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

## INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

**30 SEPTEMBER 2018**

EY
Building a better working world

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# 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 30 September 2018, and the related interim condensed consolidated statement of income and interim condensed consolidated statement of comprehensive income for the three months and nine months periods then ended, and the related interim condensed consolidated statement of cash flows and interim condensed consolidated statement of changes in equity 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 Accounting Standard 34: Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

*Scope of Review*

Except as explained in the following paragraph, we conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim 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 30 September 2018, 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 9,287,982 as at 30 September 2018 (31 December 2017: KD 6,380,746 and 30 September 2017: KD 8,014,383) and the share of the joint venture's results net of tax for the nine months period ended 30 September 2018 included in the interim condensed consolidated statement of income is a profit of KD 5,289,429 (30 September 2017: KD 2,530,649). 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)**

**Report on the Interim Condensed Consolidated Financial Information (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 Opinion" 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 as amended, and its executive regulations, as amended, or of the Parent Company's Memorandum of Incorporation and Articles of Association during the nine months period ended 30 September 2018 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

12 November 2018
Kuwait

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

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

For the period ended 30 September 2018

| | | *Three months ended 30 September* | | *Nine months ended 30 September* | |
|---|---|---|---|---|---|
| | *Notes* | ***2018 KD*** | *2017 KD* | ***2018 KD*** | *2017 KD* |
| Revenue | | **10,563,800** | 10,477,521 | **34,101,948** | 33,132,412 |
| Operating costs | | **(4,862,496)** | (4,502,610) | **(15,261,571)** | (14,324,087) |
| Gross profit | | **5,701,304** | 5,974,911 | **18,840,377** | 18,808,325 |
| Share of joint venture's results, net of tax | | **2,073,718** | 159,448 | **5,289,429** | 2,530,649 |
| General and administrative expenses | | **(955,427)** | (612,139) | **(4,306,799)** | (3,774,020) |
| Depreciation | | **(1,361,832)** | (1,306,806) | **(4,047,168)** | (3,974,568) |
| Sales and marketing expenses | | **(114,428)** | (115,115) | **(405,203)** | (426,477) |
| Investment income | | **5,966** | 338 | **84,394** | 565,448 |
| Foreign exchange (loss) gain | | **(4,143)** | 12,833 | **(31,965)** | 71,049 |
| Interest income | | **6,897** | 5,744 | **16,279** | 17,079 |
| Other income, net | | **15,458** | 41,668 | **81,297** | 160,811 |
| Gain on sale of property | | - | - | **254,070** | - |
| Impairment loss on financial assets available for sale | 6 | - | (385,169) | - | (982,480) |
| Impairment loss on investment properties | 7 | - | (101,884) | - | (504,970) |
| Finance costs | | **(205,115)** | (273,103) | **(569,598)** | (752,044) |
| Profit before tax | | **5,162,398** | 3,400,726 | **15,205,113** | 11,738,802 |
| Taxation on overseas subsidiaries | | **(83,096)** | (50,644) | **(189,689)** | (103,953) |
| **PROFIT BEFORE PROVISION FOR CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES ("KFAS"), NATIONAL LABOUR SUPPORT TAX ("NLST") AND ZAKAT** | | **5,079,302** | 3,350,082 | **15,015,424** | 11,634,849 |
| KFAS | | **(49,635)** | (32,409) | **(148,153)** | (115,245) |
| NLST | | **(124,088)** | (81,022) | **(370,383)** | (288,113) |
| Zakat | | **(49,635)** | (32,409) | **(148,153)** | (115,245) |
| **PROFIT FOR THE PERIOD** | | **4,855,944** | 3,204,242 | **14,348,735** | 11,116,246 |
| **Attributable to:** | | | | | |
| Equity holders of the Parent Company | | **4,740,187** | 3,022,421 | **14,148,638** | 11,005,898 |
| Non-controlling interests | | **115,757** | 181,821 | **200,097** | 110,348 |
| | | **4,855,944** | 3,204,242 | **14,348,735** | 11,116,246 |
| **BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY** | 4 | **9.6 fils** | 6.2 fils | **28.7 fils** | 22.4 fils |

The attached notes 1 to 14 form an integral part of the interim condensed consolidated financial information.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the period ended 30 September 2018

| | *Three months ended 30 September* | | *Nine months ended 30 September* | |
|---|---|---|---|---|
| | ***2018*** | *2017* | ***2018*** | *2017* |
| | ***KD*** | *KD* | ***KD*** | *KD* |
| **Profit for the period** | **4,855,944** | 3,204,242 | **14,348,735** | 11,116,246 |
| **Other comprehensive income:** | | | | |
| *Other comprehensive (loss) income that are or may be reclassified to interim condensed consolidated statement of income in subsequent periods:* | | | | |
| Net movement in cumulative changes in fair value of financial assets available for sale (IAS 39) | - | (143,975) | - | (187,889) |
| Exchange differences arising on translation of foreign operations | **(748,086)** | (210,105) | **(365,527)** | 671,336 |
| **Net other comprehensive (loss) income to be reclassified to interim condensed consolidated statement of income in subsequent periods** | **(748,086)** | (354,080) | **(365,527)** | 483,447 |
| *Other comprehensive loss not to be reclassified to interim condensed consolidated statement of income in subsequent periods:* | | | | |
| Changes in the fair value of equity instruments at fair value through other comprehensive income | **(15,525)** | - | **(15,525)** | - |
| **Net other comprehensive loss not to be reclassified to interim condensed consolidated statement of income in subsequent periods** | **(15,525)** | - | **(15,525)** | - |
| **Other comprehensive (loss) income** | **(763,611)** | (354,080) | **(381,052)** | 483,447 |
| **Total comprehensive income for the period** | **4,092,333** | 2,850,162 | **13,967,683** | 11,599,693 |
| **Attributable to:** | | | | |
| Equity holders of the Parent Company | **3,975,986** | 2,680,052 | **14,131,397** | 11,275,113 |
| Non-controlling interests | **116,347** | 170,110 | **(163,714)** | 324,580 |
| | **4,092,333** | 2,850,162 | **13,967,683** | 11,599,693 |

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 September 2018

| | Notes | *30 September 2018 KD* | *(Audited) 31 December 2017 KD* | *30 September 2017 KD* |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 5 | **7,081,877** | 4,895,535 | 3,600,176 |
| Fixed deposits | | **2,400,000** | 2,633,206 | 2,473,337 |
| Inventories | | **319,957** | 286,793 | 294,805 |
| Accounts receivable and other assets | | **13,522,595** | 13,296,357 | 13,223,774 |
| Financial assets at fair value through other comprehensive income | 6 | **5,849,430** | - | - |
| Financial assets available for sale | 6 | **-** | 5,366,621 | 5,417,105 |
| Interest in a joint venture | | **9,287,982** | 6,380,746 | 8,014,383 |
| Investment properties | 7 | **203,094,628** | 187,062,981 | 180,139,277 |
| Property and equipment | | **72,814,695** | 76,414,062 | 76,423,346 |
| **TOTAL ASSETS** | | **314,371,164** | 296,336,301 | 289,586,203 |
| **LIABILITIES AND EQUITY** | | | | |
| **LIABILITIES** | | | | |
| Due to banks and financial institutions | 5 | **5,187,924** | - | 340,265 |
| Accounts payable and other liabilities | | **23,557,320** | 21,100,969 | 17,499,281 |
| Commercial financing | 8 | **31,957,057** | 29,141,321 | 32,318,810 |
| Islamic financing | 8 | **101,689,524** | 99,686,890 | 96,944,322 |
| **TOTAL LIABILITIES** | | **162,391,825** | 149,929,180 | 147,102,678 |
| **EQUITY** | | | | |
| Share capital | 9 | **51,272,341** | 51,272,341 | 51,272,341 |
| Share premium | | **35,055,163** | 35,055,163 | 35,055,163 |
| Treasury shares | 10 | **(4,733,890)** | (5,315,245) | (5,272,094) |
| Treasury shares reserve | 10 | **2,224,247** | 1,817,810 | 1,817,810 |
| Statutory reserve | | **28,458,964** | 28,458,964 | 26,793,867 |
| Voluntary reserve | | **20,489,290** | 20,489,290 | 20,489,290 |
| Retained earnings | | **24,953,009** | 20,685,962 | 17,541,976 |
| Fair value reserve | | **606,118** | 123,309 | 173,658 |
| Foreign currency translation reserve | | **(8,994,335)** | (8,992,619) | (8,127,372) |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY** | | **149,330,907** | 143,594,975 | 139,744,639 |
| Non-controlling interests | | **2,648,432** | 2,812,146 | 2,738,886 |
| **TOTAL EQUITY** | | **151,979,339** | 146,407,121 | 142,483,525 |
| **TOTAL LIABILITIES AND EQUITY** | | **314,371,164** | 296,336,301 | 289,586,203 |

Ghazi Fahad Alnafisi
Chairman

Faisal Abdul Mohsen Al-Khatrash
Vice Chairman

The attached notes 1 to 14 form an integral part of the interim condensed consolidated financial information.

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

For the period ended 30 September 2018

| | *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 2018 *(Audited)* | 51,272,341 | 35,055,163 | (5,315,245) | 1,817,810 | 28,458,964 | 20,489,290 | 20,685,962 | 123,309 | (8,992,619) | 143,594,975 | 2,812,146 | 146,407,121 |
| Transition adjustment on adoption of IFRS 9 at 1 January 2018 (Note 3) | - | - | - | - | - | - | - | 498,334 | - | 498,334 | - | 498,334 |
| Balance as at 1 January 2018 (Restated) | 51,272,341 | 35,055,163 | (5,315,245) | 1,817,810 | 28,458,964 | 20,489,290 | 20,685,962 | 621,643 | (8,992,619) | 144,093,309 | 2,812,146 | 146,905,455 |
| Profit for the period | - | - | - | - | - | - | 14,148,638 | - | - | 14,148,638 | 200,097 | 14,348,735 |
| Other comprehensive loss for the period | - | - | - | - | - | - | - | (15,525) | (1,716) | (17,241) | (363,811) | (381,052) |
| Total comprehensive income (loss) for the period | - | - | - | - | - | - | 14,148,638 | (15,525) | (1,716) | 14,131,397 | (163,714) | 13,967,683 |
| Dividends (Note 9) | - | - | - | - | - | - | (9,881,591) | - | - | (9,881,591) | - | (9,881,591) |
| Purchase of treasury shares | - | - | (633,812) | - | - | - | - | - | - | (633,812) | - | (633,812) |
| Sale of treasury shares | - | - | 1,215,167 | 406,437 | - | - | - | - | - | 1,621,604 | - | 1,621,604 |
| **Balance as at 30 September 2018** | **51,272,341** | **35,055,163** | **(4,733,890)** | **2,224,247** | **28,458,964** | **20,489,290** | **24,953,009** | **606,118** | **(8,994,335)** | **149,330,907** | **2,648,432** | **151,979,339** |
| 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 | - | - | - | - | - | - | 11,005,898 | - | - | 11,005,898 | 110,348 | 11,116,246 |
| Other comprehensive (loss) income for the period | - | - | - | - | - | - | - | (187,889) | 457,104 | 269,215 | 214,232 | 483,447 |
| Total comprehensive income (loss) for the period | - | - | - | - | - | - | 11,005,898 | (187,889) | 457,104 | 11,275,113 | 324,580 | 11,599,693 |
| Purchase of treasury shares | - | - | (488,274) | - | - | - | - | - | - | (488,274) | - | (488,274) |
| Dividends (Note 9) | - | - | - | - | - | - | (9,844,669) | - | - | (9,844,669) | - | (9,844,669) |
| Balance as at 30 September 2017 | 51,272,341 | 35,055,163 | (5,272,094) | 1,817,810 | 26,793,867 | 20,489,290 | 17,541,976 | 173,658 | (8,127,372) | 139,744,639 | 2,738,886 | 142,483,525 |

The attached notes 1 to 14 form an integral part of the interim condensed consolidated financial information.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the period ended 30 September 2018

| | Notes | *Nine months ended 30 September* *2018* *KD* | *2017* *KD* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit for the period before provision for contribution to KFAS, NLST and Zakat | | **15,015,424** | 11,634,849 |
| 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 | | **(5,289,429)** | (2,530,649) |
| Provision for employees' end of service benefits | | **637,989** | 454,090 |
| Depreciation | | **4,047,168** | 3,974,568 |
| Investment income | | **(84,394)** | (565,448) |
| Foreign exchange loss (gain) | | **31,965** | (71,049) |
| Interest income | | **(16,279)** | (17,079) |
| Gain on sale of property | | **(254,070)** | - |
| Impairment loss on financial assets available for sale | | **-** | 982,480 |
| Impairment loss on investment properties | 7 | **-** | 504,970 |
| Finance costs | | **569,598** | 752,044 |
| | | **14,657,972** | 15,118,776 |
| Change in operating assets and liabilities: | | | |
| Inventories | | **(33,164)** | 12,166 |
| Accounts receivable and other assets | | **6,990,853** | (1,646,510) |
| Accounts payable and other liabilities | | **2,431,583** | 699,780 |
| Cash from operations | | **24,047,244** | 14,184,212 |
| Employees' end of service benefits paid | | **(138,575)** | (117,585) |
| KFAS paid | | **(149,859)** | (117,463) |
| NLST paid | | **(416,274)** | (326,286) |
| Zakat paid | | **(149,859)** | (117,463) |
| Net cash flows from operating activities | | **23,192,677** | 13,505,415 |
| **INVESTING ACTIVITIES** | | | |
| Advances and prepayments to contractors | | **(7,217,091)** | 4,578,219 |
| Proceeds from redemption of financial assets available for sale | | **-** | 1,003,163 |
| Additions to investment properties | 7 | **(17,823,084)** | (25,581,256) |
| Additions to property and equipment | | **(2,038,327)** | (3,852,408) |
| Proceeds from sale of property and equipment | | **2,523,252** | 769 |
| Investment income received | | **84,394** | 87,804 |
| Dividends received from joint venture | | **2,030,000** | 1,880,000 |
| Interest income received | | **16,279** | 17,079 |
| Fixed deposits | | **233,206** | (145,047) |
| Net cash flows used in investing activities | | **(22,191,371)** | (22,011,677) |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from commercial and Islamic financings obtained | 8 | **13,321,934** | 24,317,621 |
| Repayment of commercial and Islamic financings | 8 | **(7,861,425)** | (8,064,837) |
| Finance costs paid | | **(569,598)** | (752,044) |
| Dividends paid | | **(9,881,591)** | (9,819,310) |
| Purchase of treasury shares | | **(633,812)** | (488,274) |
| Sale of treasury shares | | **1,621,604** | - |
| Net cash flows (used in) from financing activities | | **(4,002,888)** | 5,193,156 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(3,001,582)** | (3,313,106) |
| Cash and cash equivalents at 1 January 2018 | | **4,895,535** | 6,573,017 |
| **CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER 2018** | 5 | **1,893,953** | 3,259,911 |

The attached notes 1 to 14 form an integral part of the interim condensed consolidated financial information.

## 1 CORPORATE INFORMATION

The interim condensed consolidated financial information of Salhia Real Estate Company K.S.C.P. (the "Parent Company") and its Subsidiaries (collectively "the Group") for the nine months period ended 30 September 2018 were authorized for issue in accordance with a resolution of the Parent Company's Board of Directors on 12 November 2018.

On 12 March 2018, 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 2017 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 nine months ended 30 September 2018 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 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 2017. Furthermore, results for the nine months period ended 30 September 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018. For more details refer to the consolidated financial statements and its related disclosures for the year ended 31 December 2017.

**Changes in accounting policy and disclosures**

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard (IAS) 34, 'Interim Financial Reporting'. The accounting policies used 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 2017 except for the changes described below arising primarily from the adoption of IFRS 9 'Financial Instruments' effective from 1 January 2018.

The Group has adopted IFRS 9 effective from 1 January 2018. IFRS 9 brings together the requirements for recognising and measuring financial assets and financial liabilities, impairment of financial assets and hedge accounting. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group has not restated comparative information for the financial year 2017 as permitted by the transitional provisions of the standard. Therefore, the information presented for the period ended 30 September 2017 does not reflect the requirements of IFRS 9 and is not comparable to the information presented for the period ended 30 September 2018. Differences in the carrying amount of financial assets resulting from the adoption of IFRS 9 are recognised in fair value reserve as at 1 January 2018 and are disclosed in Note 3.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial information of the Group.

## 3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

The key changes to the Group's accounting policies resulting from its adoption of IFRS 15 and IFRS 9 are summarised below:

### 3.1 IFRS 15 *Revenue from Contracts with Customers*

The Group has adopted IFRS 15 Revenue from contracts with customers effective from 1 January 2018. This standard supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Group adopted IFRS 15 'Revenue from Contracts with Customers' resulting in no change in the revenue recognition policy of the Group in relation to its contracts with customers. Further, adoption of IFRS 15 had no impact on this interim condensed consolidated financial information of the Group.

### 3.2 IFRS 9 Financial Instruments

The Group has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018 as noted above. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets. The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized below:

**Classification of financial assets and financial liabilities**

IFRS 9 contains a new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three classification categories for financial assets: measured at Amortised Cost, Fair Value through Other Comprehensive Income ("FVOCI") (without recycling of gains or losses to profit or loss on derecognition of equity instruments) and Fair Value Through Profit or Loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

The Group has evaluated the classification and measurement criteria to be adopted for various financial assets considering the IFRS 9 requirements with respect to the business model and contractual cash flow characteristics ("CCC") / Solely payment of principal and interest ("SPPI").

With respect to receivables, the Group analysed the contractual cash flow characteristics of those instruments and concluded that based on their business model, which is to hold the financial asset to collect the contractual cash flows, which meets the SPPI criterion, these instruments shall be classified as at amortised cost under IFRS 9. Therefore, reclassification for these instruments is not required on initial adoption of IFRS 9.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

*Amortised cost*

A financial asset is measured at amortised cost if it meets both of the following conditions:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Cash and cash equivalents, fixed deposits and accounts receivables are classified as debt instruments at amortised cost.

## 3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)

### 3.2 IFRS 9 Financial Instruments (continued)

*FVOCI*
Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by- instrument basis. Equity instruments at FVOCI are subsequently measured at fair value. Gains and losses on these equity instruments are never recycled to consolidated statement of income. Dividends are recognised in consolidated statement of income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal cumulative gains or losses are reclassified from fair value reserve to retained earnings in the consolidated statement of changes in equity.

**Impairment**
The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Accordingly, the measurement of receivables under IFRS 9 doesn't have material impact on interim condensed consolidated statement of income for the Group.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

### 3.3 Transition to IFRS 9

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

## 3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)

### 3.3 Transition to IFRS 9 (continued)

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets as at 1 January 2018.

| | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying amount under IAS 39 KD | Re- measurement KD | New carrying amount under IFRS 9 KD |
|---|---|---|---|---|---|
| *Financial assets:* | | | | | |
| Cash and cash equivalents | Loans and receivables | Amortised costs | 4,895,535 | - | **4,895,535** |
| Fixed deposits | Loans and receivables | Amortised costs | 2,633,206 | - | **2,633,206** |
| Accounts receivables | Loans and receivables | Amortised costs | 13,296,357 | - | **13,296,357** |
| Managed quoted portfolios | Financial assets available for sale | FVOCI | 112,750 | - | **112,750** |
| Managed unquoted portfolio | Financial assets available for sale | FVOCI | 266,328 | - | **266,328** |
| Unquoted equity securities | Financial assets available for sale | FVOCI | 4,987,543 | 498,334 | **5,485,877** |

The following table analyses the impact of transition to IFRS 9 on reserves:

| | *Fair value reserve KD* |
|---|---|
| Closing balance under IAS 39 as at 31 December 2017 (as originally stated) | **123,309** |
| *Impact on reclassification and remeasurement:* | |
| Fair value gain on re-measuring unquoted securities to be carried at FVOCI | **498,334** |
| Opening balance under IFRS 9 (1 January 2018) – restated | **621,643** |

Adoption of IFRS 9 did not result in any change in classification or measurement of financial liabilities.

## 4 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 30 September 2018.

## 4 BASIC AND DILUTED EARNINGS PER SHARE (continued)

| | *Three months ended 30 September* | | *Nine months ended 30 September* | |
|---|---|---|---|---|
| | ***2018*** | *2017* | ***2018*** | *2017* |
| Profit for the period attributable to equity holders of the Parent Company (KD) | **4,740,187** | 3,022,421 | **14,148,638** | 11,005,898 |
| Weighted average number of ordinary shares outstanding during the period (excluding treasury shares) | **491,882,688** | 490,257,445 | **493,716,262** | 492,041,458 |
| Basic and diluted earnings per share | **9.6 fils** | 6.2 fils | **28.7 fils** | 22.4 fils |

## 5 CASH AND CASH EQUIVALENTS

| | ***30 September 2018 KD*** | *(Audited) 31 December 2017 KD* | *30 September 2017 KD* |
|---|---|---|---|
| Cash and cash equivalents | **7,081,877** | 4,895,535 | 3,600,176 |
| Less: Due to banks and financial institutions | **(5,187,924)** | - | (340,265) |
| Cash and cash equivalents for the purpose of interim condensed consolidated statement of cash flows | **1,893,953** | 4,895,535 | 3,259,911 |

## 6 OTHER FINANCIAL ASSETS

| | ***30 September 2018 KD*** | *(Audited) 31 December 2017 KD* | *30 September 2017 KD* |
|---|---|---|---|
| **Financial assets available for sale (AFS)** | | | |
| Managed quoted portfolios | - | 112,750 | 163,099 |
| Managed unquoted portfolio | - | 266,328 | 266,022 |
| Unquoted equity securities | - | 4,987,543 | 4,987,984 |
| | - | 5,366,621 | 5,417,105 |
| **Financial assets at fair value through other comprehensive income (FVOCI)** | | | |
| Managed quoted portfolios | **94,413** | - | - |
| Managed unquoted portfolio | **269,140** | - | - |
| Unquoted equity securities | **5,485,877** | - | - |
| | **5,849,430** | - | - |
| Total | **5,849,430** | 5,366,621 | 5,417,105 |

On initial application of IFRS 9, the Parent Company's management classified its financial assets available for sale with a carrying value of KD 5,366,621 as financial assets at fair value through other comprehensive income. The effect of IFRS 9 has been disclosed in Note 3.

The fair values of financial instruments are presented in (Note 11).

An impairment loss of KD Nil (31 December 2017: KD 982,480 and 30 September 2017: KD 982,480) has been made against investments classified as available for sale on which there has been a significant or prolonged decline in value.

## 7 INVESTMENT PROPERTIES

| | *30 September 2018 KD* | *(Audited) 31 December 2017 KD* | *30 September 2017 KD* |
|---|---|---|---|
| As at 1 January | **187,062,981** | 155,857,791 | 155,857,791 |
| Additions | **17,823,084** | 33,434,686 | 25,581,256 |
| Depreciation | **(1,443,021)** | (1,938,906) | (1,497,812) |
| Impairment loss | **-** | (1,020,605) | (504,970) |
| Foreign currency translation adjustment | **(348,416)** | 730,015 | 703,012 |
| | **203,094,628** | 187,062,981 | 180,139,277 |

Investment properties with a carrying value of KD 155,792 (31 December 2017: KD 155,792 and 30 September 2017: 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 30 September 2018, management has reassessed the fair value of certain investment properties, which were previously determined as at 31 December 2017 by independent and specialised valuers using the market comparison approach. As a result of this reassessment, the Group recorded an impairment loss of KD Nil (30 September 2017: KD 504,970) in the interim condensed consolidated statement of income for the period ended 30 September 2018.

## 8 COMMERCIAL AND ISLAMIC FINANCING

| | *30 September 2018 KD* | *(Audited) 31 December 2017 KD* | *30 September 2017 KD* |
|---|---|---|---|
| At 1 January | **128,828,211** | 110,474,836 | 110,474,836 |
| Loans received | **13,321,934** | 28,299,072 | 24,317,621 |
| Loans repaid | **(7,861,425)** | (12,830,702) | (8,064,837) |
| Foreign currency translation adjustment | **(642,139)** | 2,885,005 | 2,535,512 |
| | **133,646,581** | 128,828,211 | 129,263,132 |

| | *30 September 2018 KD* | *(Audited) 31 December 2017 KD* | *30 September 2017 KD* |
|---|---|---|---|
| Commercial financing | **31,957,057** | 29,141,321 | 32,318,810 |
| Islamic financing | **101,689,524** | 99,686,890 | 96,944,322 |
| | **133,646,581** | 128,828,211 | 129,263,132 |

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 0.75% to 2% per annum (31 December 2017: 1.5% to 2% per annum and 30 September 2017: 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 2017: 1% to 1.5% per annum and 30 September 2017: 1% to 1.5% per annum) over the Central Bank of Kuwait discount rate.

Islamic financing amounting to KD 101,689,524 (31 December 2017: KD 81,108,807 and 30 September 2017: KD 77,627,356) has been obtained by a local subsidiary, part of this Islamic financing amounting to KD 46,750,000 (31 December 2017: KD 46,250,000 and 30 September 2017: KD 46,250,000) is secured by an investment property with a carrying value of KD 71,794,141 (31 December 2017: KD 71,794,141 and 30 September 2017: 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.

## 9 SHARE CAPITAL AND GENERAL ASSEMBLY MEETING

At the Annual General Assembly of the shareholders of the Parent Company held on 12 March 2018, the shareholders approved the distribution of cash dividends of 20 fils per share (2016: 20 fils per share) amounting to KD 9,881,591 for the year ended 31 December 2017 (2016: KD 9,844,669) to the registered shareholders as of the record date which is 2 April 2018, which is paid during the reporting period.

As at 30 September 2018, the authorized, issued and paid up capital comprises of 512,723,413 shares (31 December 2017: 512,723,413 shares and 30 September 2017: 512,723,413 shares) at 100 fils (31 December 2017: 100 fils and 30 September 2017: 100 fils) per share each and are fully paid in cash.

## 10 TREASURY SHARES

At 30 September 2018, the Parent Company held 18,355,422 of its own shares (31 December 2017: 21,278,655 and 30 September 2017: 21,155,524), equivalent to 3.58% (31 December 2017: 4.15% and 30 September 2017: 4.13%) of the total issued share capital at that date. The market value of these shares at the financial position date was KD 6,020,578 (31 December 2017: KD 7,511,365 and 30 September 2017: KD 7,510,211). Reserves of the Parent Company equivalent to the cost of the treasury shares have been earmarked as non-distributable.

## 11 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities. For financial instruments where there is no active market, the Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

**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:

| **30 September 2018** | *Level 1* | *Level 3* | *Total* |
|---|---|---|---|
| ***Assets measured at fair value*** | *KD* | *KD* | *KD* |
| *Financial assets at FVOCI:* | | | |
| Managed quoted portfolios | **94,413** | **-** | **94,413** |
| Managed unquoted portfolio | **-** | **269,140** | **269,140** |
| Unquoted equity securities | **-** | **5,485,877** | **5,485,877** |
| | **94,413** | **5,755,017** | **5,849,430** |

| 31 December 2017 (Audited) | | | |
|---|---|---|---|
| *Financial assets available for sale* | | | |
| Managed quoted portfolios | 112,750 | - | 112,750 |
| Managed unquoted portfolio | - | 266,328 | 266,328 |
| | 112,750 | 266,328 | 379,078 |

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

| 30 September 2017 | *Level 1* *KD* | *Level 3* *KD* | *Total* *KD* |
|---|---|---|---|
| *Financial assets available for sale* | | | |
| Managed quoted portfolios | 163,099 | - | 163,099 |
| Managed unquoted portfolio | - | 266,022 | 266,022 |
| | 163,099 | 266,022 | 429,121 |

The following table shows a reconciliation of the opening and closing amount of level 3 financial instruments which are recorded at fair value.

| | ***As at 1 January 2018 KD*** | ***IFRS 9 adjustment KD*** | ***As at 30 September 2018 KD*** |
|---|---|---|---|
| *Financial assets at FVOCI:* | | | |
| - Equity securities | **266,328** | **5,488,689** | **5,755,017** |

During the period ended 30 September 2018, 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 except for the impact of adopting IFRS 9 as disclosed in Note 3, which relate to fair value of investments previously carried at cost.

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

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.

**12 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.

## 12 SEGMENTAL INFORMATION (continued)

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

| | *Nine months ended 30 September 2018* | | | | *Nine months ended 30 September 2017* | | | |
|---|---|---|---|---|---|---|---|---|
| | *Real estate operations KD* | *Hotel operations KD* | *Care home operations KD* | *Total KD* | *Real estate operations KD* | *Hotel operations KD* | *Care home operations KD* | *Total KD* |
| Segment revenue | **14,314,975** | **7,550,278** | **12,236,695** | **34,101,948** | 13,976,415 | 7,628,070 | 11,527,927 | 33,132,412 |
| Segment operating costs | **(3,606,283)** | **(2,893,837)** | **(8,761,451)** | **(15,261,571)** | (2,587,111) | (2,890,885) | (8,512,349) | (13,990,345) |
| Segment gross profit | **10,708,692** | **4,656,441** | **3,475,244** | **18,840,377** | 11,389,304 | 4,737,185 | 3,015,578 | 19,142,067 |
| Share in joint venture's results, net of tax | **5,289,429** | **-** | **-** | **5,289,429** | 2,530,649 | - | - | 2,530,649 |
| Depreciation | **(2,184,473)** | **(1,059,890)** | **(802,805)** | **(4,047,168)** | (2,255,132) | (966,007) | (753,429) | (3,974,568) |
| Other operating expenses | **(2,343,749)** | **(1,383,134)** | **(985,119)** | **(4,712,002)** | (2,141,510) | (1,326,078) | (1,066,651) | (4,534,239) |
| Impairment loss on investment properties | **-** | **-** | **-** | **-** | (504,970) | - | - | (504,970) |
| Finance costs | **(47,196)** | **(56,527)** | **(465,875)** | **(569,598)** | (225,362) | (61,500) | (465,182) | (752,044) |
| Taxation on overseas subsidiaries | **-** | **-** | **(189,689)** | **(189,689)** | - | - | (103,953) | (103,953) |
| Segment results | **11,422,703** | **2,156,890** | **1,031,756** | **14,611,349** | 8,792,979 | 2,383,600 | 626,363 | 11,802,942 |
| Interest income | | | | **16,279** | | | | 17,079 |
| Investment income | | | | **84,394** | | | | 565,448 |
| Impairment loss on financial assets available for sale | | | | **-** | | | | (982,480) |
| Gain from sale of property | | | | **254,070** | | | | - |
| Other non-operating income, (net) | | | | **49,332** | | | | 231,860 |
| KFAS, NLST and Zakat | | | | **(666,689)** | | | | (518,603) |
| **Profit for the period** | | | | **14,348,735** | | | | 11,116,246 |

**12 SEGMENTAL INFORMATION (continued)**

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

| | *30 September 2018* | | | | *31 December 2017 (Audited)* | | | | *30 September 2017* | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Real estate operations KD* | *Hotel operations KD* | *Care home operations KD* | *Total KD* | *Real estate operations KD* | *Hotel operations KD* | *Care home operations KD* | *Total KD* | *Real estate operations KD* | *Hotel operations KD* | *Care home operations KD* | *Total KD* |
| Total assets | **267,501,115** | **9,517,362** | **37,352,687** | **314,371,164** | 248,210,892 | 10,070,703 | 38,054,706 | 296,336,301 | 245,810,715 | 4,909,703 | 38,865,785 | 289,586,203 |
| Segment liabilities | **137,814,310** | **2,780,730** | **21,796,785** | **162,391,825** | 123,946,030 | 2,748,331 | 23,234,819 | 149,929,180 | 120,822,732 | 2,507,244 | 23,772,702 | 147,102,678 |
| Capital expenditure | **18,284,915** | **1,218,749** | **357,749** | **19,861,413** | 36,013,076 | 1,256,956 | 379,567 | 37,649,599 | 28,072,256 | 1,106,410 | 254,998 | 29,433,664 |

## 13 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

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

| | ***30 September 2018 KD*** | *(Audited) 31 December 2017 KD* | *30 September 2017 KD* |
|---|---|---|---|
| Letters of guarantee | **890,670** | 890,670 | 1,213,987 |
| Construction projects | **72,904,008** | 80,589,089 | 30,564,447 |
| | **73,794,678** | 81,479,759 | 31,778,434 |

## 14 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:

| | *Parent Company KD* | *Affiliates KD* | ***30 September 2018 KD*** | *(Audited) 31 December 2017 KD* | *30 September 2017 KD* |
|---|---|---|---|---|---|
| Staff receivables* | 28,819 | 16,409 | **45,228** | 57,386 | 59,538 |
| Due from related parties* | - | 1,110,699 | **1,110,699** | 449,351 | 725,970 |

* 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:

| | *Three months ended 30 September* | | *Nine months ended 30 September* | |
|---|---|---|---|---|
| | ***2018 KD*** | *2017 KD* | ***2018 KD*** | *2017 KD* |
| Short-term benefits | **102,107** | 36,283 | **349,959** | 562,861 |
| Employees' end of service benefits | **34,425** | 31,093 | **172,458** | 150,671 |
| | **136,532** | 67,376 | **522,417** | 713,532 |