Hits Telecom Holding Company

K.S.C. (Holding)
and its subsidiaries
Kuwait
The consolidated financial statements
for the year ended December 31, 2012
with
Independent auditors' report

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Contents

	Exhibit
Independent auditors' report	
Consolidated statement of financial position	A
Consolidated statement of income	B
Consolidated statement of comprehensive income	C
Consolidated statement of cash flows	D
Consolidated statement of changes in equity	E
	Page
Notes to the consolidated financial statements	1 - 25

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Independent auditors' report

The Shareholders
Hits Telecom Holding Company
K.S.C. (Holding)
and its subsidiaries
Kuwait

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Hits Telecom Holding Company - K.S.C. (Holding) - (the parent company), and its subsidiaries (together referred to as the Group) - which comprise the consolidated statement of financial position as of December 31, 2012 and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatements of the consolidated financial statements, whether due to fraud or error. In making those risks assessments, the auditors considers internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Parent's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion on the consolidated financial statements.

Opinion

In our opinion - the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2012, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Emphasis of matters

Without qualifying our opinion, we draw attention to the following:

- Note (2) to the consolidated financial statements regarding the going-concern of some subsidiaries.
- Note (6) to the consolidated financial statements regarding the preparation of subsidiaries' financial statements.
- Note (12) to the consolidated financial statements regarding the advance payments for purchasing investments.

Report on other legal and regulatory requirements

Furthermore, in our opinion, proper books of account have been kept by the Group and the consolidated financial statements together with the financial contents of the report of the Board of Directors are in accordance therewith. We have obtained the information and explanations that we required for the purpose of our audit and the consolidated financial statements incorporate the information that is required by the Commercial Companies' Law no. 25 of year 2012 (note no. 4/1) and the Company's articles of association. According to the information available to us, there were no violations of either the Commercial Companies' Law no. 25 of year 2012 or of the parent company's articles of association during the year ended December 31, 2012 that might have had a material effect on the parent company's business or its financial position.

Ali Abdul Rahman Al Hasawi
License No. 30 (A)
Rödl Middle East
Burgan International Accountants

Adel Al- Sanea
Auditors Registry No. 86 Category (A)
Kuwaiti Accountant Auditing
A member of H.L.B International

March 27, 2013
State of Kuwait

Exhibit - A

Hits Telecom Holding Company
K.S.C. (Holding)
and its Subsidiaries
Kuwait

Consolidated statement of financial position as of December 31, 2012
"All amounts are in Kuwaiti Dinar"

	Note	2012	2011
Assets			
Non-current assets			
Property and equipment	7	**20,354,740**	20,839,521
Intangible assets	8	**72,579,806**	92,761,664
Investment in joint venture		**345,760**	222,955
Available for sale investments	9	**10,702,601**	11,624,307
		103,982,907	125,448,447
Current assets			
Inventory		**6,158,554**	1,306,471
Accounts receivable and other debit balances	10	**11,997,016**	7,643,531
Due from related parties	11	**4,016,683**	1,943,790
Advance payments for purchasing investments	12	**5,946,778**	5,946,778
Finance, joint ventures and mudaraba	13	**911,209**	1,340,127
Cash and cash equivalents		**2,779,240**	357,341
		31,809,480	18,538,038
Total assets		**135,792,387**	143,986,485
Equity and liabilities			
Equity			
Share capital	14	**72,091,686**	72,091,686
Share premium		**34,149,954**	34,149,954
Statutory reserve	15	**462,499**	462,499
General reserve	16	**462,499**	462,499
Other reserves		**147,896**	147,896
Treasury shares	17	**(6,837,335)**	(6,837,335)
Cumulative changes in fair value		**(921,706)**	-
Foreign currency translation reserve		**(947,838)**	(1,876,306)
Accumulated losses		**(28,228,372)**	(2,091,155)
Equity attributable to the shareholders of the parent company		**70,379,283**	96,509,738
Non-controlling interests		**1,148,063**	(6,734,415)
		71,527,346	89,775,323
Non-current liabilities			
Provision for end of service indemnity		**373,685**	315,325
License obligations	18	**8,759,937**	9,038,304
Term loans	19	**658,644**	749,739
Loan from shareholders		**505,072**	481,900
Accounts payable and other credit balances	20	**2,203,754**	1,534,436
		12,501,092	12,119,704
Current liabilities			
Accounts payable and other credit balances	20	**27,184,080**	19,824,495
Due to related parties	11	**4,817,109**	3,422,252
License obligations	18	**3,826,986**	3,699,010
Term loans	19	**4,206,676**	3,939,956
Islamic debt instruments	21	**11,729,098**	11,205,745
		51,763,949	42,091,458
Total equity and liabilities		**135,792,387**	143,986,485

Khaled Y. Al Mutawa
Chairman and Managing Director

Exhibit - B

Hits Telecom Holding Company
K.S.C. (Holding)
and its Subsidiaries
Kuwait

Consolidated statement of income for the year ended December 31, 2012
"All amounts are in Kuwaiti Dinar"

	Note	2012	2011
Revenue of activity		**91,138,674**	73,386,195
Cost of activity		**(81,509,635)**	(65,116,735)
Gross profit of activity		**9,629,039**	8,269,460
General and administrative expenses	22	**(8,948,363)**	(10,111,421)
Depreciation and amortization		**(1,939,607)**	(1,713,225)
Finance charges		**(687,531)**	(911,443)
Impairment of goodwill		**(5,290,000)**	-
Property and equipment written-off		-	(58,044)
Inventory written-off		-	(124,132)
Bad debts		**(534,316)**	(91,407)
Group's share from joint venture income		-	474,935
Finance, joint venture and mudaraba income		**448,454**	21,280
Tax income		-	909,658
Other income		**270,247**	977,939
Loss for the year before contribution to National Labor Support Tax and Zakat		**(7,052,077)**	(2,356,400)
National Labor Support Tax		-	(5,681)
Zakat		-	(2,834)
Net loss for the year		**(7,052,077)**	(2,364,915)
Attributable to			
Shareholders of the parent company		**(5,751,534)**	218,740
Non-controlling interests		**(1,300,543)**	(2,583,655)
		(7,052,077)	(2,364,915)
(Loss)/earning per share (Fils)	23	**(8.46)**	0.32

Exhibit - C

Hits Telecom Holding Company
K.S.C. (Holding)
and its Subsidiaries
Kuwait

Consolidated statement of comprehensive income for the year ended December 31, 2012
"All amounts are in Kuwaiti Dinar"

	2012	2011
Net loss for the year	(7,052,077)	(2,364,915)
Other comprehensive income for the year:		
Cumulative changes in fair value	(921,706)	-
Foreign currency translation differences	415,947	(1,030,606)
Total other comprehensive loss for the year	(505,759)	(1,030,606)
Total comprehensive loss for the year	(7,557,836)	(3,395,521)
Attributable to		
Shareholders of the parent company	(6,257,293)	(811,866)
Non-controlling interests	(1,300,543)	(2,583,655)
	(7,557,836)	(3,395,521)

The accompanying notes form an integral part of these consolidated financial statements.

Exhibit - D

Hits Telecom Holding Company
K.S.C. (Holding)
and its Subsidiaries
Kuwait

Consolidated statement of cash flows for the year ended December 31, 2012
"All amounts are in Kuwaiti Dinar"

	2012	2011
Cash flows from operating activities		
Net loss for the year	(7,052,077)	(2,364,915)
Adjustments:		
Depreciation and amortization	1,939,607	1,713,223
Disposal of property and equipment at cost	121,911	4,850
Property and equipment written-off	-	58,044
Disposal of intangible assets at cost	162,681	-
Impairment of goodwill	5,290,000	-
Provision for end of service indemnity	58,360	111,740
Group's share from joint venture income	-	(474,935)
Finance, joint venture and mudaraba income	(448,454)	(21,280)
Bad debts	534,316	91,407
Inventory written-off	-	124,132
Finance charges	687,531	911,443
	1,293,875	153,709
Working capital changes:		
Inventory	(4,852,083)	(442,992)
Accounts receivable and other debit balances	(401,485)	(1,641,375)
Related parties	(654,864)	1,630,120
License obligations	(150,391)	83,037
Accounts payable and other credit balances	8,028,903	(925,742)
Cash generated from/(used in) operations	3,263,955	(1,143,243)
End of service indemnity paid	-	(55,560)
Net cash generated from/(used in) in operating activities	3,263,955	(1,198,803)
Cash flows from investing activities		
Property and equipment	(687,651)	(900,844)
Intangible assets	(22,865)	-
Finance, joint venture and mudaraba	343,056	(376,923)
Investment in joint venture	(122,805)	348,844
Net cash used in investing activities	(490,265)	(928,923)
Cash flows from financing activities		
Term loans	175,625	692,152
Finance charges paid	(687,531)	(491,014)
Islamic debt instruments	523,353	858,641
Change in non-controlling interests	(99,164)	(1,103,588)
Net cash used in financing activities	(87,717)	(43,809)
Foreign currency translation reserve	(264,074)	698,120
Net increase/(decrease) in cash and cash equivalents	2,421,899	(1,473,415)
Cash and cash equivalents at beginning of the year	357,341	1,830,756
Cash and cash equivalents at end of the year	2,779,240	357,341

The accompanying notes form an integral part of these consolidated financial statements.

Exhibit - E

Hits Telecom Holding Company
K.S.C. (Holding)
and its Subsidiaries
Kuwait

Consolidated statement of changes in equity for the year ended December 31, 2012
"All amounts are in Kuwaiti Dinar"

	Equity attributable to the parent company's shareholders											
	Share capital	Share premium	Statutory reserve	General reserve	Other reserves	Treasury shares	Cumulative changes in fair value	Foreign currency translation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
Balance at January 1, 2011	72,091,686	34,149,954	462,499	462,499	147,896	(6,837,335)	-	(845,700)	(2,080,517)	97,550,982	(3,276,550)	94,274,432
Net loss for the year	-	-	-	-	-	-	-	-	218,740	218,740	(2,583,655)	(2,364,915)
Other comprehensive loss	-	-	-	-	-	-	-	(1,030,606)	-	(1,030,606)	-	(1,030,606)
Total comprehensive loss	-	-	-	-	-	-	-	(1,030,606)	218,740	(811,866)	(2,583,655)	(3,395,521)
Effect of a subsidiary's share capital increase	-	-	-	-	-	-	-	-	(229,378)	(229,378)	229,378	-
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,103,588)	(1,103,588)
Balance at December 31, 2011	72,091,686	34,149,954	462,499	462,499	147,896	(6,837,335)	-	(1,876,306)	(2,091,155)	96,509,738	(6,734,415)	89,775,323
Balance at January 1, 2012	72,091,686	34,149,954	462,499	462,499	147,896	(6,837,335)	-	(1,876,306)	(2,091,155)	96,509,738	(6,734,415)	89,775,323
Net loss for the year	-	-	-	-	-	-	-	-	(5,751,534)	(5,751,534)	(1,300,543)	(7,052,077)
Other comprehensive loss	-	-	-	-	-	-	(921,706)	415,947	-	(505,759)	-	(505,759)
Total comprehensive loss	-	-	-	-	-	-	(921,706)	415,947	(5,751,534)	(6,257,293)	(1,300,543)	(7,557,836)
Result on sale of share of subsidiary	-	-	-	-	-	-	-	512,521	(20,385,683)	(19,873,162)	9,282,185	(10,590,977)
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(99,164)	(99,164)
Balance as of December 31, 2012	**72,091,686**	**34,149,954**	**462,499**	**462,499**	**147,896**	**(6,837,335)**	**(921,706)**	**(947,838)**	**(28,228,372)**	**70,379,283**	**1,148,063**	**71,527,346**

The accompanying notes form an integral part of these consolidated financial statements.

Hits Telecom Holding Company
K.S.C. (Holding)
and its Subsidiaries
Kuwait

Notes to the consolidated financial statements for the year ended December 31, 2012
"All amounts are in Kuwaiti Dinar unless stated otherwise"

1- Formation and activities

Hits Telecom Holding Company K.S.C (Holding) was incorporated on May 22, 1999 in accordance with the Commercial Companies' Law of 1960 article No. 15, and its subsequent amendments.

The objectives for which the parent company was established are:

- Owning shares in Kuwaiti and Non-Kuwaiti shareholding companies and also owning shares or quotas in Kuwaiti and Non-Kuwaiti limited liability companies or participating in establishing, managing and sponsoring both kinds of companies to others related to communication segments only.
- Lending companies in which it holds shares and guaranteeing them to others, providing that the holding company's ownership percentage in the share capital of the borrowing company must be at least 20%.
- Owning industrial property rights of patents or industrial trademarks, or industrial charges or any other rights relating there to, and leasing to other companies for utilization inside or outside the State of Kuwait related to communication segments only.
- Holding movables and real estates that are necessary to initiate its activity in accordance with the Law.
- Utilizing the surplus funds by investing them in investment and real estate portfolios managed by specialized companies.

The parent company has the right to participate and subscribe in any way, in other firms or institutions which operate in the same field or those which would assist in achieving its objectives in Kuwait or abroad and to establish, participate or purchase these firms or institutions or join them.

The registered head office of the parent company is: Jasem El-Asfour Tower – Sour Street – Kuwait City.

The consolidated financial statements for the year ended December 31, 2012 were authorized for issue from the Board of Directors on March 27, 2013.

The Shareholders' General Assembly has the authority to amend these consolidated financial statements after their issuance.

2- Going concern

The financial statements of some subsidiaries have been prepared based on going concern basis despite the accumulated losses of these companies exceeded their half or full share capital, due to the financial support submitted by the parent company for those companies as mentioned below:

- Fawran Telecom company W.L.L. (a subsidiary in Kingdom of Saudi Arabia) has incurred accumulated losses amounted to KD 1,014,253 up to the date of December 31, 2012, which exceed the company's share capital.
- Hits Telecom Spain company S.A (a subsidiary to Elite Telecommunications Services for General Trading and Contracting Company) has incurred accumulated losses amounted to KD 1,153,770 up to the date of December 31, 2012 which exceed half of company's share capital and its current liabilities exceed current assets with amount of KD 1,460,048, that may affect the company's ability to continue as a going concern in absence of sufficient financial support.

- Atlantic Wireless Company (a subsidiary to Elite Telecommunications Services for General Trading and Contracting Company) has incurred accumulated losses amounted to KD 15,888,679 up to the date of December 31, 2012 which exceed half of company's share capital and its current liabilities exceed current assets with amount of KD 3,761,980, that may affect the company's ability to continue as a going concern in absence of sufficient financial support.
- Excellentcom Tanzania Limited Company (a subsidiary to Elite Telecommunications Services for General Trading and Contracting Company)) has incurred accumulated losses amounted to KD 8,844,901 until the date of December 31, 2012 which exceed its company's share capital and its current liabilities exceed current assets with amount of KD 15,456,349 that may affect the company's ability to continue as a going concern, in absence of sufficient financial support.

The management of group has provided financial support for these companies by increasing the share capital of some companies and providing a loan from the shareholders during prior years disclosed in the subsidiaries' records. The management intends also to continue in its financial support for these companies during the next period to improve their ability to continue in practicing their business.

3- Adoption of new and revised International Financial Reporting Standards (IFRSs)

3/1) Amendments to IFRSs that are mandatorily effective for the year ended December 31, 2012:

The following amendments to (IFRS) issued by International Accounting Standards Board (IASB), are effective for the Group's consolidated financial statements for the annual period beginning on or after July 1, 2011.

- ***Amendments to IFRS 1: Severe Hyperinflation***
(Effective for annual periods beginning on or after July 1, 2011)
The amendments regarding severe hyperinflation provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS consolidated financial statements for the first time.

- ***Amendments to IFRS 1: Removal of fixed dates for first-time adopters***
(Effective for annual periods beginning on or after July 1, 2011)
The amendments regarding the removal of fixed dates provide relief to first-time adopters of IFRSs from reconstructing transactions that occurred before their date of transition to IFRSs.

- ***Amendments to IFRS 7: Disclosures***
(Effective for annual periods beginning on or after July 1, 2011)
The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset.
The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the year.

3/2) **New and revised IFRSs that are available for early application:**
The following new and revised IFRSs are not mandatorily effective for the year ended 31 December 2012. However, they are available for early application. (*Paragraph 30 of IAS 8 requires entities to consider and disclose the potential impact of new and revised IFRSs that have been issued but are not yet effective*).

- **New amendments related to financial instruments**

- ***IFRS 9 Financial Instruments (as revised in 2010)***
(Effective for annual periods beginning on or after January 1, 2015 with retrospective application, along with specific transitional provisions).

- ***Amendments to IFRS 9 and IFRS 7***
(Effective for annual periods beginning on or after January 1, 2015 with retrospective application, and some transitional provisions).
In 2010, a revised version of IFRS 9 was issued, but in December 2011, the IASB issued amendments to IFRS 9 and IFRS 7. The amendments defer the mandatory effective date of IFRS 9 from January 1, 2013 to January 1, 2015 with early application permitted. The amendments also modify the transitional requirements from IAS 39 to IFRS 9.

- **New and revised IFRSs on consolidation, joint arrangements, associates and disclosures**

- ***IFRS 10: Consolidated Financial Statements***
(Effective for annual periods beginning on or after January 1, 2013)
The application: Retrospective application, with specific transitional provisions. Earlier application is permitted if IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011) are early applied at the same time.

- ***IFRS 11: Joint Arrangements***
(Effective for annual periods beginning on or after January 1, 2013)
The application: Retrospective application, with specific transitional provisions. Earlier application is permitted if IFRS 10, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011) are early applied at the same time.

- ***IFRS 12: Disclosure of Interests in Other Entities***
(Effective for annual periods beginning on or after January 1, 2013)
The application: Retrospective application, with specific transitional provisions. Entities are encouraged to provide information required by IFRS 12 earlier than annual periods beginning on or after 1 January 2013.

- ***Amendments to IFRS 10, IFRS 11 and IFRS 12: Transition Guidance***
(Effective for annual periods beginning on or after January 1, 2013)
The application: The amendments clarify certain transition guidance on the application of IFRS 10, IFRS 11 and IFRS 12 for the first time.

- ***IAS 27: Separate Financial Statements (as revised in 2011)***
  (Effective for annual periods beginning on or after January 1, 2013)
  The application: Retrospective application. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) are early applied at the same time.

- ***IAS 28: Investments in Associates and Joint Ventures (as revised in 2011)***
  (Effective for annual periods beginning on or after January 1, 2013)
  The application: Retrospective application. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 27 (as revised in 2011) are early applied at the same time.

• **New IFRS on fair value measurement**
- ***IFRS 13: Fair Value Measurement***
  (Effective for annual periods beginning on or after January 1, 2013)
  The application: Retrospective application. The disclosure requirements of IFRS 13 need not be applied in comparative information provided for periods before initial application of IFRS 13.

• **Revised IFRS on employee benefits**
- ***IAS 19: Employee Benefits (as revised in 2011)***
  (Effective for annual periods beginning on or after January 1, 2013 with retrospective application, along with specific transitional provisions).

• **Amendments to other IFRSs**
- ***Amendments to IFRS 1: Government Loans***
  (Effective for annual periods beginning on or after January 1, 2013 with Retrospective application).
- ***Amendments to IFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities***
  (Effective for annual periods beginning on or after January 1, 2013 with retrospective application).

- ***Amendments to IAS 1: Presentation of Items of Other Comprehensive Income***
  (Effective for annual periods beginning on or after July 1, 2012 with retrospective application).

- ***Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities***
  (Effective for annual periods beginning on or after January 1, 2014 with retrospective application).

The management anticipates that the new standards and interpretations will be adopted in the Group's accounting policies for the period beginning on or after the effective date of the pronouncement, and those new standards and interpretations that have been issued but are not relevant to the Group's operations will not be expected to have a material impact on the Group's consolidated financial statements.

4- Significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are as follows:

4/1) Basis of the consolidated financial statements preparation

- The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Boards (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and State of Kuwait Commercial Company's Law requirements and amendments.
- The Commercial Companies Law no. 25 of year 2012 has been issued on November 26, 2012 and published in the newspaper on November 29, 2012, which lead to cancellation of commercial companies' law of year 1960 and all texts inconsistent with the provisions of this law. The new law is effective from the date published in the newspaper and the companies have to comply with the law within six months from the effective date. The Company has started the necessary procedures to comply with the provisions of the law.
- The accounting policies used in preparation of these consolidated financial statements are consistent with those used in preparation of the financial statements of previous year.

4/2) Accounting convention

- The consolidated financial statements are prepared under the historical cost convention following the accrual basis.
- The consolidated financial statements have been presented in Kuwaiti Dinar.

4/3) Basis of financial statements consolidation

The consolidated financial statements include the financial statements of the parent company together with its subsidiaries as of December 31, 2012 (Note – 6). The date of all subsidiaries' financial statements is December 31, 2012.

- The subsidiaries are these companies which are controlled by the parent company. Control is achieved where the parent company - directly or indirectly - has the power to govern the financial and operating policies of an entity to obtain benefits from its activities. The results of subsidiaries acquired or (disposed of during the period) are included in the consolidated financial statements from the date of acquisition or (up to the date of disposals).
- The financial statements of a subsidiary is consolidated on a line-by-line basis by adding together alike items of assets, liabilities, revenue and expenses.
- All inter-company balances and transactions, including unrealized profits or losses arising, are eliminated on consolidations. The consolidated financial statements are prepared using consistent accounting policies and for like transactions and other events in the same circumstances.
- The financial statements of a subsidiary are prepared within three months of the reporting period of the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist between the subsidiaries' financial year date and the parent company's financial year date.

- Acquisition of subsidiaries are accounted for according to the purchasing method as the cost of acquisition represents the fair value of the amounts paid or assets acquired or liabilities that carried to acquire the subsidiary in addition to the direct costs related to the acquisition.
- Any excess in the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill, if the cost acquisition is less then fair value of the net assets of the subsidiary acquired the difference is recognized directly in the consolidated statement of income on the period acquiring.
- Profit or loss and each component of other comprehensive income are attributed to the owners of the parent company and to the non-controlling interests .Total other comprehensive income are attributed to the owners of the parent company and to the non-controlling interests even if this results in the non-controlling interest having a deficit balance.
- The parent company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

4/4) Non-current assets held for sale

The assets are classified as non-current assets held for sale when the criteria to be classified as held for sale has been met or it has been disposed. An item is classified as held for sale if its book value will be recovered principally through a sale transaction rather than through continuing use. The assets held for sale are measured at the lower of their book value or fair value less costs of sale.
Non-current assets (or disposal Group) classified as held for sale are measured at the lower of its carrying amount and fair value less costs to sell.

4/5) Property and equipment

Property and equipment are stated at cost less accumulated depreciation. The recoverable value of property and equipment are reviewed at the consolidated financial position date. If the recoverable value for property and equipment decreased from the book value in which case the book value is written down to the recoverable value. If the useful lives are different from its estimated lives then the useful lives are adjusted from the beginning of the year in which the change occurred in without going into retroactive periods.
Property and equipment are depreciated on straight line basis to reduce its value to the residual value over their estimated useful lives.

The useful lives of the property and equipments are as follow:

Improvements on buildings	5 - 10	years
Furniture and fixtures	5 - 10	years
Office equipment and computers	3 - 4	years
Motor vehicles	5	years
Machines and equipment	3 - 10	years

4/6) Intangible assets and goodwill

Identifiable non-monetary assets acquired in connection with the business and from which future benefits are expected to flow are treated as intangible assets with indefinite useful lives are not subject to amortization and are tested at least annually for impairment.

Intangible assets which have a finite life are amortized over their useful lives. For acquired network license whose operations are governed by fixed term license, the amortization period is determined primarily by reference to the terms of the licenses and the conditions for license renewal. License fees are amortized on a straight-line basis over the life of the license.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of identifiable net assets acquired in a business combination or the associates at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is allocated to each cash generating unit for the purpose of impairment testing. Goodwill is testing at least annually for impairment and carried at cost less accumulated impairment losses. Gain or losses on disposal of the subsidiary or a part of the subsidiary include the carrying amount of goodwill relating to the subsidiary or the portion sold.

Assets are grouped at the lowest levels for which there are separately identifiable cash flows for the purpose of assessing impairment. If there is an indication that the carrying value of an intangible assets is greater than its recoverable amount, it is written down to its recoverable amount and the resultant impairment loss taken to the consolidated statement of income and that relating to goodwill cannot be reversed in the subsequent periods.

4/7) **Investment in joint venture**

The joint venture is a contractual arrangement whereby the company and other parties undertake an economic activity that is subject to joint control. The costs of joint ventures are initially recorded at cost and adjusted thereafter for the past acquisition the change in the venture's share of net assets of the jointly controlled entity. The ventures recognizes in its separated financial statements and subsequently in the consolidated: the assets and liabilities that it controls and the expenses that it incurs – its share of the income that it earns from the sale of goods or services by the joint venture.

4/8) **Inventory**

Inventory which are principally pre-paid Sim Cards and Vouchers are Valued at the lower of cost and net realizable value. Post Paid Sim Cards are Valued at Zero until activated by concerned telecommunications company. Telecommunications devices are stated at the lower of cost and market value, cost is determined on a weighted average basis.

4/9) **Trade receivables**

Trade receivables are stated at their nominal value, less an allowance for any doubtful debts. Management determines the adequacy of the allowance based upon reviews of individual customers, current economic conditions, past experience and other related factors.

4/10) **Cash and cash equivalents**

Cash and cash equivalents comprise of cash on hand and at banks and short-term bank deposits with a maturity date not exceeding three months from the date of deposit.

4/11) Financial Impairment of non-financial assets

At each consolidated financial position date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is objective evidence that those assets have suffered from impairment in value. If any such evidence exists, the recoverable amount of the assets is estimated. The impairment losses are recognized in the consolidated statement of income when the carrying amount of assets exceeds its recoverable value.

Reversal of impairment losses in value that were recognized in prior years are recognized as revenue in the consolidated statement of income when there is an indication that the impairment losses, recognized for the asset no longer exist or has decreased.

4/12) Accounts payable

Accounts payable are stated at their nominal value.

4/13) Recognition and de-recognition of financial assets and liabilities

A financial asset or a financial liability is recognized when the Group becomes a party to the contractual provision of the instrument. A financial asset is de-recognized either when the contractual rights to cash flow from the financial asset expires or when the Group transferred all the risks and rewards of ownership or if the Group does not transferred all the risks and rewards of ownership and no longer has control over the asset or a proportion of the asset. The financial liability is de-recognized when the obligation specified in the contract is discharged, cancelled or expired.

4/14) Trading and settlement date accounting

All regular way purchases and sales of financial assets are recognized using settlement date accounting. That the date which the Group be supposed to purchase or sell the assets, regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

4/15) Murabaha investments

Murabaha is an Islamic instrument includes purchase asset and sell immediately at cost plus profit. The due amount settled on payable basis. When credit risks related to financial institute, the due amount classified as Murabaha investments. When credit risks related to individuals, the due amount classified as Murabaha receivables. Murabaha investments will be recognized less provision impairment in value if any.

4/16) Treasury shares

Treasury shares consist of the parent company owned shares that have been issued, subsequently repurchased by the Group and not yet re-issued or cancelled until the consolidated financial position date. The treasury shares are treated using the cost method; under the cost method cost of the treasury shares is charged to an account in equity. When re-issued the profit recognized in equity separately "Gain on sale of treasury shares" which is not distributable, any realized losses are charged the extent of the credit balance on the same account. Any excess losses are charged to retained earnings then reserves. Realized gains subsequently on the sale of treasury shares are first used to offset any previously recorded losses in reserves, retained earnings and gain on sale of treasury shares.

4/17) Provision for end of service indemnity

Provision for staff end of service indemnity is calculated as per the Labor Law in the private sector in state of Kuwait and the respective labor laws of countries of these subsidiaries or the signed contracts on the assumption of ending the services of all staff at the consolidated financial position date. This obligation is not funded. The management expects that based on this method of calculation a reasonable estimate is made of the obligation of the Group towards employees indemnity for past and current periods.

4/18) Provisions

Provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each consolidated financial position date and adjusted to reflect the current best estimate.

4/19) Revenue recognition

- Airtime revenue is recognized based on actual usage. Subscription income is recognized on a time proportion basis. Other revenues primarily comprising of handset equipment, Sim Card starter pack sales and other telecommunication product is accounted for in the year when that sales are sold on and are recognized upon delivery to customers.
- Revenue of sales is recognized when the significant risks and rewards are transferred to the buyer, and no significant uncertainties remain regarding the derivation of consideration associated with the selling goods and the costs that may be incurred from the possibility of returned goods existence.
- Income from Murabaha Finance and joint ventures is recognized on periodic basis distribution.
- Dividend income from shares is recognized when the right to receive it is established.
- Other categories of income are recognized when earned, at the time the related services are rendered and / or based on the terms of the contractual agreement of each activity.

4/20) Borrowing costs

- Interest on loans and facilities is calculated on the accrual basis and is recognized in the consolidated statement of income in the period in which it is incurred.
- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. The capitalized borrowing costs should commence when expenditures for the asset have been incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.
- Borrowing costs that are not directly attributable to a qualifying asset are recognized as an expense in the period in which they are incurred.

4/21) Foreign currencies

The functional currency of the parent company is the Kuwaiti Dinar ("KD") and accordingly, the consolidated financial statements are presented in KD. Transactions in currencies other than the company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the date of the transaction.Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in the consolidated equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in the consolidated equity.

The assets and liabilities of the Group's foreign operations are expressed in KD using exchange rates prevailing at the consolidated financial position date. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising (If any), are classified as equity and transferred to the Group's foreign currency translation reserve. Such exchange differences are recognized in the consolidated statement of income in the period in which the foreign operation disposed of.

4/22) Income taxes

Income tax payable on profits is recognized as expenses in the period which the profit arises based on the applicable tax laws in each jurisdiction.

Deferred income taxes on the net operating results is provided using the liabilities method on all temporary differences, at the consolidated financial position date, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes provisions depend on whether the timing of the reversal of the temporary difference can be controlled and whether it is probable that the temporary differences will reverse in the foreseeable future.

Deferred taxes assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the consolidated financial position date.

Deferred tax assets are recognized for all temporary differences, including carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each consolidated financial position date and reduced to the extent that it is not probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized.

4/23) Kuwait Foundation for the Advancement of Science

The share of contribution to Kuwait foundation for the advancement of science was calculated from the net annual profit after eliminating the profit of subsidiaries and associates of shareholding companies, of which the tax is separately computed as well as the amounts transferred to statutory reserve.

4/24) National Labour Support Tax

This item represents the tax payable to Kuwait Ministry of Finance under National Labor Support Law no. 19 of 2000.

4/25) Zakat

This item represents Zakat provision calculated in accordance with law No 46/2006 regarding Zakat imposing on the public and closed shareholding companies. This Zakat has been computed at 1 % of net profit before deducting the parent company's provisions and reserves.

The other items of Zakat paid by some subsidiaries are calculated in accordance with related local laws of the countries in which these subsidiaries are located. The provision made in these subsidiaries is charged directly for the consolidated statement of income.

4/26) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated financial position only when there is a legally enforceable right to set off the recognized amounts and the management intends to settle on a net basis so as to realize the assets and liabilities simultaneously.

4/27) Dividend distribution

Dividend distribution to the parent company's shareholders is recognized as a liability in the parent company's consolidated financial statements in the period on which the dividends are approved by the parent company's shareholders.

4/28) Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote, contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

5- Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumption are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and previous periods.

Critical judgments in applying the Group's policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect in the amounts recognized in the consolidated financial statements:

Classification of investments

Parent company's management decides on the acquisition of an investment whether it should be classified as available for sale or at FVTPL.

The Group classifies investments as at FVTPL if the investment has been acquired principally for the purpose of selling it in the near term and its fair value can be reliable determined. All other investments are classified as available for sale.

Impairment of investments
The Group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires significant judgment. In addition, the Group also evaluates among other factors, normal volatility in the share price for quoted investments and the future cash flows and the discount factors for unquoted investments.

The productive life of property and equipment and intangible assets
The group's management makes determination of productive lives and depreciations of property and equipment and amortization of intangible assets. The management increases the depreciation or amortization expenses when the estimated productive lives are lower than the estimated lives before or eliminating or decreasing the value of obsolete or non-strategic assets which are cancelled or sold.

Key sources of estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the consolidated financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:
- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- Other valuation models.

6- Subsidiaries

The consolidated financial statements include the financial statements of the following subsidiaries:

	Country of incorporation	Ownership percentage	
		2012	2011
Qanawat Telecom Company (W.L.L)	Saudi Arabia	**100%**	100%
Fawran Telecom Company (W.L.L)	Saudi Arabia	**100%**	100%
Hits Telecom Spain Company (S.A.)	Spain	-	100%
Hits Africa Company (Ltd)	Cayman Islands	-	92.82%
Elite Telecommunications Services for General Trading and Contracting company	Kuwait	**100%**	-

- During the year, the Group has acquired Elite Telecommunications Services for General Trading and Contracting Company with percentage of 100%, accordingly the Group became has a control over the financial and operating policies of this company (note 24). Also, during the year, the Group has transferred all of its shares of Hits Africa and Hits Spain and the goodwill related to them (note 8) to its wholly-owned subsidiary (Elite Telecommunications Services for General Trading and Contracting Company). At the end of the year, the Group has sold 43% of its share (92.82%) in Hits Africa through the subsidiary (Elite Telecommunications Services for General Trading and Contracting Company) resulted in loss of KD 20,385,683 recorded directly in equity as the control is still exist.

- On December 31, 2012, the financial statements of some subsidiaries of Elite Telecommunications services for General Trading and Contracting Company – W.L.L, have been consolidated based on financial statements prepared by the management, of which their total assets amounted to KD 46,625,076 and their net losses is KD 2,603,889.

Hits Telecom Holding Company
K.S.C. (Holding)
and its Subsidiaries
Kuwait

Notes to the consolidated financial statements for the year ended December 31, 2012
"All amounts are in Kuwaiti Dinar unless stated otherwise"

7- Property and equipment

	Land	Improvements on buildings	Furniture and fixtures	Office equipment and computers	Motor vehicles	Machines and equipment	Capital work-in-progress	Total
Cost								
Balance at January1, 2012	82,735	825,093	545,527	2,867,621	353,904	14,570,096	9,911,952	29,156,928
Additions	315	1,197	16,797	60,189	22	119,725	489,406	687,651
Disposals	-	-	-	(470)	(154)	(21,148)	(100,157)	(121,929)
Transferred from capital work-in-progress	-	-	-	25,021	-	392,583	(417,604)	-
Foregin currency translation	806	9,631	6,827	39,570	3,420	176,701	100,514	337,469
Balance at December 31, 2012	83,856	835,921	569,151	2,991,931	357,192	15,237,957	9,984,111	30,060,119
Accumulated depreciation								
Balance at January 1, 2012	-	313,942	215,912	1,121,379	262,288	6,403,886	-	8,317,407
Charged for the year	-	58,494	59,051	247,598	44,418	887,285	-	1,296,846
Disposals	-	-	-	-	(18)	-	-	(18)
Foregin currency translation	-	4,606	2,469	10,571	2,775	70,723	-	91,144
Balance at December 31, 2012	-	377,042	277,432	1,379,548	309,463	7,361,894	-	9,705,379
Net book value								
At December 31, 2012	**83,856**	**458,879**	**291,719**	**1,612,383**	**47,729**	**7,876,063**	**9,984,111**	**20,354,740**
At December 31, 2011	82,735	511,151	329,615	1,746,242	91,616	8,166,210	9,911,952	20,839,521

The capital work-in-progress represent the amounts paid to establish communication networks in the subsidiaries companies.

8- Intangible assets

Intangible assets represent the amounts paid by the Group's subsidiaries to acquire the GSM licenses awarded by Government/regulator in the country of operations in Africa for the agreed license fees in addition to Goodwill and other intangible assets as follows:

	Lisence fees	Goodwill*	Software and trade mark	Other intangible assets	Total
Cost					
Balance at January 1, 2012	19,266,936	72,754,065	1,526,557	205,114	93,752,672
Additions	-	-	12,660	10,205	22,865
Impairment loss in value	-	(5,290,000)	-	-	(5,290,000)
Disposals	-	-	-	(215,319)	(215,319)
Result on sale of share of subsidiary	-	(14,542,977)	-	-	(14,542,977)
Foreign currency translation	187,098	236,049	49,129	-	472,276
Balance at December 31, 2012	19,454,034	53,157,137	1,588,346	-	74,199,517
Accumulted amortization					
Balance at January 1, 2012	37,231	-	901,139	52,638	991,008
Charged for the year	333,433	-	309,328	-	642,761
Disposals	-	-	-	(52,638)	(52,638)
Foreign currency translation	2,061	-	36,519	-	38,580
Balance at December 31, 2012	372,725	-	1,246,986	-	1,619,711
Net book value					
At December 31, 2012	**19,081,309**	**53,157,137**	**341,360**	**-**	**72,579,806**
At December 31, 2011	19,229,705	72,754,065	625,418	152,476	92,761,664

* The company has entered into sale and purchase agreements with the shareholders of certain companies who originally were awarded the license to establish, install and operate cellular public telephony network in their respective countries of operations amounted to KD 19,408,541 In accordance with IFRS 3, "Business Combinations" the above acquisitions have been accounted for by applying the purchase method. As these companies which own these licenses, had commenced its business and had no other assets at the time of acquisition, the purchase consideration and acquisition cost paid to acquire these companies is treated as goodwill. The goodwill is attributable to the growth prospects of the acquired businesses and the significant synergies that are expected to arise for the Group after the acquisition of subsidiaries.

This item represents goodwill amounted to KD 19,675,180 recorded in a subsidiary (note 6) and goodwill amounted to KD 14,015,057 resulted from acquisition of the subsidiary company - (Qanawat Telecom Company (W.L.L) located in (Kingdom of Saudi Arabia).

- The management tests impairment of goodwill annually if there are any indications that impairment may have arisen. The recoverable amount of Cash Generating Unit "CGU" is determined based on its value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding discount rates and the long term growth rates. The discount rate is based on the weighted average cost of capital, while growth rates are based on management's experience and expectations and do not exceed the long term average growth rate for the region in which the "CGU" operates. These calculations use cash flow projections based on financial budgets approved by the Board of Directors, covering the period of the validity of the telecom license. Cash flows are extrapolated using the estimated growth rates. The weighted average growth rates are consistent with forecasts, and the parent company's management believes that there are no indications for impairment in value of goodwill based on a study prepared on 31 December 2012.

9- Available for sale investments

	2012	2011
Balance at January 1	**11,624,307**	-
Additions	-	11,624,307
Change in fair value	**(921,706)**	-
Balance at December 31	**10,702,601**	11,624,307

Available for sale investments represent financial portfolio managed by specialized authority (a related party).

10- Accounts receivable and other debit balances

	2012	2011
Trade receivables	**6,817,312**	1,890,874
Accrued income	**1,115,061**	1,681,067
Deferred tax assets	**2,831,434**	2,649,782
Letters of guarantee	-	597,207
Prepaid expenses	**1,108,043**	468,731
Refundable deposits	**2,870**	86,154
Advance payments	**121,496**	124,248
Other	**800**	145,468
	11,997,016	7,643,531

11- Transactions with related parties

Related parties comprise of associates, major shareholders, Board of Directors and key management personnel of the Group, entities controlled, jointly controlled or significantly by such parties. The Group's management decides on terms and conditions of these transactions. The amounts and balances due from/to related parties are interest free and have no fixed maturity.

The balances and transactions with related parties included in the consolidated financial statements are as follows:

Consolidated statement of financial position	**2012**	2011
Finance, joint ventures and mudaraba – (Note – 13)	**911,209**	1,340,127
Islamic debt instruments – (Note – 21)	**10,806,806**	10,658,953
Due from related parties	**4,016,683**	1,943,790
Due to related parties	**4,817,109**	3,422,252

Consolidated statement of income	**2012**	2011
Finance and joint ventures income	**-**	21,279
Finance charges	**3,592**	389,927

The transactions with related parties are subject to approval of the Shareholders' General Assembly.

12- Advance payments for purchasing investments

This item represents the amounts paid in prior years for acquiring investments outside of Kuwait. As the ownership of these investments has not been transferred by the seller, the company has filed a request of arbitration against this party and based on the arbitration decision, the company has the right in all the amount paid plus the interests. As per the external lawyer's opinion, the amount could be collected in full based on the final arbitration decision.

During the financial year, there were negotiations between the Group and an external party to acquire the investments instead of the group against a debt settlement with the investee company by paying KD 1,000,000 in cash during 2013 and the remaining amounts will be settled in the form of deduction from the value of services rendered to the group over five years. Up to the date of issuance of these consolidated financial statements, the contracts of this settlement have not yet been signed.

The Group's management - based on the above - anticipates that the advance payments for purchasing investments are recoverable without the need to making a provision for doubtful debts or impairment.

13- Financing, joint ventures and mudaraba

- This item represents short-term financing contracts joint ventures and mudaraba with related parties. The average effective rate of return was 4% to 7% as of December 31, 2012. Matured within one year from the consolidated financial position date.
- The fair value of investments in financing and joint venture and mudaraba equals to its carrying value as of December 31, 2012 as their maturities are short term.

14- Share capital

- The authorized share capital is KD 80,700,000 and paid-up capital amounted KD 72,091,686 divided into 720,916,860 Shares, and all are in cash.

	Authorized		Paid	
	2012	2011	**2012**	2011
Shares 100 Fils for each	**807,000,000**	807,000,000	**720,916,860**	720,916,860

15- Statutory reserve

In accordance with the Commercial Companies Law and the parent company's Articles of Association, 10% of net profit before contribution to Kuwait Foundation for the Advancement of Science, Board of Directors' remuneration, National Labor Support Tax and Zakat has been transferred to the statutory reserve. The Group may discontinue such transfer when the reserve equal 50 % of share capital. This reserve is not available for distribution except in cases stipulated by the law. There were no transfers to the statutory reserve due to accumulated losses.

16- General reserve

As required by the parent company's Articles of Association, 10 % of the net annual profit is transferred to general reserve before contribution to Kuwait Foundation for the Advancement of Sciences, Board of Directors remuneration, National Labor Support Tax and Zakat. Such annual transfer may discontinue by a resolution of the General Assembly based on a recommendation from Board of Directors. There were no transfers to the general reserve due to accumulated losses.

17- Treasury shares

	2012	2011
Number of shares	**41,325,981**	41,325,981
Ownership percentage (%)	**%5.73**	%5.73
Market value (KD)	**2,396,907**	2,231,603

18- License obligations

- During the year Atlantic Wireless – Liberia (a subsidiary to Hits Africa Limited Company) has recognized its license fee obligation over the remainder of the term of its license. The license obligations comprises of outstanding balance owed to the Ministry of Post Telecommunications for the cellular telephony public network license acquired in the Democratic Republic of Congo for US$ 33,000,000 that represent the outstanding balance pertains to a subsidiary and is paid in installments starting in 2010 and ending 2011 which was later extended.

- During the year, Atlantic Wireless - Liberia has not paid the installment matured for the years 2011 and 2012 as all frequencies have not been allotted to the subsidiary according to the agreement with government of Democratic Republic of Congo. Therefore the subsidiary will set a new business plan and re-schedule the installments. Up to the date of the consolidated financial statements approval, the times of paying these installments were not determined nor any agreement reached with the cancellation of the obligation.

19- Term loans

This item represents loans obtained by subsidiaries outside of State of Kuwait in which these companies are located.

Installments which are due within one year from the consolidated financial position date are stated in the current liabilities under "the current portion of term loans", and those which are due after one year from the consolidated financial position date are stated in the non current liabilities "under the non current portion of term loans" as follows:

	2012	2011
Current portion	**4,206,676**	3,939,956
Non-current portion	**658,644**	749,739
	4,865,320	4,689,695

20- Accounts payable and other credit balances

	2012	2011
Trade payables	**26,304,811**	18,190,626
Accrued expenses	**1,707,215**	2,730,536
Other	**1,375,808**	437,769
	29,387,834	21,358,931

21- Islamic debt instruments

This item represents financing Mudaraba and Murabaha contracts with related parties due within one year. The average cost is 4%: 7%.

The fair value of financing Mudaraba contracts approximates their carrying value as of December 31, 2012 since they are bearing cost effective rates equal to the markets' prevailing rates. Part of Islamic debt instruments amounting to KD 547,792 are secured by a pledge on treasury share (Note 17).

22- General and administrative expenses

	2012	2011
Staff costs	**5,128,728**	4,779,039
Rent	**750,713**	1,080,028
Professional fees	**702,643**	438,651
Networks	**877,525**	796,497
Selling and marketing	**179,590**	398,252
Advertising	**56,153**	258,601
Travel	**191,539**	244,887
Printings and stationery	**38,099**	46,355
Other	**1,023,373**	2,069,111
	8,948,363	10,111,421

23- (Loss)/earning per share (Fils)

Earning per share is calculated by dividing net profit for the year by the weighted average number of shares outstanding during the year as follows:

	2012	2011
Net (loss)/profit for the year	**(5,751,534)**	218,740
Weighted average for the shares outstanding during the year	**720,916,860**	720,916,860
Weighted average number of treasury shares	**(41,325,981)**	(41,325,981)
Weighted average number of shares, less treasury shares	**679,590,879**	679,590,879
(loss)/earning per share (Fils)	**(8.46)**	0.32

24- Acquisition of subsidiary

During the year, the Group has acquired Elite Telecommunications Services for General Trading and Contracting company with percentage of 100%, accordingly the Group became exercising control over the financial and operating policies of this company and it was classified as subsidiary and its financial statements have been consolidated in the consolidated financial statements from the date of acquisition. Net assets as of the date of acquisition are as follow:

	KD
Cash and cash equivalents	-
Current assets	**104,968**
Non-current assets	**13,091**
Current liabilities	**(5,133)**
Non-current liabilities	**(915)**
Net assets value	**112,011**
Group's share in net assets acquired	**112,011**
Total cash paid in acquisition of the subsidiary	**112,011**
Less cash in the subsidiary at the acquisition date	-
Net cash used in acquisition of the subsidiary	**112,011**

25- Contingent liabilities

At the consolidated financial position date, the Group had other contingent liabilities represented in Bank Guarantees amounting to KD 295,753 (2011: KD 1,859,750).

26- Operating segment information

The group primarily operates on one area of business activity represented in communication field, accordingly information reported to the group's decision makers for the purpose of resource allocation and performance assessment is more specifically focused on the types of communication activities

Geographic information

The Group operates in various geographic regions: The following table shows the distribution of the Group's income, assets and liabilities by region:

Revenue:

	2012	2011
Kuwait	**270,247**	36,936
Non-Kuwait	**91,587,128**	75,733,071
	91,857,375	75,770,007

Assets and liabilities:

	2012		2011	
Region	**Assets**	**Liabilities**	Assets	Liabilities
Kuwait	**50,776,586**	**15,375,977**	69,285,974	14,109,511
Non-Kuwait				
Kingdom of Saudi Arabia	**14,665,313**	**13,562,295**	5,004,775	4,913,859
Spain	**2,774,018**	**3,044,682**	2,819,746	2,947,648
Africa	**67,576,470**	**32,282,087**	66,875,990	32,240,144
	135,792,387	**64,265,041**	143,986,485	54,211,162

27- Proposed dividends

On March 27, 2013, the Board of Directors of parent company proposed not to distribute cash dividends for shareholders. This proposal is subject to the approval of the General Assembly of shareholders.

28- Shareholders' General Assembly

On May 28, 2012, the Ordinary General Assembly of Shareholders approved the consolidated financial statements for the year ended December 31, 2011 and non-distribution of cash dividends for this year.

29- Employees shares option

The Annual General Assembly meeting of Shareholders held on May 31, 2011 approved to issue 7,000,000 shares of 100 fils for each for Group's employees under employees' share option plan. The General Assembly of shareholders authorized the Board of Directors to distribute these shares for the employees according to the approved share option plan by assigning the right of subscription from shareholders to the employees. Up to date, the preparation of implementing the plan for this option is not completed and then there were no outstanding shares based on this decision, and IFRS 2: "Share based payment" has not been applied until finalizing the plan.

30- Financial instruments and risks management

A) Financial instruments:

Significant accounting policies

Details of the significant accounting policies - including the criteria for measurement and recognition of revenue and expenses - in respect of each class of financial assets and liabilities are disclosed in note (4) to the consolidated financial statements.

Categories of financial instruments

The group's financial assets and liabilities are classified in the consolidated statement of financial position are as follows:

Financial assets	**2012**	2011
Accounts receivable and other debit balances	**11,997,016**	7,643,531
Due from related parties	**4,016,683**	1,943,790
Advance payments for purchasing investments	**5,946,778**	5,946,778
Financing, joint ventures and mudaraba	**911,209**	1,340,127
Cash and cash equivalents	**2,779,240**	357,341
	25,650,926	17,231,567

Financial liabilities	**2012**	2011
Accounts payable and other credit balances	**29,387,834**	21,358,931
Due to related parties	**4,817,109**	3,422,252
License obligations	**12,586,923**	12,737,314
Term loans	**4,865,320**	4,689,695
Loan from shareholders	**505,072**	481,900
Islamic debt instruments	**11,729,098**	11,205,745
	63,891,356	53,895,837

Fair value of financial instruments

Fair value is defined as the amounts at which an asset could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction. The Group used recognized assumptions and methods to estimate the fair value of the financial instruments. The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of other financial assets and liabilities with standard terms and conditions and trade on active liquid market is determined with reference to quoted market prices.
- The fair value of other financial assets and liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar financial instrument.
- The fair values of financial instruments carried at amortized cost are not significantly different from their carrying values.

B) Financial risks management

The Group uses financial instruments that are exposed to a variety of financial risks such as credit risks, market risks, and liquidity risks.

The Group continuously reviews its risks exposures and takes measures to limit it to acceptable level.

- **Credit risks**

Credit risks are the risks that counterparty will cause a financial loss to the Group by failing to discharge an obligation. Credit risks arise in the Group's normal course of business. All policies relating to credit are reviewed and approved by the Board of Directors. Credit limits are established for all customers after a careful assessment of their creditworthiness.

Risks concentration of maximum exposure to credit risks
Concentrations of credit risks arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other condition.

Credit risks can also arise due to a significant concentration of Group's assets to any single counterparty. These risks are managed by diversification of the portfolios.
The Group considers its maximum exposure to credit risks to be as follows:

	2012	2011
Cash and cash equivalents	**2,779,240**	357,341
Accounts receivable and other debit balances	**11,997,016**	7,643,531
	14,776,256	8,000,872

- **Liquidity risks**

Liquidity risks represent that the Group will be unable to meet its cash obligations. The management of liquidity risks consist of keeping sufficient cash, and arranging financing sources through enough facilities, managing highly liquid assets, and monitoring liquidity on a periodically basis by method of future cash flow.
The maturity of liabilities stated below based on the period from the consolidated financial position date to the contractual maturity date. In the case of the financial instrument that do not have a contractual maturity date, the maturity is based on management's estimate of time period in which the asset will be collected or disposed to settle the liability.

The maturity analysis of financial liabilities at December 31, 2012 is as follows:

	During one year	**More than one year**	**Total**
Provision for end of service indemnity	**-**	**373,685**	**373,685**
License obligations	**3,826,986**	**8,759,937**	**12,586,923**
Term loans	**4,206,676**	**658,644**	**4,865,320**
Loan from shareholders	**-**	**505,072**	**505,072**
Accounts payable and other credit balances	**27,184,080**	**2,203,754**	**29,387,834**
Due to related parties	**4,817,109**	**-**	**4,817,109**
Islamic debt instruments	**11,729,098**	**-**	**11,729,098**
	51,763,949	**12,501,092**	**64,265,041**

The maturity analysis of financial liabilities at December 31, 2011 is as follows:

	During one year	More than one year	Total
Provision for end of service indemnity	-	315,325	315,325
License obligations	3,699,010	9,038,304	12,737,314
Term loans	3,939,956	749,739	4,689,695
Loan from shareholders	-	481,900	481,900
Accounts payable and other credit balances	19,824,495	1,534,436	21,358,931
Due to related parties	3,422,252	-	3,422,252
Islamic debt instruments	11,205,745	-	11,205,745
	42,091,458	12,119,704	54,211,162

- **Market risks**

Market risks comprise of foreign currencies risks, interest rate risks and equity price risks, these risks arise due to changes in market prices, interest rates and foreign currency rates.

Foreign currencies risks

Foreign currency risks are the risks that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

Exchange rate exposures are managed within approved policy parameters.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the date of consolidated financial position are as follows:

	2012		2011	
Currency	**Assets**	**Liabilities**	Assets	Liabilities
US Dollar	**47,442,835**	**32,181,577**	1,729,705	20,238,860
Euro	**2,690,385**	**3,009,740**	182,133	700,425
Saudi Riyal	**8,369,289**	**13,363,514**	2,751,038	3,545,138

Interest rate risks

Interest rate risks are the risks that the fair value or future cash flows of a financial instrument will fluctuate due to changes on interest rates in the market.

The Group's interest rate risks arise from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risks.

Sensitivity of interest rates

The sensitivity of interest rates measures the effect of the expected changes in interest rates over the financial charges for one year based on the financial liabilities kept for one year end and carry interest.

The schedule stated below shows the effect on Group's profit due to the expected change of interest rates with all other variables being constant:

	2012		2011	
	Change in interest rates	**Effect on profit**	Change in interest rates	Effect on profit
Profit for the year	**1%**	**165,944**	1%	158,954

Equity price risks
Equity price risks are the risks that the fair value of equities decreases as the result of changes in the levels of equity indices and the value of individual stocks. Equity price risks are resulted due to the changes in the fair value of the investments in stocks.

The effect on equity due to change in fair value of available for sale investments as of December 31, 2012 as a result of possible changes in the market indices (± 10 %) with consistency of other factors as follow:

	Effect on equity	
	2012	2011
Available for sale investments	**1,070,260**	1,162,431

31- Capital risk management

A- Capital risks management objectives:

The parent company objectives to manage capital are:

- To safeguard the Group's ability to continue as a going concern to be able to provide returns for shareholders and benefits for other beneficiaries.
- To maintain an optimal returns to shareholders by pricing its products and services commensurately with risk level.

The Group determines share capital that is adequate for risks, manages its capital structure, and adjusts it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amounts of dividends paid to shareholders or issue new shares or sell assets to reduce debt.

B- Debts to equity ratio:

Consistent with others in the same field, the Group monitors its capital based on debt to equity ratio. This ratio is calculated as net debt divided by total adjusted capital. Net debt calculated as the total loans and other bank facilities included in the consolidated financial position less cash and cash equivalents. Adjusted capital comprises all components of equity attributable to the shareholders of the parent company (share capital, share premium, reserves, treasury shares and accumulated losses) in addition to the net debts.

The net debt ratio is as follows:

	2012	2011
Debts	**16,594,418**	15,895,440
Less: cash and cash equivalents	**(2,779,240)**	(357,341)
Net debt	**13,815,178**	15,538,099
Total equity attributable to the shareholders of the parent company	**70,379,283**	96,509,738
Total equity and net debt	**84,194,461**	112,047,837
Net debt ratio	**%16**	%14

32- Comparative figures

Certain comparative figures for the financial previous year have been reclassified to conform with the financial current year presentation.