

**ARKAN AL-KUWAIT REAL ESTATE
COMPANY K.S.C.P.**

**INTERIM CONDENSED FINANCIAL
INFORMATION (UNAUDITED)**

31 JULY 2017



Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18-21st Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

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



**BAKER TILLY
KUWAIT**

Audit, tax and consulting
P.O.Box 1486 Safat 13015
Kuwait

T: +965 1 88 77 99
F: +965 2294 2651

info@bakertillykuwait.com
www.bakertillykuwait.com

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

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Arkan Al-Kuwait Real Estate Company K.S.C.P. (“the Company”) as at 31 July 2017 and the related interim condensed statement of income and interim condensed statement of comprehensive income for the three months and nine months periods then ended and the related interim condensed statement of cash flows and interim condensed statement of changes in equity for the nine months period then ended. The management of the Company is responsible for the preparation and presentation of this interim condensed 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 financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial information is not prepared, in all material respects, in accordance with IAS 34.

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed financial information is in agreement with the books of account of the 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 and its executive regulations, as amended, or of the Company’s Memorandum of Incorporation and Articles of Association during the nine months period ended 31 July 2017 that might have had a material effect on the business of the Company or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 65 A
EY
AL AIBAN, AL OSAIMI & PARTNERS

MOHAMMAD HAMAD AL SULTAN
LICENSE NO. 100 A
AL SULTAN AND PARTNERS
MEMBER OF BAKER TILLY
INTERNATIONAL

14 September 2017
Kuwait

Arkan Al-Kuwait Real Estate Company K.S.C.P.

INTERIM CONDENSED STATEMENT OF INCOME (UNAUDITED)

For the period ended 31 July 2017

	Notes	Three months ended		Nine months ended	
		31 July		31 July	
		2017	2016	2017	2016
		KD	KD	KD	KD
INCOME					
Real estate rental income		862,361	603,448	2,352,069	1,772,583
Real estate expenses		(42,700)	(43,667)	(177,676)	(92,702)
Net real estate income		819,661	559,781	2,174,393	1,679,881
Gain on sale of investment properties	3	1,275,000	645,000	1,980,477	1,697,089
Gain on sale of available for sale investments		-	-	-	141,013
Management and incentive fees		3,431	3,579	7,589	16,143
Dividend income		3,504	31,854	3,504	59,736
Other income		2,761	50,375	5,772	100,479
		<u>2,104,357</u>	<u>1,290,589</u>	<u>4,171,735</u>	<u>3,694,341</u>
EXPENSES					
Salaries expenses		(96,901)	(78,656)	(281,175)	(238,896)
End of service benefits and leave expense		(18,408)	(25,955)	(58,996)	(143,321)
Other staff costs		(24,297)	(21,305)	(54,092)	(41,482)
Finance costs		(221,741)	(84,139)	(570,050)	(243,156)
General and administrative expenses		(61,560)	(50,558)	(162,034)	(129,748)
		<u>(422,907)</u>	<u>(260,613)</u>	<u>(1,126,347)</u>	<u>(796,603)</u>
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES ("KFAS"), NATIONAL LABOR SUPPORT TAX ("NLST") AND ZAKAT					
		1,681,450	1,029,976	3,045,388	2,897,738
KFAS		(15,133)	(9,270)	(27,408)	(26,080)
NLST		(42,037)	(25,749)	(76,135)	(72,443)
Zakat		(16,815)	(10,299)	(30,454)	(28,977)
PROFIT FOR THE PERIOD		<u>1,607,465</u>	<u>984,658</u>	<u>2,911,391</u>	<u>2,770,238</u>
BASIC AND DILUTED EARNINGS PER SHARE					
	4	<u>6.5 fils</u>	<u>4.0 fils</u>	<u>11.8 fils</u>	<u>11.2 fils</u>

The attached notes 1 to 11 form part of this interim condensed financial information.

Arkan Al-Kuwait Real Estate Company K.S.C.P.

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the period ended 31 July 2017


	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>31 July</i>		<i>31 July</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Profit for the period	1,607,465	984,658	2,911,391	2,770,238
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	1,607,465	984,658	2,911,391	2,770,238


Arkan Al-Kuwait Real Estate Company K.S.C.P.

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 31 July 2017

		31 July 2017 KD	(Audited) 31 October 2016 KD	31 July 2016 KD
ASSETS				
Non-current assets				
Furniture and equipment		142,121	156,181	160,737
Investment properties	5	49,068,021	40,451,707	34,379,102
Available-for-sale investments		2,596,927	2,596,927	3,096,928
		<u>51,807,069</u>	<u>43,204,815</u>	<u>37,636,767</u>
Current assets				
Advance payment on acquisition of investment properties		-	2,757,060	-
Accounts receivable and other assets		440,423	65,603	251,214
Cash and bank balances		1,480,390	845,359	815,537
		<u>1,920,813</u>	<u>3,668,022</u>	<u>1,066,751</u>
TOTAL ASSETS		<u><u>53,727,882</u></u>	<u><u>46,872,837</u></u>	<u><u>38,703,518</u></u>
EQUITY AND LIABILITIES				
Equity				
Share capital		25,114,998	25,114,998	25,114,998
Share premium		77,200	77,200	77,200
Employees' share option reserve		68,734	68,734	68,734
Treasury shares	7	(182,758)	(182,758)	(182,758)
Statutory reserve		3,053,714	3,053,714	2,797,893
Retained earnings		5,133,184	4,201,559	4,790,669
Total equity		<u>33,265,072</u>	<u>32,333,447</u>	<u>32,666,736</u>
Non-current liabilities				
Employees' end of service benefits		139,212	258,987	617,288
Current liabilities				
Islamic finance payables	8	19,794,293	13,568,855	5,010,739
Accounts payable and other liabilities		529,305	711,548	408,755
		<u>20,323,598</u>	<u>14,280,403</u>	<u>5,419,494</u>
Total liabilities		<u>20,462,810</u>	<u>14,539,390</u>	<u>6,036,782</u>
TOTAL EQUITY AND LIABILITIES		<u><u>53,727,882</u></u>	<u><u>46,872,837</u></u>	<u><u>38,703,518</u></u>


Fahad Abdullrahman Al-Mukhaizem
Chairman


Abdulrahman Hamad Al Terkait
Board member and Chief Executive Officer

Arkan Al-Kuwait Real Estate Company K.S.C.P.

INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

For the period ended 31 July 2017

	<i>Nine months ended</i>	
	<i>31 July</i>	
	<i>2017</i>	<i>2016</i>
	<i>KD</i>	<i>KD</i>
OPERATING ACTIVITIES		
Profit for the period	2,911,391	2,770,238
Adjustments for:		
Depreciation	18,622	26,808
Gain on sale of investment properties	(1,980,477)	(1,697,089)
Gain on sale of available-for-sale investments	-	(141,013)
Dividend income	(3,504)	(59,736)
Provision for employees' end of service benefits	25,200	101,656
Finance costs	570,050	243,156
	<u>1,541,282</u>	<u>1,244,020</u>
Changes in operating assets and liabilities:		
Accounts receivable and other assets	(374,820)	(191,753)
Accounts payable and other liabilities	(199,874)	(688,222)
	<u>966,588</u>	<u>364,045</u>
Cash from operations	966,588	364,045
Employees' end of service benefits paid	(144,975)	(10,240)
	<u>821,613</u>	<u>353,805</u>
Net cash flows from operating activities	821,613	353,805
INVESTING ACTIVITIES		
Purchase of furniture and equipment	(4,562)	(15,653)
Purchase of investment properties	(7,973,503)	(986,629)
Proceeds from sale of investment properties	4,094,726	4,350,000
Proceeds from available for sale investments	-	541,015
Dividend income received	3,504	59,736
	<u>(3,879,835)</u>	<u>3,948,469</u>
Net cash flows (used in) from investing activities	(3,879,835)	3,948,469
FINANCING ACTIVITIES		
Finance costs paid	(499,862)	(270,544)
Net movement in Islamic finance payables	6,155,250	(2,150,000)
Dividends paid	(1,962,135)	(1,649,805)
	<u>3,693,253</u>	<u>(4,070,349)</u>
Net cash flows from (used in) financing activities	3,693,253	(4,070,349)
NET INCREASE IN CASH AND BANK BALANCES	635,031	231,925
Cash and bank balances at the beginning of the period	845,359	583,612
CASH AND BANK BALANCES AT THE END OF THE PERIOD	1,480,390	815,537

The attached notes 1 to 11 form part of this interim condensed financial information.

Arkan Al-Kuwait Real Estate Company K.S.C.P.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period ended 31 July 2017

	Share capital KD	Share premium KD	Employees' share option reserve KD	Treasury shares KD	Statutory reserve KD	Retained earnings KD	Total KD
At 1 November 2016 (Audited)	25,114,998	77,200	68,734	(182,758)	3,053,714	4,201,559	32,333,447
Profit for the period	-	-	-	-	-	2,911,391	2,911,391
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	2,911,391	2,911,391
Cash dividend (Note 6)	-	-	-	-	-	(1,979,766)	(1,979,766)
At 31 July 2017	25,114,998	77,200	68,734	(182,758)	3,053,714	5,133,184	33,265,072
At 1 November 2015 (Audited)	23,919,046	77,200	68,734	(182,758)	2,797,893	4,866,188	31,546,303
Profit for the period	-	-	-	-	-	2,770,238	2,770,238
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	2,770,238	2,770,238
Cash dividend (Note 6)	-	-	-	-	-	(1,649,805)	(1,649,805)
Issue of bonus shares (Note 6)	1,195,952	-	-	-	-	(1,195,952)	-
At 31 July 2016	25,114,998	77,200	68,734	(182,758)	2,797,893	4,790,669	32,666,736

1 CORPORATE INFORMATION

The interim condensed financial information of Arkan Al-Kuwait Real Estate Company K.S.C.P. (the "Company") for the nine months ended 31 July 2017 was authorised for issue in accordance with a resolution of the board of directors on 10 September 2017. The Company's annual audited financial statements for the year ended 31 October 2016 was approved by the Company's ordinary Annual General Assembly on 26 January 2017.

The Company was incorporated on 5 August 2003 as a Kuwaiti closed shareholding company. The Company was admitted to Kuwait Stock Exchange on 11 December 2006.

The new Companies Law No. 1 of 2016 was issued on 24 January 2016 and was published in the Official Gazette on 1 February 2016 cancelled the Companies Law No. 25 of 2012, and its amendments. According to article No. 5, the new Law will be effective retrospectively from 26 of November 2012. The new Executive Regulations of Law No. 1 of 2016 was issued on 12 July 2016 and was published in the Official Gazette on 17 July 2016 which cancelled the Executive Regulations of Law No. 25 of 2012.

The purpose for which the Company was established is to carry out all activities of real estate investment, management, operating and maintenance of real estate whether owned by the Company or other parties including those owned by public authorities and Ministries, and therein it carries out the following activities:

- Engaged in sale and purchase, development and management of properties and land inside and outside the State of Kuwait for its own account and on account of others.
- Carry out studies and real estate investments of all kinds.
- Establishment and management of real estate funds inside and outside the State of Kuwait.
- Carry out various types of civil, mechanical and electrical contracting activities as well as execution and maintenance of such activities.
- Utilise and manage real estate properties for the Company's own account and on account of others inside and outside the State of Kuwait.
- Utilise the Company's available excess funds by investing in companies, real estate properties and portfolios managed by specialised entities inside and outside the State of Kuwait.
- Carry out cleaning activities of buildings and real estate complexes that serve the objectives of the Company.
- Carry out security and guarding activities for buildings as well as importing, selling and installation of various safety and firefighting equipment.
- Trade in the financial instruments of companies with similar in activities.
- Acquire agencies, which will help the Company to perform its own activities.
- Own, manage, operate, invest, rent and lease out hotels, clubs, health clubs, motels, entertainment houses, rest houses, parks, fairs, restaurants, cafeterias, compounds, facilities, tourist and health resorts, sport and entertainment projects and shops at all degrees and levels, including all the original and supporting services, the related facilities and other necessary services whether inside or outside the State of Kuwait.
- Organise real estate fairs relating to the real estate projects of the Company in accordance with the protocols followed by the Ministry of Commerce and Industry.
- Holding the real estate auctions in accordance with the protocols followed by the Ministry of Commerce and Industry.
- Owning the commercial markets and the residential compounds.
- Direct contribution to development of infrastructure projects for residential, commercial and industrial areas in BOT system.

The Company is allowed to conduct the above mentioned operations inside or outside the State of Kuwait by its own or as an agent for other parties. The Company may have an interest or in any way be associated itself with entities practicing activities similar to its own or which may assist the Company in achieving its objectives in Kuwait or abroad, or may establish, participate in or acquire these entities or have them affiliated to it.

The Company is practicing its activities in compliance with the tolerant rules of Islamic Sharia. It is not allowed in any case to interpret any of the above mentioned objectives as an allowance to the Company to act-directly or indirectly in an interest activities or any similar operations in any other forms.

The Company's registered address is P.O. Box 20678 Safat, 13067 Kuwait.

The Company is primarily engaged in real estate activities. Geographically, majority of the Company's assets are located in Kuwait and consequently, no segment information is provided.

At 31 July 2017

2 BASIS OF PREPARATION

The interim condensed financial information of the Company for the nine months ended 31 July 2017 have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting.

The interim condensed financial information is presented in Kuwaiti Dinars (KD) which is the functional currency of the Company.

The interim condensed financial information does not contain all information and disclosures required for full financial statements prepared in accordance with the International Financial Reporting Standards (“IFRS”) and should be read in conjunction with the Company’s annual financial statements for the year ended 31 October 2016.

New standards, interpretations and amendments

A number of new standards and amendments to standards are effective for annual periods beginning after 1 November 2017 and earlier application is permitted; however the Company has not early adopted new or amended standards in preparing this interim condensed financial information as none of these may have a significant impact on the Company’s interim condensed financial information.

3 GOING CONCERN BASIS OF ACCOUNTING

The interim condensed financial information has been prepared on a going concern basis, which assumes that the Company will be able to meet the mandatory repayment terms of the banking facilities as disclosed in Note 8.

As at 31 July 2017, the Company have net current liabilities of KD 18,402,785. The current liabilities include Islamic finance payables of KD 19,794,293 which are contractually due within 12 months from the end of the reporting period.

Notwithstanding the above, management does not consider that these conditions indicate the existence of a material uncertainty regarding the Company's ability to continue as going concern. Accordingly, the interim condensed financial information have been prepared on a going concern basis taking into consideration the following assumptions:

- The Company has recognized a net profit of KD 2,911,391 and generated positive operating cash flows of KD 821,613 for the nine months ended 31 July 2017;
- The proceeds from anticipated asset sales will be sufficient to meet the repayment terms as they fall due;
- Additional repayments required will be met out of operating cash flows; and
- The Company did not breach any of its loan covenants, nor did it default on any other of its obligations under its loan agreements. Further, it was successful in rolling over the existing short term Islamic finance facilities as disclosed in Note 8.
- Rental income is deposited in designated bank accounts towards settlement of loan instalments.

As described above, management has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

At 31 July 2017

4 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are computed by dividing the profit for the period by the weighted average number of outstanding ordinary shares adjusted for treasury shares during the period as follows:

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>31 July</i>		<i>31 July</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>	<i>KD</i>
Profit for the period (KD)	1,607,465	984,658	2,911,391	2,770,238
Weighted average number of outstanding shares adjusted for treasury shares (Shares)	247,470,718	247,470,718	247,470,718	247,470,718
Basic and diluted earnings per share (fils)	6.5 fils	4.0 fils	11.8 fils	11.2 fils

5 INVESTMENT PROPERTIES

	<i>31 July</i>	<i>(Audited)</i>	<i>31 July</i>
	<i>2017</i>	<i>31 October</i>	<i>31 July</i>
	<i>KD</i>	<i>2016</i>	<i>2016</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>
At the beginning of the period/year	40,451,707	36,347,473	36,347,473
Additions/ Transfers	10,730,563	7,059,234	986,629
Disposals	(2,114,249)	(2,955,000)	(2,955,000)
At the end of the period/year	49,068,021	40,451,707	34,379,102

Investment properties are categorised as:

	<i>31 July</i>	<i>(Audited)</i>	<i>31 July</i>
	<i>2017</i>	<i>31 October</i>	<i>31 July</i>
	<i>KD</i>	<i>2016</i>	<i>2016</i>
	<i>KD</i>	<i>KD</i>	<i>KD</i>
Properties under development	7,133,128	6,536,473	6,388,243
Developed properties	41,934,893	33,915,234	27,990,859
	49,068,021	40,451,707	34,379,102

The fair value of investment properties was independently determined as at 31 October 2016 by two accredited independent valuers who are specialised in valuing such type of properties. The fair value was determined to be the lower of the two values using the yield method. The independent valuers provide the fair value of the Company's investment property portfolio on an annual basis as management believes that there are no significant circumstances that have arisen during the period which may have an impact on fair value.

6 DIVIDENDS

On 26 January 2017, the ordinary general assembly of the shareholders of the Company approved cash dividends of KD 1,979,766 (excluding treasury shares) (2015: KD 1,649,805) to the Company's registered shareholders as of the date of the general assembly for the year ended 31 October 2016, amounting to 8 fils (2015: 7 fils) per share, and no bonus shares were issued for the year ended 31 October 2016 (2015: KD 1,195,952) representing Nil (2015: 5%) to the Company's registered shareholders one day before the date of the capital increase announcement.

At 31 July 2017

7 TREASURY SHARES

	<i>31 July</i> <i>2017</i>	<i>(Audited)</i> <i>31 October</i> <i>2016</i>	<i>31 July</i> <i>2016</i>
Number of treasury shares	<u>3,679,266</u>	<u>3,679,266</u>	<u>3,679,266</u>
Percentage of issued shares	<u>1.46%</u>	<u>1.46%</u>	<u>1.46%</u>
Cost (KD)	<u>182,758</u>	<u>182,758</u>	<u>182,758</u>
Market value (KD)	<u>312,738</u>	<u>275,945</u>	<u>312,738</u>

8 ISLAMIC FINANCE PAYABLES

	<i>31 July</i> <i>2017</i> <i>KD</i>	<i>(Audited)</i> <i>31 October</i> <i>2016</i> <i>KD</i>	<i>31 July</i> <i>2016</i> <i>KD</i>
Gross amount	<u>19,872,739</u>	<u>13,601,908</u>	<u>5,019,507</u>
Less: deferred finance costs	<u>(78,446)</u>	<u>(33,053)</u>	<u>(8,768)</u>
	<u>19,794,293</u>	<u>13,568,855</u>	<u>5,010,739</u>

This represents Tawarruq financing facilities obtained from local financial institutions that included covenants bearing an average finance cost of 4.2% (31 October 2016: 4% and 31 July 2016: 4%) per annum. These facilities are repayable within 12 months from the end of the reporting period.

Banking covenants vary according to each loan agreement, but typically require that the loan-to-value ratio does not exceed 100%. A future breach of covenant may require the Company to repay the loan on demand.

During the period, the Company did not breach any of its loan covenants, nor did it default on any other of its obligations under its loan agreements.

9 RELATED PARTY TRANSACTIONS

These represent transactions with certain parties (major shareholders, directors and executive officers of the Company, close members of their families and companies of which they are principal owners or over which they are able to exercise significant influence) entered into by the Company in the ordinary course of business. Pricing policies and terms of these transactions are approved by the Company's management.

Transactions with related parties included in the interim condensed financial information are as follows:

	<i>Nine months ended</i> <i>31 July</i>	
	<i>2017</i>	<i>2016</i>
	<i>KD</i>	<i>KD</i>
Funds provided to a related party	<u>153,526</u>	-
Key management compensation		
Salaries and short term benefits	<u>107,235</u>	<u>140,535</u>
Employees' end of service benefits	<u>12,498</u>	<u>73,587</u>
	<u>119,733</u>	<u>214,122</u>

Balances recorded in the interim condensed statement of financial position are as follows:

	<i>31 July</i> <i>2017</i> <i>KD</i>	<i>(Audited)</i> <i>31 October</i> <i>2016</i> <i>KD</i>	<i>31 July</i> <i>2016</i> <i>KD</i>
Included within accounts receivable and other assets:			
Amount due from related party	<u>153,526</u>	-	-

At 31 July 2017

10 CONTINGENCIES AND COMMITMENTS

As at 31 July 2017, the Company had agreed construction contracts with third parties and is consequently committed to future capital expenditure in respect of investment properties under development of KD 50,000. There are no contractual commitments in respect of completed investment properties.

The Company recognised a contingent liability of KD 8,250 (31 October 2016: KD 8,250 and 31 July 2016: KD 8,250) in respect of guarantees issued by a bank to certain contractors.

11 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of available-for-sale investments, rent service charge receivables, related party receivables and bank balances. Financial liabilities consist of Islamic finance payables and accounts payable and other liabilities

Fair values of financial assets and financial liabilities approximate their carrying values, except for financial assets available for sale carried at cost less impairment amounting to KD 2,381,112 (31 October 2016: KD 2,381,112 and 31 July 2016: KD 3,096,928), for which no reliable fair value measurement is available.