

**Al-Arabiya Real Estate Company K.P.S.C.
And its subsidiaries**

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION
30 SEPTEMBER 2020
(UNAUDITED)**



Building a better
working world

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

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 30 September 2020 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 changes in equity and interim condensed consolidated statement of cash flows 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 set out below 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 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 for Qualified Conclusion

- ▶ Trade and other receivables, which are carried in the interim condensed consolidated statement of financial position at KD 10,450,118 (31 December 2019: KD 13,250,468 and 30 September 2019: KD 9,273,109), includes an amount of KD 7,039,955 (31 December 2019 and 30 September 2019: KD 7,039,955) which represents the net carrying value of a compensation claim due to the Group. We were unable to verify the management’s assertion that this amount was recoverable, and accordingly, we were unable to complete our review of compensation claim receivable. Had we been able to complete our review of compensation receivable, matters might have come to our attention indicating that adjustments might be necessary to the interim financial information. Our audit opinion in the year ended 31 December 2019 and our review conclusion for the period ended 30 September 2019 were also modified in respect of this matter.
- ▶ The Group’s investment in Sharm Dreams for Real Estate Development Company (“the associate”), a foreign associate accounted for by the equity method, is carried at KD 1,211,456 in the interim condensed consolidated statement of financial position as at 30 September 2020 (31 December 2019: KD 1,109,080, 30 September 2019 KD 1,098,190) and the foreign currency translation adjustment related to the translation of the carrying value of the investment in an associate for the period of KD 102,376 is included in the Group’s interim condensed consolidated statement of comprehensive income for the period then ended. The Group’s share in the results of the associate was not accounted for since no financial information of this associate were available as at 30 September 2020. We were unable to complete our review of this investment as at 30 September 2020 and the related Group’s share in other comprehensive income for the nine-months period then ended. Consequently, we were unable to determine whether any adjustments to these amounts were necessary. Our opinion in the year ended 31 December 2019 was also modified in respect of this matter.

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

Basis for Qualified Conclusion (continued)

- ▶ Investment properties, which are carried in the interim condensed consolidated statement of financial position at KD 112,957,766 as at 30 September 2020 (31 December 2019: KD 112,871,558, 30 September 2019: 118,863,878) includes an amount of KD 23,034,000 as at 30 September 2020 (31 December 2019: KD 23,034,000, 30 September 2019: KD 23,034,000) relating to certain investment properties located in the State of Kuwait. We were unable to complete our review of these investment properties as at 30 September 2020 because management was unable to provide sufficient appropriate evidence related to the underlying data, method and assumptions used by the valuer in the determination of the fair value of these properties as at 30 September 2020. Had we been able to complete our review of this investment properties, matters might have come to our attention indicating that adjustments might be necessary to the interim financial information. Our opinion in the year ended 31 December 2019 was also modified in respect of this matter.

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, 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.

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 6,559,989 during the nine-month period ended 30 September 2020 (30 September 2019: loss of KD 1,211,625) and as of that date, the Group's current liabilities exceeded its current assets by KD 20,107,855 (31 December 2019: KD 17,702,019 and 30 September 2019: KD 26,843,644). These conditions, along with other matters as set forth in Notes 2 and 10 to the interim condensed consolidated financial information 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.

Emphasis of Matter


We draw attention to Note 10 to this interim condensed financial information, which describes uncertainty relating to the outcome of negotiations with a creditor bank. Our conclusion is not modified in respect of this matter.

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


Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Parent Company. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies' Law No. 1 of 2016, as amended, and its Executive Regulation, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, during the nine months period ended 30 September 2020, that might have had a material effect on the business of the Parent Company or on its financial position, except that the Parent company has directly invested in shares of certain companies, whose objectives are different from that of the Parent Company (Note 6).

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No 7 of 2010 concerning the Capital Markets Authority and its related regulations during the nine months period ended 30 September 2020 that might have had a material effect on the business of the Parent Company or on its financial position.



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12 November 2020
Kuwait

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020 (Unaudited)

	Notes	30 September 2020 KD	31 December 2019 (Audited) KD	30 September 2019 KD
ASSETS				
Non-current assets				
Property, plant and equipment		16,085,471	16,637,926	16,848,494
Investment properties	5	112,957,766	112,871,558	118,863,878
Net assets of unconsolidated hotel		-	-	308,194
Investments in an associate		1,211,456	1,109,080	1,098,190
Financial assets at fair value through other comprehensive income	6	8,832,155	11,119,287	10,905,467
		<u>139,086,848</u>	<u>141,737,851</u>	<u>148,024,223</u>
Current assets				
Trade and other receivables	7	10,450,118	13,250,468	9,273,109
Cash and cash equivalents		947,703	744,707	549,072
		<u>11,397,821</u>	<u>13,995,175</u>	<u>9,822,181</u>
Total assets		<u><u>150,484,669</u></u>	<u><u>155,733,026</u></u>	<u><u>157,846,404</u></u>
Equity and liabilities				
Equity				
Share capital		50,984,499	50,984,499	50,984,499
Share premium		327,188	327,188	327,188
Treasury shares	8	(714,784)	(714,784)	(714,784)
Statutory reserve		4,744,392	4,744,392	4,569,660
Voluntary reserve		174,732	174,732	-
Other reserves	9	(508,178)	1,453,121	1,229,038
(Accumulated losses) / Retained earnings		(5,559,065)	997,717	(1,211,625)
		<u>49,448,784</u>	<u>57,966,865</u>	<u>55,183,976</u>
Liabilities				
Non-current liabilities				
Post-employment benefits		406,776	516,371	499,903
Loans and bank facilities	10	69,123,433	65,552,596	65,496,700
		<u>69,530,209</u>	<u>66,068,967</u>	<u>65,996,603</u>
Current liabilities				
Trade and other payables	11	7,549,408	11,364,013	10,593,670
Loans and bank facilities	10	23,956,268	20,333,181	26,072,155
		<u>31,505,676</u>	<u>31,697,194</u>	<u>36,665,825</u>
Total liabilities		<u><u>101,035,885</u></u>	<u><u>97,766,161</u></u>	<u><u>102,662,428</u></u>
Total equity and liabilities		<u><u>150,484,669</u></u>	<u><u>155,733,026</u></u>	<u><u>157,846,404</u></u>

Dr. Emad Jawad Bukhamseen
Chairman

Dr. Anwar Ali Al Nagi
Vice Chairman

The attached notes 1 to 17 form part of this interim condensed consolidated financial information.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the period ended 30 September 2020 (Unaudited)

	<i>Note</i>	<i>Three months ended 30 September</i>		<i>Nine months ended 30 September</i>	
		2020	2019	2020	2019
		KD	KD	KD	KD
Revenues					
Rental income		1,250,574	1,322,465	3,628,688	3,996,796
Income from hotel		296,295	1,167,837	1,638,249	4,415,348
Dividend income		2,257	-	219,025	314,188
Other income		36,484	154,258	150,007	391,453
Foreign currency exchange differences		12,264	121,458	(135,409)	109,267
		1,597,874	2,766,018	5,500,560	9,227,052
Expenses					
Unrealized loss from valuation of investment properties		326,332	-	4,479,135	-
Investment properties expenses		228,374	195,339	507,902	589,784
Operating expenses of a hotel		559,022	1,027,317	2,041,337	3,565,014
Staff costs		66,173	84,738	233,158	308,611
Depreciation and amortization		171,667	429,621	542,681	1,289,550
Other expenses		397,577	432,412	1,264,632	1,180,586
Finance costs		800,584	1,078,875	2,991,704	3,505,132
		2,549,729	3,248,302	12,060,549	10,438,677
Net loss for the period		(951,855)	(482,284)	(6,559,989)	(1,211,625)
Loss per share (fils)	12	(1.88)	(0.95)	(12.98)	(2.40)

The attached notes 1 to 17 form part of this interim condensed consolidated financial information.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 September 2020 (Unaudited)

	Note	Three months ended 30 September		Nine months ended 30 September	
		2020	2019	2020	2019
		KD	KD	KD	KD
Net loss for the period		(951,855)	(482,284)	(6,559,989)	(1,211,625)
Other comprehensive (loss)/income items:					
<i>Items that may be reclassified subsequently to interim condensed consolidated statement of income:</i>					
Foreign currency translation adjustment	9	(189,242)	79,869	323,023	86,938
		(189,242)	79,869	323,023	86,938
<i>Items that will not be reclassified subsequently to interim condensed consolidated statement of income:</i>					
Change in fair value of financial assets at fair value through other comprehensive income	9	502,273	(512,049)	(2,281,115)	36,938
Other comprehensive income (loss) for the period		313,031	(432,180)	(1,958,092)	123,876
Total comprehensive loss for the period		(638,824)	(914,464)	(8,518,081)	(1,087,749)

The attached notes 1 to 17 form part of this interim condensed consolidated financial information.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 2020 (Unaudited)

	Share capital KD	Share premium KD	Treasury shares KD	Statutory reserve KD	Voluntary reserve KD	Other reserves (Note 9) KD	(Accumulated losses) / Retained earnings KD	Total KD
Balance as at 1 January 2020 (<i>audited</i>)	50,984,499	327,188	(714,784)	4,744,392	174,732	1,453,121	997,717	57,966,865
Net loss for the period	-	-	-	-	-	-	(6,559,989)	(6,559,989)
Other comprehensive loss for the period	-	-	-	-	-	(1,958,092)	-	(1,958,092)
Total comprehensive losses for the period	-	-	-	-	-	(1,958,092)	(6,559,989)	(8,518,081)
Net realised gain transferred to retained earnings on disposal of financial assets at fair value through other comprehensive income	-	-	-	-	-	(3,207)	3,207	-
Balance as at 30 September 2020	50,984,499	327,188	(714,784)	4,744,392	174,732	(508,178)	(5,559,065)	49,448,784
Balance as at 1 January 2019 (<i>audited</i>)	50,984,499	5,614,733	(714,784)	4,569,660	4,569,660	1,105,162	(9,857,205)	56,271,725
Loss for the period	-	-	-	-	-	-	(1,211,625)	(1,211,625)
Other comprehensive income for the period	-	-	-	-	-	123,876	-	123,876
Total comprehensive loss for the period	-	-	-	-	-	123,876	(1,211,625)	(1,087,749)
Extinguishment of accumulated losses	-	(5,287,545)	-	-	(4,569,660)	-	9,857,205	-
Balance as at 30 September 2019	50,984,499	327,188	(714,784)	4,569,660	-	1,229,038	(1,211,625)	55,183,976

The attached notes 1 to 17 form part of this interim condensed consolidated financial information.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 September 2020 (Unaudited)

	<i>Nine months ended</i>	
	<i>30 September</i>	
	<i>2020</i>	<i>2019</i>
	<i>KD</i>	<i>KD</i>
Cash flows from operating activities		
Net loss for the period	(6,559,989)	(1,211,625)
<i>Non-cash adjustments to reconcile loss for the period to net cash flows:</i>		
Depreciation and amortization	542,681	1,289,550
Unrealized loss from valuation of investment properties	4,479,135	-
Post-employment benefits	51,345	77,790
Dividend income	(219,025)	(314,188)
Finance costs	2,991,704	3,505,132
Provision for expected credit loss	188,890	-
Changes in operating assets and liabilities	1,474,741	3,346,659
Trade and other receivables	(1,558,540)	(245,913)
Trade and other payables	(3,767,975)	290,647
Post-employment benefits paid	(3,851,774)	3,391,393
	(160,940)	(54,574)
Net cash (used in) / generated from operating activities	(4,012,714)	3,336,819
INVESTMENT ACTIVITIES		
Paid for purchase of property, plant and equipment	-	(68,418)
Additions to investment properties	-	(32,900)
Proceeds from sale of investment securities at FVOCI	6,017	-
Dividends income received	219,025	314,188
Net cash generated from investing activities	225,042	212,870
FINANCING ACTIVITIES		
Loans and bank facilities, net	5,231,626	(4,159,191)
Finance costs paid	(1,110,695)	(2,082,433)
Lease liability payments	(54,337)	(30,600)
Net cash generated from / (used in) financing activities	4,066,594	(6,272,224)
Net change in cash and cash equivalents	278,922	(2,722,535)
Foreign currency translation adjustments	(75,926)	(105,844)
Cash and cash equivalents at the beginning of the period	744,707	3,377,451
Cash and cash equivalents at the end of the period	947,703	549,072

The attached notes 1 to 17 form part of this interim condensed consolidated financial information.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2020

1. COMPANY'S INCORPORATIONS

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 for securities. 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.

The Parent Company is a subsidiary of Bukhamseen Group Holding Company K.S.C. (Holding) (the "ultimate Parent Company").

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		Legal	Ownership	Ownership	Ownership
	country	Activity	entity	(%)	(%)	(%)
				30 September	31 December	30 September
				2020	2019	2019
Holiday Inn Hotel	Kuwait	Services	Hotel	100	100	100
Rotana Al Sharja Hotel	UAE	Services	Hotel	-	-	100
AREC Properties Company Limited	UAE	Real estate	L.L.C.	100	100	100

The interim condensed consolidated financial information for the nine months ended 30 September 2020 was authorized for issuance by the Board of Directors on 12 November 2020.

2 FUNDAMENTAL ACCOUNTING CONCEPT

The Group incurred a loss of KD 6,559,989 for the nine months period ended 30 September 2020 (30 September 2019: KD 1,211,625) and, as at that date, the Group's current liabilities exceeded its current assets by KD 20,107,855 (31 December 2019: KD 17,702,019 and 30 September 2019: KD 26,843,644).

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 10 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 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2020

3. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

This interim condensed consolidated financial information has been prepared in accordance with International Accounting Standard No. (34), "Interim Financial Reporting".

The interim condensed consolidated financial information does not include all information and disclosures required for complete financial statements in accordance with International Financial Reporting Standards.

In the management's opinion, all necessary adjustments, including recurring accruals have been included in the interim condensed consolidated financial information for fair presentation. The operating results for the period ended 30 September 2020 are not necessarily indicative of results that may be expected for the year ending 31 December 2020. For further information, refer to the consolidated financial statements issued under IFRSs and its related notes for the year ended 31 December 2019.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The adoption of these standards did not have material impact on the financial performance or interim condensed consolidated financial position of the Group.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the interim condensed consolidated financial information of the Group but may impact future periods should the Group enter into any business combinations.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements.

A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim condensed consolidated financial information of, nor is there expected to be any future impact to the Group.

These amendments had no impact on the interim condensed consolidated financial information of the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the interim condensed consolidated financial information of the Group.

Amendments to IFRS 16 COVID-19 Related Rent Concessions

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no material impact on the interim condensed consolidated financial information of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2020

3. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)****Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform**

The amendments to IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the interim condensed consolidated financial information of the Group as it does not have any interest rate hedge relationships.

4. FAIR VALUE ESTIMATION

The fair values of financial assets and financial liabilities are determined as follows:

- ▶ Level one: Quoted prices in active markets for identical assets or liabilities.
- ▶ Level two: Quoted prices in an active market for similar instruments. Quoted prices for identical assets or liabilities in market that is not active. Inputs other than quoted prices that are observable for assets and liabilities.
- ▶ Level three: valuation techniques that are not based on observable market data.

The table below gives information about how the fair values of the significant assets are determined:

	Fair value as at			Fair value hierarchy	Valuation technique(s) and Key input(s)
	30 September 2020 KD	31 December 2019 KD	30 September 2019 KD		
Financial assets at fair value through other comprehensive income					
Quoted shares	7,702,026	9,865,674	9,850,128	Level 1	Last bid price
Unquoted shares	1,130,129	1,253,613	1,055,339	Level 3	Adjusted net book value
	<u>8,832,155</u>	<u>11,119,287</u>	<u>10,905,467</u>		

The fair value of other financial assets and financial liabilities approximately equal its book value as at the interim condensed consolidated financial information date.

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

	At the beginning of the period/year KD	Net fair value recorded in the interim condensed consolidated statement of comprehensive income KD	At the end of the period /year KD
As at 30 September 2020			
Financial assets at fair value through other comprehensive income			
	1,253,613	(123,484)	1,130,129
	<u>1,253,613</u>	<u>(123,484)</u>	<u>1,130,129</u>
As at 31 December 2019			
Financial assets at fair value through other comprehensive income			
	937,334	316,279	1,253,613
	<u>937,334</u>	<u>316,279</u>	<u>1,253,613</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 September 2020

4. FAIR VALUE ESTIMATION (continued)

As at 30 September 2019

Financial assets at fair value through other comprehensive income

937,334	118,005	1,055,339
<u>937,334</u>	<u>118,005</u>	<u>1,055,339</u>

5. INVESTMENTS PROPERTIES

	30 September 2020 KD	31 December 2019 (Audited) KD	30 September 2019 KD
Properties inside Kuwait	76,754,000	73,034,000	76,662,900
Properties outside Kuwait	36,203,766	39,837,558	42,200,978
	<u>112,957,766</u>	<u>112,871,558</u>	<u>118,863,878</u>

Certain investment properties are pledged against loans and bank facilities granted to the Group (Note 10).

During current year the Group had revaluated the investment properties and recorded Unrealized loss from valuation of investment properties amounting to KD 4,479,135.

Subsequent to the reporting date, the Parent Company signed an agreement to dispose two investment properties located inside Kuwait with total consideration KD 2,500,000, the transaction is pending to the transfer of the title deeds.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The fair value of the financial assets at fair value through other comprehensive income was determined as per the valuation bases disclosed in Note 4.

Financial assets at fair value through other comprehensive income represents shares in related parties companies whose activities are not similar to the Parent Company's activities amounting to KD 8,832,155 as at 30 September 2020 (31 December 2019: KD 11,119,287 and 30 September 2019: KD 10,905,467).

Financial assets at fair value through other comprehensive income amounting to KD 5,716,187 as at 30 September 2020 (31 December 2019: KD 7,820,693 and 30 September 2019: KD 7,677,980) are pledged against loans and bank facilities (Note 10).

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7. TRADE AND OTHER RECEIVABLES

	30 September 2020 KD	31 December 2019 (Audited) KD	30 September 2019 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	2,111,857	5,659,744	1,334,475
Advance payment for purchasing of investment properties	626,545	626,545	626,545
Net assets of unconsolidated hotel	308,194	308,194	-
Prepaid expenses	14,196	24,199	28,942
Advance payments to contractors	111,451	150,141	203,781
Staff receivables	24,210	25,030	24,050
Due from related parties (Note 14)	1,119,502	136,368	154,885
Other	781,162	778,355	737,323
	12,137,072	14,748,531	10,149,956
Expected credit losses	(1,686,954)	(1,498,063)	(876,847)
	10,450,118	13,250,468	9,273,109

* 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 KD 10,057,080 (equivalent to AED 132 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 recognised a provision for impairment of KD 3,017,125 based on management's estimates for the collectable amounts."

8. TREASURY SHARES

	30 September 2020	31 December 2019 (Audited)	30 September 2019
Number of shares (share)	4,619,962	4,619,962	4,619,962
Cost of treasury shares (KD)	714,784	714,784	714,784
Percentage to issued shares (%)	0.91	0.91	0.91
Market value (KD)	120,119	135,827	113,189

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

The weighted average market price of the Parent Company's shares for the period ended 30 September 2020 was 26 fils per share (31 December 2019: 29 fils per share and 30 September 2019: 25 fils per share).

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9. OTHER RESERVES

	<i>Treasury shares reserve KD</i>	<i>Cumulative change in fair value reserve KD</i>	<i>Foreign currency translation reserve KD</i>	<i>Total KD</i>
Balance as at 1 January 2019	1,098,372	1,302,125	(1,295,335)	1,105,162
Change in fair value of Financial assets at fair value through other comprehensive income	-	36,938	-	36,938
Foreign currency translation adjustment	-	-	86,938	86,938
Other comprehensive income for the period	-	36,938	86,938	123,876
Balance as at 30 September 2019	1,098,372	1,339,063	(1,208,397)	1,229,038
Balance as at 1 January 2020	1,098,372	1,556,423	(1,201,674)	1,453,121
Change in fair value of financial assets at fair value through other comprehensive income	-	(2,281,115)	-	(2,281,115)
Foreign currency translation adjustment	-	-	323,023	323,023
Other comprehensive (loss) gain for the period	-	(2,281,115)	323,023	(1,958,092)
Net realised gain transferred to retained earnings on disposal of investments at fair value through other comprehensive income	-	(3,207)	-	(3,207)
Balance as at 30 September 2020	1,098,372	(727,899)	(878,651)	(508,178)

10. LOANS AND BANK FACILITIES

	<i>30 September 2020 KD</i>	<i>31 December 2019 (Audited) KD</i>	<i>30 September 2019 KD</i>
<u>Non- current portion</u>			
Loans and bank facilities	69,123,433	65,552,596	65,496,700
<u>Current portion</u>			
Loans and bank facilities	23,956,268	20,333,181	26,072,155
	93,079,701	85,885,777	91,568,855

During previous years, loan instalments and related finance costs were past due and unpaid to a regional bank in UAE. The bank filed a legal case against the Parent Company during the year ended 31 December 2012. During the year ended 31 December 2015, a court judgment was issued, by virtue of which Rotana Al Sharjah 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.

During the fourth quarter of 2019, the court "Sharjah Court" issued the appeal judgement which obligate the Group to pay an amount of AED 115 Million (approximately KD 9.7 million) and transfer the title deed of the hotel to the creditor bank, in addition to payment of legal interest of 5% per annum from the date of the lawsuit was filled.

The legal procedures for transferring the title deed of the hotel to the creditor bank have not been completed up to the date of these interim condensed consolidated financial information.

On the basis of the Group legal counsel's opinion the Group has not created a provision for the 5% legal interest payable as the basis on which this interest is to be calculated is not clear from the judgment. Furthermore, the Group's legal counsel has advised that the Group is currently negotiating with the creditor bank regarding the waivers of legal interest, as well as rescheduling the payment of an amount of AED 115 million due to the bank as per the court verdict. The Group is also currently communicating with the execution judge in the United Arab Emirates to set the process of transferring the property ownership to the creditor bank and to obtain more information and explanation regarding to the basis of calculating the 5% interest amount.

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10. LOANS AND BANK FACILITIES (continued)

The management of the Group believes that the outcome of these negotiations with the creditor bank regarding legal benefits is unknown, and its financial impact on the Group as of the date of the issuance of this interim condensed consolidated financial information cannot be reasonably determined.

Furthermore, as of 30 September 2020, loan installments and related finance costs of KD 2,364,473 were past due and unpaid to a local bank in Kuwait. Furthermore, the bank withdrew the principal amount from the Parent Company's overdraft account amounting to KD 8,650,000 in the same bank. The Parent Company paid KD 500,000 from the due interest during the three months ended 30 September 2020. Subsequent to the interim condensed consolidated financial information date, the management has negotiated the reschedule of such loan and related finance cost.

During the current period, the Group's foreign subsidiary has obtained new loan from foreign bank amounting to KD 7,097,500 against pledge of financial and investment properties outside Kuwait and the assignment of all rental revenues related to the pledged asset.

Loans and bank facilities are granted from local and foreign banks with annual interest rates 2.5% over the Central Bank of Kuwait discount rate for local banks and annual interest rates 3% over EIBOR for foreign banks.

Loans and bank facilities amounting to KD 320,566 (31 December 2019: KD 311,524, and 30 September 2019: KD 308,500) were obtained from a local Islamic financial institutions which are related parties (Note 14).

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

	30 September 2020 KD	31 December 2019 (Audited) KD	30 September 2019 KD
Property, plant and equipment	14,735,974	15,076,555	15,260,898
Investment properties (Note 5)	110,457,766	73,034,000	76,662,900
Financial assets at fair value through other comprehensive income (Note 6)	5,716,187	7,820,693	7,677,980
	130,909,927	95,931,248	99,601,778

11. TRADE AND OTHER PAYABLES

	30 September 2020 KD	31 December 2019 (Audited) KD	30 September 2019 KD
Trade payables	829,282	412,101	459,005
Due to related parties (Note 14)	797,059	5,145,727	5,161,669
Dividends payables	993,970	993,970	993,969
Accrued expenses and leaves	642,554	503,724	477,581
Refundable deposits	1,540,666	1,431,579	1,834,740
Customer advance payments	532,727	659,716	-
Kuwait Foundation for the Advancement of Science	55,070	55,070	39,344
National Labor Support Tax	69,530	69,530	22,871
Zakat payable	69,673	69,673	51,109
Provision for claims	1,294,995	1,273,016	1,129,336
Other payables	723,882	749,907	424,046
	7,549,408	11,364,013	10,593,670

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12. LOSS PER SHARE

Basic and diluted losses per share are computed by dividing loss during the period by the weighted average number of ordinary shares outstanding during the period as follows:

	<i>Three months ended 30 September</i>		<i>Nine months ended 30 September</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
Net loss for the period (KD)	(951,855)	(482,284)	(6,559,989)	(1,211,625)
Weighted average number of outstanding shares (share)	505,225,024	505,225,024	505,225,024	505,225,024
Loss per share (fils)	(1.88)	(0.95)	(12.98)	(2.40)

Both basic and diluted losses per share are equal since the Parent Company does not have diluted outstanding instruments.

13. 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:

	Divisions activity as at 30 September 2020				
	<i>Real estate KD</i>	<i>Hotels KD</i>	<i>Investment KD</i>	<i>Unallocated KD</i>	<i>Total KD</i>
Revenues	3,628,688	1,638,249	219,025	14,598	5,500,560
Expenses	(5,046,406)	(2,734,654)	-	(1,287,785)	(9,068,845)
Finance costs	(2,974,787)	-	(9,042)	(7,875)	(2,991,704)
Segment's (loss) / profit	(4,392,505)	(1,096,405)	209,983	(1,281,062)	(6,559,989)
Assets	113,318,540	15,503,510	10,044,317	11,618,302	150,484,669
Liabilities	85,034,861	10,984,910	1,314,536	3,701,578	101,035,885

	<i>Divisions activity as at 31 December 2019</i>				
	<i>Real estate</i>	<i>Hotels</i>	<i>Investment</i>	<i>Unallocated</i>	<i>Total</i>
Assets	112,892,503	17,499,115	12,229,074	13,112,334	155,733,026
Liabilities	78,360,931	10,736,216	1,305,493	7,363,521	97,766,161

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13. SEGMENT INFORMATION (continued)

	<i>Divisions activity as at 30 September 2019</i>				
	<i>Real estate KD</i>	<i>Hotels KD</i>	<i>Investment KD</i>	<i>Unallocated KD</i>	<i>Total KD</i>
Revenues	3,996,796	4,415,348	314,188	500,720	9,227,052
Expenses	(626,551)	(5,074,326)	-	(1,232,668)	(6,933,545)
Finance costs	(3,122,917)	(366,166)	(8,976)	(7,073)	(3,505,132)
Segment's profit (loss)	247,328	(1,025,144)	305,212	(739,021)	(1,211,625)
Assets	118,886,001	17,969,162	12,004,364	8,986,877	157,846,404
Liabilities	77,177,291	17,325,422	1,302,469	6,857,246	102,662,428

14. RELATED PARTIES TRANSACTIONS

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. Those transactions were conducted in the ordinary course of business and with the usual terms and conditions. Transactions with related parties are subject to the approval of the General Assembly of Shareholders. The table below shows the volume and nature of those transactions during the period and the related balances:

Interim condensed consolidated statement of income:

Transactions	<i>Nine months ended 30 September 2020 KD</i>	<i>Nine months ended 30 September 2019 KD</i>
Dividend income	219,025	301,894
Rental expenses	20,400	30,600
Interests on loans and bank facilities	9,042	8,976
Marketing fees	10,752	27,707
Management fees	12,452	67,287
Reservation fees	5,377	13,853
Holidex fees	(8,350)	(6,547)

Interim condensed consolidated statement of financial position:

Balances	<i>30 September 2020 KD</i>	<i>31 December 2019 KD</i>	<i>30 September 2019 KD</i>
Due from related parties (Note 7)	1,119,502	136,368	154,885
Due to related parties (Note 11)	797,059	5,145,727	5,161,669
Financial assets at fair value through other comprehensive income (Note 6)	8,832,154	11,119,287	10,905,467
Loans and bank facilities (Note 10)	320,566	311,524	308,500

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14. RELATED PARTIES TRANSACTIONS (continued)

Compensation of key management personnel

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

	<i>Nine months ended 30 September 2020 KD</i>	<i>Nine months ended 30 September 2019 KD</i>
Salaries and remunerations	193,500	171,000
End of service benefits	11,683	11,683

15. CONTINGENT LIABILITIES

Letters of Guarantee were contingently liable for a third party with an amount of KD 24,591 as at 30 September 2020 (31 December 2019: KD 24,591, 30 September 2019: KD 24,191).

16. ANNUAL GENERAL ASSEMBLY

The consolidated financial statements for the year ended 31 December 2019 have been approved by the shareholders of the Parent Company in their Annual General Assembly held on the 10 May 2020.

17. IMPACT OF COVID-19

The existence of novel corona virus was confirmed in early 2020 and has spread globally, causing disruptions to businesses and economic activity. In light of the rapid spread of COVID-19 across the globe, various economies and sectors have faced significant disruptions and uncertainty as a result of measures taken by governments to contain or delay the spread of the virus. As of to date, the actual scope of the impact is very difficult to measure.

The Group has performed an assessment of COVID-19 implications on the financial results of the Group, in light of the available guidance of IFRS, and incorporated the outcome in these interim condensed consolidated financial information and explained the changes below related to the expected credit loss methodology and valuation estimates and judgements as at and for the period ended 30 September 2020:

Critical judgements and estimates

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing these interim condensed consolidated financial information, significant judgement is exercised by management in applying the Group's accounting policies. The key sources of estimation uncertainty are consistent with the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2019, with the exception of the impact of the COVID - 19 outbreak on the Group which is detailed below:

(I). Expected credit loss on financial assets measured at amortized cost

The Group has updated the inputs and assumptions used for the determination of expected credit losses ("ECLs") as at 30 September 2020. Revised ECLs were estimated based on a range of forecasted economic conditions at the reporting date and considering the fact that situation is fast evolving, the Group has also considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination. Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. These are reviewed and monitored for appropriateness on a quarterly basis. Further information on the Group's policy on expected credit losses is disclosed in Note 3.3.7 to the annual consolidated financial statements as at and for the year ended 31 December 2019.

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18. IMPACT OF COVID-19 (continued)

Fair value measurement of financial instruments

The Group has considered potential impacts of the current market volatility in determination of the reported amounts of the Group's unquoted financial assets, and this represents management's best assessment based on observable available information as at the reporting date. Given the impact of COVID 19, the Group is closely monitoring whether the fair values of the financial assets and liabilities represent the price that would be achieved for transactions between market participants in the current scenario. Further information on the Group's policy in relation to fair value measurements is disclosed in Note 4. Management has performed fair value studies for the unquoted shares. This valuation resulted in decline in fair value of unquoted shares of KD 123,484 included other comprehensive income for the nine months ended 30 September 2020.

Investment properties, property and equipment and investment in associates ("non-financial assets")

As at the reporting date, the Group has identified a significant impact on the carrying values of its non-financial assets as at 30 September 2020 due to the uncertainty involved in determining the effect on projected cash flows generated from these non-financial assets or the market participants expectations of the price depending on the approach used in determining the fair value of those assets at 31 December 2019. The Group is aware that certain geographies and sectors in which these assets exist are negatively impacted, and as the situation continues to unfold, the Group consistently monitors the market outlook and uses relevant assumptions in reflecting the values of these non-financial assets appropriately in the interim condensed consolidated financial information. Management has performed valuation for the investment properties during the period due to Covid-19. This valuation resulted in unrealized loss of KD 4,479,135 included in the interim condensed consolidated statement of income for the nine months ended 30 September 2020.