Al-Arabiya Real Estate Company K.S.C.P. and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2018

Deloitte.

Deloitte & Touche
Al-Wazzan & Co.

Ahmed Al-Jaber Street, Sharq
Dar Al-Awadi Complex, Floors 7 & 9
P.O. Box 20174, Safat 13062
Kuwait

Tel : + 965 22408844, 22438060
Fax: + 965 22408855, 22452080
www.deloitte.com

EY
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EY
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18–20th Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2295 5000
Fax: +965 2245 6419
kuwait@kw.ey.com
ey.com/mena

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

Introduction
We have reviewed the accompanying interim condensed consolidated statement of financial position of Al-Arabiya Real Estate Company K.S.C.P. (the "Parent Company") and its subsidiaries (collectively the "Group") as at 31 March 2018 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 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 set out below in the "Basis of Qualified Conclusion" 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 condensed consolidated 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 of Qualified Conclusion
- As set out in Note 7 to the interim condensed consolidated financial information, the Group's investment in Sharm Dreams for Real Estate Development Company (the "associate"), which is accounted for by the equity method, is carried at KD 928,582 on the interim condensed consolidated statement of financial position as at 31 March 2018. The Group's share in the results of the associate was not accounted for the three months period ended 31 March 2018 since no financial statements of this associate were available as at 31 March 2018. Accordingly, we were unable to carry out appropriate review procedures to determine whether any adjustments to this amount was necessary.

- As detailed in Note 9 to the interim condensed consolidated financial information, trade and other receivables include KD 7,039,955 (31 December 2017: KD 7,039,955 31 March 2017 KD 7,039,955) which represents the net carrying value of a compensation claim due to the Group. This amount has not been collected up to the date due to the negotiations to increase the compensation amount. Accordingly, we were unable to carry out appropriate review procedures to determine whether any adjustments to this amount was necessary.

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

Qualified Conclusion
Except for the adjustments to the interim condensed consolidated financial information that we might have become aware of had it not been for the situation described above, "Basis of Qualified Conclusion" paragraph, and based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34: Interim Financial Reporting ("IAS 34").

Material uncertainty relating to going concern
We draw attention to Note 2 to the interim condensed consolidated financial information, which indicates that the Group incurred a loss of KD 400,865 during the period ended 31 March 2018 (31 March 2017: loss of KD 509,845) and, as of that date, the Group's current liabilities exceeded its current assets by KD 25,583,246 (31 December 2017: KD 25,190,504 and 31 March 2017: KD 5,024,709). These conditions, along with other matters as set forth in Notes 6 and 12 with respect to placing an unconsolidated hotel under receivership as a result of the Group's default in repaying a bank loan obtained from a regional bank in UAE amounting to KD 15,062,052 indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

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 except for the matters described in the "Basis of Qualified Conclusion" paragraph above. We further report that, 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 regulation or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, during the three months period ended 31 March 2018, that might have had a material effect on the business of the Parent Company or on its consolidated financial position, except that the Parent Company has directly invested in shares of certain Companies, whose objectives are different from the Parent Company's (Note 8).

BADER A. AL-WAZZAN
LICENCE NO. 62A
DELOITTE & TOUCHE

AL-WAZZAN & CO

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

Kuwait

22 May 2018

Al-Arabiya Real Estate Company K.S.C.P. and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 31 March 2018

	Notes	*31 March 2018 KD*	*31 December 2017 (Audited) KD*	*31 March 2017 KD*
Assets				
Non-current assets				
Property, plant and equipment	6	**18,742,884**	18,917,838	19,576,032
Properties under development		**1,575,135**	1,480,799	835,523
Investment properties	5	**119,050,602**	119,300,079	120,229,358
Net assets of unconsolidated hotel	6	**308,194**	308,194	308,194
Investments in an associate	7	**928,582**	928,582	1,867,127
Financial assets available for sale	8	**-**	10,846,214	10,901,855
Investment securities at FVOCI	8	**10,901,808**	-	-
		151,507,205	151,781,706	153,718,089
Current assets				
Trade and other receivables	9	**9,371,689**	9,050,677	23,975,069
Cash and cash equivalents		**1,201,334**	813,893	1,656,462
		10,573,023	9,864,570	25,631,531
Total assets		**162,080,228**	161,646,276	179,349,620
Equity and liabilities				
Equity				
Share capital		**50,984,499**	50,984,499	50,984,499
Share premium		**5,614,733**	5,614,733	5,614,733
Treasury shares	10	**(714,784)**	(714,784)	(714,784)
Statutory reserve		**4,569,660**	4,569,660	4,569,660
Voluntary reserve		**4,569,660**	4,569,660	4,569,660
Other reserves	11	**1,112,580**	1,346,439	2,403,645
Accumulated losses		**(8,939,145)**	(8,538,280)	(5,806,565)
Total equity		**57,197,203**	57,831,927	61,620,848
Non-current liabilities				
Employees' end of service benefits		**453,736**	430,335	501,571
Loans and bank facilities	12	**68,273,020**	68,328,940	86,570,961
		68,726,756	68,759,275	87,072,532
Current liabilities				
Trade and other payables	13	**5,765,239**	5,885,416	5,366,795
Loans and bank facilities	12	**30,391,030**	29,169,658	25,289,445
		36,156,269	35,055,074	30,656,240
Total liabilities		**104,883,025**	103,814,349	117,728,772
Total equity and liabilities		**162,080,228**	161,646,276	179,349,620

Dr. Emad Jawad Bukhamseen
Chairman

Dr. Anwar Ali Al Naqi
Vice Chairman

The attached notes 1 to 20 form part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

For the period ended 31 March 2018

		Three months ended 31 March	
	Notes	***2018*** ***KD***	*2017* *KD*
Revenues			
Rental income		**1,168,737**	968,563
Income from hotel		**1,053,006**	1,054,197
Dividend income	14	**276,534**	276,534
Other income		**132,388**	120,855
		2,630,665	2,420,149
Expenses			
Rental expenses		**278,911**	206,857
Operating expenses from hotel		**540,881**	506,727
Foreign currency exchange differences		**183,947**	97,782
Staff costs		**99,200**	83,955
Depreciation		**412,307**	397,227
Other expenses		**275,714**	232,012
Finance costs		**1,240,570**	1,405,434
		3,031,530	2,929,994
LOSS FOR THE PERIOD		**(400,865)**	(509,845)
BASIC AND DILUTED LOSS PER SHARE (FILS)	15	**(0.79)**	(1.01)

The attached notes 1 to 20 form part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the period ended 31 March 2018

	Note	*Three months ended 31 March* 2018 KD	2017 KD
Loss for the period		**(400,865)**	(509,845)
Other comprehensive income (loss)			
Items that are or may be reclassified to the interim condensed consolidated statement of income in subsequent periods:			
Change in fair value of financial assets available for sale	11	**-**	388,234
Foreign currency translation adjustment	11	**(707)**	(40,767)
		(707)	347,467
Items that will not be reclassified subsequently to the interim condensed consolidated statement of income in subsequent periods:			
Change in fair value of investment securities at FVOCI	11	**(5,834)**	-
		(5,834)	-
Other comprehensive (loss)/income		**(6,541)**	347,467
Total comprehensive loss for the period		**(407,406)**	(162,378)

The attached notes 1 to 20 form part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period ended 31 March 2018

	Share capital KD	*Share premium KD*	*Treasury Shares KD*	*Statutory reserve KD*	*Voluntary reserve KD*	*Other reserves (Note 11) KD*	*Accumulated losses KD*	*Total KD*
Balance as at 1 January 2018	50,984,499	5,614,733	(714,784)	4,569,660	4,569,660	1,346,439	(8,538,280)	57,831,927
Transition adjustment on adoption of IFRS 9 at 1 January 2018 (Note 3.2)	-	-	-	-	-	(227,318)	-	(227,318)
Restated balance as at 1 January 2018	50,984,499	5,614,733	(714,784)	4,569,660	4,569,660	1,119,121	(8,538,280)	57,604,609
Loss for the period	-	-	-	-	-	-	(400,865)	(400,865)
Other comprehensive loss	-	-	-	-	-	(6,541)	-	(6,541)
Total comprehensive loss for the period	-	-	-	-	-	(6,541)	(400,865)	(407,406)
Balance as at 31 March 2018	**50,984,499**	**5,614,733**	**(714,784)**	**4,569,660**	**4,569,660**	**1,112,580**	**(8,939,145)**	**57,197,203**
Balance as at 1 January 2017	50,984,499	5,614,733	(714,784)	4,569,660	4,569,660	2,056,178	(5,296,720)	61,783,226
Loss for the period	-	-	-	-	-	-	(509,845)	(509,845)
Other comprehensive income	-	-	-	-	-	347,467	-	347,467
Total comprehensive income/(losses) for the period	-	-	-	-	-	347,467	(509,845)	(162,378)
Balance as at 31 March 2017	50,984,499	5,614,733	(714,784)	4,569,660	4,569,660	2,403,645	(5,806,565)	61,620,848

The attached notes 1 to 20 form part of this interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the period ended 31 March 2018

	Note	*Three months ended 31 March* **2018** ***KD***	*2017* *KD*
OPERATING ACTIVITIES			
Loss for the period		**(400,865)**	(509,845)
Adjustments to reconcile loss for the period to net cash flow:			
Depreciation		**412,307**	397,227
Provision for employees' end of service benefits		**36,712**	25,010
Dividend income	14	**(276,534)**	(276,534)
Finance costs		**1,240,570**	1,405,434
Provision for impairment of receivables		**-**	19,770
		1,012,190	1,061,062
Changes in operating assets and liabilities:			
Trade and other receivables		**(321,012)**	83,367
Trade and other payables		**(120,177)**	(246,962)
Cash flows from operations		**571,001**	897,467
Employees' end of service benefits paid		**(13,311)**	(46,659)
Net cash flows from operating activities		**557,690**	850,808
INVESTING ACTIVITIES			
Additions to property, plant and equipment		**(237,353)**	(111,409)
Additions to properties under development		**(94,336)**	(147,512)
Additions to investment properties		**(35,537)**	(117,638)
Additions to investment securities at FVOCI		**(288,746)**	-
Dividends received	14	**276,534**	276,534
Net cash flows used in investing activities		**(379,438)**	(100,025)
FINANCING ACTIVITIES			
Loans and bank facilities		**61,719**	391,253
Finance costs paid		**(136,837)**	(821,314)
Net cash flows used in financing activities		**(75,118)**	(430,061)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**103,134**	320,722
Foreign currency translation adjustments		**284,307**	24,762
Cash and cash equivalents at the beginning of the period		**813,893**	1,310,978
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**1,201,334**	1,656,462

The attached notes 1 to 20 form part of this interim condensed consolidated financial information.

1 COMPANY'S INCORPORATION

Al-Arabiya Real Estate Company K.S.C.P. the "Parent Company" was established in the State of Kuwait on 21 September 1976 and is listed in Boursa Kuwait.

The head office of the Parent Company is located at Sharq, Ahmed Al-Jaber St., Emad Commercial Center, State of Kuwait. The main objectives of the Parent Company are:

- Carrying out various real estate commercial activities including procurement, sale of investments in lands and properties, managing properties for others, undertaking contracting activities and trading in all materials related to construction or required for it.
- Setting up commercial markets, tourism, sport and entertainment facilities.
- Constructing, acquiring and managing hotels and its tourism activities.
- Managing real estate portfolios for the Parent Company only and investment in the shares and projects of other companies whose activities are similar to the Parent Company's activities, establish and manage real estate investment funds only, and use the available financial surplus of the Parent Company for investment in financial and real estate portfolios managed by specialized companies.

This interim condensed consolidated financial information includes the financial information of the Parent Company and its wholly owned subsidiaries and Hotels (together referred to as "the Group") as follows:

	Incorporation country	*Activity*	*Legal entity*	*Ownership (%) 31 March 2018*	*Ownership (%) 31 December 2017*	*Ownership (%) 31 March 2017*
Holiday Inn Hotel	Kuwait	Services	Hotel	100	100	100
Rotana Al Sharja Hotel (Note 6)	UAE	Services	Hotel	100	100	100
AREC Properties Company Limited	UAE	Real estate	L.L.C.	100	100	100

The Parent Company's Board of Directors on 15 May 2018 approved this interim condensed consolidated financial information as at 31 March 2018 for issue.

2 FUNDAMENTAL ACCOUNTING CONCEPT

The Group recognised a loss of KD 400,865 (31 March 2017: loss of KD 509,845) for the three months period ended 31 March 2018 and, as at that date, the Group's current liabilities exceeded its current assets by KD 25,583,246 (31 December 2017: KD 25,190,504, 31 March 2017: KD 5,024,709).

Management acknowledges that uncertainty remains over the Group's ability to meet its funding requirements and to refinance or repay its banking facilities as they fall due. However, management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and that loan repayments will be met out of operating cash flows. Further, the main shareholders of the Parent Company continue to provide and arrange financial support (as necessary) to enable the Group to meet its financial obligations as they fall due.

The interim condensed consolidated financial information has been prepared on a going concern basis, which assumes that the Group will be able to restructure its debt with the banks and meet the mandatory repayment terms of the banking facilities as disclosed in Note 12 to the interim condensed consolidated financial information. If for any reason the Group is unable to continue as a going concern, then this could have an impact on the Group's ability to realize its assets and discharge its liabilities in the normal course of business at the amounts stated in the interim condensed consolidated financial information but the Group is confident of the successful outcome of negotiations with the banks.

Notwithstanding with the above facts, the interim condensed consolidated financial information has been prepared on a going concern basis as the shareholders agreed to continue to support the Group and provide necessary funds to meet the Group's liabilities as and when they become due. The interim condensed consolidated financial information do not include any adjustments relating to the recoverability and classification of recorded assets amounts and classification of liabilities that may be necessary if the Group is unable to continue as a going concern.

3.1 BASIS OF PREPARATION

The interim condensed consolidated financial information of the Group has been prepared in accordance with IAS 34, "Interim Financial Reporting". Accordingly, it does not include all of the information and footnotes required for complete consolidated financial statements prepared in accordance with International Financial Reporting Standards.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the year ending 31 December 2018. For further information, refer to the annual audited consolidated financial statements and notes thereto for the year ended 31 December 2017.

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

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 audited consolidated financial statements of the Group for the year ended 31 December 2017 except for the adoption of IFRS 9: Financial Instruments ("IFRS 9") and IFRS 15: Revenue from Contracts with Customers ("IFRS 15") from 1 January 2018. The change in the accounting policies arising from the adoption of these standards are explained below.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2018 did not have any material impact on the accounting policies, financial position or performance of the Group.

3.2 ADOPTION OF IFRS 9: FINANCIAL INSTRUMENTS

The Group has adopted IFRS 9 issued in July 2014 with a date of initial application of 1 January 2018. 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 and to certain aspects of the accounting for financial liabilities.

The key changes to the Group's accounting policies resulting from the adoption of IFRS 9 are summariesd below:

Classification and measurement of financial assets and financial liabilities

The Group determines classification and measurement category of financial assets, except equity instruments and derivatives, based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Business model assessment & Solely Payments of Principal and Interest test ("SPPI test")

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of sales are also important aspects of the Group's assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

3.2 ADOPTION OF IFRS 9: FINANCIAL INSTRUMENTS (continued)

Business model assessment & Solely Payments of Principal and Interest test ("SPPI test") (continued)

The SPPI test

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows met the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a basic lending arrangement are typically the consideration for the time value of money, credit risk, other basic lending risks and a profit margin. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

Financial assets

The Group classifies financial assets upon initial recognition of IFRS 9 into following categories:

- Amortised cost (AC)
- Fair value through other comprehensive income (FVOCI)
- Fair Value Through Profit and Loss (FVTPL)

Amortised cost (AC)

The Group classifies financial assets at AC if it meets both of the following conditions and is not designated as at FVTPL:

- 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.

Financial assets classified at AC are subsequently measured at amortised cost using the effective interest method adjusted for impairment losses, if any. Interest income, foreign exchange gains/losses and impairment are recognised in the consolidated statement of income. Any gain or loss on derecognition is recognised in the consolidated statement of income.

Fair value through other comprehensive income (FVOCI)

Debt instruments at FVOCI

The Group classifies debt instruments at FVOCI if it meets both of the following conditions:-

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets

- 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.

Debt instrument classified as FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in consolidated statement of income. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to consolidated statement of income.

Equity instruments at FVOCI

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as at FVOCI if they meet the 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.

3.2 ADOPTION OF IFRS 9: FINANCIAL INSTRUMENTS (continued)

Fair value through other comprehensive income (FVOCI) (continued)

Equity instruments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange gains and losses are recognised in OCI. 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. On derecognition, cumulative gains or losses will be reclassified from fair value reserve to retained earnings in the consolidated statement of changes in equity.

Fair Value Through Profit and Loss (FVTPL)

Financial assets whose business model is to acquire and sell, or whose contractual terms do not give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding, are classified as FVTPL.

In addition to the above, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets classified as FVTPL are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in the consolidated statement of income. Interest income and dividends are recognised in the consolidated statement of income according to the terms of the contract, or when the right to payment has been established.

Financial liabilities

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an Group's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent reclassification to the consolidated statement of income.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'Expected Credit Loss' (ECL) model. Accordingly, the Group applies the new impairment model for its financial assets. The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

IFRS 9 introduces three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

3.2 ADOPTION OF IFRS 9: FINANCIAL INSTRUMENTS (continued)

Impairment of financial assets (continued)

ECL are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the financial instruments and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realised and the time value of money.

The Group applies the simplified approach to recognise lifetime expected credit losses for its trade receivables as permitted by IFRS 9. Accordingly, trade receivables which are not credit impaired and which do not have significant financing component is categorised under stage 2 and lifetime ECL is recognised.

Objective evidence that debt instrument is impaired includes whether any payment of principal or profit is overdue by more than 90 days or there are any known difficulties in the cash flows including the sustainability of the counterparty's business plan, credit rating downgrades, breach of original terms of the contract, its ability to improve performance once a financial difficulty has arisen, deterioration in the value of collateral etc. The Group assesses whether objective evidence of impairment exists on an individual basis for each individually significant asset and collectively for others not deemed individually significant.

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for AC.

Impact on adoption of the IFRS 9 - Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied with effect from 1 January 2018, using the modified retrospective method and accordingly the comparative periods have not been restated. Differences in the carrying amounts of assets and liabilities resulting from the adoption of IFRS 9 are recognised in opening equity as at 1 January 2018.

Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and 15 and therefore is not comparable.

Investment securities classified as Available for Sale (AFS) under IAS 39 represent investments that the Group intends to hold for a long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. There was no impact of this designation on quoted securities as these were carried at fair value through other comprehensive income under IAS 39. The impact of reclassification of unquoted securities as at 1st January 2018, which were earlier carried at cost, is as follows:

	Other reserves *KD*
Closing balance under IAS 39 as at 31 December 2017 (as originally stated)	1,346,439
Impact on reclassification and remeasurement:	
Change in fair value of equity securities reclassified from financial assets available for sale-previously carried at cost less impairment – to investment securities at FVOCI	(227,318)
Opening balance under IFRS 9 on date of initial application of 1 January 2018 (restated)	1,119,121

No significant impact were noted in financial liabilities as the Group classified all its financial liabilities at amortised cost under IAS 39 and the same classification has been carried forward under IFRS 9 based on their business model.

3.2 ADOPTION OF IFRS 9: FINANCIAL INSTRUMENTS (continued)

Impact on adoption of the IFRS 9 – Transition (continued)

The table below illustrates the classification and measurement of financial assets under IFRS 9 and IAS 39:

1 January 2018:	*Original measurement under IAS 39*	*New measurement under IFRS 9*	*Original carrying amount under IAS 39*	*Other reserves*	*New carrying amount under IFRS 9*
			KD		*KD*
Financial assets:					
Cash and cash equivalents	*Amortised cost*	*Amortised cost*	813,893	-	813,893
Trade and other receivables	*Amortised cost*	*Amortised cost*	9,050,677	-	9,050,677
Equity securities	*Financial assets available for sale*	*Investment securities at FVOCI**	10,846,214	(227,318)	10,618,896
Total financial assets			20,710,784	(227,318)	20,483,466

* Based on facts and circumstances that existed at the date of initial application, management determined that investment in equity securities were not held for purposes of trading and were held for medium to long term strategic purposes. Accordingly, management have elected to designate these investments in equity securities as investment securities at FVOCI as they believe that recognising short term fluctuations in the fair value of investments in profit or loss would not be consistent with the Group's strategy of holding these investments for medium to long purposes and realising their performance potential in the long run.

3.3 ADOPTION OF IFRS 15: REVENUE FROM CONTRACT FROM CUSTOMERS

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. 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. It established a new five-step model that will apply to revenue arising from contracts with customers as follows:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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 material impact on this interim condensed consolidated financial information of the Group.

4 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value 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
- 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 2018	***Level 1*** ***KD***	***Level 3*** ***KD***	***Total*** ***KD***
Investment securities at FVOCI:			
Quoted securities	**9,729,123**	**-**	**9,729,123**
Unquoted securities	**-**	**1,172,685**	**1,172,685**
	9,729,123	**1,172,685**	**10,901,808**

31 December 2017	*Level 1* *KD*	*Total* *KD*
Financial assets available for sale:		
Quoted securities	9,446,211	9,446,211
	9,446,211	9,446,211

31 March 2017	*Level 1* *KD*	*Total* *KD*
Financial assets available for sale:		
Quoted securities	9,501,852	9,501,852
	9,501,852	9,501,852

During the period ended 31 March 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers out of Level 3 fair value measurements.

5 INVESTMENT PROPERTIES

	31 March 2018 ***KD***	*31 December 2017 (Audited)* *KD*	*31 March 2017* *KD*
Properties inside Kuwait	**76,868,537**	76,833,000	75,496,638
Properties outside Kuwait	**42,182,065**	42,467,079	44,732,720
	119,050,602	119,300,079	120,229,358

Investment properties are pledged against loans and bank facilities granted to the Group (Note 12).

6 NET ASSETS OF UNCONSOLIDATED HOTEL / PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2015, the Group had lost control on Rotana Al Sharja hotel (a Hotel fully owned by the Group) as a result of being under receivership (Note 12). Accordingly, the Group has ceased to consolidate the financial statements of the Hotel.

The net value of the land, buildings of Rotana Al Sharja Hotel amount to KD 942,546 as at 31 March 2018 (31 December 2017: KD 982,074 and 31 March 2017: KD 1,100,657), which is included under property, plant and equipment in the interim condensed consolidated statement of financial position as at that date.

Net assets of unconsolidated hotel represents the net amount receivable from the liquidation of the Rotana Al Sharjah hotel (Note 12).

7 INVESTMENT IN AN ASSOCIATE

Investment in an associate represents the Group's investment in Sharm Dreams for Real Estate Development Company (S.A.E.) 21.88%.

The carrying amount of the Group's investment in the associate was determined based on the latest audited financial statements as at 31 December 2016.

8 INVESTMENT SECURITIES AT FVOCI / FINANCIAL ASSETS AVAILABLE FOR SALE

The fair value of the investment securities at FVOCI was determined as per the valuation bases disclosed in Note 4.

Investment securities at FVOCI represents shares in other companies whose activities are not similar to the Parent Company's activities amounting to KD 10,901,808 (Financial assets available for sale as at 31 December 2017: KD 10,846,214 and 31 March 2017: KD 10,901,855).

Investment securities at FVOCI amounting to KD 6,312,322 (Financial assets available for sale as at 31 December 2017: KD 6,229,988 and 31 March 2017: KD 6,476,992) are pledged against loans and bank facilities (Note 12).

9 TRADE AND OTHER RECEIVABLES

	31 March 2018 KD	*31 December 2017 (Audited) KD*	*31 March 2017 KD*
Compensation receivables*	**10,057,080**	10,057,080	10,057,080
Provision for impairment	**(3,017,125)**	(3,017,125)	(3,017,125)
	7,039,955	7,039,955	7,039,955
Receivables	**1,215,643**	976,990	927,338
Advance payment for purchasing of investment properties	**626,545**	626,545	16,044,500
Prepaid expenses	**180,143**	153,171	158,158
Advance payments to contractors	**28,487**	265,357	249,143
Staff receivables	**23,864**	25,375	26,699
Due from related parties (Note 17)	**610,401**	311,085	141,412
Other	**478,500**	489,491	219,382
	10,203,538	9,887,969	24,806,587
Impairment	**(831,849)**	(837,292)	(831,518)
	9,371,689	9,050,677	23,975,069

* Compensation receivables represent the compensation due to the Group for a land in Ajman Emirate (UAE) whose ownership was expropriated for public benefit during 1996. The total amount due to the Parent Company as per the letter received from the Municipal Council of Ajman Emirate amounted to AED 220 million (approximately KD 16.76 million) (in kind or cash). According to the letter of the Group's consultant, the Group has recorded an amount of AED 132 million (approximately KD 10.06 million) after deducting AED 88 million (approximately KD 6.70 million) in order to meet the costs and expenses necessary to finalize the claim and collection procedures. During previous years, the Group had recognized a provision for impairment of KD 3,017,125 based on management's estimation of the collectable amounts.

10 TREASURY SHARES

	31 March 2018	*31 December 2017 (Audited)*	*31 March 2017*
Number of shares (share)	**4,619,962**	4,619,962	4,619,962
Cost of treasury shares	**714,784**	714,784	714,784
Percentage to issued shares (%)	**0.91**	0.91	0.91
Market value (KD)	**155,231**	137,675	173,249

Reserves equivalent to the cost of the treasury shares held are not available for distribution.

11 OTHER RESERVES

	Treasury shares reserve KD	*Cumulative change in fair value reserve KD*	*Foreign currency translation reserve KD*	***Total KD***
Balance as at 1 January 2018	1,098,372	1,560,361	(1,312,294)	**1,346,439**
Transition adjustment on adoption of IFRS 9 at 1 January 2018	-	(227,318)	-	**(227,318)**
Restated balance as at 1 January 2018	1,098,372	1,333,043	(1,312,294)	**1,119,121**
Change in fair value of investment securities at FVOCI	-	(5,834)	-	**(5,834)**
Foreign currency translation adjustment	-	-	(707)	**(707)**
Balance as at 31 March 2018	**1,098,372**	**1,327,209**	**(1,313,001)**	**1,112,580**
Balance as at 1 January 2017	1,098,372	1,227,764	(269,958)	2,056,178
Change in fair value of financial assets available for sale	-	388,234	-	388,234
Foreign currency translation adjustment	-	-	(40,767)	(40,767)
Balance as at 31 March 2017	1,098,372	1,615,998	(310,725)	2,403,645

12 LOANS AND BANK FACILITIES

	31 March 2018 KD	*31 December 2017 (Audited) KD*	*31 March 2017 KD*
Current portion			
Loans and bank facilities	**30,391,030**	29,169,658	25,289,445
Non- current portion			
Loans and bank facilities	**68,273,020**	68,328,940	86,570,961
	98,664,050	97,498,598	111,860,406

During previous years, loan installments and related finance costs of KD 15,062,052 (31 December 2017: KD 14,981,497 31 March 2017: KD 14,564,494) were past due and unpaid to a regional bank in United Arab Emirates (UAE). The Group is currently taking the necessary procedures to settle or restructure such unpaid balances. However, the bank had filed a legal case against the Group and during year ended 31 December 2015; a court judgment was issued, by virtue of which Rotana Al Sharja Hotel (unconsolidated subsidiary) was placed under receivership and the creditor bank was appointed as the receiver until the current dispute between the Group and the bank is settled (Note 6). In April 2018, the Court of First Instance issued a decision whereby the Group was instructed to pay an amount of AED 48 million (approximately KD 4 million) which is already covered by the existing accruals in the books and transfer the title deed of hotel to the creditor bank. The Group filed an appeal on 7 May 2018 against this decision and the next hearing is scheduled on 29 May 2018.

12 LOANS AND BANK FACILITIES (CONTINUED)

The Group defaulted in the settlement of the instalment of KD 12 million to a local bank in January 2018. Subsequent to the reporting period, the Group settled KD 6 million and intends to settle the remaining instalment of KD 6 million during the upcoming period.

Loans and bank facilities are granted from local and foreign banks with annual interest rates from 2.25% to 3% over the Central Bank of Kuwait discount rate for local banks and annual interest rates from 2.25% to 4.5% over EIBOR for foreign banks.

Loans and bank facilities amounting to KD 300,230 (31 December 2017: KD 300,000 and 31 March 2017: KD 28,379,527) were obtained from a local Islamic financial institutions which are related parties (Note 17).

Loans and bank facilities are granted against pledging the following assets:

	31 March 2018 KD	*31 December 2017 (Audited) KD*	*31 March 2017 KD*
Property, plant and equipment	**17,435,236**	17,797,625	18,747,545
Properties under development	**1,575,135**	1,480,799	835,523
Investment properties (Note 5)	**76,868,537**	76,833,000	120,229,358
Financial assets available for sale (Note 8)	**-**	6,229,988	6,476,992
Investment securities at FVOCI (Note 8)	**6,312,322**	-	-
	102,191,230	102,341,412	146,289,418

13 TRADE AND OTHER PAYABLES

	31 March 2018 KD	*31 December 2017 (Audited) KD*	*31 March 2017 KD*
Trade payables	**893,817**	914,362	575,441
Due to related parties (Note 17)	**602,722**	579,954	764,181
Dividends payables	**993,969**	993,969	993,969
Accrued expenses and leaves	**353,357**	364,047	440,089
Refundable deposits	**1,281,213**	1,296,565	791,635
Kuwait Foundation for the Advancement of Science	**39,344**	39,344	39,344
National Labor Support Tax	**115,682**	140,682	192,163
Zakat payable	**89,787**	104,038	104,038
Provision for claims	**1,035,524**	1,073,528	1,299,549
Other payables	**359,824**	378,927	166,386
	5,765,239	5,885,416	5,366,795

14 INCOME FROM INVESTMNENT SECURITIES AT FVOCI / FINANCIAL ASSETS AVAILABLE FOR SALE

	31 March 2018 KD	*31 March 2017 KD*
Dividend income	**276,534**	276,534
	276,534	276,534

15 BASIC AND DILUTED LOSS PER SHARE

Basic loss per share are calculated by dividing the loss for the period by the weighted average number of ordinary shares outstanding during the period (excluding treasury shares). Diluted loss per share is calculated by dividing the loss for the period by the weighted average number of ordinary shares outstanding during the period (excluding treasury shares) plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. The Parent Company did not have any diluted shares as at 31 March 2018.

	Three months ended 31 March	
	2018	*2017*
	KD	*KD*
Loss for the period	**(400,865)**	(509,845)
Weight average number of ordinary outstanding shares (share)	**505,225,024**	505,225,024
Losses per share attributable to the Parent Company's shareholders (fils)	**(0.79)**	(1.01)

As there are no dilutive instruments outstanding, basic and diluted loss per share are identical.

16 SEGMENT INFORMATION

The main activity of the Group represents the real estate commercial activities such as purchase and sale of lands and properties and investing them and managing properties for others. In addition, the Group invests its financial surpluses by investing directly in the share capital of the companies and financial portfolios managed by specialized parties and companies.

The segments of the Group, which are presented to the management, are represented in the following:

- Real estate: which represents all activities related to real estate including investment properties.
- Hotels: which represents all activities related to establishment, acquiring and managing hotels.
- Investment: which represents all activities related to investing in shares and share capital of the companies.

The following table presents the information about revenues, expenses, finance costs, profit (loss), assets and liabilities for each segment:

31 March 2018	*Real estate*	*Hotels*	*Investment*	*Unallocated*	*Total*
	KD	*KD*	*KD*	*KD*	*KD*
Revenues	**1,168,737**	**1,053,006**	**276,534**	**132,388**	**2,630,665**
Expenses	**(366,642)**	**(946,929)**	-	**(477,389)**	**(1,790,960)**
Finance costs	**(1,057,884)**	**(179,727)**	-	**(2,959)**	**(1,240,570)**
(Loss) profit	**(255,789)**	**(73,650)**	**276,534**	**(347,960)**	**(400,865)**
Assets	**121,100,187**	**20,296,006**	**12,003,255**	**8,680,780**	**162,080,228**
Liabilities	**1,295,466**	**16,231,485**	**1,418,955**	**85,937,119**	**104,883,025**

31 December 2017	*Real estate*	*Hotels*	*Investment*	*Unallocated*	*Total*
	KD	*KD*	*KD*	*KD*	*KD*
Assets	121,143,121	20,648,407	12,065,264	7,789,484	161,646,276
Liabilities	1,265,490	1,164,642	1,449,595	99,934,622	103,814,349

31 March 2017	*Real estate*	*Hotels*	*Investment*	*Unallocated*	*Total*
	KD	*KD*	*KD*	*KD*	*KD*
Revenues	968,563	1,054,197	276,534	120,855	2,420,149
Expenses	(284,914)	(897,412)	-	(342,234)	(1,524,560)
Finance costs	(973,618)	(182,628)	-	(249,188)	(1,405,434)
(Loss) profit	(289,969)	(25,843)	276,534	(470,567)	(509,845)
Assets	136,766,347	21,398,556	12,770,743	8,413,974	179,349,620
Liabilities	28,771,899	1,127,307	1,036,199	86,793,367	117,728,772

17 TRANSACTIONS WITH RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. In the ordinary course of business, the Group's transactions during the period included transactions with related parties represented by shareholders and the companies, in which they own principal interests and the Parent Company's key management.

The following is the statement of such transactions and balances:

Interim condensed consolidated statement of income:

	Ultimate parent company KD	*Entities under common control KD*	*Other related parties KD*	*31 March 2018 KD*	*31 March 2017 KD*
Transactions					
Dividend income	-	-	**276,534**	**276,534**	276,534
Rental expenses	**10,200**	-	-	**10,200**	10,200
Interests on loans and bank facilities	-	-	**2,959**	**2,959**	357,796
Marketing fees	-	-	**12,882**	**12,882**	4,716
Management fees	-	-	**40,895**	**40,895**	17,074
Reservation fees	-	-	**6,441**	**6,441**	2,358
Holidex fees	-	-	**2,252**	**2,252**	721

Interim condensed consolidated statement of financial position:

	Ultimate parent company KD	*Entities under common control KD*	*Other related parties KD*	*31 March 2018 KD*	*31 December 2017 KD*	*31 March 2017 KD*
Balances						
Due from related parties (Note 9)	**470,076**	-	**140,325**	**610,401**	311,085	141,412
Due to related parties (Note 13)	-	**525,070**	**77,652**	**602,722**	579,954	764,181
Advance payment for purchasing of investment property (Note 9)	-	-	-	-	-	15,417,955
Financial assets available for sale	-	-	-	-	7,762,756	6,667,162
Investment securities at FVOCI	-	-	**7,499,528**	**7,499,528**	-	-
Loans and bank facilities (Note 12)	-	-	**300,230**	**300,230**	300,000	28,379,527

Compensation of key management personnel

The remuneration of members of key management during the period were as follows:

	31 March 2018 KD	*31 March 2017 KD*
Salaries and remunerations	**54,000**	54,000
End of service benefits	**3,461**	3,461

18 CONTINGENT LIABILITIES

	31 March 2018 KD	*31 December 2017 (Audited) KD*	*31 March 2017 KD*
Letters of Guarantee	**24,191**	24,191	25,091

19 ANNUAL GENERAL ASSEMBLY

The Annual General Assembly of the Parent Company for the year ended 31 December 2017 was held on the 30th of April 2018. Accordingly, the consolidated financial statements for the year ended 31 December 2017 have been approved by the shareholders of the Parent Company.

20 COMPARATIVES

Certain prior year amounts have been reclassified to conform with current presentation (including certain amounts in the interim condensed consolidated of income and notes to the interim condensed financial information) but has no effect neither on the profit for the period ended 31 March 2017, nor on the total equity as at 31 March 2017 and 31 December 2017. Such reclassification have been made to improve the quality of information presented.