1 CORPORATE INFORMATION

The interim condensed consolidated financial information of A'ayan Real Estate Company K.S.C.P. ("the Parent Company") and its subsidiaries (collectively "the Group") for the nine months ended 30 September 2018, was authorized for issue in accordance with a resolution of the Board of Directors of the Parent Company on 5 November 2018.

The Parent Company is a listed public Kuwaiti shareholding company registered in Kuwait. The Group's activities include trading in, managing and financing real estate and related activities. All activities are conducted in accordance with Islamic Sharia'a principles, as approved by the Parent Company's Fatwa and Sharia'a Supervisory Board.

The Parent Company is a subsidiary of A'ayan Leasing and Investment Company K.S.C.P. (the "Ultimate Parent Company"), whose shares are publicly traded in Boursa Kuwait.

The registered office of the Parent Company is located at Al Soor Tower 20th floor, Al Soor Street and its registered postal address is P.O. Box 2973, Safat 13030, Kuwait.

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial information of the Group for the nine months ended 30 September 2018 has been prepared in accordance with International Accounting Standard 34, "*Interim Financial Reporting*".

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

The interim condensed consolidated financial information of the Group 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 2017.

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard interpretations or amendment that has been issued but not yet effective.

The Group applied, for the first time, IFRS 15 *'Revenue from Contracts with Customer'* and IFRS 9 *'Financials Instruments'*. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial information.

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

The key changes to the Group's accounting policies resulting from its adoption of IFRS 15 and IFRS 9 are summarised below:

3.1 IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group's adoption of IFRS 15 under modified retrospective method had no material impact on this interim condensed consolidated financial information of the Group.

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)

3.2 IFRS 9 Financial Instruments

The Group has adopted *IFRS 9 - Financial Instruments* issued in July 2014 with a date of initial application of 1 January 2018, with the exception of requirements of the expected credit losses on financing facilities. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized below.

Classification of financial assets and financial liabilities
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 Group'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 groups of financial assets to achieve its business objective. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'Sell' business model. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

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

The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

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

Assessment of whether contractual cashflows are solely payments of principal and interest (SPPI test)
The Group assesses whether the financial instruments' cash flows represent Solely Payments of Principal and Interest (the 'SPPI test').

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

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

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

The Group reclassifies when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)

3.2 IFRS 9 Financial Instruments (continued)

Measurement categories of financial assets and liabilities
The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVTPL), available-for-sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVTPL

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

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

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

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Balances with banks and financial institutions and certain other assets are classified as debt instruments at amortised cost.

Debt instruments measured at amortised cost are subsequently measured at amortised cost using the effective yield method adjusted for impairment losses, if any.

Debt instruments at FVOCI
The Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI except for the recognition of impairment losses. Interest income and foreign exchange gains and losses are recognised in profit or loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss. The Group does not have any instruments that would meet the above criteria.

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)

3.2 IFRS 9 Financial Instruments (continued)

Measurement categories of financial assets and liabilities (continued)

Equity instruments at FVOCI
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 profit or loss. Dividends are recognised in profit or loss when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal cumulative gains or losses are reclassified from fair value reserve to retained earnings within equity. The management classifies certain equity investments at FVOCI and are separately disclosed in the statement of financial position.

Financial asset at FVTPL
The Group classifies financial assets fair value through profit and loss when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets are recorded and measured in the statement of financial position at fair value. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Changes in fair values, financing income and dividends are recorded in profit or loss according to the terms of the contract, or when the right to payment has been established.

Included in this classification are funds that have been acquired principally for the purpose of selling or repurchasing in the near term.

Impairment of financial assets
The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all debt financial assets not held at FVTPL. The Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience as adjusted for forward-looking factors.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

Financial liabilities
The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from Group's own credit risk relating to liabilities designated at fair value through profit or loss. Such movements are presented in other comprehensive income with no subsequent reclassification to profit or loss.

Hedge accounting
The Group did not have any impact resulting from the new guidance relating to hedge accounting included in IFRS 9, as the Group does not deal in any derivative instruments.

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)

3.3 Transition to IFRS 9

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

a) Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018.

b) The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

The impact of this change in accounting policy as at 1 January 2018 has resulted in an increase in accumulated losses by KD 69,313 and an increase in the fair value reserve by KD 44,020 as follows:

	Accumulated losses KD	*Fair value reserve KD*
Closing balance under IAS 39 (31 December 2017)	(7,259,807)	(48,427)
Impact on reclassification:		
Investment securities (mutual funds) from AFS to FVTPL	(44,020)	44,020
Impact of adoption of IFRS 9 in associates	(25,293)	-
Total transition adjustment on adoption of IFRS 9 as at 1 January 2018	**(69,313)**	**44,020**
Opening balance under IFRS 9 on date of initial application as at 1 January 2018	**(7,329,120)**	**(4,407)**

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

	Original classification under IAS 39	*Original carrying amount under IAS 39 KD*	*New classification under IFRS 9*	*New carrying amount under IFRS 9 KD*
Cash and bank balances	Loans and receivables	6,291,465	Amortised cost	6,291,465
Quoted equity investments	AFS	62,240	FVOCI	62,240
Unquoted equity investments	AFS	742,021	FVOCI	742,021
Mutual funds	AFS	64,955	FVTPL	64,955
Amounts due from related parties	Loans and receivables	1,540,196	Amortised cost	1,540,196
Real estate financing receivables	Loans and receivables	1,080,391	Amortised cost	1,080,391
Accounts receivable	Loans and receivables	1,982,442	Amortised cost	1,982,442

Adoption of IFRS 9 did not result in any change in classification or measurement of financial liabilities.

4 BASIC AND DILUTED EARNINGS PER SHARE (EPS)

Basic and diluted earnings per share are calculated by dividing the profit for the period attributable to ordinary equity holders of the Parent Company by the weighted average number of shares ordinary outstanding during the period excluding treasury shares as follows:

	Three months ended 30 September		*Nine months ended 30 September*	
	2018	*2017*	***2018***	*2017*
Profit for the period attributable to equity holders of the Parent Company (KD)	**320,720**	124,777	**806,963**	1,019,265
Weighted average number of shares outstanding during the period (excluding treasury shares) (shares)	**411,177,464**	415,642,299	**414,154,021**	415,642,299
Basic and diluted earnings per share attributable to equity holders of the Parent Company (fils)	**0.8**	0.3	**1.9**	2.5

The comparative earnings per share have been adjusted on account of treasury shares purchased.

5 INVESTMENT PROPERTIES

	30 September 2018 KD	*(Audited) 31 December 2017 KD*	*30 September 2017 KD*
At the beginning of the period/year	**71,495,215**	68,429,317	68,429,317
Additions	**1,505,395**	3,716,999	389,552
Disposals	**(57,604)**	-	-
Change in fair value	-	(651,101)	-
	72,943,006	71,495,215	68,818,869

The investment properties are categorized into:

	30 September 2018 KD	*(Audited) 31 December 2017 KD*	*30 September 2017 KD*
Properties under development	**3,379,247**	2,246,359	3,516,351
Developed properties	**69,563,759**	69,248,856	65,302,518
	72,943,006	71,495,215	68,818,869

The fair value of investment properties was determined as at 31 December 2017 by independent valuers who are specialised in valuing these types of properties. Management is of the view that no significant changes have occurred in fair values of these properties during the nine months ended 30 September 2018.

During the period, the Group disposed certain investment properties carried at KD 57,604 (30 September 2017: KD Nil) for a total consideration of KD 63,460 (30 September 2017: KD Nil). The resultant gain from this transaction amounted to KD 5,856 (30 September 2017: KD Nil).

Certain properties amounting to KD 7,733,544 (31 December 2017: KD 9,139,605 and 30 September 2017: KD 11,363,974) are pledged against tawarruq payables.

The investment properties have been classified under level 2 of the fair value hierarchy.

6 RELATED PARTY TRANSACTIONS

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

Related party balances included in the interim condensed consolidated statement of financial position are as follows:

	Ultimate Parent Company KD	*Associates KD*	*Other related parties KD*	***30 September 2018 KD***	*(Audited) 31 December 2017 KD*	*30 September 2017 KD*
Interim condensed consolidated statement of financial position						
Amounts due from related parties	**1,523,150**	**13,723**	**17**	**1,536,890**	1,540,196	1,539,927
Amounts due to related parties	**331,863**	-	**236**	**332,099**	331,949	293,146
Loan to an employee (other payables)	-	-	-	-	2,498	56,666

Outstanding balances with related parties are unsecured, interest free and have no fixed repayment schedule. There have been no guarantees provided or received for any related party receivables and payables. As at the reporting date, the Group has not recorded any impairment on receivables from related parties.

Transactions with related parties included in the interim condensed consolidated statement of profit or loss are, as follows:

	Other related parties KD	*Nine months ended* ***30 September 2018 KD***	*Nine months ended 30 September 2017 KD*
Interim condensed consolidated statement of profit or loss			
Management fees	3,600	**3,600**	3,600

Key management personnel
Key management personnel comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The aggregate value of transactions related to key management personnel were as follows:

	Three months ended 30 September		*Nine months ended 30 September*	
	2018 KD	*2017 KD*	***2018 KD***	*2017 KD*
Key management compensation				
Salaries and other short term benefits	**88,809**	98,090	**270,104**	308,949
Employees' end of service benefits	**12,197**	11,032	**31,320**	35,062
	101,006	109,122	**301,424**	344,011

7 SEGMENT INFORMATION

The Group is organized into functional divisions in order to manage its various lines of business. For the purpose of segment reporting, the Group's management has grouped the Group's activities into the following business segments:

a) Project and property management   b) Investments   c) Real estate financing

No operating segments have been aggregated to form the above reportable operating segments. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the interim condensed consolidated financial information. Segment results include revenue and expenses directly attributable to a segment. There are no significant inter-segments transactions. The following tables present revenue and profit information for the Group's operating segments for the nine months ended 30 September 2018 and 2017 respectively:

	Project and property management		*Investments*		*Real estate financing*		*Total*	
	30 September 2018 KD	*30 September 2017 KD*	***30 September 2018 KD***	*30 September 2017 KD*	***30 September 2018 KD***	*30 September 2017 KD*	***30 September 2018 KD***	*30 September 2017 KD*
Segment revenue	**219,628**	205,255	**2,163,735**	1,724,267	**1,055,350**	1,437,669	**3,438,713**	3,367,191
Segment expenses	**(140,330)**	(141,047)	**(460,920)**	(605,447)	**(690,030)**	(693,251)	**(1,291,280)**	(1,439,745)
Segment results	**79,298**	64,208	**1,702,815**	1,118,820	**365,320**	744,418	**2,147,433**	1,927,446
Unallocated expenses							**(844,728)**	(741,714)
Profit for the period							**1,302,705**	1,185,732

The following table present assets and liabilities information for the Group's operating segments as at 30 September 2018, 31 December 2017 and 30 September 2017 respectively:

	Project and property management KD	*Investments KD*	*Real estate financing KD*	*Other KD*	*Total*
Segment assets					
30 September 2018	**2,781,517**	**82,231,877**	**21,235,239**	**76,677**	**106,325,310**
31 December 2017 (Audited)	3,287,914	82,389,468	21,845,381	68,496	107,591,259
30 September 2017	4,557,740	90,221,019	23,112,587	80,441	117,971,787
Segment liabilities					
30 September 2018	**1,120,907**	**10,854,968**	**7,210,643**	**876,811**	**20,063,329**
31 December 2017 (Audited)	1,076,474	12,387,296	7,952,299	847,258	22,263,327
30 September 2017	1,515,717	13,627,288	7,635,003	825,732	23,603,740

8 CAPITAL COMMITMENTS

The Group has commitments in respect of properties under development amounting to KD 331,367 (31 December 2017: KD 205,165 and 30 September 2017: KD 1,125,173).

9 ANNUAL GENERAL ASSEMBLY (AGM)

The AGM of the Parent Company's shareholders held on 24 April 2018 approved the consolidated financial statements of the Group for the year ended 31 December 2017 and also approved the Board of Directors' proposal not to distribute dividends.

Further, the shareholders resolved to extinguish accumulated losses of KD 7,259,807 against share premium reserve.

10 TREASURY SHARES

	30 September 2018	*(Audited) 31 December 2017*	*30 September 2017*
Number of treasury shares	**6,145,411**	-	-
Percentage of capital	**1.47%**	-	-
Market value (KD)	**362,579**	-	-
Cost – KD	**344,516**	-	-

An amount equivalent to the cost of purchase of treasury shares have been earmarked as non-distributable from general reserve and statutory reserve throughout the holding period of treasury shares.

11 FAIR VALUE MEASUREMENT

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.

Fair value hierarchy
The Group uses the following hierarchy for determining and disclosing the fair values of financial and non-financial assets by valuation technique:

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

The following table shows an analysis of financial and non-financial assets recorded at fair value by level of the fair value hierarchy:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) KD	*Significant observable inputs (Level 2) KD*	*Significant unobservable inputs (Level 3) KD*	*Total KD*
As at 30 September 2018				
Financial assets at fair value through profit or loss		**64,247**	-	**64,247**
Financial assets at FVOCI	**59,015**	**403,322**	**338,700**	**801,037**
Investment properties	-	**72,943,006**	-	**72,943,006**
As at 31 December 2017 (Audited)				
Available-for-sale financial assets	62,240	468,276	-	530,516
Investment properties	-	71,495,215	-	-
As at 30 September 2017				
Available-for-sale financial assets	59,309	1,064,955	-	1,124,264
Investment properties	-	68,818,869	-	68,818,869

11 FAIR VALUE MEASUREMENT (continued)

During the nine months ended 30 September 2018, there were no transfers between different levels of fair value hierarchy.

At 31 December 2017 and 30 September 2017, fair value of certain unquoted investments could not be measured reliably as they did not have a quoted price in an active market and were therefore accounted at cost (in accordance with IAS 39).

During the period, there has not been any sales/purchases or re-measurement recognised in OCI relating to unquoted securities categorised within Level 3 of the fair value hierarchy.