(2,397,086)
Depreciation		(8,289)	(4,500)	(26,267)	(23,109)
Write-down of inventories		(12,338)	-	(61,477)	-
Finance costs		(513,117)	(488,847)	(1,566,343)	(1,259,048)
Net Foreign exchange differences		(88,268)	(69,455)	(426,162)	(112,428)
Reversal of impairment on leasehold property	5	5,943,339	-	5,943,339	-
Income from partial disposal of leasehold property	5,9	2,136,172	-	2,136,172	-
Reversal of provision no longer required	5,9	6,097,771	-	6,097,771	-
		12,708,109	(1,221,661)	9,955,344	(3,791,671)
Profit (loss) for the period before taxation and board of directors' remuneration		13,017,059	(348,981)	11,500,079	(3,641,551)
NLST		(247,160)	-	(247,160)	-
KFAS		(89,173)	-	(89,173)	-
Zakat and overseas taxation		(118,273)	(3,467)	(172,910)	(68,545)
Board of directors' remuneration		(6,600)	-	(6,600)	-
Profit (loss) for the period		12,555,853	(352,448)	10,984,236	(3,710,096)
Attributable to:					
Equity holders of the Parent Company		9,444,444	(222,607)	8,146,022	(2,935,707)
Non-controlling interests		3,111,409	(129,841)	2,838,214	(774,389)
Profit (loss) for the period		12,555,853	(352,448)	10,984,236	(3,710,096)
Basic and diluted earnings (loss) per share attributable to the equity holders of the Parent Company	4	29 Fils	(1) Fils	25 Fils	(9) Fils

The attached notes 1 to 12 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 nine months ended 30 September 2017

	Note	Three months ended 30 September		Nine months ended 30 September	
		2017 KD	2016 KD	2017 KD	2016 KD
Profit (loss) for the period		12,555,853	(352,448)	10,984,236	(3,710,096)
Other comprehensive income (loss):					
<i>Items that are (or) may be reclassified to the interim condensed consolidated statement of income in subsequent periods:</i>					
Share of other comprehensive income of an associate		235	-	50	-
Change in fair value of financial assets available for sale		132,463	90,291	132,463	88,498
Exchange differences on translation of foreign operations		7,103	(7,495)	359,697	(513,170)
Net other comprehensive income (loss) for the period to be reclassified to interim condensed consolidated statement of income in subsequent periods		139,801	82,796	492,210	(424,672)
<i>Items that are not to be reclassified to the interim condensed consolidated statement of income in subsequent periods:</i>					
Revaluation of leasehold property	5	5,956,371	-	5,611,641	-
Other comprehensive income for the period not to be reclassified to the interim condensed consolidated statement of income in subsequent periods		5,956,371	-	5,611,641	-
Other comprehensive income (loss) for the period		6,096,172	82,796	6,103,851	(424,672)
Total comprehensive income (loss) for the period		18,652,025	(269,652)	17,088,087	(4,134,768)
Attributable to:					
- Equity holders of the Parent Company		15,540,620	(136,372)	14,258,509	(2,819,601)
- Non-controlling interests		3,111,405	(133,280)	2,829,578	(1,315,167)
		18,652,025	(269,652)	17,088,087	(4,134,768)

The attached notes 1 to 12 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 2017

		30 September 2017 KD	(Audited) 31 December 2016 KD	30 September 2016 KD
	Notes			
ASSETS				
Non-current assets				
Furniture and computers		53,525	67,999	78,100
Leasehold property	5	92,357,198	66,029,785	70,948,614
Investment properties	5	21,881,748	18,887,585	18,779,871
Prepaid operating lease		2,042,250	2,042,250	2,430,300
Investment in associates		38,154,366	39,734,702	39,661,172
Financial assets available for sale		6,643,316	6,802,592	6,912,671
		<u>161,132,403</u>	<u>133,564,913</u>	<u>138,810,728</u>
Current assets				
Financial asset at fair value through statement of income		249,059	185,865	159,313
Accounts receivable and prepayments		10,315,342	9,733,229	8,497,236
Trading properties		519,926	519,926	545,902
Inventories		840,325	891,305	773,845
Wakala receivable		463,269	317,353	256,877
Bank balances and cash		6,394,859	3,855,621	5,292,904
		<u>18,782,780</u>	<u>15,503,299</u>	<u>15,526,077</u>
TOTAL ASSETS		<u>179,915,183</u>	<u>149,068,212</u>	<u>154,336,805</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		11,216,178	11,216,178	11,216,178
Voluntary reserve		6,789,172	6,789,172	6,789,172
Cumulative changes in fair values		1,546,339	1,413,826	1,131,353
Revaluation reserve		8,222,322	2,756,340	2,460,249
Foreign currency translation reserve		59,131	(309,202)	(154,085)
Retained earnings		14,899,824	6,608,143	11,631,646
Equity attributable to equity holders of the Parent Company		<u>87,332,966</u>	<u>73,074,457</u>	<u>77,674,513</u>
Non-controlling interests		2,839,720	749,493	1,819,892
Total equity		<u>90,172,686</u>	<u>73,823,950</u>	<u>79,494,405</u>
Liabilities				
Non-current liabilities				
Employees' end of service benefits		984,433	974,210	929,657
Islamic finance payables	8	21,141,009	20,246,096	21,226,967
Obligations under finance leases	5	17,420,788	1,702,378	1,646,677
Accounts payable and accruals		187,736	2,365,488	2,969,244
		<u>39,733,966</u>	<u>25,288,172</u>	<u>26,772,545</u>
Current liabilities				
Islamic finance payables	8	6,056,712	6,000,000	6,896,903
Obligations under finance leases	5	3,448,970	76,737	75,487
Accounts payable and accruals	9	40,502,849	43,879,353	41,097,465
		<u>50,008,531</u>	<u>49,956,090</u>	<u>48,069,855</u>
Total liabilities		<u>89,742,497</u>	<u>75,244,262</u>	<u>74,842,400</u>
TOTAL EQUITY AND LIABILITIES		<u>179,915,183</u>	<u>149,068,212</u>	<u>154,336,805</u>

Emad Yousef Almonayea
Chairman

Abdulaziz Ahmad Yousef Alsaqer
Chief Executive Officer

The attached notes 1 to 12 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 nine months ended 30 September 2017

	Equity attributable to equity holders of the Parent Company										
	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Cumulative changes in fair values KD	Revaluation reserve KD	Foreign currency translation reserve KD	Retained earnings KD	Sub-total KD	Non-controlling interests KD	Total equity KD
As at 1 January 2017	32,200,000	12,400,000	11,216,178	6,789,172	1,413,826	2,756,340	(309,202)	6,608,143	73,074,457	749,493	73,823,950
Profit for the period	-	-	-	-	-	-	-	8,146,022	8,146,022	2,838,214	10,984,236
Other comprehensive income (loss) for the period	-	-	-	-	132,513	5,611,641	368,333	-	6,112,487	(8,636)	6,103,851
Total comprehensive income (loss) for the period	-	-	-	-	132,513	5,611,641	368,333	8,146,022	14,258,509	2,829,578	17,088,087
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	-	(739,351)	(739,351)
Transfers	-	-	-	-	-	(145,659)	-	145,659	-	-	-
As at 30 September 2017	32,200,000	12,400,000	11,216,178	6,789,172	1,546,339	8,222,322	59,131	14,899,824	87,332,966	2,839,720	90,172,686
As at 1 January 2016	32,200,000	12,400,000	11,216,178	6,789,172	1,042,855	2,532,504	(181,693)	14,495,098	80,494,114	3,135,059	83,629,173
Loss for the period	-	-	-	-	-	-	-	(2,935,707)	(2,935,707)	(774,389)	(3,710,096)
Other comprehensive income (loss) for the period	-	-	-	-	88,498	-	27,608	-	116,106	(540,778)	(424,672)
Total comprehensive income (loss) for the period	-	-	-	-	88,498	-	27,608	(2,935,707)	(2,819,601)	(1,315,167)	(4,134,768)
Transfers	-	-	-	-	-	(72,255)	-	72,255	-	-	-
As at 30 September 2016	32,200,000	12,400,000	11,216,178	6,789,172	1,131,353	2,460,249	(154,085)	11,631,646	77,674,513	1,819,892	79,494,405

The attached notes 1 to 12 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 nine months ended at 30 September 2017

		Nine months ended 30 September	
	Notes	2017 KD	2016 KD
OPERATING ACTIVITIES			
Profit (loss) for the period before taxation and after board of directors' remuneration		11,493,479	(3,641,551)
Adjustments for:			
Amortisation of leasehold property	3	3,054,397	2,985,055
Change in fair value of investment properties	5 (b)	564,084	543,362
Unrealised (gain) loss from financial assets at fair value through statement of income		(63,194)	84,864
Income from partial disposal of leasehold property	5,9	(2,136,172)	-
Reversal of provisions no longer required	5,9	(6,097,771)	-
Reversal of impairment on leasehold property	5	(5,943,339)	-
Finance income		(29,164)	(9,953)
Dividend income		-	(72,559)
Share of results of associates		(221,366)	(253,398)
Depreciation		26,267	23,109
Finance costs		1,566,343	1,259,048
Net foreign exchange differences		426,162	112,428
Write-down of inventories		61,477	-
Provision for employees' end of service benefits		127,457	119,486
		2,828,660	1,149,891
Working capital changes:			
Accounts receivable and prepayments		(582,113)	(614,417)
Accounts payable and accruals		322,338	(6,547,091)
Inventories		(10,497)	-
Cash flows from (used in) operations		2,558,388	(6,011,617)
Employees' end of service benefits paid		(117,234)	-
Net cash flows from (used in) operating activities		2,441,154	(6,011,617)
INVESTING ACTIVITIES			
Purchase of furniture and computers		(11,793)	(19,547)
Dividend income received		-	72,559
Proceeds from capital redemption of financial assets available for sale		291,739	1,838,744
Proceeds from capital redemption of an associate		1,759,030	-
Additions to wakala receivables		(145,916)	-
Additions to leasehold property		(1,310,967)	(1,025,851)
Net cash flows from investing activities		582,093	865,905
FINANCING ACTIVITIES			
Proceeds from Islamic finance payables		951,625	972,523
Repayment towards Islamic finance payables		(344,131)	-
Dividends paid to non-controlling interest		(739,351)	-
Finance costs paid		(338,534)	(235,890)
Net cash flows (used in) from financing activities		(470,391)	736,633
NET INCREASE (DECREASE) IN BANK BALANCES AND CASH		2,552,856	(4,409,079)
Net foreign exchange difference		(13,618)	(821,856)
Bank balances and cash at the beginning of the period		3,855,621	10,523,839
BANK BALANCES AND CASH AT THE END OF THE PERIOD		6,394,859	5,292,904

The attached notes 1 to 12 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)

1 CORPORATE INFORMATION

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

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

The interim condensed consolidated financial information of the Parent Company and its subsidiaries (collectively "the Group") for the nine months ended 30 September 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 5 November 2017.

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

Basis of presentation

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

The interim condensed consolidated financial information does not contain all information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2016.

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

Changes in accounting policy and disclosures

The accounting policies adopted in the preparation of this interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of the amendments to the existing standards relevant to the Group, effective as of 1 January 2017. The adoption of these amendments and annual improvements to IFRS has no significant impact on the interim condensed consolidated financial information of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3 HOTEL OPERATIONS

	<i>Three months ended 30 September</i>		<i>Nine months ended 30 September</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Operating revenue				
Hotel revenue	<u>3,184,147</u>	<u>2,448,581</u>	<u>8,013,107</u>	<u>4,227,717</u>
Operating cost				
Hotel cost of operation	<u>(2,599,644)</u>	<u>(1,607,578)</u>	<u>(5,803,062)</u>	<u>(4,221,411)</u>
Amortisation of leasehold property (Note 5)	<u>(1,014,446)</u>	<u>(1,117,702)</u>	<u>(3,054,397)</u>	<u>(2,985,055)</u>
	<u>(3,614,090)</u>	<u>(2,725,280)</u>	<u>(8,857,459)</u>	<u>(7,206,466)</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

4 BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

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

	<i>Three months ended 30 September</i>		<i>Nine months ended 30 September</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
Profit (loss) for the period attributable to the equity holders of the Parent Company (KD)	9,444,444	(222,607)	8,146,022	(2,935,707)
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 earnings (loss) per share attributable to the equity holders of the Parent Company	29 Fils	(1) Fils	25 Fils	(9) 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 internationally reputed hotel operator.

The movement in leasehold property is as follows:

	<i>30 September 2017 KD</i>	<i>31 December 2016 (Audited) KD</i>	<i>30 September 2016 KD</i>
At the beginning of the period/year	66,029,785	76,225,925	76,225,925
Reversal of (charge for) impairment [refer note (ii) below]	5,943,339	(4,564,097)	-
Revaluation gain [refer note (ii) below]	5,956,371	-	-
Amortisation	(3,054,397)	(3,982,625)	(2,985,055)
Additions [refer note (i) below]	17,952,200	501,575	353,664
Disposal	-	(2,388,163)	(2,351,546)
Net foreign exchange difference	(470,100)	237,170	(294,374)
At the end of the period/year	92,357,198	66,029,785	70,948,614

During the period, Parent Company signed an amendment to lease agreement with Authority in Kingdom of Saudi Arabic ("KSA Authority") for Qeblah Tower whereby the lease period has been extended to an additional 25 Hijri years from 23 August 2017 (corresponding to 1 Dhul Hijjah 1438).

The lease rental payable to KSA Authority has also been revised under the agreement and all dues including compensation for delay in handing over the office spaces were duly settled. The amendment resulted in the following impact on the interim condensed consolidated financial information of the Group:

- Increase in lease payments for which the management has recorded a corresponding increase in liability for the lease payments at present value amounting to KD 14,343,576 determined by discounting the future lease payments as per the amended contract by 6% per annum. This amount has been recorded as obligations under finance lease and a corresponding additions to the carrying amount of leasehold property.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

5 LEASEHOLD PROPERTY (continued)**a. Leasehold property (continued)**

- ii. Increase in the lease period resulted in a relative increase in the fair value of Qebalah Tower, based on external valuation by an accredited independent valuers, using the discounted cash flows model. The Group recorded an increase in fair value of KD 11,899,710. Out of this increase in fair value, an amount of KD 5,943,339 has been recorded in the interim condensed consolidated statement of income representing reversal of impairment recorded in prior years. The balance of KD 5,956,371 has been recognised as revaluation gain in the equity through other comprehensive income.
- iii. Waiver of all dues to KSA Authority including the provision towards the compensation for the delay in handing over the office spaces in Qebalah Tower amounting to KD 6,097,771 which was recorded in accounts payables and accruals. This waiver of provision has been reversed through interim condensed consolidated statement of income and separately.
- iv. In prior years, certain units of Qebalah Tower were sold for 21 Hijri years to one of the major shareholders of the Parent Company (the "Customer") and the amount received against these units were recorded as "Advance from customers" in the books of the subsidiary. The project was completed in the year 2016 and the units were handed over to the Customer. As the project was significantly delayed, the Group did not recognise the entire advance received from the Customer as revenue during 2016, however retained an amount of KD 2,291,686 as compensation payable to the Customer while the Group was in negotiation with the KSA Authority for an extension of the lease period. During the current period, the Group obtained extension of lease period for Qebalah Tower and accordingly recognised the balance amount, net of the additional cost of these units, of KD 2,136,172 in the interim condensed consolidated statement of income for the period ended 30 September 2017 as "Income from partial disposal of leasehold property"

The leasehold property is amortised over the remaining period of the lease from the date when the asset is available for use by the entity. As at the reporting date, the remaining period of the lease was 24.25 years (31 December 2016: 13.25 years and 30 September 2016: 13.50 years).

b. Investment properties

The movement in investment properties is as follows:

	30 September 2017 KD	31 December 2016 (Audited) KD	30 September 2016 KD
At the beginning of the period/year	18,887,585	19,385,725	19,385,725
Additions (refer note below)	3,677,382	-	-
Change in fair value	(564,084)	(572,261)	(543,362)
Net foreign exchange differences	(119,135)	74,121	(62,492)
At the end of the period/year	21,881,748	18,887,585	18,779,870

During the period, as a part of amendment to lease agreement with KSA Authority [Note 5 (a)], the Group acquired the right to use a land in Madinah for 25 Hijri years. The Group classified the new land as investment property and recorded the asset at a value equal to the present value of future lease payments discounted at 6% per annum.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
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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 income are as follows:

	<i>Ultimate Parent Company KD</i>	<i>Associates KD</i>	<i>Other related parties KD</i>	<i>Nine months ended 30 September</i>	
				<i>2017 KD</i>	<i>2016 KD</i>
Management fees	-	160,093	253,680	413,773	432,069
Finance income	28,031	-	-	28,031	7,155
Finance costs	(887,723)	-	-	(887,723)	(707,181)
Income from partial disposal of leasehold property [Note 5 (a)]	-	-	2,136,172	2,136,172	-

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

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	30 September 2017 KD	(Audited) 31 December 2016 KD	30 September 2016 KD
Financial assets available for sale	-	-	-	3,985,155	3,985,155	4,144,431	3,918,375
Financial asset at fair value through statement of income	-	249,059	-	-	249,059	185,865	159,313
Bank balances and cash	2,016,929	-	-	-	2,016,929	2,454,252	2,590,688
Accounts receivable and prepayments	-	-	-	5,127,722	5,127,722	4,378,248	3,586,318
Accounts payable and accruals (current and non-current)	-	206,763	10,273,040	-	10,479,803	13,563,280	12,637,259
Islamic finance payables	21,141,009	-	-	-	21,141,009	20,246,096	22,123,870

Compensation of key management personnel

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

	Three months ended 30 September		Nine months ended 30 September	
	2017 KD	2016 KD	2017 KD	2016 KD
Salaries and short-term benefits	150,786	164,300	474,479	489,255
Employee's end of service benefits	28,307	16,497	28,905	59,510
	<u>179,093</u>	<u>180,797</u>	<u>503,384</u>	<u>548,765</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
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7 SHARE CAPITAL

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

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

8 ISLAMIC FINANCE PAYABLES

	<i>30 September 2017 KD</i>	<i>(Audited) 31 December 2016 KD</i>	<i>30 September 2016 KD</i>
Murabaha payables - current	6,057,657	6,045,205	6,962,492
Less: deferred finance costs payable	(945)	(45,205)	(65,589)
	6,056,712	6,000,000	6,896,903
Ijara payable – non-current	21,141,009	20,246,096	21,226,967
	27,197,721	26,246,096	28,123,870

Murabaha payables amounting to KD 6,057,658 (31 December 2016: KD 6,045,205 and 30 September 2016: KD 6,065,589) are secured against an investment property with a carrying amount of KD 10,550,000 (31 December 2016: KD 10,550,000 and 30 September 2016: KD 10,550,000).

Ijara payable represents a facility amounting to KD 21,141,009 (31 December 2016: KD 20,246,096 and 30 September 2016: KD 21,226,967) taken by one of the subsidiaries of the Group from the Ultimate Parent Company for a period of 5 years, which will be automatically and compulsorily renewed till the complete repayment of the financing amount and related finance costs.

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 15,779,458 as at 30 September 2017 (31 December 2016: KD 14,548,428 and 30 September 2016: KD 12,669,228), 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 as to the outcome of the tax claim. The provision recorded represents the best estimate of the tax liability that may arise from the tax claim.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

9 ACCOUNTS PAYABLE AND ACCRUALS (continued)

During the period, management has signed an amendment to lease contract for Qebalah Tower with KSA Authority. As a result, the Group reversed an amount of KD 6,097,771 representing the waiver of previously recorded provision for compensation of certain delays in handing over the office spaces in Qebalah Tower to KSA Authority and in addition recognised the balance deferred revenue on partial disposal of leasehold property to a related party amounting to KD 2,136,172 (Note 5) in the interim condensed consolidated statement of income.

10 SEGMENT INFORMATION

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

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

Investment: Managing portfolio of investments.

The following table presents information relating to revenue and results for the Group's operating segments for the nine months ended 30 September 2017 and 30 September 2016, respectively.

Nine months ended 30 September 2017	<i>Real estate & property management KD</i>	<i>Investment KD</i>	<i>Others/ unallocated KD</i>	<i>Total KD</i>
Segment revenue	9,779,625	284,560	338,009	10,402,194
Segment results	10,814,096	284,560	(114,420)	10,984,236
Nine months ended 30 September 2016	<i>Real estate & property management KD</i>	<i>Investment KD</i>	<i>Others/ unallocated KD</i>	<i>Total KD</i>
Segment revenue	6,819,113	335,910	286,427	7,441,450
Segment results	(4,247,569)	251,046	286,427	(3,710,096)

The following table presents segment assets and liabilities information for the Group's operating segments as at 30 September 2017, 31 December 2016 and 30 September 2016, respectively.

	<i>Real estate & property management KD</i>	<i>Investment KD</i>	<i>Others/ unallocated KD</i>	<i>Total KD</i>
As at 30 September 2017				
Segment assets	126,384,931	45,046,741	8,483,511	179,915,183
Segment liabilities	85,565,607	-	4,176,890	89,742,497
As at 31 December 2016(Audited)				
Segment assets	97,104,141	47,040,512	4,923,559	149,068,212
Segment liabilities	71,332,380	-	3,911,882	75,244,262
As at 30 September 2016				
Segment assets	100,685,250	46,733,156	6,918,399	154,336,805
Segment liabilities	72,778,756	-	2,063,644	74,842,400

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

11 COMMITMENTS AND CONTINGENT LIABILITIES

At 30 September 2017, the Group no had capital commitments in respect of construction cost (31 December 2016: KD Nil and 30 September 2016: KD 3,142,507).

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

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

12 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 30 September 2017, 31 December 2016 and 30 September 2016, the Group held the following classes of financial instruments measured at fair value:

Financial assets measured at fair value	Total KD	Level 1 KD	Level 3 KD
30 September 2017			
Financial assets available for sale	6,125,283	-	6,125,283
Financial asset at fair value through statement of income	249,059	249,059	-
31 December 2016(Audited)			
Financial assets available for sale	6,284,559	-	6,284,559
Financial asset at fair value through statement of income	185,865	185,865	-
30 September 2016			
Financial assets available for sale	6,348,056	-	6,348,056
Financial asset at fair value through statement of income	159,313	159,313	-

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

12 FAIR VALUES (continued)

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

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

Movement in the Level 3 financial instruments is as follows:

	<i>As at the beginning of the period/year KD</i>	<i>Gain recorded in interim condensed consolidated other comprehensive income KD</i>	<i>Redemption recorded during the period/year KD</i>	<i>As at the end of the period/year KD</i>
<i>Financial assets available for sale</i>				
30 September 2017	6,284,559	132,463	(291,739)	6,125,283
31 December 2016 (Audited)	6,608,468	316,833	(640,742)	6,284,559
30 September 2016	6,608,468	90,291	(350,703)	6,348,056

	<i>As at the beginning of the period/year KD</i>	<i>Unrealised gain (loss) recorded in interim condensed consolidated statement of income KD</i>	<i>As at the end of the period/year KD</i>
<i>Financial asset at fair value through statement of income</i>			
30 September 2017	185,865	63,194	249,059
31 December 2016 (Audited)	244,176	(58,311)	185,865
30 September 2016	244,177	(84,864)	159,313

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.