National Real Estate Company K.P.S.C.
and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

30 JUNE 2017

Building a better working world

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of National Real Estate Company K.P.S.C. (the "Parent Company") and its Subsidiaries (collectively, the "Group") as at 30 June 2017, and the related interim condensed consolidated statement of income and interim condensed consolidated statement of comprehensive income for the three months and six months period then ended and the interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six 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 IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

Except as explained in the following paragraph, we conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim 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

As stated in Note 3 (b) to the interim condensed consolidated financial information, the associate filed an arbitration related to one of its investment. The auditors of the associate were unable to obtain sufficient appropriate audit evidence about the investment and the recoverability of the loan granted by the associate to the related investee as at 30 June 2017, due to the nature and significant uncertainty around the investment and outcome of the arbitration. Consequently, we were unable to determine whether any adjustment to the carrying value of the investment in an associate was necessary.

Qualified Conclusion

Except for the adjustments to the interim condensed consolidated financial information that we might have become aware had it not been for the matter described above, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34.

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

Emphasis of Matter

We draw attention to Note 3 (a) to the interim condensed consolidated financial information, which describes that the associate is involved in several lawsuits. The ultimate outcome of these matters cannot presently be determined, and accordingly, no provision for any effects that may result has been made in the interim condensed consolidated financial information of the associate. Our conclusion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, except for the effect of matter described in the "Basis for Qualified Conclusion" above, the interim condensed consolidated financial information is in agreement with the books of accounts 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 regulations, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, during the six months period ended 30 June 2017 that might have had a material effect on the business of the Parent Company or on its financial position.

BADER A. AL-ABDULJADER	NAYEF M. AL-BAZIE
LICENCE NO. 207 A	LICENCE NO. 91 A
EY	RSM Albazie & Co.
AL AIBAN, AL OSAIMI & PARTNERS	

14 August 2017
Kuwait

National Real Estate Company K.P.S.C. and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

For the period ended 30 June 2017

	Notes	*Three months ended 30 June*		*Six months ended 30 June*	
		2017	*2016*	***2017***	*2016*
		KD	*KD*	***KD***	*KD*
Sale of inventory properties		**1,553,894**	4,741,945	**3,785,029**	9,185,845
Rental income		**2,894,291**	2,865,290	**5,817,492**	5,740,221
		4,448,185	7,607,235	**9,602,521**	14,926,066
Cost of inventory properties sold		**(1,823,232)**	(3,638,125)	**(4,189,639)**	(7,217,890)
NET REVENUE FROM PROPERTIES		**2,624,953**	3,969,110	**5,412,882**	7,708,176
Share of results from an associate	3	**3,965,835**	3,536,406	**7,392,559**	6,620,905
Share of results from a joint venture		**1,877**	(269,554)	**(137,200)**	(394,271)
Staff costs		**(1,122,079)**	(1,065,282)	**(2,089,283)**	(2,071,951)
Allowance for impairment of accounts receivable		**-**	(199,860)	**-**	(199,860)
Administrative expenses		**(1,498,383)**	(1,184,491)	**(2,330,737)**	(2,561,208)
Other income		**97,397**	188,839	**163,747**	293,691
Depreciation of property and equipment		**(30,597)**	(39,787)	**(60,797)**	(82,892)
Finance costs		**(516,498)**	(826,648)	**(1,052,883)**	(1,535,090)
Finance income		**125,291**	92,356	**241,603**	167,857
PROFIT FOR THE PERIOD BEFORE TAXATION AND BOARD OF DIRECTORS' REMUNERATION		**3,647,796**	4,201,089	**7,539,891**	7,945,357
Taxation		**(4,963)**	(27,488)	**(42,304)**	(68,452)
Board of directors' remuneration		**(21,250)**	(24,000)	**(42,500)**	(48,000)
PROFIT FOR THE PERIOD		**3,621,583**	4,149,601	**7,455,087**	7,828,905
Attributable to					
Equity holders of the Parent Company		**3,671,655**	3,965,871	**7,458,387**	7,581,526
Non-controlling interests		**(50,072)**	183,730	**(3,300)**	247,379
		3,621,583	4,149,601	**7,455,087**	7,828,905
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (FILS)	6	**3.92**	4.23	**7.96**	8.09
DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (FILS)	6	**3.58**	4.23	**7.28**	8.09

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the period ended 30 June 2017

	Note	*Three months ended 30 June*		*Six months ended 30 June*	
		2017	*2016*	***2017***	*2016*
		KD	*KD*	***KD***	*KD*
PROFIT FOR THE PERIOD		**3,621,583**	4,149,601	**7,455,087**	7,828,905
OTHER COMPREHENSIVE INCOME (LOSS) :					
Items that are or may be reclassified subsequently to the interim condensed consolidated statement of income					
Exchange difference on translation of foreign operations		**1,037,349**	(968,377)	**582,025**	(6,785,290)
(Loss) gain on financial assets available-for-sale		**-**	(136,897)	**250,978**	(273,794)
Share of other comprehensive (loss) income from an associate	3	**(232,208)**	781,658	**(452,277)**	(1,378,080)
Other comprehensive income (loss) for the period		**805,141**	(323,616)	**380,726**	(8,437,164)
Total comprehensive income (loss) for the period		**4,426,724**	3,825,985	**7,835,813**	(608,259)
Attributable to:					
Equity holders of the Parent Company		**4,578,184**	3,628,694	**7,999,708**	821,110
Non-controlling interests		**(151,460)**	197,291	**(163,895)**	(1,429,369)
		4,426,724	3,825,985	**7,835,813**	(608,259)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 June 2017

	Notes	***30 June 2017 KD***	*(Audited) 31 December 2016 KD*	*30 June 2016 KD*
ASSETS				
Cash and cash equivalents		**6,239,906**	9,664,222	8,932,821
Accounts receivable and prepayments		**14,912,195**	14,247,845	16,836,196
Inventory properties		**13,812,508**	15,608,321	21,249,484
Financial assets available-for-sale		**1,562,696**	1,311,718	1,289,243
Investment in an associate	3	**199,263,308**	192,323,026	186,253,590
Investment in a joint venture		**22,717,029**	21,213,973	22,791,715
Properties under development		**75,787,639**	74,994,248	120,845,845
Property and equipment		**1,058,463**	1,061,307	1,127,536
Investment properties		**201,509,832**	197,716,963	184,490,512
TOTAL ASSETS		**536,863,576**	528,141,623	563,816,942
LIABILITIES AND EQUITY				
Liabilities				
Loans and borrowings		**165,206,174**	161,781,794	160,042,845
Accounts payable and accruals		**120,988,643**	123,521,405	152,291,877
Employees' end of service benefits		**1,300,862**	1,223,184	1,166,960
Total liabilities		**287,495,679**	286,526,383	313,501,682
Equity				
Share capital	4	**98,965,918**	98,965,918	94,253,255
Treasury shares	5	**(7,864,846)**	(7,781,690)	(7,811,040)
Statutory reserve		**45,944,927**	45,944,927	44,295,836
Treasury share reserve		**12,857,601**	12,857,601	12,857,601
Effect of change in other comprehensive income of an associate		**847,835**	1,290,884	1,517,545
Share of other reserves of an associate		**(8,340,553)**	(8,331,325)	(7,349,134)
Investment available-for-sale reserve		**250,978**	-	(273,794)
Foreign currency translation reserve		**(25,540,652)**	(26,283,272)	(11,156,004)
Retained earnings		**100,695,652**	93,237,265	91,078,411
Equity attributable to equity holders of the Parent Company		**217,816,860**	209,900,308	217,412,676
Non-controlling interests		**31,551,037**	31,714,932	32,902,584
Total equity		**249,367,897**	241,615,240	250,315,260
TOTAL LIABILITIES AND EQUITY		**536,863,576**	528,141,623	563,816,942

Faisal Jamil Sultan Al-Essa
Chairman

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period ended 30 June 2017

	Attributable to shareholders of the Parent Company											
	Share capital KD	*Treasury shares KD*	*Statutory reserve KD*	*Treasury share reserve KD*	*Effect of changes in other comprehensive income of an associate KD*	*Share of other reserves of an associate KD*	*Investment available-for-sale reserve KD*	*Foreign currency translation reserve KD*	*Retained earnings KD*	*Sub-total KD*	*Non-controlling interests KD*	*Total equity KD*
As at 1 January 2017	98,965,918	(7,781,690)	45,944,927	12,857,601	1,290,884	(8,331,325)	-	(26,283,272)	93,237,265	209,900,308	31,714,932	241,615,240
Profit (loss) for the period	-	-	-	-	-	-	-	-	7,458,387	7,458,387	(3,300)	7,455,087
Other comprehensive (loss) income for the period	-	-	-	-	(443,049)	(9,228)	250,978	742,620	-	541,321	(160,595)	380,726
Total comprehensive (loss) income for the period	-	-	-	-	(443,049)	(9,228)	250,978	742,620	7,458,387	7,999,708	(163,895)	7,835,813
Purchase of treasury shares	-	(83,156)	-	-	-	-	-	-	-	(83,156)	-	(83,156)
As at 30 June 2017	**98,965,918**	**(7,864,846)**	**45,944,927**	**12,857,601**	**847,835**	**(8,340,553)**	**250,978**	**(25,540,652)**	**100,695,652**	**217,816,860**	**31,551,037**	**249,367,897**
As at 1 January 2016	94,253,255	(7,601,831)	44,295,836	12,857,601	2,895,860	(7,349,369)	-	(6,047,462)	83,496,885	216,800,775	34,331,953	251,132,728
Profit for the period	-	-	-	-	-	-	-	-	7,581,526	7,581,526	247,379	7,828,905
Other comprehensive (loss) income for the	-	-	-	-	(1,378,315)	235	(273,794)	(5,108,542)	-	(6,760,416)	(1,676,748)	(8,437,164)
Total comprehensive (loss) income for the	-	-	-	-	(1,378,315)	235	(273,794)	(5,108,542)	7,581,526	821,110	(1,429,369)	(608,259)
Purchase of treasury shares	-	(209,209)	-	-	-	-	-	-	-	(209,209)	-	(209,209)
As at 30 June 2016	94,253,255	(7,811,040)	44,295,836	12,857,601	1,517,545	(7,349,134)	(273,794)	(11,156,004)	91,078,411	217,412,676	32,902,584	250,315,260

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

National Real Estate Company K.P.S.C. and its Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the period ended 30 June 2017

		Six months ended 30 June	
		2017	*2016*
	Notes	***KD***	*KD*
OPERATING ACTIVITIES			
Profit for the period before taxation and Board of directors' remuneration		**7,539,891**	7,945,357
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of property and equipment		**60,797**	82,892
Share of results from an associate	3	**(7,392,559)**	(6,620,905)
Share of results from a joint venture		**137,200**	394,271
Finance income		**(241,603)**	(167,857)
Finance costs		**1,052,883**	1,535,090
Allowance for impairment of accounts receivable		**-**	199,860
Provision for employees' end of service benefits		**79,553**	96,250
		1,236,162	3,464,958
Working capital adjustments:			
Inventory properties		**3,392,816**	7,104,283
Additions to properties under development		**(2,644,729)**	(7,384,784)
Accounts receivable and prepayments		**(664,350)**	(41,771)
Accounts payable and accruals		**(2,800,460)**	(12,269,730)
Cash flows used in operations		**(1,480,561)**	(9,127,044)
Employees' end of service benefits paid		**(1,875)**	(26,578)
Taxation paid		**(267,827)**	(28,089)
Net cash flows used in operating activities		**(1,750,263)**	(9,181,711)
INVESTING ACTIVITIES			
Purchase of property and equipment		**(75,621)**	(71,657)
Purchase of investment properties		**(2,260,984)**	(3,564,679)
Dividends received from an associate	3	**-**	8,121,658
Finance income received		**241,603**	167,857
Net cash flows (used in) from investing activities		**(2,095,002)**	4,653,179
FINANCING ACTIVITIES			
Loans and borrowings obtained		**11,000,000**	-
Loans and borrowings paid		**(7,575,620)**	(4,835,354)
Purchase of treasury shares		**(83,156)**	(209,209)
Finance costs paid		**(3,616,875)**	(3,622,917)
Dividends paid		**-**	(38,474)
Net cash flows used in financing activities		**(275,651)**	(8,705,954)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(4,120,916)**	(13,234,486)
Foreign currency translation adjustments		**696,600**	8,280,578
Cash and cash equivalents at beginning of the period		**9,664,222**	13,886,729
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		**6,239,906**	8,932,821

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

1 INFORMATION ABOUT THE PARENT COMPANY

The interim condensed consolidated financial information of National Real Estate Company K.P.S.C. (the "Parent Company") and its subsidiaries (collectively, the "Group") for the six months period ended 30 June 2017 was authorised for issuance in accordance with a resolution of the Parent Company's Board of Directors on 14 August 2017.

The Parent Company was incorporated in State of Kuwait under reference number 19628 dated 15 November 1973 as a Kuwaiti public shareholding company. The Parent Company is listed on the Kuwait Stock Exchange. The Parent Company's registered postal address is P.O. Box 22644, Safat 13087, State of Kuwait.

The main activities of the Group are real estate investment and management, as well as undertaking real estate construction and maintenance.

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial information of the Group has been prepared in compliance with IAS 34: *Interim Financial Reporting* ("IAS 34").

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual audited consolidated financial statements, and should be read in conjunction with the Group's annual audited consolidated financial statements for the year ended 31 December 2016. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included in the interim condensed consolidated financial information. Operating results for the interim period ended 30 June 2017 are not necessarily indicative of the results that may be expected for the year ending 31 December 2017. For further information, refer to the annual audited consolidated financial statements and notes thereto for the year ended 31 December 2016.

The interim condensed consolidated financial information is presented in Kuwaiti Dinars ("KD"), which is the functional currency of the Group.

The accounting policies used in the preparation of this interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of the amendments and annual improvements to IFRSs, relevant to the Group which are effective for annual reporting period starting from 1 January 2017 and did not result in any material impact on the accounting policies, financial position or performance of the Group.

3 INVESTMENT IN AN ASSOCIATE

The Parent Company has effective equity interest of 23.668% (31 December 2016: 23.537% and 30 June 2016: 23.537%) in Agility Public Warehousing Company K.S.C.P. (the "Associate"), a public shareholding company registered in Kuwait and listed on the Kuwait Stock Exchange and Dubai Financial Market. The Associate is involved in storing goods, management and renting of warehouses, transportation activities, distribution, handling and customs clearance for goods.

The movement in the carrying value of investment in an associate during the period/year is as follows:

	30 June 2017 KD	*(Audited) 31 December 2016 KD*	*30 June 2016 KD*
Balance at the beginning of the period / year	**192,323,026**	189,132,423	189,132,423
Share of results	**7,392,559**	13,899,193	6,620,905
Cash dividends received	-	(8,121,658)	(8,121,658)
Effect of changes in an associate's equity	**(1,436,960)**	(1,604,976)	(1,378,080)
Effect of change in other reserves of associate	**984,683**	(981,956)	-
Balance at the end of the period / year	**199,263,308**	192,323,026	186,253,590

3 INVESTMENT IN AN ASSOCIATE (continued)

The fair market value of the Group's interest in the associate based on the quoted market price of the investment as at 30 June 2017 amounted to KD 221,991,920 (31 December 2016: KD 167,847,549 and 30 June 2016: KD 127,239,271).

a) The contingent liabilities and legal cases relating to the associate are summarized as follows:

i. In 2007, the Associate was served with an administrative subpoena and, subsequently, in March 2008, with a grand jury subpoena, by the US Government in connection with an investigation into certain aspects of the Subsistence Prime Vendor ("SPV") Contract which expired on December 2010. In addition, some employees of the Associate were served with grand jury subpoenas. The Associate cooperated with this investigation and produced numerous records in response to this request.

In November 2009, the Associate was indicted by a federal grand jury in the United States on multiple counts of fraud allegations. Furthermore, The United States Department of Justice also joined the qui tam lawsuit against the Associate under the US False Claims Act (the "Qui Tam Proceedings"). The Department of Justice is claiming substantial damages for the alleged violations.

In May 2017, the Associate entered into a global settlement of the Qui Tam proceedings. The Associate agreed to plead in the criminal portion of the case to a misdemeanor in connection with a single invoice valued at $551 (KD 167). The misdemeanor is a minor offense, unrelated to any of the original criminal charges, requiring the Associate to pay a maximum of $551 and no criminal fine. In the parallel civil proceedings of the case, the Associate agreed to pay $95 million (KD 28.8 million) in cash. In addition, the Associate and the U.S. government agreed to mutual releases of all outstanding contract claims related to the SPV Contract. The global settlement and mutual dismissal of all claims by both parties allowed the Associate to release operational credit reserves of KD 29.5 million. The settlement resolved all outstanding issues with the U.S. government in connection with the SPV Contract for the Associate, its affiliates, employees, directors, and officers. It also allows the Associate to resume pursuit of new U.S. government contracts. Under the terms of the settlement, the U.S. government has agreed to remove the Associate and its subsidiaries and affiliates from the list of suspended companies on its System for Award Management (SAM) database, formerly known as the Excluded Parties List System (EPLS). Subsequently, the court approved the joint dismissal of the civil case and has set a subsequent date for hearing the criminal case.

In 2009, in relation to a cost reimbursable contract, the U.S. Defense Contract Audit Agency (DCAA) determined that reimbursement requests for certain costs incurred by the Associate were not proper, and demanded repayment of approximately KD 23 million from the Associate. In 2011, the US Government collected KD 4.7 million from this amount by offsetting payments due on the Associate's other US Government contracts.

In November 2010, the Associate filed a Notice of Appeal in respect of the matter to the U.S. Armed Services Board of Contract Appeals (ASBCA). On 10 December 2014, the ASBCA ruled that it did not have subject-matter jurisdiction to review the appeal by the Associate.

On 8 April 2015, the Associate appealed the ASBCA ruling to the U.S. Court of Appeals for the Federal Circuit. As part of the same contract, the Associate asserted a KD 13 million claim for non-reimbursed costs. This claim was denied by the ASBCA and consolidated with the above referenced Government claim for KD 23 million. Both claims are therefore on appeal to the U.S. Court of Appeals for the Federal Circuit. The Associate also filed a separate complaint at the U.S. Court of Federal Claims on 7 April 2015 on a different jurisdictional basis seeking the KD 13 million affirmative claim, the KD 4.7 million which was offset by the U.S. Government as aforementioned, and a determination that the KD 23 million demanded by the US Government is invalid. On 10 March 2016 the U.S. The Court of Appeals for the Federal Circuit granted a "limited remand" back to the ASBCA for the purpose of determining the real party in interest. Notwithstanding this remand, the U.S. Court of Appeals for the Federal Circuit retained jurisdiction over the appeal. On February 14, 2017, the ASBCA issued a decision concluding that the identity of the real party in interest did not affect the ASBCA's earlier decision dismissing the Associate's claims for lack of jurisdiction. After the ASBCA issued its decision on remand, the Federal Circuit appeal recommenced.

3 INVESTMENT IN AN ASSOCIATE (continued)

In October 2016, U.S. Defense Logistics Agency (DLA) sent a demand that the Associate reimburse the U.S. Government an amount of approximately KD 8.4 million for alleged "bottled water overcharges." The U.S. Government paid the claimed amount to the Asociate for supplying bottled water to the U.S. military in Afghanistan in 2005. DLA claims that the Associate misrepresented the price of bottled water because PWC's supplier, Supreme Foodservice, charged an artificially-high price for the water that Supreme sold to the Associate. DLA has not presented any evidence that the Associate was complicit in, or had any actual or constructive knowledge of, Supreme's fraud at the time the Associate purchased bottled water from Supreme. On March 1, 2017, DLA sent a letter threatening to take offsets against amounts due under other U.S. government contracts. On March 8, 2017, the Associate requested deferment of the offsets based on the differing contractual parties and the Associate's appeal which is pending at the U.S. Court of Federal Claims. In May 2017, under a Global settlement agreement signed with DLA covering various other claims and counter claims, the Associate settled this case without prejudice.

ii. Freight forwarding business – investigation

In August 2010, the Brazilian competition authority ("CADE") opened an investigation into the activities of the freight forwarding industry which included the Associate. The investigation is currently ongoing. The Brazilian competition authority purported to serve a notice on the Associate through its Brazilian subsidiary. The Associate has to date rejected the validity of service of the notice. However, CADE stated in public announcement that it considers the notice to the Associate duly served. The Associate filed proceedings before the Brazilian court on 18 February 2014 requesting that the service of process be declared null. The Court issued a ruling rejecting this request and the Associate appealed against this ruling on 2 June 2015. In April 2017, the Associate concluded a settlement agreement with CADE, pursuant to which the Associate agreed to pay a fine of BRL 2,250,432 (approximately KD 213,554) in return for CADE closing its investigation. The Associate withdrew its proceedings in the Brazilian court contesting the validity of service of process. The terms of the settlement agreement were formally approved by CADE on 19 April 2017, and the Associate recorded this amount in the interim condensed consolidated statement of income.

iii. Guarantee encashment

A resolution was issued by the General Administration of Customs for Kuwait ("GAC") to cash a portion, amounting to KD 10,092 thousand of the bank guarantee submitted by Global Clearing House Systems K.S.C. (Closed) (the "GCHS"), a subsidiary of the Associate, in favour of GAC in relation to performance of a contract. Pursuant to this resolution, GAC called the above guarantee during the year ended 31 December 2007.

GCHS appealed the above resolution at the Court of First Instance and the latter issued its judgment in favour of the GCHS and ordered GAC to pay an amount of KD 58,927 thousand as compensation against the non-performance of its obligations under the contract, and KD 9,138 thousand towards refunding of the guarantee encashed earlier, together with an interest of 7% per annum on these amounts to be calculated from the date the judgment becomes final.

The GCHS appealed the judgment before the Court of Appeal requesting an increase in compensation. GAC also filed an appeal No. 1955 / 2014 administrative 4 before the Court of Appeal. On 13 September 2015, the Court of Appeal pronounced its judgement affirming the decision of the Court of First Instance. Both the GCHS and GAC appealed against this ruling before the Kuwait Court of Cassation which is yet to pronounce its judgement. On 15 March 2017, the Court of Cassation resolved to defer the appeal to the experts and a hearing is scheduled for 27 September 2017 for the experts to prepare their report.

GCHS also filed a claim against GAC and requested, under one of its demands, the Court of Appeal to prohibit GAC from encashing the remaining bank guarantees offered by the GCHS. The Court of Appeal issued its judgment in favour of the GCHS in blocking the encashment of the bank guarantees in the possession of GAC. GAC filed an appeal against the decision of the Court of Appeal blocking the encashment of the bank guarantees which was repealed by the Court of Cassation.

In addition to the above, there are legal disputes between GCHS and GAC. Both parties have filed various claims currently pending in the court. The Associate's in-house counsel believes that these matters will not have a material adverse effect on the Associate's interim condensed consolidated financial information.

3 INVESTMENT IN AN ASSOCIATE (continued)

iv. KGL Litigation

During the year ended 31 December 2012, the Associate and certain of its subsidiaries were named as defendants in civil lawsuits filed by Kuwait and Gulf Link Transport Company ("KGL") and its affiliates in three separate jurisdictions in the United States for certain alleged defamation and interference with KGL's contracts with the US Government by an alleged former employee of the Associate. The Associate filed motions to dismiss the complaints and KGL also filed amended complaints. As a result, the Court in two of the jurisdictions granted the Associate's motion to dismiss the complaint. The ultimate outcome of the litigation in the other jurisdiction is uncertain at this time.

v. Miller False Claims Act Litigation

In a matter captioned United States of America ex rel. John Miller vs. The Public Warehousing Company, K.S.C. a/k/a Agility and PWC was filed under seal in the United States District Court for the Central District of California by Relator John Miller pursuant to the qui tam provisions in the False Claims Act ("FCA"), 31 U.S.C. §§ 3729 et. seq., on May 3, 2010. In his complaint, Relator alleges that the Associate violated the FCA by overstating indirect costs, thus overcharging the U.S. Government under three contracts. Relator attempted to serve the complaint on the Associate through its U.S. subsidiaries with offices in California. The Associate maintained that such service attempts were not effective. The District Court found that service had been effected, and the Associate appealed that order. The Court of Appeals found that further factual development was necessary before it could be determined whether or not service was effective. Relator, however, declined to pursue discovery and instead attempted service through the Hague Convention process. The Relator filed a motion, claiming that his efforts at service had been unsuccessful, and asking for the U.S. Court to grant alternative service. The Court granted Relator's motion and Relator served the Associate through the alternative means specified. The Associate maintains that service was improper and it has preserved this issue for a future appeal, if necessary. The ultimate outcome of the litigation in the other jurisdiction is uncertain at this time.

In addition to the above, the Associate is involved in various incidental claims and legal proceedings matters. The legal counsel of the Associate believes that these matters will not have a material adverse effect on the accompanying interim condensed consolidated financial information.

b) In February 2017, the Associate filed a request for arbitration related to one of its investments. The associate was unable to determine the fair value of its investments carried at fair value through profit and loss and the recoverability of the loan granted by the Associate to the related investee as at 30 June 2017, 31 December 2016 and 30 June 2016, due to nature and significant uncertainty around the investment and outcome of the request for arbitration. The investment is carried at its fair value as at 31 December 2013 of US Dollars 380 million which is equivalent to KD 108,847,000 (31 December 2016: KD 109,881,000 and 30 June 2016: 108,424,000).

As at 30 June 2017, interest bearing loan provided by the Associate to related investee along with interest accrued thereon amounted to KD 35,260,000 (31 December 2016: KD 35,569,000 and 30 June 2016: KD 35,098,000) for which the Associate's management is unable to determine the recoverability.

4 SHARE CAPITAL

At 30 June 2017, the authorised, issued and fully paid up capital of the Parent Company comprises of 989,659,183 (31 December 2016: 989,659,183 and 30 June 2016: 942,532,557) shares of 100 fils each.

On 22 June 2017, the shareholders at the Extra Ordinary General Assembly meeting of the Parent Company approved the increase in authorized share capital from KD 98,965,918 to 150,000,000.

5 TREASURY SHARES

	30 June 2017 KD	*(Audited) 31 December 2016 KD*	*30 June 2016 KD*
Number of treasury shares	**53,057,312**	52,337,312	50,149,590
Percentage of issued and fully paid up shares (%)	**5.36**	5.29	5.32
Market value (KD)	**5,783,247**	5,443,080	4,212,566

6 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the period attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the profit for the period attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following table reflects the profit and shares data used in the basic and diluted earnings per share computations:

	Three months ended 30 June		*Six months ended 30 June*	
	2017	*2016*	*2017*	*2016*
Profit attributable to equity holders of the Parent Company (KD)	**3,671,655**	3,965,871	**7,458,387**	7,581,526
Number of issued and fully paid-up shares	**989,659,182**	989,659,182	**989,659,182**	989,659,182
Less: Weighted average number of treasury shares	**(52,937,920)**	(52,337,312)	**(52,937,920)**	(52,337,312)
Weighted average number of ordinary shares	**936,721,262**	937,321,870	**936,721,262**	937,321,870
Basic earnings per share attributable to equity holders of the Parent Company (fils)	**3.92**	4.23	**7.96**	8.09
Weighted average number of ordinary shares	**936,721,262**	937,321,870	**936,721,262**	937,321,870
Add: Effects of dilution from convertible loan	**88,000,000**	-	**88,000,000**	-
Adjusted weighted average number of ordinary shares	**1,024,721,262**	937,321,870	**1,024,721,262**	937,321,870
Diluted earnings per share attributable to equity holders of the Parent Company (fils)	**3.58**	4.23	**7.28**	8.09

Basic and diluted earnings per share for the three months period ended 30 June 2016 was 4.44 fils and six months ended 30 June 2016 was 8.49 fils, before retrospective adjustment to the number of shares on account of bonus issue (Note 4).

7 RELATED PARTY BALANCES AND TRANSACTIONS

Related parties represent major shareholders, board of directors, associate, key management personnel and parties related to them. Pricing policies and terms of these transactions are approved by the Parent Company's management. Related party balances and transactions are summarized as follows:

Transactions included in interim condensed consolidated statement of income:

	Major shareholders	*Six months ended 30 June*	
		2017	*2016*
	KD	***KD***	*KD*
Rental income	**230,295**	**230,295**	230,295
Administrative expenses	**(90,283)**	**(90,283)**	(86,876)

Balances included in interim condensed consolidated statement of financial position:

	Major shareholders	*Associate*	*Joint Venture*	*30 June 2017*	*(Audited) 31 December 2016*	*30 June 2016*
	KD	***KD***	***KD***	***KD***	*KD*	*KD*
Amounts due from related parties (included in accounts receivable and prepayments)	**1,179,998**	**69,450**	**862,949**	**2,112,397**	2,120,611	839,031
Amounts due to related parties (included in accounts payable and accruals)	-	**(24,353,163)**	-	**(24,353,163)**	(20,348,106)	(15,994,134)
Loans and borrowings (Unsecured)*	-	**(11,000,000)**	-	**(11,000,000)**	-	-

*This represents the amount convertible at the option of the lender. Management believes that the effect of conversion is immaterial, accordingly no separate equity component was made.

Key management compensation
The remuneration of directors and other members of key management during the period were as follows:

	Three months ended 30 June		*Six months ended 30 June*	
	2017	*2016*	***2017***	*2016*
	KD	*KD*	***KD***	*KD*
Short term benefits	**191,440**	209,993	**373,814**	424,152
Post employment benefits	**10,808**	3,844	**19,952**	14,308
Board of Directors' remuneration	**21,250**	24,000	**42,500**	48,000

8 CONTINGENT LIABILITIES AND COMMITMENTS

a) At 30 June 2017, the Group has capital commitments of KD 17,437,034 (31 December 2016: KD 11,437,758 and 30 June 2016: KD 14,203,000).

b) At 30 June 2017, the Parent Company has commitments of KD 84,600 (31 December 2016: KD 84,600 and 30 June 2016: KD 84,600) under a non-cancelable operating lease, primarily for land leased from the Government of Kuwait for a Water Front Project for the period from 2016 to 2019.

8 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

c) For the operating lease commitments, the Parent Company has provided a bank guarantee of 0.5% of the total value of the capital project concerned.

d) At 30 June 2017, the Group recognizes a contingent liability amounting to KD 4,339,644 (31 December 2016: KD 4,360,430 and 30 June 2016: 4,334,708) in respect of guarantees provided.

e) On behalf of a related party, the Parent Company issued a corporate guarantee of KD 15,000,000 towards a short term loan facility obtained by the related party. If the related party fails to retire its short term debt either through the sale of assets or through other means, the Parent Company will be obliged to acquire the assets of the related party at a price lower than fair market price.

9 LEGAL CASES

The main legal claims of the Group are as follows:

1) The Ministry of Finance (MOF) issued a resolution to terminate contracts relating to certain properties constructed on land leased from the Government of the State of Kuwait upon the expiry of 25 years. The Parent Company appealed against this resolution.

   For one of the properties, the Court of Appeal has ruled in favour of MOF and awarded a compensation of KD 11,711,060. The Parent Company has further appealed to Court of Cassation and the case is still under consideration. For the other property, the Court of Appeal has also ruled in favour of MOF and awarded a compensation of KD 6,597,527. The Parent Company has further appealed to the Court of Cassation and the case is under consideration to date. The Parent Company has also filed lawsuits against MOF demanding compensation for these properties. The legal proceedings on the underlying cases are still in progress.

2) An Arbitration claim was filed by one of the investors in Kuwait Free Trade Zone (KFTZ) against the Parent Company for alleged damages and loss of profit. Arbitration ruled against the Parent Company and awarded KD 6,021,803 to the investor in the KFTZ. The Parent Company has appealed in the Court of First Instance and the appeal was rejected. The Parent Company has appealed at the Court of Appeal and the judgement came in favor of the Parent Company on 21 May 2017. The case is moved back to the court of first instance.

3) The Ministry of Commerce and Industry (MOCI) had cancelled the management contract of KFTZ. The Parent Company filed a lawsuit appealing the decision of MOCI. The Parent Company had recognized a provision for KD 13,360,424 upon losing control over the assets in KFTZ. The Court of Cassation has ruled in favour of MOCI on 22 March 2016, which brings to the end of this legal case. There were no additional provision required as the Parent Company has recognized fully provision against KFTZ assets in prior years.

4) The Parent Company filed a legal case against Kuwait Ports Authority (KPA) and a transport company claiming for unpaid rent arising from utilization of certain plots in KFTZ. The Court of Appeal confirmed the appeal obliging KPA and the transport company to jointly pay KD 6,956,416 to the Parent Company. The Parent Company received the amount as stated in the court ruling on 11 October 2011. KPA and the transport company appealed against the ruling in the Court of Cassation which is still pending final ruling. As a precaution, the Parent Company has not reversed previously recorded provisions until a final ruling is issued.

   Also, the Parent company has filed a lawsuit against KPA to compensate it for utilizing other sites in KFTZ. The Court transferred the matter to the Experts department which is still under consideration to date.

Provisions are taken for those cases where it is more probable that the Parent Company will not prevail in the opinion of the external legal counsel.

In addition to the above matters, there are other lawsuits filed against the Parent Company in the ordinary course of business, and the Parent Company's external legal counsel believes that these matters will not have a material effect on the Group interim condensed consolidated financial information.

10 FAIR VALUE MEASUREMENT

The Group measures financial assets such as financial assets available-for-sale and non–financial assets such as investment properties, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table presents the Group's assets that are measured at fair value at:

30 June 2017	***Level 1 KD***	***Level 2 KD***	***Total KD***
Financial assets available-for-sale*	-	-	-
Investment properties	-	**190,927,977**	**190,927,977**
	-	**190,927,977**	**190,927,977**

31 December 2016 (Audited)	*Level 1 KD*	*Level 2 KD*	*Total KD*
Financial assets available-for-sale	1,277,711	-	1,277,711
Investment properties	-	187,066,588	187,066,588
	1,277,711	187,066,588	188,344,299

30 June 2016	*Level 1 KD*	*Level 2 KD*	*Total KD*
Financial assets available-for-sale	1,254,891	-	1,254,891
Investment properties	-	175,023,609	175,023,609
	1,254,891	175,023,609	176,278,500

* Financial assets available for sale comprise of investment in a local equity security stated at KD 1,528,685 at 30 June 2017, whose trading was suspended in the Kuwait Stock Exchange on 28 March 2017 until date of authorization of this interim condensed consolidated financial information. The above table does not include the underlying investment because the fair value cannot be reliably measured since no adequate information was available to fair value the security using other generally accepted valuation methods as at the reporting date. Based on the available information, the management believes that there is no indication of impairment.

There has been no transfer between fair value levels during the periods.

11 SEGMENT INFORMATION

The Group's management has grouped its services into the following business segments:

- Real estate and other: consisting of development, trading, leasing and management of real estate properties and other activities.
- Investments: consisting of investment in an associate, joint venture and equity securities.

There are no inter-segmental transactions. Information related to each reportable segment for the six months ended 30 June 2017 and 2016 is set out below:

	30 June 2017			*30 June 2016*		
	Real estate & others KD	***Investments KD***	***Total KD***	*Real estate & others KD*	*Investments KD*	*Total KD*
Segment income	**9,766,268**	**7,255,359**	**17,021,627**	15,219,757	6,226,634	21,446,391
Segment expenses	**(8,609,659)**	**-**	**(8,609,659)**	(11,851,049)	-	(11,851,049)
Depreciation on property and equipment	**(60,797)**	**-**	**(60,797)**	(82,892)	-	(82,892)
Allowance for impairment of accounts receivable	**-**	**-**	**-**	(199,860)	-	(199,860)
Segment profit	**1,095,812**	**7,255,359**	**8,351,171**	3,085,956	6,226,634	9,312,590
Net interest			**(811,280)**			(1,367,233)
Unallocated expenses			**(84,804)**			(116,452)
Net profit for the period			**7,455,087**			7,828,905

The following table represents assets and liabilities for the Group's operating segments as at 30 June 2017, 31 Decemeber 2016 and 30 June 2016 repectively.

	Real estate & others KD	***Investments KD***	***Total KD***
As at 30 June 2017			
Total assets	**313,320,543**	**223,543,033**	**536,863,576**
Total liabilities	**(264,841,857)**	**(22,653,822)**	**(287,495,679)**
As at 31 December 2016			
Total assets	313,292,906	214,848,717	528,141,623
Total liabilities	(266,178,277)	(20,348,106)	(286,526,383)
As at 30 June 2016			
Total assets	353,482,394	210,334,548	563,816,942
Total liabilities	(297,507,548)	(15,994,134)	(313,501,682)