



**Commercial Real Estate Company K.P.S.C.
and its subsidiaries
State of Kuwait**

**Interim Condensed Consolidated Financial Information (Unaudited)
And the review report for the three months ended 31 March 2018**

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**Commercial Real Estate Company K.P.S.C.
State of Kuwait**

Auditor's report on review of interim condensed consolidated financial information to the board of directors

Introduction

We have reviewed the accompanying interim condensed consolidated financial position of Commercial Real Estate Company K.P.S.C. ("Parent Company") and its subsidiaries (together referred to as "the Group") as at 31 March 2018, and the related interim condensed consolidated statements of income, other comprehensive income, changes in equity and cash flows for the three months period then ended. The Parent Company's management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34: "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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".

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 accounts of the Parent Company. To the extent of information made available to us we have not become aware of any violations during the three months period ended 31 March 2018, of Companies' Law No. 1 of 2016, and its executive regulations or the Parent Company's memorandum and articles of association, as amended, which might have had a material effect on the business or financial position of the Parent Company.



**Talal Y. Al-Muzaini
Licence No. 209A
Deloitte & Touche
Al-Wazzan & Co.**

Kuwait
14 May 2018

Interim condensed consolidated statement of financial position (unaudited)

As at 31 March 2018

		31 March 2018	31 December 2017 (audited)	31 March 2017
	Notes	KD	KD	KD
Assets				
Non-current assets				
Property, plant and equipment		25,950,529	26,362,918	27,316,908
Investment property	3	367,630,777	367,511,385	367,478,900
Investments in associates	4	44,440,040	45,313,974	42,869,722
Investment available for sale		-	26,531,681	24,346,771
Investment at FVOCI		25,254,966	-	-
		<u>463,276,312</u>	<u>465,719,958</u>	<u>462,012,301</u>
Current assets				
Land and properties held for trading		13,931,370	13,782,570	10,911,479
Investments at fair value through profit or loss		25,205,228	26,653,077	29,534,525
Receivables	5	11,888,275	10,366,328	9,550,876
Cash and cash equivalents		4,724,822	2,837,430	7,687,010
		<u>55,749,695</u>	<u>53,639,405</u>	<u>57,683,890</u>
Total assets		<u>519,026,007</u>	<u>519,359,363</u>	<u>519,696,191</u>
Equity and liabilities				
Equity attributable to the shareholders of the Parent Company				
Share capital		178,708,714	178,708,714	178,708,714
Share premium		1,308,384	1,308,384	1,308,384
Treasury shares	6	(2,208,386)	(2,208,386)	(2,118,591)
Statutory reserve		35,418,545	35,418,545	33,922,277
Voluntary reserve		27,067,865	27,067,865	26,319,731
Other reserve	7	6,774,551	7,753,369	7,854,144
Retained earnings		46,863,966	42,224,332	34,093,036
Total equity attributable to the shareholders of the Parent Company		<u>293,933,639</u>	<u>290,272,823</u>	<u>280,087,695</u>
Non-controlling interests		24,631,652	24,136,788	22,563,155
Total equity		<u>318,565,291</u>	<u>314,409,611</u>	<u>302,650,850</u>
Liabilities				
Non-current liabilities				
Employees' end of service indemnity		1,030,610	1,024,530	966,173
Financing from third party	8	147,207,720	153,442,557	152,640,384
		<u>148,238,330</u>	<u>154,467,087</u>	<u>153,606,557</u>
Current liabilities				
Payables	9	17,599,285	19,009,765	32,478,784
Financing from third party	8	34,623,101	31,472,900	30,960,000
		<u>52,222,386</u>	<u>50,482,665</u>	<u>63,438,784</u>
Total liabilities		<u>200,460,716</u>	<u>204,949,752</u>	<u>217,045,341</u>
Total equity and liabilities		<u>519,026,007</u>	<u>519,359,363</u>	<u>519,696,191</u>

The notes on pages 7 to 18 form an integral part of this interim condensed consolidated financial information.



Abdul Fatah M.R. Marafie
Chairman



Adwan M. Al-Adwani
Vice Chairman

Interim condensed consolidated statement of income (unaudited)
For the three months period ended 31 March 2018

	Notes	For the three months period ended 31 March	
		2018 KD	2017 KD
Revenue			
Rental income from investment properties and hotel's revenue		8,002,189	7,722,554
Operating expenses		(2,607,196)	(2,460,924)
Net income from operating activities	10	5,394,993	5,261,630
Share of profit from investment in associate companies	4	604,884	323,039
Net gain on investments	11	744,907	680,071
Gain from sale of land & properties held for trading		346,242	700,275
Other income		88,295	52,802
Total revenues		<u>7,179,321</u>	<u>7,017,817</u>
Expenses and other charges			
Administrative expenses and other charges		614,487	633,762
Provision net of reversals		85,342	-
Finance charges		1,986,084	1,873,394
Total expenses		<u>2,685,913</u>	<u>2,507,156</u>
Net profit for the period before deductions		4,493,408	4,510,661
Kuwait Foundation for the Advancement of Sciences (KFAS)		(31,677)	(29,508)
National Labour Support Tax (NLST)		(123,377)	(99,126)
Zakat Expense		(44,652)	(32,971)
Net profit for the period		<u>4,293,702</u>	<u>4,349,056</u>
Distributed as follows:			
Shareholders of the Parent Company		3,759,946	3,929,243
Non-controlling interests		533,756	419,813
		<u>4,293,702</u>	<u>4,349,056</u>
Basic earnings per share for Parent Company's shareholders (fils)	12	<u>2.13</u>	<u>2.23</u>

The notes on pages 7 to 18 form an integral part of this interim condensed consolidated financial information.

Interim condensed consolidated statement of comprehensive income (unaudited)
For the three months period ended 31 March 2018

	Notes	For the three months period ended 31 March	
		2018 KD	2017 KD
Net profit for the period		4,293,702	4,349,056
Other comprehensive income items:			
Items that may be reclassified subsequently to the consolidated statement of income:			
Change in fair value reserve	7	(13,516)	9,782
Group's share in associates' reserves	7	176,237	240,647
Foreign currency translation reserve	7	(16,462)	73,715
Total other comprehensive income items		<u>146,259</u>	<u>324,144</u>
Total comprehensive income for the period		<u>4,439,961</u>	<u>4,673,200</u>
Distributed as follows:			
Shareholders of the Parent Company		3,906,205	4,253,387
Non-controlling interests		<u>533,756</u>	<u>419,813</u>
Total comprehensive income for the period		<u>4,439,961</u>	<u>4,673,200</u>

The notes on pages 7 to 18 form an integral part of this interim condensed consolidated financial information.

Interim condensed consolidated statement of changes in equity (unaudited)

For the three months period ended 31 March 2018

	Equity attributable to the shareholders of the Parent Company							Total equity attributable to shareholders of the Parent Company	Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Statutory reserve	Voluntary reserve	Other reserves (note 7)	Retained earnings			
	KD	KD	KD	KD	KD	KD	KD	KD	KD	
Balance as at 1 January 2017	178,708,714	1,308,384	(2,117,879)	33,922,277	26,319,731	7,530,000	39,048,176	284,719,403	22,709,860	307,429,263
Changes in non-controlling interests	-	-	(712)	-	-	-	1,051	339	(566,518)	(566,179)
Cash dividends	-	-	-	-	-	-	(8,885,434)	(8,885,434)	-	(8,885,434)
Transactions with the owners	178,708,714	1,308,384	(2,118,591)	33,922,277	26,319,731	7,530,000	30,163,793	275,834,308	22,143,342	297,977,650
Net profit for the period	-	-	-	-	-	-	3,929,243	3,929,243	419,813	4,349,056
Total comprehensive income for the period	-	-	-	-	-	324,144	-	324,144	-	324,144
Balance as at 31 March 2017	178,708,714	1,308,384	(2,118,591)	33,922,277	26,319,731	7,854,144	34,093,036	280,087,695	22,563,155	302,650,850
Balance as at 1 January 2018	178,708,714	1,308,384	(2,208,386)	35,418,545	27,067,865	7,753,369	42,224,332	290,272,823	24,136,788	314,409,611
Impact of initial application of IFRS 9 (note 2.1.1)	-	-	-	-	-	(1,125,077)	1,125,077	-	-	-
Balance as at 1 January 2018 (restated)	178,708,714	1,308,384	(2,208,386)	35,418,545	27,067,865	6,628,292	43,349,409	290,272,823	24,136,788	314,409,611
IFRS 9 and other adjustment of associates (note 4)	-	-	-	-	-	-	(264,380)	(264,380)	(1,654)	(266,034)
Acquisition of additional share in subsidiary	-	-	-	-	-	-	18,991	18,991	(37,238)	(18,247)
Transactions with the owners	178,708,714	1,308,384	(2,208,386)	35,418,545	27,067,865	6,628,292	43,104,020	290,027,434	24,097,896	314,125,330
Net profit for the period	-	-	-	-	-	-	3,759,946	3,759,946	533,756	4,293,702
Total comprehensive income for the period	-	-	-	-	-	146,259	-	146,259	-	146,259
Balance as at 31 March 2018	178,708,714	1,308,384	(2,208,386)	35,418,545	27,067,865	6,774,551	46,863,966	293,933,639	24,631,652	318,565,291

The notes on pages 7 to 18 form an integral part of this interim condensed consolidated financial information.

Interim condensed consolidated statement of cash flows (unaudited)
For the three months period ended 31 March 2018

		For the three months period ended 31 March	
		2018	2017
Notes		KD	KD
Operating activities:			
	Net profit for the period	4,293,702	4,349,056
	Adjustments for:		
	Depreciation of property, plant and equipment	442,195	429,262
	Provision net of reversals	85,342	-
	Share of profit from investments in associates	(604,884)	(323,039)
	Net gain on investments	(744,907)	(680,071)
11	Gain from sale of land and properties held for trading	(346,242)	(700,275)
	Finance cost	1,986,084	1,873,394
	Employees' end of service indemnity provided during the period	80,739	61,726
	<i>Operating cash flow before changes in the working capital</i>	<u>5,192,029</u>	<u>5,010,053</u>
	Payment for purchase of land and properties held for trading	(493,946)	-
	Proceeds from sale of land and real estate held for trading	691,388	1,567,691
	Payment for purchase of investment property	(119,392)	(15,358)
	Receivables	(1,477,588)	(1,461,788)
	Payables	(677,089)	(1,204,974)
	Employees' end of service indemnity paid during the period	(74,659)	(43,214)
	<i>Net cash generated from operating activities</i>	<u>3,040,743</u>	<u>3,852,410</u>
Investing activities:			
	Payment for purchase of property, plant and equipment	(29,806)	(69,034)
	Payment to acquire an additional share in subsidiaries	(18,247)	(1,500)
	Payment to acquire shares in associates	(49,562)	(1,743)
	Payment to acquire available for sale investments	-	(2,100)
	Proceeds from sale of investment at fair value through profit or loss	2,905,307	-
	Proceeds on sale of available for sale investments	-	249,312
	Proceeds on sale of Investment at FVOCI	5,924	-
	Dividend received from associates	1,422,121	-
4	Cash dividends received	415,024	599,914
	<i>Net cash from investing activities</i>	<u>4,650,761</u>	<u>774,849</u>
FINANCING ACTIVITIES:			
	Financing from third party	(3,084,636)	935,851
	Finance charges paid	(2,707,209)	(766,213)
	Dividend paid	(12,267)	(28,480)
	Payment for buy-back of treasury shares	-	(712)
	Non-controlling interests	-	(563,967)
	<i>Net cash used in financing activities</i>	<u>(5,804,112)</u>	<u>(423,521)</u>
	Net increase in cash and cash equivalents	1,887,392	4,203,738
	Cash and cash equivalents at the beginning of the period	2,837,430	3,483,272
	Cash and cash equivalents at the end of the period	<u>4,724,822</u>	<u>7,687,010</u>

The notes on pages 7 to 18 form an integral part of this interim condensed consolidated financial information.

Notes to interim condensed consolidated financial information (unaudited)
 For the three months period ended 31 March 2018

1. Overview of the Group

The Commercial Real Estate Company (K.P.S.C) ("the Parent Company") was incorporated as a Kuwaiti Shareholding Closed Company under Articles of Association No. 104/ M/ Vol.1 on 4 February 1968 under Commercial register No. 11329 and re-enrolled on 21 December 1981 under No. 239 in accordance with provision of the Commercial Companies Law. The main objectives of the Company are performing various real estate, agricultural, industrial and commercial activities, carrying out contracting, road and building constructions including sale, purchase and lease of land and real estate properties and construction of buildings, utilize the company's surpluses through investment portfolios managed by specialized companies and financial institutions. The Company may have interests or participate in any suitable way with entities that engage in similar business activities or that may help the Company achieve its objectives inside Kuwait and abroad. The Company may also purchase such entities or affiliate them, or as stated in Company's Articles of Association, article No. 5 and Memorandum of Association, article No. 4. The Company's management shall carry out all its objectives for which it has been established in accordance with the Noble Islamic Sharia principles.

The head office of the Company is located at Jaber Al-Mubarak Street, Commercial Real Estate Company's Building, Sharq, P.O. Box. 4119 Safat, 13042 Kuwait.

The Company has been registered in the Kuwait Stock Exchange on 21 December 2004.

The consolidated interim financial information includes the interim financial information of the Parent Company, its subsidiaries and branches (together referred to as "the Group").

Name of subsidiaries	Activity	Country of incorporation	Shareholding percent		
			31 March 2018 (Unaudited)	31 December 2017 (audited)	31 March 2017 (Unaudited)
Al Mutajara Real Estate Company K.S.C.C.	Investment properties	Kuwait	72.29%	72.22%	72.22%
Commercial Real Estate Developing Company	Investment properties	Bahrain	100%	100%	100%
Al-Salmiya Group K.S.C. (Closed)	Investment properties	Kuwait	81.90%	81.90%	81.90%

During the period, the general assembly meeting of the Parent Company shareholders was held on 9 April 2018 to approve the consolidated financial statements for the year ended 31 December 2017.

This interim condensed consolidated financial information was authorized for issue by Parent Company's board of director's on 14 May 2018.

2. Basis of preparation

These interim condensed consolidated financial information have been prepared in accordance with International Accounting Standard (IAS) 34: Interim Financial Reporting. The interim condensed consolidated financial information does not contain all information and disclosures required for complete financial statements prepared in accordance with the International Financial Reporting Standards, and should be read in conjunction with the annual financial statements for the year ended 31 December 2017. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included.

Operating results for the three-month period ended 31 March 2018 are not necessarily indicative of the results that may be expected for the year ending 31 December 2018.

The accounting policies used in the preparation of this interim condensed consolidated financial information for the period are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2017, except for the adoption of IFRS 9 and 15 and the amendments and annual improvements to IFRSs, relevant to the Group which are effective for annual reporting period starting from 1 January 2018. These amendments did not result in any material impact on the financial position or performance of the Group.

Notes to interim condensed consolidated financial information (unaudited)
For the three months period ended 31 March 2018

Estimates

The preparation of interim condensed consolidated financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2017, except for the adoption of IFRS 9 which are effective for annual reporting period starting from 1 January 2018.

2.1 Application of new and revised International Financial Reporting Standards (IFRS)

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these financial statements.

2.1.1 IFRS 9 Financial Instruments

The Group has adopted IFRS 9: Financial Instruments issued by the International Accounting Standards Board (IASB). IFRS 9 sets out the requirements for recognising and measuring financial assets and financial liabilities, impairment of financial assets and hedge accounting. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

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

Classification and Measurement of Financial assets

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Business model assessment

The Group determines its business model at the level that best reflects how it manages group of financial assets to achieve its business objective and in order to generate contractual cash flows. 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:

- The stated policies and objectives for the financial assets and the operation of those policies in practice;
- 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;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

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.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

The Group assesses the contractual terms of financial assets to identify whether they meet 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. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are SPPI, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Notes to interim condensed consolidated financial information (unaudited)
For the three months period ended 31 March 2018

The Fund classifies its financial assets upon initial recognition into the following categories:

- Financial assets carried at amortised cost
- Financial assets carried at fair value through profit or loss (FVTPL)
- Financial assets carried at fair value through other comprehensive income (FVOCI)

Financial assets carried at Amortised cost:

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in the statement of profit or loss and other comprehensive income. Any gain or loss on derecognition is recognised in the statement of profit or loss and other comprehensive income. Cash and cash equivalents and receivables are classified at amortized cost.

Financial asset carried at fair value through profit or loss:

Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument at FVTPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and interest are mandatorily required to be measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the statement of profit or loss and other comprehensive income. Interest income is recognised using the effective interest method. Dividend income from equity investments measured at FVTPL is recognised in the statement of profit or loss and other comprehensive income when the right to the payment has been established.

Financial assets carried at fair value through other comprehensive income

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to statement of profit or loss. Dividends are recognised in statement of profit or loss when the right to payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal cumulative gains or losses are reclassified from fair value reserve to retained earnings in the statement of changes in equity.

Reclassification of financial assets

The Group only reclassifies its financial assets subsequent to their initial recognition upon change in business model.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The Group has applied new impairment model for cash and cash equivalents and receivables measured at amortised cost. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money and reasonable and supportive information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Notes to interim condensed consolidated financial information (unaudited)
For the three months period ended 31 March 2018

The Group applies three-stage approach to measuring expected credit losses (ECL) as follows:

Stage 1: 12 months ECL

The Group measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Stage 2: Lifetime ECL – not credit impaired

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

Stage 3: Lifetime ECL – credit impaired

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

Life time ECL is ECL that result from all possible default events over the expected life of a financial instrument. The 12 month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both life time ECLs and 12 month ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

Determining stage of impairment

At each reporting date, the Group assesses whether a financial asset or group of financial assets is credit impaired. The Group considers a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due.

At each reporting date, the Group also assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

Measurement of ECLs

ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represent the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macro economic scenarios etc.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost.

Impact of adoption of IFRS 9

Impairment of financial assets

The Management has assessed that the impact of ECL as at 1 January 2018 and 31 March 2018 is not significant to the financial statements taken as a whole and therefore, no adjustments were made to the retained earnings as at 1 January 2018 and profit for the period ended 31 March 2018.

Notes to interim condensed consolidated financial information (unaudited)
 For the three months period ended 31 March 2018

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

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

	Original classification under IAS 39	New classification under IFRS 9	Carrying amount under IAS 39	Re-measurement -ECL/others	New Carrying amount under IFRS 9
			KD	KD	KD
Financial assets					
Cash and cash equivalents	Loans and receivable	Amortised cost	2,837,430	-	2,837,430
Investments - Equity Securities	AFS	FVOCI	12,168,780	-	12,168,780
Investments - Equity Securities	AFS	FVTPL	14,362,901	-	14,362,901
Investment - Equity Securities	FVTPL	FVTPL	13,505,791	-	13,505,791
Investment - Equity Securities	FVTPL	FVOCI	13,147,286	-	13,147,286
Other financial assets	Loans and receivable	Amortised cost	1,742,571	-	1,742,571

The following table analyses the impact of transition to IFRS 9 on reserves and retained earnings.

	Retained earnings	Fair value reserve
	KD	KD
Closing balance under IAS 39 as at 31 December 2017	42,224,332	1,039,636
Impact on reclassification:		
Investment securities (equity) from available-for-sale to FVTPL	1,252,283	(1,252,283)
Investment securities from FVTPL to FVOCI	(127,206)	127,206
Opening balance under IFRS 9 on the date of initial application of 1 January 2018	<u>43,349,409</u>	<u>(85,441)</u>

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.

Certain investment securities classified as AFS under IAS 39 has been reclassified mandatorily to FVTPL and for certain investment securities classified as FVTPL, management has designated these investments as FVOCI as at the date of initial application.

2.1.2 Adoption of IFRS 15 'Revenue from Contracts with customers

The Group has adopted IFRS 15 Revenue from contracts with customers effective from 1 January 2018. This standard supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. This standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The adoption of this standard did not result in any change in accounting policies of the Group and does not have any material effect on the Group's financial statements.

The Group recognises revenue from the following major sources:

Rental income from investment properties which represent rental income from commercial and residential properties and hotel's revenue represents revenue generated from Symphony hotel operations. The Group has reassessed its revenue recognition policy and has concluded that it will continue to recognize rent and hotel revenue point in time, when services are rendered. Hence, the implementing of the IFRS 15 on 1 January 2018 did not have any material impact on the Group's interim condensed consolidated financial information.

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3. Investment properties

	31 March 2018 (Unaudited)	31 December 2017 (audited)	31 March 2017 (Unaudited)
	KD	KD	KD
Balance at beginning of the period/ year	367,511,385	367,463,542	367,463,542
Additions	119,392	1,344,216	15,358
Change in fair value	-	(1,296,373)	-
Balance at end of the period/year	<u>367,630,777</u>	<u>367,511,385</u>	<u>367,478,900</u>

4. Investments in associates

Below is the movement in the investment in associates during the period/year:

	31 March 2018 (Unaudited)	31 December 2017 (audited)	31 March 2017 (Unaudited)
	KD	KD	KD
Balance as at the beginning of the period/year	45,313,974	42,229,673	42,229,673
Additions	49,562	1,560,159	1,743
Cash dividends	(1,422,121)	(2,486,093)	-
Translation of foreign currencies	(16,462)	10,643	74,620
Group's share in associates' reserves	176,237	767,673	240,647
Group's share in associates' profit	604,884	3,231,919	323,039
Adjustments	(266,034)	-	-
	<u>44,440,040</u>	<u>45,313,974</u>	<u>42,869,722</u>

5. Receivables

	31 March 2018 (Unaudited)	31 December 2017 (audited)	31 March 2017 (Unaudited)
	KD	KD	KD
Trade receivables	6,042,186	5,774,418	5,152,613
Due from related parties (note 13)	149,182	131,182	146,051
Provision for doubtful debts	(4,599,801)	(4,514,459)	(4,187,166)
	1,591,567	1,391,141	1,111,498
Prepaid expenses	126,104	144,866	158,066
Advance payments for acquisition of investments	5,363,578	4,286,210	2,818,180
Advance payment for purchase of land	3,344,997	3,344,997	3,282,899
Refundable deposits	350,005	351,430	322,181
Advances to contractors and suppliers	721,642	612,151	1,081,293
Other debit balances	390,382	235,533	776,759
	<u>11,888,275</u>	<u>10,366,328</u>	<u>9,550,876</u>

Movement in provision for doubtful debts is as follows:

	31 March 2018 (Unaudited)	31 December 2017 (audited)	31 March 2017 (Unaudited)
	KD	KD	KD
Balance at beginning of the period/year	4,514,459	4,187,166	4,187,166
Provision created during the period/year	109,148	336,372	-
Reversal of provision for doubtful debts	(23,806)	(9,079)	-
Balance at end of the period/year	<u>4,599,801</u>	<u>4,514,459</u>	<u>4,187,166</u>

Notes to interim condensed consolidated financial information (unaudited)
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6. Treasury shares

	31 March 2018 (Unaudited) KD	31 December 2017 (audited) KD	31 March 2017 (Unaudited) KD
Number of shares (No's)	24,566,570	24,566,570	23,471,570
Percentage of issued shares (%)	1.37	1.37	1.31
Market value	2,041,482	2,247,841	1,783,839
Cost	2,208,386	2,208,386	2,118,591

The Parent Company is committed to retain reserves and retained earnings equivalent to the treasury shares throughout the period, in which they are held by the Company, pursuant to the relevant instructions of the regulatory authorities.

7. Other reserves

	Change of fair value reserve KD	Group's share in associates' reserves KD	Translation of foreign currencies KD	Property, plant and equipment revaluation surplus KD	Total KD
As at 1 January 2017	1,593,364	96,611	292,139	5,547,886	7,530,000
Total comprehensive income for the period	9,782	240,647	73,715	-	324,144
As at 31 March 2017	<u>1,603,146</u>	<u>337,258</u>	<u>365,854</u>	<u>5,547,886</u>	<u>7,854,144</u>
As at 1 January 2018	1,039,636	864,284	301,563	5,547,886	7,753,369
Impact of initial application of IFRS 9 (note 2.1.1)	<u>(1,125,077)</u>	-	-	-	<u>(1,125,077)</u>
As at 1 January 2018(restated)	(85,441)	864,284	301,563	5,547,886	6,628,292
Total comprehensive income for the period	<u>(13,516)</u>	<u>176,237</u>	<u>(16,462)</u>	-	<u>146,259</u>
As at 31 March 2018	<u>(98,957)</u>	<u>1,040,521</u>	<u>285,101</u>	<u>5,547,886</u>	<u>6,774,551</u>

8. Financing from third party

	31 March 2018 (Unaudited) KD	31 December 2017 (audited) KD	31 March 2017 (Unaudited) KD
Finance from third party - non current portion	147,207,720	153,442,557	152,640,384
Finance from third party - current portion	<u>34,623,101</u>	<u>31,472,900</u>	<u>30,960,000</u>
	<u>181,830,821</u>	<u>184,915,457</u>	<u>183,600,384</u>
Cost rate (%)	<u>4.35-4.75</u>	<u>3.60-4.50</u>	<u>4.00-5.00</u>

Finance granted by third party represents murabaha and Tawarraq contracts. Most of the finance granted by third party is defined by contracts over a period of 6-20 years, including a grace period of one year. Part of the contracts is renewed for one year or more during the specified period. The above details represent the financing based on the latest renewal as per the contracts.

Finance granted by third party is secured against mortgage of the following assets.

	31 March 2018 (Unaudited) KD	31 December 2017 (audited) KD	31 March 2017 (Unaudited) KD
Property, plant and equipment	25,292,000	25,781,345	27,015,089
Investment property	282,830,131	282,711,612	282,017,914

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9. Payables

	31 March 2018 (Unaudited)	31 December 2017 (audited)	31 March 2017 (Unaudited)
	KD	KD	KD
Trade payables	897,823	1,039,264	1,613,427
Due to related parties (Note 13)	189,717	189,717	189,717
Retentions	1,375,769	1,317,518	2,464,177
Accrued expense	3,712,768	4,590,970	4,724,998
Revenues received in advance	2,089,511	2,725,442	5,179,124
Deposits from others	3,599,542	3,661,222	3,920,281
Kuwait Foundation for the Advancement of Science (KFAS)	130,129	98,452	112,202
National Labour Support Tax (NLST)	491,963	368,586	504,282
Zakat payable	155,996	111,344	136,844
Dividends payable to shareholders	1,424,673	1,436,940	9,835,216
Financial claims (Note 17)	1,575,699	1,575,699	1,575,699
Other credit balances	1,955,695	1,894,611	2,222,817
	<u>17,599,285</u>	<u>19,009,765</u>	<u>32,478,784</u>

10. Net income from operating activities

	For the three months period ended 31 March	
	2018	2017
	KD	KD
Real estate rental income	6,331,978	6,196,817
Hotel's and hospitality revenues	1,670,211	1,525,737
Total revenues	<u>8,002,189</u>	<u>7,722,554</u>
Operating expenses	(1,038,960)	(882,664)
Hotel and hospitality expenses	<u>(1,568,236)</u>	<u>(1,578,260)</u>
	<u>5,394,993</u>	<u>5,261,630</u>

Hotel and hospitality expenses include an amount of KD 416,351 (2017 - KD 411,051) which represents the current period depreciation of the hotel building and related equipment.

11. Net gain on investments

	For the three months period ended 31 March	
	2018	2017
	KD	KD
Investment at FVOCI		
Cash dividends	439,878	-
	<u>439,878</u>	<u>-</u>
Investment available for sale		
Loss on sale	-	(16,489)
Cash dividends	-	135,533
Impairment	-	(90,000)
	<u>-</u>	<u>29,044</u>
Investments at fair value through profit or loss		
Change in fair value	(75,000)	186,646
Gain on sale	275,183	-
Cash dividends	104,846	464,381
	<u>305,029</u>	<u>651,027</u>
	<u>744,907</u>	<u>680,071</u>

Notes to interim condensed consolidated financial information (unaudited)
 For the three months period ended 31 March 2018

12. Basic earnings per share for the Parent Company's shareholders

Basic earnings per share is computed by dividing the net profit attributable to the Parent Company's shareholders for the period by the weighted average number of outstanding ordinary shares less weighted average number of outstanding treasury shares during the period as follows:

	Three months ended	
	31 March	
	2018	2017
	KD	KD
Net profit for the period (KD)	3,759,946	3,929,243
Weighted average number of outstanding shares (share)	<u>1,762,520,567</u>	<u>1,763,848,434</u>
Basic EPS (fils)	<u>2.13</u>	<u>2.23</u>

13. Related parties transactions

Related parties comprise of the Group's shareholders who are members in the board of directors, board of directors, key management personnel, and associates in which the company has representatives in their board. The transactions with related parties are subject to approval of the shareholders at the general assembly. Significant related party transactions and balances resulting therefrom were as follows:

	31 March	31 December	31 March
	2018	2017	2017
	(Unaudited)	(audited)	(Unaudited)
	KD	KD	KD
Interim condensed consolidated statement of financial position			
Receivables and other debit balances	149,182	131,182	146,051
Payables and other credit balances	189,717	189,717	189,717
Balances due to key management	861,092	926,714	794,917

	For the three months	
	period ended 31 March	
	2018	2017
	KD	KD
Interim condensed consolidated statement of income		
Key management benefits	140,141	133,277

14. Capital commitments and contingent liabilities

	31 March	31 December	31 March
	2018	2017	2017
	(Unaudited)	(audited)	(Unaudited)
	KD	KD	KD
Capital commitments			
Uncalled capital – investments	437,361	1,081,465	888,705
Contract for projects and investment properties under development	10,512,062	10,858,379	295,294
Other	<u>321,621</u>	<u>19,483</u>	<u>117,409</u>
	<u>11,271,044</u>	<u>11,959,327</u>	<u>1,301,408</u>
Contingent liabilities			
Letters of guarantee	<u>2,995,067</u>	<u>2,995,067</u>	<u>2,894,902</u>

Notes to interim condensed consolidated financial information (unaudited)

For the three months period ended 31 March 2018

15. Segment information

The Group is organized into two major business segments; real estate and investment. Both segments results are reported to senior executive management. Further, Group's operating results, assets and liabilities are reported according to geographical areas in which it operates. Revenue, profits, assets and liabilities are measured according to the same accounting bases followed in preparation of interim condensed consolidated financial statements. Business segment analysis is in line with internal reports submitted to management is as follows:

Real estate sector (point in time)	For the three months period ended 31 March 2018			For the three months period ended 31 March 2017		
	Hotel (point over time)	Investment sector	Total	Real estate sector	Hotel	Investment sector
	KD	KD	KD	KD	KD	KD
Revenue	1,670,211	1,349,791	9,698,222	6,897,092	1,525,737	1,093,110
Direct cost	(1,568,235)	(39,762)	(2,918,038)	(1,126,373)	(1,578,260)	(132,682)
Gross profit	101,976	1,310,029	6,780,184	5,770,719	(52,523)	960,428
Unallocated costs			(2,527,563)			(2,348,646)
Currency valuation differences			41,081			19,078
Net profit for the period			4,293,702			4,349,056

Geographic distribution

Assets and liabilities

	Assets			Liabilities		
	31 March 2018	31 December 2017 (audited)	31 March 2017	31 March 2018	31 December 2017 (audited)	31 March 2017
	KD	KD	KD	KD	KD	KD
State of Kuwait	434,272,574	433,518,178	436,972,114	154,650,958	159,236,634	168,111,902
Gulf countries	44,656,917	44,277,441	43,841,935	45,809,758	45,713,118	48,933,439
Other	40,096,516	41,563,744	38,882,142	-	-	-
	519,026,007	519,359,363	519,696,191	200,460,716	204,949,752	217,045,341

Statement of income

	For the three months period ended 31 March 2018			For the three months period ended 31 March 2017		
	State of Kuwait	Gulf countries	Other	State of Kuwait	Gulf countries	Other
	KD	KD	KD	KD	KD	KD
Total income	6,113,275	243,636	822,410	7,179,321	847,038	717,347
Total expenses	(2,285,809)	(599,810)	-	(2,885,619)	(511,110)	(39,866)
Net profit	3,827,466	(356,174)	822,410	4,293,702	335,928	677,481

Notes to interim condensed consolidated financial information (unaudited)
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16. Fair value estimation

The fair values of financial assets and liabilities are estimated as follows.

- Level 1: Quoted prices in active markets for quoted financial instruments.
- Level 2: Quoted prices in an active market for similar instruments or prices quoted by managers of investment funds or other valuation techniques where all the important inputs are based on comparative market data either directly or indirectly.
- Level 3: Valuation techniques in which the inputs that are not based on any comparative market data.

Fair value of financial assets and liabilities of the Group measured at fair value on a periodical basis is as follows:

Financial assets	Fair value as of			Fair value level	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31 March 2018	31 December 2017 (audited)	31 March 2017				
	KD	KD	KD				
Investments at fair value through other comprehensive income							
Quoted shares	103,756	-	-	1	Last bid price Income approach/market multiple model	N/A	N/A
Private equity	24,056,150	-	-	3	Income approach/market multiple model	Cash flow, discount rate, growth rate	Higher market risk the lower the fair value
Investment funds	1,095,060	-	-	3	Income approach/market multiple model	Cash flow, discount rate, growth rate	Higher market risk the lower the fair value
Investments available for sale							
Quoted shares	-	927,272	869,263	1	Last bid price Income approach/market multiple model	N/A	N/A
Private equity	-	22,305,872	20,344,903	3	Income approach/market multiple model	Cash flow, discount rate, growth rate	Higher market risk the lower the fair value
Investment funds	-	3,298,537	3,132,605	3	Income approach/market multiple model	Cash flow, discount rate, growth rate	Higher market risk the lower the fair value
Investments at fair value through profit or loss							
Quoted shares	735,000	-	-	1	Last bid price Income approach/market multiple approach	N/A	N/A
Private equity	24,470,228	26,653,077	29,534,525	3	Income approach/market multiple approach	Carrying amount adjusted for market risk	Higher market risk the lower the fair value

The fair value of financial assets and liabilities are categorized under level 3 below by using recognized valuation technique such as discounted cash flows, price multiple or adjusted fair value.

Notes to interim condensed consolidated financial information (unaudited)
For the three months period ended 31 March 2018

17. Financial claims

In 2016, the Parent Company was notified that the General Authority for Zakat and Tax in the Kingdom of Saudi Arabia assessed tax for capital gains on a deemed profit basis on the Parent Company and other investors for one of the investments which the Company has exited from 2009.

The Parent Company's share in such tax assessment is KD 2,867,000. The Group believes that the value of the tax assessment mentioned in the notice is overestimated. The Group appointed a tax consultant for it in KSA and filed a formal objection to the tax claim. Further, the Group recalculated its share in the tax assessment value. Based on this, the Parent Company recognised a claims provision of KD 1,575,699 in the interim condensed consolidated statement of income for the period ended 31 March 2016. This amount represents the best estimate of the outstanding liabilities until the value of the final liability is decided.

18. Dividends

On 9 April 2018 the Annual General Ordinary Assembly was held and approved distribution of cash dividends at 5% (5 fils per share) to the shareholders of record as of the date of the General Assembly (31 December 2016: cash dividends at 5%).