

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

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

**31 MARCH 2017**

## **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**

#### *Introduction*

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 2017 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 2017, 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 8,009,119 as at 31 March 2017 (31 December 2016: KD 8,356,690 and 31 March 2016: KD 13,829,671) and the share of the joint venture’s results net of tax for the three months period ended 31 March 2017 included in the interim condensed consolidated statement of income is a profit of KD 1,532,430 (31 March 2016: KD 435,401). 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.

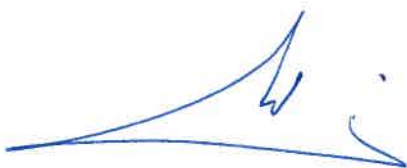
**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF SALHIA REAL ESTATE COMPANY K.S.C.P. (continued)**

*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, except for the matter described in the “Basis of Qualified Conclusion” above, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016 and its executive regulations, or of the Parent Company’s Memorandum of Incorporation and Articles of Association during the three months period ended 31 March 2017 that might have had a material effect on the business of the Parent Company or on its financial position.



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BADER AL ABDULJADER  
LICENCE NO. 207 A  
ERNST & YOUNG  
AL AIBAN, AL OSAIMI & PARTNERS

10 May 2017  
Kuwait

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME  
(UNAUDITED)

For the period ended 31 March 2017

	Notes	Three months ended 31 March	
		2017 KD	2016 KD
Revenue		11,243,320	11,348,445
Operating costs		(4,621,295)	(4,890,465)
Gross profit		6,622,025	6,457,980
Share of joint venture's results, net of tax		1,532,430	435,401
General and administrative expenses		(1,912,087)	(1,614,436)
Depreciation		(1,334,540)	(1,343,327)
Sales and marketing expenses		(161,148)	(191,394)
Investment income		513,481	44,231
Foreign exchange gain (loss)		29,821	(8,474)
Interest income		5,615	10,835
Other income, net		46,609	56,835
Impairment loss on financial assets available for sale	5	-	(79,040)
Impairment loss on investment properties	6	(200,000)	-
Finance costs		(250,391)	(536,077)
Profit before tax		4,891,815	3,232,534
Taxation on overseas subsidiaries		(37,511)	(41,094)
<b>PROFIT BEFORE PROVISION FOR CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES ("KFAS"), NATIONAL LABOUR SUPPORT TAX ("NLST") AND ZAKAT</b>		<b>4,854,304</b>	<b>3,191,440</b>
KFAS		(48,360)	(32,291)
NLST		(120,900)	(80,728)
Zakat		(48,360)	(32,291)
<b>PROFIT FOR THE PERIOD</b>		<b>4,636,684</b>	<b>3,046,130</b>
<b>Attributable to:</b>			
Equity holders of the Parent Company		4,618,376	3,083,806
Non-controlling interests		18,308	(37,676)
		<b>4,636,684</b>	<b>3,046,130</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY</b>	3	<b>9.4 fils</b>	<b>6.3 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 2017

	<i>Three months ended</i>	
	<i>31 March</i>	
	<i>2017</i>	<i>2016</i>
	<i>KD</i>	<i>KD</i>
<b>Profit for the period</b>	<b>4,636,684</b>	<b>3,046,130</b>
<b>Other comprehensive income (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
Exchange differences arising on translation of foreign operations	946,848	(867,703)
<b>Total other comprehensive income (loss) for the period</b>	<b>946,848</b>	<b>(398,768)</b>
<b>Total comprehensive income for the period</b>	<b>5,583,532</b>	<b>2,647,362</b>
<b>Attributable to:</b>		
Equity holders of the Parent Company	5,508,592	2,613,138
Non-controlling interests	74,940	34,224
	<b>5,583,532</b>	<b>2,647,362</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 2017

		<i>(Audited)</i>	
	<i>31 March</i>	<i>31 December</i>	<i>31 March</i>
	<i>2017</i>	<i>2016</i>	<i>2016</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>
<b>ASSETS</b>	<i>Notes</i>		
Cash and cash equivalents	4	4,318,850	6,573,017
Fixed deposits		2,335,694	2,328,290
Inventories		289,371	306,971
Accounts receivable and other assets		25,567,911	16,155,483
Financial assets available for sale	5	6,665,493	7,112,993
Interest in a joint venture		8,009,119	8,356,690
Investment properties	6	156,150,596	155,857,791
Property and equipment		72,130,513	71,786,781
<b>TOTAL ASSETS</b>		<b>275,467,547</b>	<b>268,478,016</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks and financial institutions	4	-	1,541,166
Accounts payable and other liabilities		18,951,025	16,786,405
Commercial financing	7	35,173,393	33,850,908
Islamic financing	7	84,644,761	76,623,928
<b>TOTAL LIABILITIES</b>		<b>138,769,179</b>	<b>127,261,241</b>
<b>EQUITY</b>			
Share capital	8	51,272,341	51,272,341
Share premium		35,055,163	35,055,163
Treasury shares	9	(5,041,090)	(4,783,820)
Treasury shares reserve	9	1,817,810	1,817,810
Statutory reserve		26,793,867	26,793,867
Voluntary reserve		20,489,290	20,489,290
Retained earnings		11,154,454	16,380,747
Fair value reserve		361,547	361,547
Foreign currency translation reserve		(7,694,260)	(8,584,476)
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>		<b>134,209,122</b>	<b>138,802,469</b>
Non-controlling interests		2,489,246	2,414,306
<b>TOTAL EQUITY</b>		<b>136,698,368</b>	<b>141,216,775</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>275,467,547</b>	<b>268,478,016</b>

Ghazi Fahad Alnafisi  
Chairman

Faisal Abdul Mohsen Al-Khatrash  
Vice 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 2017

Equity attributable to equity holders of the Parent Company

	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	Total equity KD
Balance as at 1 January 2017 (Audited)	51,272,341	35,055,163	(4,783,820)	1,817,810	26,793,867	20,489,290	16,380,747	361,547	(8,584,476)	138,802,469	2,414,306	141,216,775
Profit for the period	-	-	-	-	-	-	4,618,376	-	-	4,618,376	18,308	4,636,684
Other comprehensive income for the period	-	-	-	-	-	-	-	-	890,216	890,216	56,632	946,848
Total comprehensive income for the period	-	-	-	-	-	-	4,618,376	-	890,216	5,508,592	74,940	5,583,532
Purchase of treasury shares	-	-	(257,270)	-	-	-	-	-	-	(257,270)	-	(257,270)
Dividends (Note 8)	-	-	-	-	-	-	(9,844,669)	-	-	(9,844,669)	-	(9,844,669)
<b>Balance as at 31 March 2017</b>	<b>51,272,341</b>	<b>35,055,163</b>	<b>(5,041,090)</b>	<b>1,817,810</b>	<b>26,793,867</b>	<b>20,489,290</b>	<b>11,154,454</b>	<b>361,547</b>	<b>(7,694,260)</b>	<b>134,209,122</b>	<b>2,489,246</b>	<b>136,698,368</b>
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</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>

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 2017

	Notes	Three months ended 31 March	
		2017 KD	2016 KD
<b>OPERATING ACTIVITIES</b>			
Profit for the period before provision for contribution to KFAS, NLST and Zakat		4,854,304	3,191,440
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		(1,532,430)	(435,401)
Provision for employees' end of service benefits		147,144	153,495
Depreciation		1,334,545	1,343,327
Investment income		(513,481)	(44,231)
Foreign exchange (gain) loss		(29,821)	8,474
Interest income		(5,615)	(10,835)
Gain on sale of property and equipment		-	(20,000)
Impairment loss on financial assets available for sale	5	-	79,040
Impairment loss on investment properties	6	200,000	-
Finance costs		250,391	536,077
		<u>4,705,037</u>	<u>4,801,386</u>
Change in operating assets and liabilities:			
Inventories		17,600	16,349
Accounts receivable and other assets		(993,099)	(1,483,862)
Accounts payable and other liabilities		357,252	762,522
		<u>4,086,790</u>	<u>4,096,395</u>
Cash from operations		4,086,790	4,096,395
Employees' end of service benefits paid		(127,136)	(21,849)
KFAS paid		(117,463)	(109,879)
		<u>3,842,191</u>	<u>3,964,667</u>
<b>INVESTING ACTIVITIES</b>			
Advances and prepayments to contractors		(8,419,329)	-
Proceeds from redemption of financial assets available for sale		925,144	150,653
Additions to investment properties	6	(884,880)	(805,048)
Additions to property and equipment		(459,977)	(385,923)
Proceeds from sale of property and equipment		-	34,826
Investment income received		35,837	44,231
Dividends received from joint venture		1,880,001	-
Interest income received		5,615	10,835
Fixed deposits		(7,404)	(2,041,130)
		<u>(6,924,993)</u>	<u>(2,991,556)</u>
<b>FINANCING ACTIVITIES</b>			
Proceeds from commercial and Islamic financings obtained	7	9,800,000	5,030,401
Repayment of commercial and Islamic financings	7	(997,896)	(2,074,530)
Finance costs paid		(250,391)	(536,077)
Dividends paid	8	(7,465,808)	(7,745,149)
Purchase of treasury shares		(257,270)	(70,456)
		<u>828,635</u>	<u>(5,395,811)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>			
		<u>(2,254,167)</u>	<u>(4,422,700)</u>
Cash and cash equivalents at the beginning of the period		6,573,017	7,688,185
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	4	<u><u>4,318,850</u></u>	<u><u>3,265,485</u></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 2017

### 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 2017 were authorized for issue in accordance with a resolution of the Parent Company's Board of Directors on 10 May 2017.

On 21 March 2017, 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 2016 and approved the 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. Its 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.

### 2 BASIS OF PRESENTATION

The interim condensed consolidated financial information for the three months ended 31 March 2017 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 2016, 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 2017 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 2016. Furthermore, results for the three months period ended 31 March 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017. For more details refer to the consolidated financial statements and its related disclosures for the year ended 31 December 2016.

### 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 2017.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at 31 March 2017

3 BASIC AND DILUTED EARNINGS PER SHARE (continued)

	<i>Three months ended</i>	
	<i>31 March</i>	
	<u>2017</u>	<u>2016</u>
Profit for the period attributable to equity holders of the Parent Company (KD)	<u>4,618,376</u>	<u>3,083,806</u>
Weighted average number of ordinary shares outstanding during the period (excluding treasury shares)	<u>492,302,336</u>	<u>493,005,270</u>
Basic and diluted earnings per share	<u>9.4 fils</u>	<u>6.3 fils</u>

4 CASH AND CASH EQUIVALENTS

	<i>31 March</i>	<i>(Audited)</i>	<i>31 March</i>
	<i>2017</i>	<i>31 December</i>	<i>2016</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>
Cash and cash equivalents	<u>4,318,850</u>	6,573,017	4,806,651
Less: Due to banks and financial institutions	<u>-</u>	-	(1,541,166)
Cash and cash equivalents for the purpose of interim condensed consolidated statement of cash flows	<u>4,318,850</u>	<u>6,573,017</u>	<u>3,265,485</u>

5 FINANCIAL ASSETS AVAILABLE FOR SALE

	<i>31 March</i>	<i>(Audited)</i>	<i>31 March</i>
	<i>2017</i>	<i>31 December</i>	<i>2016</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>
Managed quoted portfolios	<u>398,923</u>	400,993	1,778,855
Managed unquoted portfolio	<u>94,812</u>	94,812	94,812
Unquoted equity securities	<u>6,171,758</u>	6,617,188	7,068,255
	<u>6,665,493</u>	<u>7,112,993</u>	<u>8,941,922</u>

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

An impairment loss of KD Nil (31 December 2016: KD Nil and 31 March 2016: KD 79,040) 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>2017</i>	<i>31 December</i>	<i>2016</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>
As at 1 January	<u>155,857,791</u>	157,085,671	157,085,671
Additions	<u>884,880</u>	4,523,530	805,048
Depreciation	<u>(477,735)</u>	(1,985,124)	(439,393)
Impairment loss	<u>(200,000)</u>	(1,843,053)	-
Foreign currency translation adjustment	<u>85,660</u>	(1,923,233)	(468,008)
	<u>156,150,596</u>	<u>155,857,791</u>	<u>156,983,318</u>

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

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

As at 31 March 2017

### 6 INVESTMENT PROPERTIES (continued)

Investment properties with a carrying value of KD 155,792 (31 December 2016: KD 155,792 and 31 March 2016: KD 155,792) 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.

During the period ended 31 March 2017, management has reassessed the fair value of certain investment properties which were previously determined as at 31 December 2016 by independent and specialised valuers using the market comparison approach. As a result of this reassessment, the Group recorded an impairment loss of KD 200,000 in the interim condensed consolidated statement of income for the period ended 31 March 2017.

### 7 COMMERCIAL AND ISLAMIC FINANCING

	<i>31 March 2017 KD</i>	<i>(Audited) 31 December 2016 KD</i>	<i>31 March 2016 KD</i>
At 1 January	110,474,836	109,359,992	109,359,992
Loans received	9,800,000	26,072,000	5,030,401
Loans repaid	(997,896)	(23,334,281)	(2,074,530)
Foreign currency translation adjustment	541,214	(1,622,875)	414,296
	<u>119,818,154</u>	<u>110,474,836</u>	<u>112,730,159</u>
	<i>31 March 2017 KD</i>	<i>(Audited) 31 December 2016 KD</i>	<i>31 March 2016 KD</i>
Commercial financing	35,173,393	33,850,908	37,286,920
Islamic financing	84,644,761	76,623,928	75,443,239
	<u>119,818,154</u>	<u>110,474,836</u>	<u>112,730,159</u>

Commercial financing are repayable in periodic installments over variable periods 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 2016: 1.5% to 2% per annum and 31 March 2016: 1.5% to 2% per annum) over EURIBOR.

The average profit rate attributable to Islamic financing during the years which range from 1% to 1.5% per annum (31 December 2016: 1% to 1.5% per annum and 31 March 2016: 1% to 1.5% per annum) over the Central Bank of Kuwait discount rate.

Islamic financing amounting to KD 39,750,000 (31 December 2016: KD 39,750,000 and 31 March 2016: KD 44,166,667) has been obtained by a local subsidiary, and is secured by an investment property with a carrying value of KD 71,794,141 (31 December 2016: KD 71,794,141 and 31 March 2016: KD 71,794,141). Under the terms of the liability, the lenders have no recourse to the Parent Company in the event of default.

A subsidiary's accumulated finance cost have been capitalised and included within investment properties.

### 8 SHARE CAPITAL AND GENERAL ASSEMBLY MEETING

At the Annual General Assembly of the shareholders of the Parent Company held on 21 March 2017, the shareholders approved the distribution of cash dividends of 20 fils per share (2016: 20 fils per share) amounting to KD 9,844,669 for the year ended 31 December 2017 (2016: KD 9,858,669) for shareholders registered on that date.

As at 31 March 2017, the authorized, issued and paid up capital comprises of 512,723,413 shares (31 December 2016: 512,723,413 shares and 31 March 2016: 512,723,413 shares) at 100 fils (31 December 2016: 100 fils and 31 March 2016: 100 fils) per share each and 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 2017

### 9 TREASURY SHARES

At 31 March 2017, the Parent Company held 20,505,132 of its own shares (31 December 2016: 19,789,949 and 31 March 2016: 19,789,949), equivalent to 4% (31 December 2016: 3.86% and 31 March 2016: 3.86%) of the total issued share capital at that date. The market value of these shares at the financial position date was KD 7,586,899 (31 December 2016: KD 7,025,432 and 31 March 2016: KD 6,728,583). 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 2017	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
<i>Financial assets available for sale</i>				
Managed quoted portfolios	398,923	-	-	398,923
Managed unquoted portfolio	-	-	94,812	94,812
	<u>398,923</u>	<u>-</u>	<u>94,812</u>	<u>493,735</u>
31 December 2016 (Audited)	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
<i>Financial assets available for sale</i>				
Managed quoted portfolios	400,993	-	-	400,993
Managed unquoted portfolio	-	-	94,812	94,812
	<u>400,993</u>	<u>-</u>	<u>94,812</u>	<u>495,805</u>
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
Managed funds	-	-	-	-
	<u>1,778,855</u>	<u>-</u>	<u>94,812</u>	<u>1,873,667</u>

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

During the period ended 31 March 2017, 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.

**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 valued 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.

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.

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

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

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**11 SEGMENTAL INFORMATION (continued)**

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

	Three months ended 31 March 2017			Three months ended 31 March 2016			
	Real estate operations KD	Hotel operations KD	Care home operations KD	Real estate operations KD	Hotel operations KD	Care home operations KD	Total KD
Segment revenue	4,550,166	3,081,042	3,612,112	4,466,984	3,359,292	3,522,169	11,348,445
Segment operating costs	(1,038,233)	(921,912)	(2,661,151)	(1,265,663)	(966,463)	(2,658,339)	(4,890,465)
Segment gross profit	3,511,933	2,159,130	950,961	3,201,321	2,392,829	863,830	6,457,980
Share in joint venture's results, net of tax	1,532,430	-	-	435,401	-	-	435,401
Depreciation	(758,762)	(334,640)	(241,138)	(699,503)	(399,059)	(244,765)	(1,343,327)
Other operating expenses	(1,154,908)	(606,722)	(311,604)	(848,701)	(638,411)	(318,718)	(1,805,830)
Impairment loss on investment properties	(200,000)	-	-	-	-	-	-
Finance costs	(75,403)	(25,009)	(149,979)	(352,777)	(25,141)	(158,159)	(536,077)
Taxation on overseas subsidiaries	-	-	(37,511)	-	-	(41,094)	(41,094)
Segment results	2,855,290	1,192,759	210,729	1,735,741	1,330,218	101,094	3,167,053
Interest income	-	-	-	-	-	-	-
Investment income	-	-	-	-	-	-	-
Impairment loss on financial assets available for sale	-	-	-	-	-	-	-
Other non-operating income, (net)	-	-	-	-	-	-	-
KFAS, NLST and Zakat	-	-	-	-	-	-	-
<b>Profit for the period</b>	<b>4,636,684</b>	<b>513,481</b>	<b>76,430</b>	<b>1,735,741</b>	<b>1,330,218</b>	<b>101,094</b>	<b>3,046,130</b>
		<b>5,615</b>	<b>(217,620)</b>				
		<b>513,481</b>	<b>(145,310)</b>				
		<b>76,430</b>	<b>48,361</b>				
		<b>(217,620)</b>	<b>(145,310)</b>				
		<b>4,636,684</b>	<b>3,046,130</b>				

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

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

As at 31 March 2017

**11 SEGMENTAL INFORMATION (continued)**

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

	31 March 2017			31 December 2016 (Audited)			31 March 2016		
	Real estate operations KD	Hotel operations KD	Care home operations KD	Real estate operations KD	Hotel operations KD	Care home operations KD	Real estate operations KD	Hotel operations KD	Care home operations KD
Total assets	233,973,756	5,792,935	35,700,856	223,933,954	10,142,301	34,401,761	222,289,948	11,189,168	37,194,331
			275,467,547			268,478,016			270,673,447
Total liabilities	114,119,648	2,802,965	21,846,566	103,201,450	2,675,413	21,384,378	107,641,772	2,647,377	23,107,657
			138,769,179			127,261,241			133,396,806
Capital expenditure	940,688	360,706	43,463	5,260,686	1,295,518	512,637	861,458	192,721	91,015
			1,344,857			7,068,841			1,145,194

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**12 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS**

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

	<i>31 March</i> <i>2017</i> <i>KD</i>	<i>(Audited)</i> <i>31 December</i> <i>2016</i> <i>KD</i>	<i>31 March</i> <i>2016</i> <i>KD</i>
Letters of guarantee	1,197,187	1,638,907	1,812,446
Construction projects*	50,279,447	50,541,635	16,000,000
	<u>51,476,634</u>	<u>52,180,542</u>	<u>17,812,446</u>

\* Capital commitments related to construction projects are determined based on management's estimate since the contract with the main contractor is under the closing process.

**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</i> <i>Company</i> <i>KD</i>	<i>Affiliates</i> <i>KD</i>	<i>31 March</i> <i>2017</i> <i>KD</i>	<i>(Audited)</i> <i>31 December</i> <i>2016</i> <i>KD</i>	<i>31 March</i> <i>2016</i> <i>KD</i>
Staff receivables*	18,052	19,499	37,551	41,527	43,840
Due from related parties*	-	695,824	695,824	674,171	856,759

\* 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</i> <i>31 March</i>	
	<i>2017</i> <i>KD</i>	<i>2016</i> <i>KD</i>
Short-term benefits	485,789	478,187
Employees' end of service benefits	26,527	27,704
	<u>512,316</u>	<u>505,891</u>