

**SALHIA REAL ESTATE COMPANY  
K.S.C.P. AND SUBSIDIARIES**

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

**31 MARCH 2016**

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

### **Report on the Interim Condensed Consolidated Financial Information**

We have reviewed the accompanying interim condensed consolidated statement of financial position of Salhia Real Estate Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively the "Group") as at 31 March 2016 and the related interim condensed consolidated statement of income, 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 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 Accounting 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 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*

As at 31 March 2016, the interim condensed consolidated financial information includes amounts in respect of an investment in a joint venture based on management accounts, as reviewed interim financial information is not available in respect of this joint venture. The carrying value of the joint venture included in the interim condensed consolidated financial position amounted to KD 13,829,671 as at 31 March 2016 (31 December 2015: KD 14,494,630 and 31 March 2015: KD 15,550,275) and the share of the joint venture's results net of tax for the three months period ended 31 March 2016 included in the interim condensed consolidated statement of income is a profit of KD 435,401 (31 March 2015: KD 355,400). We were unable to obtain sufficient appropriate audit evidence about the carrying value of the investment in joint venture. Consequently we were unable to determine whether any adjustment to this amount was necessary.

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

*Qualified Conclusion*

Based on our review, except for the matter described in the Basis of Qualified Conclusion in the preceding paragraph, 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.

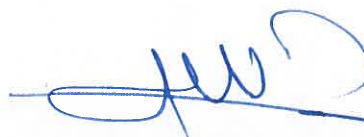
**Report on Other Legal and Regulatory Requirements**

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 material violations of the Companies Law No. 1 of 2016, the Executive Regulation of Law No. 25 of 2012, or of the Parent Company's Articles of Association and Memorandum of Incorporation, as amended, during the three months period ended 31 March 2016 that might have had a material effect on the business of the Parent Company or on its financial position.



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WALEED A. AL OSAIMI  
LICENCE NO. 68 A  
ERNST & YOUNG  
AL AIBAN, AL OSAIMI & PARTNERS



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MOHAMMED HAMED AL  
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AL SULTAN AND PARTNERS  
MEMBER OF BAKER TILLY  
INTERNATIONAL

11 May 2016  
Kuwait

Salhia Real Estate Company K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME  
(UNAUDITED)

For the period ended 31 March 2016

	Notes	Three months ended	
		31 March	
		2016	2015
		KD	KD
Revenue		11,348,445	11,266,477
Operating costs		(4,890,465)	(4,257,564)
Gross profit		6,457,980	7,008,913
Share of joint venture's results, net of tax		435,401	355,400
General and administrative expenses		(1,614,436)	(1,587,594)
Depreciation		(1,343,327)	(1,347,131)
Sales and marketing expenses		(191,394)	(159,544)
Investment income		44,231	10,109
Foreign exchange loss		(8,474)	(280,688)
Interest income		10,835	11,486
Other income, net		56,835	21,212
Impairment loss on financial assets available for sale	5	(79,040)	-
Finance costs		(536,077)	(1,011,094)
Profit before tax		3,232,534	3,021,069
Taxation on overseas subsidiaries		(41,094)	(40,297)
<b>PROFIT BEFORE PROVISION FOR CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES ("KFAS"), NATIONAL LABOUR SUPPORT TAX ("NLST") AND ZAKAT</b>		<b>3,191,440</b>	<b>2,980,772</b>
KFAS		(32,291)	(30,054)
NLST		(80,728)	(75,135)
Zakat		(32,291)	(30,054)
<b>PROFIT FOR THE PERIOD</b>		<b>3,046,130</b>	<b>2,845,529</b>
<b>Attributable to:</b>			
Equity holders of the Parent Company		3,083,806	2,870,162
Non-controlling interests		(37,676)	(24,633)
		<b>3,046,130</b>	<b>2,845,529</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY</b>	3	<b>6.3 fils</b>	<b>5.8 fils</b>

The attached notes 1 to 13 form an integral part of the interim condensed consolidated financial information.

Salhia Real Estate Company K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the period ended 31 March 2016

	<i>Three months ended</i>	
	<i>31 March</i>	
	<b>2016</b>	<b>2015</b>
	<b>KD</b>	<b>KD</b>
<b>Profit for the period</b>	<b>3,046,130</b>	<b>2,845,529</b>
<b>Other comprehensive loss:</b>		
<i>Items of other comprehensive income (loss) that are or may be reclassified to the interim condensed consolidated statement of income in the subsequent period:</i>		
Net movement in cumulative changes in fair value of financial assets available for sale	468,935	91,670
Exchange differences arising on translation of foreign operations	<b>(867,703)</b>	<b>(1,734,570)</b>
<b>Total other comprehensive loss for the period</b>	<b>(398,768)</b>	<b>(1,642,900)</b>
<b>Total comprehensive income for the period</b>	<b>2,647,362</b>	<b>1,202,629</b>
<b>Attributable to:</b>		
Equity holders of the Parent Company	2,613,138	1,467,081
Non-controlling interests	34,224	(264,452)
	<b>2,647,362</b>	<b>1,202,629</b>

The attached notes 1 to 13 form an integral part of the interim condensed consolidated financial information.

Salhia Real Estate Company K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL  
POSITION (UNAUDITED)

As at 31 March 2016

		(Audited)	
	Notes	31 March 2016 KD	31 December 2015 KD
		31 March 2015 KD	
<b>ASSETS</b>			
Cash and cash equivalents	4	4,806,651	7,688,185
Fixed deposits		3,438,081	1,396,951
Inventories		318,399	334,748
Accounts receivable and other assets		7,576,073	6,092,211
Financial assets available for sale	5	8,941,922	8,702,681
Investment in a joint venture		13,829,671	14,494,630
Investment properties	6	156,983,318	157,085,671
Property and equipment		74,779,332	74,369,372
<b>TOTAL ASSETS</b>		<b>270,673,447</b>	<b>270,164,449</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks and financial institutions	4	1,541,166	-
Accounts payable and other liabilities		19,125,481	16,246,053
Commercial financing	7	37,286,920	33,167,987
Islamic financing	7	75,443,239	76,192,005
<b>TOTAL LIABILITIES</b>		<b>133,396,806</b>	<b>125,606,045</b>
<b>EQUITY</b>			
Share capital	8	51,272,341	51,272,341
Share premium		35,055,163	35,055,163
Treasury shares	9	(4,783,820)	(4,713,364)
Treasury shares reserve	9	1,817,810	1,817,810
Statutory reserve		25,488,723	25,488,723
Voluntary reserve		20,489,290	20,489,290
Retained earnings		8,541,369	15,316,232
Fair value reserve		496,946	28,011
Foreign currency translation reserve		(3,620,068)	(2,680,465)
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>		<b>134,757,754</b>	<b>142,073,741</b>
Non-controlling interests		2,518,887	2,484,663
<b>TOTAL EQUITY</b>		<b>137,276,641</b>	<b>144,558,404</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>270,673,447</b>	<b>270,164,449</b>

  
Ghazi Fahad Alnafisi  
Chairman

The attached notes 1 to 13 form an integral part of the interim condensed consolidated financial information.

**Salhia Real Estate Company K.S.C.P. and Subsidiaries**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

For the period ended 31 March 2016

	Equity attributable to equity holders of the Parent Company											Total equity KD
	Share capital KD	Share premium KD	Treasury shares KD	Treasury shares reserve KD	Statutory reserve KD	Voluntary reserve KD	Retained earnings KD	Fair value reserve KD	Foreign currency translation reserve KD	Subtotal KD	Non-controlling interests KD	
Balance as at 1 January 2016 (Audited)	51,272,341	35,055,163	(4,713,364)	1,817,810	25,488,723	20,489,290	15,316,232	28,011	(2,680,465)	142,073,741	2,484,663	144,558,404
Profit (loss) for the period	-	-	-	-	-	-	3,083,806	-	-	3,083,806	(37,676)	3,046,130
Other comprehensive income (loss) for the period	-	-	-	-	-	-	-	468,935	(939,603)	(470,668)	71,900	(398,768)
Total comprehensive income (loss) for the period	-	-	-	-	-	-	3,083,806	468,935	(939,603)	2,613,138	34,224	2,647,362
Purchase of treasury shares	-	-	(70,456)	-	-	-	-	-	-	(70,456)	-	(70,456)
Dividends (Note 8)	-	-	-	-	-	-	(9,858,669)	-	-	(9,858,669)	-	(9,858,669)
<b>Balance as at 31 March 2016 (Unaudited)</b>	<b>51,272,341</b>	<b>35,055,163</b>	<b>(4,783,820)</b>	<b>1,817,810</b>	<b>25,488,723</b>	<b>20,489,290</b>	<b>8,541,369</b>	<b>496,946</b>	<b>(3,620,068)</b>	<b>134,757,754</b>	<b>2,518,887</b>	<b>137,276,641</b>
Balance as at 1 January 2015 (Audited)	51,272,341	35,055,163	(4,289,737)	1,817,810	24,261,580	20,489,290	14,801,129	(404,404)	(4,375,203)	138,627,969	2,768,930	141,396,899
Profit (loss) for the period	-	-	-	-	-	-	2,870,162	-	-	2,870,162	(24,633)	2,845,529
Other comprehensive income (loss)	-	-	-	-	-	-	-	91,670	(1,494,751)	(1,403,081)	(239,819)	(1,642,900)
Total comprehensive income (loss)	-	-	-	-	-	-	2,870,162	91,670	(1,494,751)	1,467,081	(264,452)	1,202,629
Purchase of treasury shares	-	-	(36,995)	-	-	-	-	-	-	(36,995)	-	(36,995)
Balance as at 31 March 2015 (Unaudited)	51,272,341	35,055,163	(4,326,732)	1,817,810	24,261,580	20,489,290	17,671,291	(312,734)	(5,869,954)	140,058,055	2,504,478	142,562,533

The attached notes 1 to 13 form an integral part of the interim condensed consolidated financial information.

# Salhia Real Estate Company K.S.C.P. and Subsidiaries

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

For the period ended 31 March 2016

	Notes	Three months ended 31 March	
		2016 KD	2015 KD
<b>OPERATING ACTIVITIES</b>			
Profit for the period before provision for contribution to KFAS, NLST and Zakat		3,191,440	2,980,772
Adjustments to reconcile profit for the period before provision for contribution to KFAS, NLST and Zakat for the period to net cash flows:			
Share in joint venture's results, net of tax		(435,401)	(355,400)
Provision for employees' end of service benefits		153,495	138,619
Depreciation		1,343,327	1,347,131
Investment income		-	(10,109)
Foreign exchange loss		8,474	280,688
Interest income		(10,835)	(11,486)
Gain on sale of property and equipment		(20,000)	-
Impairment loss on financial assets available for sale	5	79,040	-
Finance costs		536,077	1,011,094
		<u>4,845,617</u>	<u>5,381,309</u>
Change in operating assets and liabilities:			
Inventories		16,349	11,791
Accounts receivable and other assets		(1,483,862)	311,670
Accounts payable and other liabilities		762,522	(1,227,503)
Cash from operations		<u>4,140,626</u>	<u>4,477,267</u>
Employees' end of service benefits paid		(21,849)	(91,470)
KFAS paid		(109,879)	(110,359)
Net cash flows from operating activities		<u>4,008,898</u>	<u>4,275,438</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of financial assets available for sale		-	(559,825)
Proceeds from redemption of financial assets available for sale		150,653	-
Additions to investment properties		(805,048)	(2,619,723)
Additions to property and equipment		(385,923)	(267,230)
Proceeds from sale of property and equipment		34,826	496
Investment income received		-	10,109
Interest income received		10,835	11,486
Fixed deposits		(2,041,130)	(3,180,922)
Net cash flows used in investing activities		<u>(3,035,787)</u>	<u>(6,605,609)</u>
<b>FINANCING ACTIVITIES</b>			
Bank loans received	7	5,030,401	3,435,200
Bank loans repaid	7	(2,074,530)	(989,625)
Finance costs paid		(536,077)	(1,011,094)
Dividends paid		(7,745,149)	-
Purchase of treasury shares		(70,456)	(36,995)
Net cash flows (used in) from financing activities		<u>(5,395,811)</u>	<u>1,397,486</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALANTS</b>		<u>(4,422,700)</u>	<u>(932,685)</u>
Cash and cash equivalents at the beginning of the period		7,688,185	7,975,666
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	4	<u>3,265,485</u>	<u>7,042,981</u>

The attached notes 1 to 13 form an integral part of the interim condensed consolidated financial information.



# Salhia Real Estate Company K.S.C.P. and Subsidiaries

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 31 March 2016

### 1 CORPORATE INFORMATION

The interim condensed consolidated financial statements of Salhia Real Estate Company K.S.C.P. (the "Parent Company") and its Subsidiaries (collectively "the Group") for the three months period ended 31 March 2016 were authorized for issue in accordance with a resolution of the Parent Company's Board of Directors on 11 May 2016.

On 21 March 2016, the ordinary general assembly of the shareholders of the Parent Company approved the consolidated financial statements of the Group for the year ended 31 December 2015 and approved Board of Director's proposal for distributing dividends to the shareholders.

The Group comprises Salhia Real Estate Company K.S.C.P. and its subsidiaries.

The Parent Company is a public Kuwaiti Shareholding Company incorporated on September 16, 1974 and is listed on the Kuwait Stock Exchange. It's registered office is located at Salhia Complex, Mohammed Thunayan Al-Ghanim, P.O. Box 23413 Safat 13095 Kuwait.

The Group's main activities comprise real estate leasing and development of commercial properties and hotel operations in Kuwait and care home operation in Germany. Surplus funds are invested in real estate and securities portfolios managed by specialist investment managers.

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and was published in the Official Gazette on 1 February 2016 cancelled the Companies Law No 25 of 2012, and its amendments. According to article No. 5, the new Law will be effective retrospectively from 26 of November 2012, the executive regulation of Law No. 25 of 2012 will continue until a new set of executive regulation is issued.

### 2 BASIS OF PRESENTATION

The interim condensed consolidated financial information for the three months ended 31 March 2016 has been prepared in accordance with International Financial Reporting Standard 34 "Interim Financial Reporting".

The interim condensed consolidated financial information is presented in Kuwaiti Dinars (KD).

The accounting policies used in the preparation of the interim condensed consolidated financial information are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2015, except for the adoption of the amendments and annual improvements to IFRSs, relevant to the Group which are effective for annual reporting period starting from 1 January 2016 and did not result in any material impact on the accounting policies, financial position or performance of the Group.

The interim condensed consolidated financial information does not contain all information and disclosures required for full financial statements prepared in accordance with IFRS, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2015. Furthermore, results for the three months period ended 31 March 2016 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2016. For more details refer to the consolidated financial statements and its related disclosures for the year ended 31 December 2015.

### 3 BASIC AND DILUTED EARNINGS PER SHARE

#### **Basic:**

Basic earnings per share attributable to equity holders of the Parent Company is computed by dividing the profit for the period attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the period (excluding treasury shares).

#### **Diluted:**

Diluted earnings per share attributable to the equity holders of the Parent Company is computed by dividing the profit for the period attributable to the equity holders of the Parent Company, adjusted for the effect of conversion of employees share options, 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 the conversion of all employees share options. The Parent Company does not have outstanding share options under the employee share option plan as at 31 March 2016.

Salhia Real Estate Company K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 31 March 2016

3 BASIC AND DILUTED EARNINGS PER SHARE (continued)

	<i>Three months ended</i>	
	<i>31 March</i>	
	<u>2016</u>	<u>2015</u>
Profit for the period attributable to equity holders of the Parent Company (KD)	<u>3,083,806</u>	2,870,162
Weighted average number of ordinary shares outstanding during the period (excluding treasury shares)	<u>493,005,270</u>	494,353,798
Basic and diluted earnings per share	<u>6.3 fils</u>	<u>5.8 fils</u>

4 CASH AND CASH EQUIVALENTS

	<i>31 March</i>	<i>(Audited)</i>	<i>31 March</i>
	<i>2016</i>	<i>31 December</i>	<i>2015</i>
	<i>KD</i>	<i>2015</i>	<i>2015</i>
		<i>KD</i>	<i>KD</i>
Cash and cash equivalents	4,806,651	7,688,185	7,042,981
Less: Due to banks and financial institutions	<u>(1,541,166)</u>	-	-
Cash and cash equivalents for the purpose of interim condensed consolidated statement of cash flows	<u>3,265,485</u>	<u>7,688,185</u>	<u>7,042,981</u>

5 FINANCIAL ASSETS AVAILABLE FOR SALE

	<i>31 March</i>	<i>(Audited)</i>	<i>31 March</i>
	<i>2016</i>	<i>31 December</i>	<i>2015</i>
	<i>KD</i>	<i>2015</i>	<i>2015</i>
		<i>KD</i>	<i>KD</i>
Managed quoted portfolios	1,778,855	1,309,912	2,477,166
Managed unquoted portfolio	94,812	94,812	94,812
Managed funds	-	-	98,316
Unquoted equity securities	<u>7,068,255</u>	<u>7,297,957</u>	<u>7,835,997</u>
	<u>8,941,922</u>	<u>8,702,681</u>	<u>10,506,291</u>

The fair values of financial instruments, with the exception of certain financial assets available for sale carried at cost less impairment (Note 10), are not materially different from their carrying values.

An impairment loss of KD 79,040 (31 March 2015: KD Nil) has been made against investments classified as available for sale on which there has been a significant or prolonged decline in value.

6 INVESTMENT PROPERTIES

	<i>31 March</i>	<i>(Audited)</i>	<i>31 March</i>
	<i>2016</i>	<i>31 December</i>	<i>2015</i>
	<i>KD</i>	<i>2015</i>	<i>2015</i>
		<i>KD</i>	<i>KD</i>
As at 1 January	157,085,671	146,454,079	146,454,079
Additions	805,048	11,382,901	2,619,723
Depreciation	(439,393)	(1,835,045)	(439,428)
Reversal of impairment	-	1,255,236	-
Foreign currency translation adjustment	<u>(468,008)</u>	<u>(171,500)</u>	<u>(267,003)</u>
	<u>156,983,318</u>	<u>157,085,671</u>	<u>148,367,371</u>

# Salhia Real Estate Company K.S.C.P. and Subsidiaries

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 31 March 2016

### 6 INVESTMENT PROPERTIES (continued)

Investment properties with a carrying value of KD 155,792 (31 December 2015: KD 155,792 and 31 March 2015: KD 4,898,246) are registered in the name of a nominee. The nominee has confirmed in writing that the Parent Company is the beneficial owner of the properties.

### 7 COMMERCIAL AND ISLAMIC FINANCING

	<i>31 March 2016 KD</i>	<i>(Audited) 31 December 2015 KD</i>	<i>31 March 2015 KD</i>
At 1 January	<b>109,359,992</b>	106,127,452	106,127,453
Loans received	<b>5,030,401</b>	17,011,180	3,435,200
Loans repaid	<b>(2,074,530)</b>	(12,200,000)	(989,625)
Foreign currency translation adjustment	<b>414,296</b>	(1,578,640)	(2,147,572)
	<b><u>112,730,159</u></b>	<u>109,359,992</u>	<u>106,425,456</u>
	<i>31 March 2016 KD</i>	<i>(Audited) 31 December 2015 KD</i>	<i>31 March 2015 KD</i>
Commercial financing	<b>37,286,920</b>	33,167,987	24,844,390
Islamic financing	<b>75,443,239</b>	76,192,005	81,581,066
	<b><u>112,730,159</u></b>	<u>109,359,992</u>	<u>106,425,456</u>

Commercial financing are repayable in periodic installments over variable periods of time with maturities extending to December 2040.

Commercial financing denominated in Euro, carries variable interest rates which range from 1.5% to 2% per annum (31 December 2015: 1.5% to 2% and 31 March 2015: 1.5% to 2 per annum) over Euribor.

The profit rate attributable to Islamic financing during the period is 1.5% per annum (31 December 2015: 1.5%, 31 March 2015: 1.5% per annum) over the Central Bank of Kuwait discount rate.

Islamic financing amounting to KD 44,166,667 (31 December 2015: KD 44,166,667, 31 March 2015: KD 48,583,333) has been obtained by a local subsidiary, which was acquired during 2011, and is secured by land with a carrying value of KD 71,794,141 (31 December 2015: KD 71,794,141, 31 March 2015: KD 82,448,077) owned by the Group. Under the terms of the liability, the lenders have no recourse to the Parent Company in the event of default.

### 8 SHARE CAPITAL AND GENERAL ASSEMBLY MEETING

At the Annual General Assembly of the shareholders of the Parent Company held on 21 March 2016, the shareholders approved the distribution of cash dividends of 20 fils per share (2014: 20 fils per share) amounting to KD 9,858,669 for the year ended 31 December 2015 (2014: KD 9,884,056) for shareholders registered on that date.

As at 31 March 2016, the authorized, issued and paid up capital comprises of 512,723,413 shares at 100 fils per share each (31 December 2015: 512,723,413 shares and 31 March 2015: 512,723,413 shares) are fully paid in cash.

# Salhia Real Estate Company K.S.C.P. and Subsidiaries

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 31 March 2016

### 9 TREASURY SHARES

At 31 March 2016, the Parent Company held 19,789,949 of its own shares (31 December 2015: 19,571,449 and 31 March 2015: 18,445,602), equivalent to 3.86% (31 December 2015: 3.82% and 31 March 2015: 3.60%) of the total issued share capital at that date. The market value of these shares at the financial position date was KD 6,728,583 (31 December 2015: KD 7,241,436 and 31 March 2015: KD 6,732,645). Reserves of the Parent Company equivalent to the cost of the treasury shares have been ear-marked as non-distributable.

### 10 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

The fair values of financial instruments, with the exception of certain financial assets available for sale carried at cost less impairment (Note 5) are not materially different from their carrying values.

#### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 March 2016	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
<i>Financial assets available for sale</i>				
Managed quoted portfolios	1,778,855	-	-	1,778,855
Managed unquoted portfolio	-	-	94,812	94,812
	<u>1,778,855</u>	<u>-</u>	<u>94,812</u>	<u>1,873,667</u>
31 December 2015 (Audited)	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
<i>Financial assets available for sale</i>				
Managed quoted portfolios	1,309,912	-	-	1,309,912
Managed unquoted portfolio	-	-	94,812	94,812
	<u>1,309,912</u>	<u>-</u>	<u>94,812</u>	<u>1,404,724</u>
31 March 2015	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
<i>Financial assets available for sale</i>				
Managed quoted portfolios	2,477,166	-	-	2,477,166
Managed unquoted portfolio	-	-	94,812	94,812
Managed funds	-	98,316	-	98,316
	<u>2,477,166</u>	<u>98,316</u>	<u>94,812</u>	<u>2,670,294</u>

During the period ended 31 March 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Fair value of other financial instruments is not materially different from their carrying values at the reporting date.

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10 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table shows a reconciliation of the beginning and closing balances of the financial instruments classified in level 3 of the fair value hierarchy:

	<i>As at 1 January 2016 KD</i>	<i>Income/(loss) recorded in the interim condensed consolidated statement of income KD</i>	<i>Gain/(loss) recorded in interim condensed consolidated statement of changes in equity KD</i>	<i>Net purchases, (sales), transfers and settlements KD</i>	<i>As at 31 March 2016 KD</i>
<b>31 March 2016</b>					
<i>Financial assets available for sale</i>					
Managed unquoted portfolio	94,812	-	-	-	94,812
	<i>As at 1 January 2015 KD</i>	<i>Income/(loss) recorded in the consolidated statement of income KD</i>	<i>Gain/(loss) recorded in consolidated statement of changes in equity KD</i>	<i>Net purchases, (sales), transfers and settlements KD</i>	<i>As at 31 December 2015 KD</i>
<b>31 December 2015 (Audited)</b>					
<i>Financial assets available for sale</i>					
Managed unquoted portfolio	94,812	-	-	-	94,812
	<i>As at 1 January 2015 KD</i>	<i>Income/(loss) recorded in the interim condensed consolidated statement of income KD</i>	<i>Gain/(loss) recorded in interim condensed consolidated statement of changes in equity KD</i>	<i>Net purchases, (sales), transfers and settlements KD</i>	<i>As at 31 March 2015 KD</i>
<b>31 March 2015</b>					
<i>Financial assets available for sale</i>					
Managed unquoted portfolio	94,812	-	-	-	94,812

During the period, there have been no transfers between hierarchies.

**Description of significant unobservable inputs to valuation of financial assets:**

Foreign hedge funds, foreign equity security and private equity funds are valued based on net asset value method using latest available financial statement of the investee entity, wherein the underlying assets are fair valued.

Derivative assets and liabilities are value based on a broker's quotes. The management considers the broker quotes as a fair indication of the fair value of these financial instruments.

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%.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

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**10 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

**Description of significant unobservable inputs to valuation of financial assets: (continued)**

Other financial assets and liabilities are carried at amortised cost and the carrying values are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are repriced immediately based on market movement in interest rates. Fair values of remaining financial assets and liabilities carried at amortised cost are estimated using valuation techniques incorporating certain assumptions such as credit spreads that are appropriate in the circumstances.

**11 SEGMENTAL INFORMATION**

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss as explained in the table below.

The Group has the following reportable segments:

- Real estate operations: Consist of development and leasing of properties.
- Hotel operations: Consist of the hotel hospitality services provided through the JW Marriott Hotel – Kuwait, the Courtyard Marriott Hotel - Kuwait, and Arraya Ball Room - Kuwait.
- Care home operations: Consist of care home activities provided by subsidiary companies.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 31 March 2016

11 SEGMENTAL INFORMATION (continued)

The following table presents revenue and profit information regarding the Group's operating segments:

	Three months ended 31 March 2016			Three months ended 31 March 2015		
	Real estate operations KD	Hotel operations KD	Care home operations KD	Real estate operations KD	Hotel operations KD	Care home operations KD
Segment revenue	4,466,984	3,359,292	3,522,169	4,204,483	3,632,602	3,429,392
Segment operating costs	(1,265,663)	(966,463)	(2,658,339)	(688,867)	(1,025,141)	(2,543,556)
Segment gross profit	3,201,321	2,392,829	863,830	3,515,616	2,607,461	885,836
Share in joint venture's results, net of tax	435,401	-	-	355,400	-	-
Depreciation	(699,503)	(399,059)	(244,765)	(766,587)	(335,808)	(244,736)
Other operating expenses	(848,701)	(638,411)	(318,718)	(868,176)	(576,303)	(302,659)
Finance costs	(352,777)	(25,141)	(158,159)	(818,834)	(23,191)	(169,069)
Taxation on overseas subsidiaries	-	-	(41,094)	-	-	(40,297)
Segment results	1,735,741	1,330,218	101,094	1,417,419	1,672,159	129,075
Interest income						
Investment income			10,835			11,486
Impairment loss on financial assets available for sale			44,231			10,109
Other non-operating income (expense), net			(79,040)			-
KFAS, NLST and Zakat			48,361			(259,476)
<b>Profit for the period</b>			<b>(145,310)</b>			<b>(135,243)</b>
			3,046,130			2,845,529

**Salhia Real Estate Company K.S.C.P. and Subsidiaries**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)**

As at 31 March 2016

**11 SEGMENTAL INFORMATION (continued)**

The following table presents allocation of total assets, liabilities and capital expenditures regarding the Group's operating segments:

	31 March 2016			31 December 2015 (Audited)			31 March 2015					
	Real estate operations KD	Care home operations KD		Real estate operations KD	Care home operations KD		Real estate operations KD	Care home operations KD				
		Hotel operations KD	Total KD		Hotel operations KD	Total KD		Hotel operations KD	Total KD			
Total assets	222,289,948	11,189,168	37,194,331	270,673,447	222,956,527	11,133,804	36,074,118	270,164,449	224,450,151	6,820,156	36,329,928	267,600,235
Total liabilities	107,641,772	2,647,377	23,107,657	133,396,806	100,420,765	2,681,836	22,503,444	125,606,045	99,300,362	2,967,789	22,769,551	125,037,702
Capital expenditure	861,458	192,721	91,015	1,145,194	11,725,857	497,439	189,211	12,412,507	2,856,973	-	29,980	2,886,953



Salhia Real Estate Company K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 31 March 2016

**12 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS**

At the financial position date, the Group had the following contingencies and capital commitments:

	<b>31 March 2016 KD</b>	<i>(Audited)</i> <b>31 December 2015 KD</b>	<b>31 March 2015 KD</b>
Letters of guarantee	1,812,446	1,812,446	15,980,145
Construction projects	16,000,000	17,210,005	17,952,146
	<u>17,812,446</u>	<u>19,022,451</u>	<u>33,932,291</u>

**13 RELATED PARTY TRANSACTIONS**

Related parties represent the major shareholders, joint venture, directors and key management personnel of the Group, and companies which are controlled by them or over which they have significant influence. Pricing policies and terms of these transactions are approved by the Parent Company's management.

During the period there were no transactions with related parties included in the interim condensed consolidated statement of income.

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

	<i>Parent Company</i>	<i>Affiliates</i>	<b>31 March 2016 KD</b>	<i>(Audited)</i> <b>31 December 2015 KD</b>	<b>31 March 2015 KD</b>
Staff receivables*	21,273	22,567	43,840	43,004	57,513
Due from related parties*	-	856,759	856,759	789,243	694,995

\* Included in accounts receivable and other assets in the interim condensed consolidated statement of financial position.

**Compensation of key management personnel**

The remuneration of key management personnel of the Group during the period was as follows:

	<i>Three months ended 31 March</i>	
	<b>2016 KD</b>	<b>2015 KD</b>
Short-term benefits	478,187	381,787
Employees' end of service benefits	27,704	26,794
	<u>505,891</u>	<u>408,581</u>