

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

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

31 MARCH 2019

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 2019 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 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 31 March 2019, 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 8,968,749 as at 31 March 2019 (31 December 2018: KD 8,352,038 and 31 March 2018: KD 7,375,480) and the share of the joint venture’s results net of tax for the three months period ended 31 March 2019 included in the interim condensed consolidated statement of income is a profit of KD 195,996 (31 March 2018: KD 2,662,371). 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 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 as amended, and its executive regulations, as amended, or of the Parent Company’s Memorandum of Incorporation and Articles of Association during the three months period ended 31 March 2019 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

9 May 2019
Kuwait

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

For the period ended 31 March 2019

	<i>Three months ended</i>	
	<i>31 March</i>	
	<i>2019</i>	<i>2018</i>
	<i>KD</i>	<i>KD</i>
	<i>Note</i>	
Revenue	11,945,656	12,170,662
Operating costs	(4,647,919)	(5,445,313)
Gross profit	7,297,737	6,725,349
Share of joint venture's results, net of tax	195,996	2,662,371
General and administrative expenses	(1,395,803)	(1,984,152)
Depreciation	(1,353,715)	(1,346,398)
Sales and marketing expenses	(146,061)	(165,406)
Investment income	11,136	-
Foreign exchange (loss) gain	(7,275)	102,428
Interest income	4,453	6,233
Other income, net	58,157	51,236
Gain on sale of property	-	254,070
Finance costs	(304,157)	(187,200)
Profit before tax	4,360,468	6,118,531
Taxation on overseas subsidiaries	(44,275)	(57,797)
PROFIT BEFORE PROVISION FOR CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES ("KFAS"), NATIONAL LABOUR SUPPORT TAX ("NLST") AND ZAKAT	4,316,193	6,060,734
KFAS	(42,940)	(60,099)
NLST	(107,351)	(150,247)
Zakat	(42,940)	(60,099)
PROFIT FOR THE PERIOD	4,122,962	5,790,289
Attributable to:		
Equity holders of the Parent Company	4,100,789	5,739,430
Non-controlling interests	22,173	50,859
	4,122,962	5,790,289
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY	4	11.7
	8.3 fils	fils

The attached notes 1 to 14 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 2019

	<i>Three months ended</i>	
	<i>31 March</i>	
	<i>2019</i>	<i>2018</i>
	<i>KD</i>	<i>KD</i>
Profit for the period	4,122,962	5,790,289
Other comprehensive income:		
<i>Other comprehensive income that are or may be reclassified to interim condensed consolidated statement of income in subsequent periods:</i>		
Exchange differences arising on translation of foreign operations	1,244,288	1,216,435
Net other comprehensive income to be reclassified to interim condensed consolidated statement of income in subsequent periods	1,244,288	1,216,435
<i>Other comprehensive income not to be reclassified to interim condensed consolidated statement of income in subsequent periods:</i>		
Changes in the fair value of equity instruments at fair value through other comprehensive income	9,820	-
Net other comprehensive income not to be reclassified to interim condensed consolidated statement of income in subsequent periods	9,820	-
Other comprehensive income	1,254,108	1,216,435
Total comprehensive income for the period	5,377,070	7,006,724
Attributable to:		
Equity holders of the Parent Company	5,354,897	6,886,487
Non-controlling interests	22,173	120,237
	5,377,070	7,006,724

The attached notes 1 to 14 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 2019

		(Audited)	
	Notes	31 March 2019 KD	31 December 2018 KD
ASSETS			31 March 2018 KD
Cash and cash equivalents	5	10,784,208	13,655,923
Fixed deposits		2,670,520	2,648,287
Inventories		260,508	264,056
Accounts receivable and other assets		13,057,602	14,081,613
Financial assets at fair value through other comprehensive income	6	5,081,111	5,864,955
Interest in a joint venture		8,968,749	7,375,480
Right-of-use assets		480,224	-
Investment properties	7	226,548,657	190,024,357
Property and equipment		70,918,277	74,718,546
TOTAL ASSETS		338,769,856	308,633,217
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and financial institutions	5	1,652,147	977,949
Lease Liability		480,224	-
Accounts payable and other liabilities		27,017,991	21,971,004
Commercial financing	8	29,131,231	27,982,529
Islamic financing	8	122,461,135	102,897,917
TOTAL LIABILITIES		180,742,728	153,829,399
EQUITY			
Share capital	9	51,272,341	51,272,341
Share premium		35,055,163	35,055,163
Treasury shares	10	(5,002,045)	(4,659,337)
Treasury shares reserve	10	2,339,520	2,053,541
Statutory reserve		30,280,511	28,458,964
Voluntary reserve		20,489,290	20,489,290
Retained earnings		30,395,815	26,425,392
Fair value reserve		(162,201)	621,643
Foreign currency translation reserve		(9,219,296)	(7,845,562)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		155,449,098	151,871,435
Non-controlling interests		2,578,030	2,932,383
TOTAL EQUITY		158,027,128	154,803,818
TOTAL LIABILITIES AND EQUITY		338,769,856	308,633,217

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.

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 2019

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 2019 (Audited)	51,272,341	35,055,163	(5,168,680)	2,240,412	30,280,511	20,489,290	26,295,026	(172,021)	(10,593,567)	149,698,475	2,685,840	152,384,315
Profit for the period	-	-	-	-	-	-	4,100,789	-	-	4,100,789	22,173	4,122,962
Other comprehensive income (loss) for the period	-	-	-	-	-	-	-	9,820	1,374,271	1,384,091	(129,983)	1,254,108
Total comprehensive income (loss) for the period	-	-	-	-	-	-	4,100,789	9,820	1,374,271	5,484,880	(107,810)	5,377,070
Purchase of treasury shares	-	-	(245,304)	-	-	-	-	-	-	(245,304)	-	(245,304)
Sale of treasury shares	-	-	411,939	99,108	-	-	-	-	-	511,047	-	511,047
Balance as at 31 March 2019	51,272,341	35,055,163	(5,002,045)	2,339,520	30,280,511	20,489,290	30,395,815	(162,201)	(9,219,296)	155,449,098	2,578,030	158,027,128
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	-	-	-	-	-	-	-	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	-	-	-	-	-	-	5,739,430	-	-	5,739,430	50,859	5,790,289
Other comprehensive income for the period	-	-	-	-	-	-	-	-	1,147,057	1,147,057	69,378	1,216,435
Total comprehensive income for the period	-	-	-	-	-	-	5,739,430	-	1,147,057	6,886,487	120,237	7,006,244
Sale of treasury shares	-	-	655,908	235,731	-	-	-	-	-	891,639	-	891,639
Balance as at 31 March 2018	51,272,341	35,055,163	(4,659,337)	2,053,541	28,458,964	20,489,290	26,425,392	621,643	(7,845,562)	151,871,435	2,932,383	154,803,818

The attached notes 1 to 14 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 2019

	Notes	Three months ended 31 March	
		2019 KD	2018 KD
OPERATING ACTIVITIES			
Profit for the period before provision for contribution to KFAS, NLST and Zakat		4,316,193	6,060,734
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		(195,996)	(2,662,371)
Provision for employees' end of service benefits		322,886	258,853
Depreciation		1,334,200	1,346,398
Investment income		(11,136)	-
Foreign exchange loss (gain)		7,275	(102,428)
Interest income		(4,453)	(6,233)
Gain on sale of property		-	(254,070)
Finance costs		304,157	187,200
		<u>6,073,126</u>	<u>4,828,083</u>
Change in operating assets and liabilities:			
Inventories		(2,468)	22,737
Accounts receivable and other assets		941,091	(313,433)
Accounts payable and other liabilities		1,200,619	1,016,224
		<u>8,212,368</u>	<u>5,553,611</u>
Cash from operations		8,212,368	5,553,611
Employees' end of service benefits paid		(26,460)	(3,967)
Director's fees paid		(120,000)	(120,000)
KFAS paid		(163,939)	(149,859)
		<u>7,901,969</u>	<u>5,279,785</u>
INVESTING ACTIVITIES			
Advances and prepayments to contractors		-	(471,823)
Additions to investment properties	7	(15,126,925)	(3,023,172)
Additions to property and equipment		(227,762)	(521,224)
Proceeds from sale of property and equipment		-	2,550,000
Investment income received		11,136	-
Dividends received from joint venture		-	2,030,000
Interest income received		4,453	6,233
Fixed deposits		(370,520)	(15,081)
		<u>(15,709,618)</u>	<u>554,933</u>
FINANCING ACTIVITIES			
Proceeds from commercial and Islamic financings obtained	8	9,700,000	3,565,488
Repayment of commercial and Islamic financings	8	(100,804)	(2,322,206)
Finance costs paid		(304,157)	(187,200)
Purchase of treasury shares		(245,304)	-
Sale of treasury shares		511,047	891,639
		<u>9,560,782</u>	<u>1,947,721</u>
Net cash flows from financing activities		9,560,782	1,947,721
NET INCREASE IN CASH AND CASH EQUIVALENTS		<u>1,753,133</u>	<u>7,782,439</u>
Cash and cash equivalents at 1 January 2019		7,378,928	4,895,535
CASH AND CASH EQUIVALENTS AT 31 March 2019	5	<u>9,132,061</u>	<u>12,677,974</u>

The attached notes 1 to 14 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 and for the period ended 31 March 2019

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 three months period ended 31 March 2019 were authorized for issue in accordance with a resolution of the Parent Company's Board of Directors on 9 May 2019.

On 11 March 2019, 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 2018 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 AND SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial information of the Group has been prepared in accordance with IAS 34 Interim Financial Reporting ("IAS 34"), 'Interim Financial Reporting'. The accounting policies used in the preparation of these 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 2018 except for the changes described below arising from the adoption of IFRS 16 'Leases' effective from 1 January 2019.

The Group has not early adopted any other standard, interpretation or amendment that has been issued or not yet effective. Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2019 did not have 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 2018. Furthermore, results for the three months period ended 31 March 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019. For more details refer to the consolidated financial statements and its related disclosures for the year ended 31 December 2018.

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

3 CHANGES IN ACCOUNTING POLICIES

Adoption of IFRS 16 'Leases'

The Group has adopted IFRS 16 issued in January 2016 with a date of initial application of 1 January 2019. IFRS 16 replaces IAS 17, IFRIC 4, SIC-15 and SIC-27. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Group, as a lessee, has adopted the following accounting policy in respect of its leases:

At inception of a contract, the Group assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2019

3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

Adoption of IFRS 16 'Leases' (continued)

Impact on adoption of IFRS 16

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. Lease liabilities and right of use of assets were both recorded at the present value of future lease payments, thus no impact was recorded on the opening retained earnings.

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 31 March 2019.

	<i>Three months ended</i>	
	<i>31 March</i>	
	<u>2019</u>	<u>2018</u>
Profit for the period attributable to equity holders of the Parent Company (KD)	<u>4,100,789</u>	<u>5,739,430</u>
Weighted average number of ordinary shares outstanding during the period (excluding treasury shares)	<u>493,056,131</u>	<u>492,063,034</u>
Basic and diluted earnings per share	<u>8.3 fils</u>	<u>11.7 fils</u>

5 CASH AND CASH EQUIVALENTS

	<i>31 March</i>	<i>(Audited)</i>	<i>31 March</i>
	<i>2019</i>	<i>31 December</i>	<i>2018</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>
Cash and cash equivalents	20,732	2,423,812	13,655,923
Bank balances	10,763,476	5,390,433	-
Less: Due to banks and financial institutions	<u>(1,652,147)</u>	<u>(435,317)</u>	<u>(977,949)</u>
Cash and cash equivalents for the purpose of interim condensed consolidated statement of cash flows	<u>9,132,061</u>	<u>7,378,928</u>	<u>12,677,974</u>

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<i>31 March</i>	<i>(Audited)</i>	<i>31 March</i>
	<i>2019</i>	<i>31 December</i>	<i>2018</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>
Managed quoted portfolios	92,336	83,000	112,750
Managed unquoted portfolio	269,623	269,140	266,328
Unquoted equity securities	<u>4,719,152</u>	<u>4,719,152</u>	<u>5,485,877</u>
	<u>5,081,111</u>	<u>5,071,292</u>	<u>5,864,955</u>

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2019

7 INVESTMENT PROPERTIES

	<i>31 March</i> 2019 KD	<i>(Audited)</i> 31 December 2018 KD	31 March 2018 KD
As at 1 January	211,560,563	187,062,981	187,062,981
Additions	15,126,925	26,975,084	3,023,172
Depreciation	(479,624)	(1,900,780)	(481,842)
Foreign currency translation adjustment	340,793	(576,722)	420,046
	<u>226,548,657</u>	<u>211,560,563</u>	<u>190,024,357</u>

Investment properties with a carrying value of KD 155,792 (31 December 2018: KD 155,792 and 31 March 2018: 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.

8 COMMERCIAL AND ISLAMIC FINANCING

	<i>31 March</i> 2019 KD	<i>(Audited)</i> 31 December 2018 KD	31 March 2018 KD
At 1 January	142,168,952	128,828,212	128,828,211
Loans received	9,700,000	27,752,182	3,565,488
Loans repaid	(100,804)	(13,351,881)	(2,322,206)
Foreign currency translation adjustment	(175,782)	(1,059,561)	808,953
	<u>151,592,366</u>	<u>142,168,952</u>	<u>130,880,446</u>

	<i>31 March</i> 2019 KD	<i>(Audited)</i> 31 December 2018 KD	31 March 2018 KD
Commercial financing	29,131,231	28,179,918	27,982,529
Islamic financing	122,461,135	113,989,034	102,897,917
	<u>151,592,366</u>	<u>142,168,952</u>	<u>130,880,446</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 2018: 1.5% to 2% per annum and 31 March 2018: 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 2018: 1% to 1.5% per annum and 31 March 2018: 1% to 1.5% per annum) over the Central Bank of Kuwait discount rate.

Islamic financing amounting to KD 112,778,987 (31 December 2018: KD 103,101,718 and 31 March 2018: KD 84,894,040) has been obtained by a local subsidiary, part of this Islamic financing amounting to KD 49,750,000 (31 December 2018: KD 47,750,000 and 31 March 2018: KD 46,250,000) is secured by an investment property with a carrying value of KD 71,794,141 (31 December 2018: KD 71,794,141 and 31 March 2018: 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.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2019

9 SHARE CAPITAL AND GENERAL ASSEMBLY MEETING

At the Annual General Assembly of the shareholders of the Parent Company held on 11 March 2019, the shareholders approved the distribution of cash dividends of 20 fils per share (2017: 20 fils per share) amounting to KD 9,870,427 for the year ended 31 December 2018 (2017: KD 9,881,591) to the registered shareholders as of the record date which is 3 April 2019, which is paid during the reporting period.

As at 31 March 2019, the authorized, issued and paid up capital comprises of 512,723,413 shares (31 December 2018: 512,723,413 shares and 31 March 2018: 512,723,413 shares) at 100 fils (31 December 2018: 100 fils and 31 March 2018: 100 fils) per share each and are fully paid in cash.

10 TREASURY SHARES

At 31 March 2019, the Parent Company held 18,825,490 of its own shares (31 December 2018: 19,630,322 and 31 March 2018: 18,650,510), equivalent to 3.67% (31 December 2018: 3.83% and 31 March 2018: 3.64%) of the total issued share capital at that date. The market value of these shares at the financial position date was KD 6,174,761 (31 December 2018: KD 6,458,376 and 31 March 2018: KD 6,359,824). 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:

31 March 2019	Level 1 KD	Level 3 KD	Total KD
<i>Assets measured at fair value</i>			
<i>Financial assets at FVOCI:</i>			
Managed quoted portfolios	92,336	-	92,336
Managed unquoted portfolio	-	269,623	269,623
Unquoted equity securities	-	4,719,152	4,719,152
	<u>92,336</u>	<u>4,988,775</u>	<u>5,081,111</u>

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

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11 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	<i>Level 1</i> KD	<i>Level 3</i> KD	<i>Total</i> KD
31 December 2018 (Audited)			
<i>Assets measured at fair value</i>			
<i>Financial assets at FVOCI:</i>			
Managed quoted portfolios	83,000	-	83,000
Managed unquoted portfolio	-	269,140	269,140
Unquoted equity securities	-	4,719,152	4,719,152
	83,000	4,988,292	5,071,292
31 March 2018			
<i>Assets measured at fair value</i>			
<i>Financial assets at FVOCI:</i>			
Managed quoted portfolios	112,750	-	112,750
Managed unquoted portfolio	-	266,328	266,328
Unquoted equity securities	-	5,485,877	5,485,877
	112,750	5,752,205	5,864,955

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

	<i>As at</i> <i>1 January</i> <i>2019</i> KD	<i>Foreign</i> <i>currency</i> <i>translation</i> <i>adjustment</i> KD	<i>As at</i> <i>31 March</i> <i>2019</i> KD
<i>Financial assets at FVOCI:</i>			
- Managed unquoted portfolio and unquoted equity securities	4,988,292	483	4,988,775

During the period ended 31 March 2019, 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.

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2019

12 SEGMENTAL INFORMATION (continued)

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

	Three months ended 31 March 2019			Three months ended 31 March 2018		
	Real estate operations KD	Hotel operations KD	Care home operations KD	Real estate operations KD	Hotel operations KD	Care home operations KD
Segment revenue	5,072,645	2,906,961	3,966,050	4,707,545	3,333,219	4,129,898
Segment operating costs	(615,336)	(1,129,944)	(2,902,639)	(1,355,531)	(1,109,497)	(2,980,285)
Segment gross profit	4,457,309	1,777,017	1,063,411	3,352,014	2,223,722	1,149,613
Share in joint venture's results, net of tax	195,996	-	-	2,662,371	-	-
Depreciation	(732,623)	(367,271)	(253,821)	(723,662)	(351,896)	(270,840)
Other operating expenses	(734,968)	(450,126)	(356,770)	(1,261,815)	(567,249)	(320,494)
Finance costs	(134,062)	(27,033)	(143,062)	(1,157)	(23,756)	(162,287)
Taxation on overseas subsidiaries	-	-	(44,275)	-	-	(57,797)
Segment results	3,051,652	932,587	265,483	4,027,751	1,280,821	338,195
Interest income			4,453			6,233
Investment income			11,136			-
Gain from sale of property			-			254,070
Other non-operating income, (net)			50,882			153,664
KFAS, NLST and Zakat			(193,231)			(270,445)
Profit for the period			4,122,962			5,790,289

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

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12 SEGMENTAL INFORMATION (continued)

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

	31 March 2019			31 December 2018 (Audited)			31 March 2018					
	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	291,941,845	10,226,626	36,601,385	338,769,856	274,772,598	8,879,800	37,767,884	321,420,282	259,507,333	9,699,439	39,426,445	308,633,217
Segment liabilities	156,070,081	2,979,058	21,693,589	180,742,728	143,833,436	3,016,194	22,186,337	169,035,967	127,069,653	2,922,463	23,837,283	153,829,399
Capital expenditure	15,182,766	69,822	104,554	15,357,142	27,544,510	1,524,294	514,030	29,582,834	3,068,650	285,734	190,012	3,544,396

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

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As at and for the period ended 31 March 2019

13 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

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

	<i>31 March</i> <i>2019</i> <i>KD</i>	<i>(Audited)</i> <i>31 December</i> <i>2018</i> <i>KD</i>	<i>31 March</i> <i>2018</i> <i>KD</i>
Letters of guarantee	937,560	937,560	890,670
Construction projects	96,337,904	107,654,499	78,922,889
	<u>97,275,464</u>	<u>108,592,059</u>	<u>79,813,559</u>

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:

	<i>Parent</i> <i>Company</i> <i>KD</i>	<i>Affiliates</i> <i>KD</i>	<i>31 March</i> <i>2019</i> <i>KD</i>	<i>(Audited)</i> <i>31 December</i> <i>2018</i> <i>KD</i>	<i>31 March</i> <i>2018</i> <i>KD</i>
Staff receivables*	23,805	27,323	51,128	39,733	47,454
Due from related parties*	-	758,188	758,188	801,380	583,206

* 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>2019</i> <i>KD</i>	<i>2018</i> <i>KD</i>
Short-term benefits	168,136	113,338
Employees' end of service benefits	112,230	21,865
	<u>280,366</u>	<u>135,203</u>