# Hits Telecom Holding Company

**K.S.C. (Public)**
**and its subsidiaries**
**Kuwait**
**The consolidated financial statements**
**for the financial year ended December 31, 2013**
**with**
**Independent auditors' report**

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**Kuwait**
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**with**
**Independent auditors' report**

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## Independent auditors' report

**The Shareholders**
**Hits Telecom Holding Company**
**K.S.C. (Public)**
**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. (Public) - (The Parent), and its subsidiaries together referred to as (The Group) - which comprise the consolidated statement of financial position as of December 31, 2013 and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the financial 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 company'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, 2013, 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 (13) 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 Parent company, physical counting was carried out in accordance with recognized practices, the consolidated financial statements together with the financial contents of the report of the Board of Directors are in accordance therewith. Also, 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 Companies' Law no. 25 of year 2012, as amended, and related Executive Regulations, law no. 7 of year 2010 in respect of the establishment of Capital Market Authority and the organization of the securities activity and its regulation and the Parent company's memorandum and articles of association. According to the information available to us, there were no violations have occurred of either the Companies' Law no. 25 of year 2012, as amended, and related Executive Regulations, law no. 7 of 2010 in respect of the establishment of Capital Market Authority and the organization of the securities activity and its regulation or of the Parent company's memorandum and articles of association during the financial year ended December 31, 2013 that might have had a material effect on the Parent company's business or its consolidated 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 30, 2014
State of Kuwait

Exhibit - A

# Hits Telecom Holding Company
**K.S.C. (Public)**
**and its Subsidiaries**
**Kuwait**
**Consolidated statement of financial position as of December 31, 2013**
***"All amounts are in Kuwaiti Dinar"***

| | Note | 2013 | 2012 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property and equipment | 7 | **299,659** | 20,354,740 |
| Intangible assets | 8 | **14,733,506** | 72,579,806 |
| Investment in joint venture | | **-** | 345,760 |
| Investment in an associate | 9 | **15,618,963** | - |
| Available for sale investments | 10 | **16,932,230** | 10,702,601 |
| | | **47,584,358** | 103,982,907 |
| **Current assets** | | | |
| Inventory | | **9,131,061** | 6,158,554 |
| Accounts receivable and other debit balances | 11 | **7,092,023** | 11,997,016 |
| Due from related parties | 12 | **5,265,316** | 4,016,683 |
| Advance payments for purchasing investments | 13 | **2,946,778** | 5,946,778 |
| Loan to associate | 14 | **21,446,476** | - |
| Finance, joint ventures and mudaraba | 15 | **911,209** | 911,209 |
| Cash and cash equivalents | | **1,815,444** | 2,779,240 |
| | | **48,608,307** | 31,809,480 |
| **Total assets** | | **96,192,665** | 135,792,387 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 16 | **72,091,686** | 72,091,686 |
| Share premium | | **6,846,580** | 34,149,954 |
| Statutory reserve | 17 | **-** | 462,499 |
| General reserve | 18 | **-** | 462,499 |
| Other reserves | | **147,896** | 147,896 |
| Treasury shares | 19 | **(6,837,335)** | (6,837,335) |
| Cumulative changes in fair value | | **(5,644,077)** | (921,706) |
| Foreign currency translation reserve | | **(178,996)** | (947,838) |
| Accumulated losses | | **(5,688,012)** | (28,228,372) |
| Equity attributable to the shareholders of the parent company | | **60,737,742** | 70,379,283 |
| Non-controlling interests | | **-** | 1,148,063 |
| | | **60,737,742** | 71,527,346 |
| **Non-current liabilities** | | | |
| Provision for end of service indemnity | | **258,974** | 373,685 |
| License obligations | | **-** | 8,759,937 |
| Term loans | 21 | **666,344** | 658,644 |
| Loan from shareholders | | **-** | 505,072 |
| Accounts payable and other credit balances | 20 | **-** | 2,203,754 |
| | | **925,318** | 12,501,092 |
| **Current liabilities** | | | |
| Accounts payable and other credit balances | 20 | **19,025,421** | 27,184,080 |
| Due to related parties | 12 | **4,150,586** | 4,817,109 |
| License obligations | | **-** | 3,826,986 |
| Term loans | 21 | **-** | 4,206,676 |
| Islamic debt instruments | 22 | **11,353,598** | 11,729,098 |
| | | **34,529,605** | 51,763,949 |
| **Total equity and liabilities** | | **96,192,665** | 135,792,387 |

**Dr. Khaled Y. Al Mutawa**
**Chairman**

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

Exhibit - B

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

## Consolidated statement of income for the financial year ended December 31, 2013
*"All amounts are in Kuwaiti Dinar"*

| | Note | 2013 | 2012 |
|---|---|---|---|
| Revenue of activity | | **74,943,402** | 91,138,674 |
| Cost of activity | | **(68,566,796)** | (81,509,635) |
| Gross profit of activity | | **6,376,606** | 9,629,039 |
| General and administrative expenses | 23 | **(5,358,670)** | (8,948,363) |
| Depreciation and amortization | | **(504,782)** | (1,939,607) |
| Finance charges | | **(121,733)** | (687,531) |
| Impairment of goodwill | | **(570,333)** | (5,290,000) |
| Provision for advance payments for purchasing investments | | **(3,000,000)** | (534,316) |
| Loss from sale investment in subsidiary | 6 | **(3,658,707)** | - |
| Finance, joint venture and mudaraba income | | - | 448,454 |
| Tax income | | **134,534** | - |
| Interests payable | | **959,263** | - |
| Other income | | **55,810** | 270,247 |
| **Net loss for the year** | | **(5,688,012)** | (7,052,077) |
| **Attributable to** | | | |
| Shareholders of the parent company | | **(5,688,012)** | (5,751,534) |
| Non-controlling interests | | - | (1,300,543) |
| **Net loss for the year** | | **(5,688,012)** | (7,052,077) |
| **Loss per share/(Fils)** | 24 | **(8.37)** | (8.46) |

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

Exhibit - C

# Hits Telecom Holding Company

**K.S.C. (Public)**
**and its Subsidiaries**
**Kuwait**

## Consolidated statement of comprehensive income for the financial year ended December 31, 2013

*"All amounts are in Kuwaiti Dinar"*

| | 2013 | 2012 |
|---|---|---|
| Net loss for the year | **(5,688,012)** | (7,052,077) |
| **Other comprehensive loss for the year:** | | |
| Change in fair value of available for sale investment | **(4,722,371)** | (921,706) |
| Exchange differences on translating foreign currency | **768,842** | 415,947 |
| **Total other comprehensive loss for the year** | **(3,953,529)** | (505,759) |
| **Total comprehensive loss for the year** | **(9,641,541)** | (7,557,836) |
| **Attributable to** | | |
| Shareholders of the parent company | **(9,641,541)** | (6,257,293) |
| Non-controlling interests | **-** | (1,300,543) |
| **Total comprehensive loss for the year** | **(9,641,541)** | (7,557,836) |

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

**Exhibit - D**

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

## Consolidated statement of cash flows for the financial year ended December 31, 2013
*"All amounts are in Kuwaiti Dinar"*

| | 2013 | 2012 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss for the year | **(5,688,012)** | (7,052,077) |
| | | |
| **Adjustments:** | | |
| Depreciation and amortization | **504,782** | 1,939,607 |
| Disposal of property and equipment at cost | **19,984,365** | 121,911 |
| Disposal of intangible assets (at cost) | **30,388,764** | 162,681 |
| Impairment of goodwill | **570,333** | 5,290,000 |
| Provision for end of service indemnity | **(114,711)** | 58,360 |
| Finance, joint venture and mudaraba income | **-** | (448,454) |
| Bad debts | **-** | 534,316 |
| Loss from sale investment in a subsidiary | **3,658,707** | - |
| Provision for advance payments for purchasing investments | **3,000,000** | - |
| Finance charges | **121,733** | 687,531 |
| The effect of changes in working capital items | **52,425,961** | 1,293,875 |
| Inventory | **(2,972,507)** | (4,852,083) |
| Accounts receivable and other debit balances | **1,246,286** | (401,485) |
| Related parties | **(1,915,156)** | (654,864) |
| License obligations | **(12,586,923)** | (150,391) |
| Accounts payable and other credit balances | **(10,362,413)** | 8,028,903 |
| Net cash generated from operating activities | **25,835,248** | 3,263,955 |
| | | |
| **Cash flows from investing activities** | | |
| Property and equipment | **(90,356)** | (687,651) |
| Loan to associate | **(21,446,476)** | - |
| Intangible assets | **(14,666)** | (22,865) |
| Finance, joint venture and mudaraba | **-** | 343,056 |
| Investment in joint venture | **345,760** | (122,805) |
| Net cash used in investing activities | **(21,205,738)** | (490,265) |
| | | |
| **Cash flows from financing activities** | | |
| Term loans | **(4,198,976)** | 175,625 |
| Finance charges paid | **(121,733)** | (687,531) |
| Loan from shareholders | **(505,072)** | - |
| Islamic debt instruments | **(375,500)** | 523,353 |
| Change in non-controlling interests | **(1,148,063)** | (99,164) |
| Net cash used in financing activities | **(6,349,344)** | (87,717) |
| | | |
| Effects of exchange rate changes on cash and cash equivalents | **756,038** | (264,074) |
| | | |
| Net (decrease)/increase in cash and cash equivalents | **(963,796)** | 2,421,899 |
| Cash and cash equivalents at beginning of the year | **2,779,240** | 357,341 |
| **Cash and cash equivalents at end of the year** | **1,815,444** | 2,779,240 |

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

Exhibit - E

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

## Consolidated statement of changes in equity for the financial year ended December 31, 2013
*"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, 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 for the year | - | - | - | - | - | - | (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) |
| Effect of selling shares in 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 at 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 |
| Balance at January 1, 2013 | 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 |
| Amortized accumulated losses (note - 28) | - | (27,303,374) | (462,499) | (462,499) | - | - | - | - | 28,228,372 | - | - | - |
| Net loss for the year | - | - | - | - | - | - | - | - | (5,688,012) | (5,688,012) | - | (5,688,012) |
| Other comprehensive loss for the year | - | - | - | - | - | - | (4,722,371) | 768,842 | - | (3,953,529) | - | (3,953,529) |
| Total comprehensive loss | - | - | - | - | - | - | (4,722,371) | 768,842 | (5,688,012) | (9,641,541) | - | (9,641,541) |
| Change in non-controlling interests | - | - | - | - | - | - | - | - | - | - | (1,148,063) | (1,148,063) |
| **Balance as of December 31, 2013** | 72,091,686 | 6,846,580 | - | - | 147,896 | (6,837,335) | (5,644,077) | (178,996) | (5,688,012) | 60,737,742 | - | 60,737,742 |

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

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

**Notes to the consolidated financial statements for the financial year ended December 31, 2013**
*"All amounts are in Kuwaiti Dinar unless stated otherwise"*

## 1- The company's brief

Hits Telecom Holding Company K.S.C (Public) was incorporated on May 22, 1999 in accordance with the 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 guaranteeing both kinds of companies to others related to communication segment 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 commercial 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 segment 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 financial 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 parent company practices its operation in accordance with Islamic Sharia.

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

The consolidated financial statements for the financial year ended December 31, 2013 were authorized for issue from the Board of Directors on March 30, 2014.

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

## 2- Going concern

The accumulated losses of some subsidiaries have exceeded their half or full share capital and the financial statements of some subsidiaries have been prepared based on going concern basis, 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 1,296,364 up to December 31, 2013, which exceed the company's share capital.
- Hits Telecom Spain company S.A (a subsidiary to Elite Telecommunication Service for General Trading and Contracting Company) has incurred accumulated losses amounted to KD 1,548,192 up to December 31, 2013 that exceed the company's share capital and its current liabilities exceed the current assets with amount of KD 1,185,250 which may affect the company's ability to continue as a going concern in absence of the sufficient financial support.

The Group's management has provided financial support for these companies by increasing the share capital of some companies. The management intends also to continue in submitting its financial support for these companies during the next period to improve the companies' ability to continue as a going concern.

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

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year and the amended and new Standards which are effective for annual period beginning on or after January 1, 2013.

### 3/1) Standards effective for the current year:

***IFRS 7 Financial Instruments: Disclosures – Transfer of financial assets***
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement.

***IAS 1 Presentation of Items of Other Comprehensive Income (amendments)***
The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings) would be presented separately from items that will never be reclassified (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets). The amendment affects presentation.

***IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments)***
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with *IAS 32 Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

***IFRS 10 Consolidated Financial Statements***
IFRS 10 replaces the consolidation guidance in *IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities* by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure or rights, to variable returns from its involvement with the investee and 3) the ability to use its power over the investee to affect the amount of the returns.

***IFRS 11 Joint Arrangements***
IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures.

***IFRS 12 Disclosure of Involvement with Other Entities***
IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities.

***IFRS 13: Fair Value Measurement***
IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

3/2) **Standards issued but not yet effective:**
Below are the new and revised IFRSs that are not yet mandatorily effective for the year ending December 31, 2013 (but allow early application).

***IFRS 9 financial instruments (as revised in 2010)***
***(Effective for annual periods beginning on or after January 1, 2015)***

IFRS 9 is a new standard for financial instruments that is ultimately intended to replace IAS 39 in its entirety

The replacement project consists of the following phases:

- Phase 1: classification and measurement of financial assets and financial liabilities.
- Phase 2: Impairment Phase.
- Phase 3: Hedge accounting.

**Amendments of IAS 32 offsetting financial assets and financial liabilities**
***(Effective for accounting periods beginning on or after January 1, 2014)***
The amendments to IAS 32 clarify existing application issue relating to the offsetting requirements. Specifically, the amendments clarify the meaning of currently has a legally enforceable right of set-off: and simultaneous relation and settlement. The amendments to IAS 32 are effective for annual periods beginning on or January 1, 2014. Retrospective application is required.

**Amendments to IFRS 10,12 and IAS 27 investment Entities**
***(Effective for accounting periods beginning on or after January 1, 2014)***
The amendments to IFRS 10 introduce an exception from the requirements to consolidate subsidiaries for an investment entity. In terms of the exception, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss. The exception does not apply to subsidiaries of investments entities that provide services that relate to the investment entity's investment activities.

Amendments to IFRS 12 and IAS 27 have been made to introduce new disclosure requirements for investment entities.

In general, the amendments require retrospective application, with specific transitional provisions.

The management anticipates that the new standards 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 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 consulted 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 Companies' Law requirements and amendments.
- The Companies Law no. 25 of year 2012 has been issued on November 26, 2012 and published in the newspaper on November 29, 2012 which leads to cancellation of companies' law no. 15 of year 1960. On March 27, 2013 the Companies Law has been amended in accordance with the Law no. 97 of year 2013. On September 29, 2013 the Executive Regulations has been issued to determine the rules and regulations for existing companies to comply with the new law provisions, which has been published in the newspaper on October 6, 2013.
- 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 Group consolidates the financial statements of the Parent Company and subsidiaries (i.e. investees that it controls) (Note – 6) and investees controlled by its subsidiaries.
- The Group controls an investee if and only if the Group has:
  - Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
  - Exposure, or rights, to variable returns from its involvement with the investee, and
  - The ability to use its power over the investee to affect its returns.
- When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
  - The contractual arrangement with the other vote holders of the investee;
  - Rights arising from other contractual arrangements;
  - Voting rights and potential voting rights;
- The financial statements of subsidiaries are included in the consolidated financial statements on a line-by-line basis, from the date on which control is transferred to the Group until the date that control ceases.
- Non-controlling interest in an acquiree is stated at the non-controlling interest's proportionate share in the recognized amounts of the acquiree's identifiable net assets at the acquisition date and the non-controlling interest's share of changes in the equity since the date of the combination. Total comprehensive income is attributed to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Changes in the Group's ownership interest in a subsidiary that do not result in loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiary and any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the Parent Company's shareholders. Non-controlling interest is presented separately in the consolidated statements of financial position and profit or loss. The non-controlling interests are classified as a financial liability to the extent there is an obligation to deliver cash or another financial asset to settle the non-controlling interest.
- Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on latest audited financial statements of subsidiaries. Intra group balances, transactions, income, expenses and dividends are eliminated in full. Profits and losses resulting from intra group transactions that are recognized in assets are eliminated in full.
- If a parent loses control of a subsidiary, it derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost as well as related non-controlling interests.

Any investment retained is recognized at fair value at the date when control is lost. Any resulting difference along with amounts previously directly recognized in equity is transferred to the consolidated statement of profit or loss.

**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.
Gains or losses on disposal of property and equipment in the statement of consolidated income statements by the difference between the net realizable value and net book value.
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) Investment in an associate**

An associate is the company over which the group exerts significant influence. Investment in associates is accounted under the equity method.
Under the equity method, the Investment in an associate is initially recorded at cost and adjusted with changes after acquisition in the group's share of the associate's equity. The goodwill related to acquire an associate is included in the book value of the investment and not amortized.
The group recognizes its share in profits or losses of an associate realized in the consolidated statement of income from the date that the influence started effectively until the date that influences effectively ended .Adjustments on the carrying amount may also be necessary to reflect the changes in the group's share in the associate arising from changes in the associate's equity. The group share as a result of these changes is recognized in the equity.
Unrealized gains from transactions with associates are eliminated to the extent of the group's share in the associate, unrealized losses are eliminated unless the transaction provides evidence of impairment in value of the asset transferred. An assessment for impairment in investments in associates is performed when there is an indication that the asset has been impaired, or that impairment losses recognized in prior years no longer exist.

The associate's financial statements are prepared at the same date of the group's reporting date or to a date not earlier than three months of the group's reporting date using consistent accounting policies. There were adjustments made to reflect the effects of significant transactions and other events that occurred between the associate financial year end and the group's financial year end.

**4/7) 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.

**4/8) 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.

**4/9) 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.

**4/10) 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.

**4/11) 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.

**4/12) 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.

**4/13) Accounts payable**
Accounts payable are stated at their nominal value.

**4/14) 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.

**4/15) 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.

**4/16) 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.

**4/17) 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.

**4/18) 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.

**4/19) 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.

**4/20) 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.

**4/21) 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.

**4/22) 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.

**4/23) 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.

**4/24) 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.

**4/25) National Labour Support Tax**

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

**4/26) 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.

**4/27) 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*
The Parent company's management decides on the acquisition of an investment whether it should be classified as available for sale or 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.

**Notes to the consolidated financial statements for the financial year ended December 31, 2013**
***"All amounts are in Kuwaiti Dinar unless stated otherwise"***

**6- The subsidiary companies**

The consolidated financial statements include The Parent's financial statements and its subsidiaries' companies as follows:

| | Country of incorporation | Ownership percentage | |
|---|---|---|---|
| | | **2013** | 2012 |
| Qanawat Telecom Company (W.L.L) | Saudi Arabia | **99%** | 99% |
| Fawran Telecom Company (W.L.L) | Saudi Arabia | **99%** | 99% |
| Elite Telecommunication Services for General Trading and Contracting company (W.L.L) | Kuwait | **99%** | 99% |

- During the current year, the Group has sold 20% (through the subsidiary Elite Telecommunication Services for General Trading and Contracting Company W.L.L) of its ownership in its subsidiary (Hits Africa Company (Ltd)- Cayman Island to an external party with the amount of KD 7,000,000 and the necessary procedures to transfer the ownership' share to the buyer party are still in progress.
- After the sale transaction mentioned above the ownership share of Elite Telecommunications Services for General Trading and Contracting Company (W.L.L) on Hits Africa Company (Ltd) - Cayman Islands - became 32.82% (2012: 52.82%) and as a result, the Group has lost the control on financial and operating policies of this company and then the remaining part from this investment has been reclassified as an associate accordingly (note – 9). As a result of the transaction above, a loss amounting to KD 3,658,707 recorded directly in the consolidated statement of income.

The movement occurred on this account is as follows:

| | **Kuwaiti Dinar** |
|---|---|
| Total assets | **61,577,391** |
| Total liabilities | **(45,303,419)** |
| Net equity of sold company | **16,273,972** |
| Minority of sold company | **(7,402,934)** |
| The Parnet company' equity share sold | **23,676,906** |
| The subsidry's equity share 52.8% of sold company | **12,506,136** |
| The value of sold share in equity of the subsidary | **4,734,823** |
| The sold share recorded at the Parent company records (Elite Telecommunication Services of General Trading and Contracting company) | **10,658,707** |
| Sale value | **(7,000,000)** |
| Loss from sale - consolidated statement of income | **3,658,707** |

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

**Notes to the consolidated financial statements for the financial year ended December 31, 2013**
*"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, 2013 | 83,856 | 835,921 | 569,151 | 2,991,931 | 357,192 | 15,237,957 | 9,984,111 | 30,060.119 |
| Additions | - | 3,586 | 10,934 | 5,344 | 6,769 | 63,723 | - | 90,356 |
| Disposals | (83,856) | (652,644) | (466,405) | (2,298,529) | (256,604) | (14,515,517) | (9,984,111) | (28,257,666) |
| Foregin currency translation | - | 331 | 13,872 | 19,692 | 320 | 2,251 | - | 36,466 |
| Balance at December 31, 2013 | - | 187,194 | 127,552 | 718,438 | 107,677 | 788,414 | - | 1,929,275 |
| **Accumulated depreciation** | | | | | | | | |
| Balance at January 1, 2013 | - | 377,042 | 277,432 | 1,379,548 | 309,463 | 7,361,894 | - | 9.705,379 |
| Charged for the year | - | 17,544 | 7,666 | 40,257 | 18,569 | 86,925 | - | 170,961 |
| Disposals | - | (210,109) | (190,441) | (731,118) | (241,069) | (6,900,564) | - | (8,273,301) |
| Foregin currency translation | - | 320 | 17,026 | 1,633 | 239 | 7,359 | - | 26,577 |
| Balance at December 31, 2013 | - | 184,797 | 111,683 | 690,320 | 87,202 | 555,614 | - | 1,629,616 |
| **Net book value** | | | | | | | | |
| **At December 31, 2013** | - | **2,397** | **15,869** | **28,118** | **20,475** | **232,800** | - | **299,659** |
| At December 31, 2012 | 83,856 | 458,879 | 291,719 | 1,612,383 | 47,729 | 7,876,063 | 9,984,111 | 20.354.740 |

- The disposals mentioned above resulted from selling percentage in (Note -6). The effect of this transaction has been eliminated from the consolidated statement of cash flows as it is a non-cash movement.

## 8- Intangible assets

| | Lisence fees | Goodwill* | Software and trade mark | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at January 1, 2013 | 19,454,034 | 53,157,137 | 1,588,346 | 74,199,517 |
| Additions | - | - | 14,666 | 14,666 |
| Disposal as result of lose control on a subsidiary company | (19,454,034) | (24,534,562) | - | (43,988,596) |
| Transferred Goodwill to Investment in an associate company | - | (8,645,658) | - | (8,645,658) |
| Disposal as result of sale share at a subsidiray company | - | (5,268,531) | - | (5,268,531) |
| Foreign currency translation | - | - | 11,475 | 11,475 |
| Balance at December 31, 2013 | - | 14,708,386 | 1,614,487 | 16,322,873 |
| **Accumulted amortization** | | | | |
| Balance at January 1, 2013 | 372,725 | - | 1,246,986 | 1,619,711 |
| Charged for the year | - | - | 333,821 | 333,821 |
| Disposals | (372,725) | - | - | (372,725) |
| Foreign currency translation | - | - | 8,560 | 8,560 |
| Balance at December 31, 2013 | - | - | 1,589,367 | 1,589,367 |
| **Net book value** | | | | |
| **At December 31, 2013** | - | **14,708,386** | **25,120** | **14,733,506** |
| At December 31, 2012 | 19,081,309 | 53,157,137 | 341,360 | 72,579,806 |

* This item represents a goodwill amounting to KD 14,015,057 resulted from acquisition of a subsidiary company - Qanawat Telecom Company (W.L.L) and a goodwill amounting to KD 693,329 resulted from (Hits Spain) telecom company (SA) in previous years.

* The management makes an impairment test for the Goodwill annually, and the parent company's management believes that there is no indication for impairment in value of Goodwill based on an external party study as of December 31, 2013.

\- The disposals mentioned above resulted from selling a percentage in shares of subsidiary (Note - 6). The effect of this transaction has been eliminated from consolidated statement of cash flows as it is a non-cash movement.

## 9- Investment in an associate

This investment represents the Group' share in the equity of Hits Africa Company (Ltd) - Cayman Island with percentage of 32.82% in capital through one of the subsidiaries, as the Group during the year decreased its share in the ownership of Hits Africa Company (Ltd) - Cayman Island - from 52.82% to 32.82% (through one of their subsidiaries Elite Telecommunication Service for General Trading and Contracting company) and as a result, the investment has been reclassified from subsidiary to investment in an associate (Note-6).

The investment in an associate includes Goodwill amounting to KD 8,075,325 as of December 31, 2013 as the Group's management carried out study to evaluate the goodwill resulted in impairment in value of the goodwill amounted to KD 570,333 recorded directly in consolidated statement of income.

The Group's share in the associate company's results has not been recorded for the period from the date of reclassification as there is no available audited financial statements after this date.

## 10- Available for sale investments

| | 2013 | 2012 |
|---|---|---|
| Balance at January 1 | **10,702,601** | 11,624,307 |
| Additions | **10,952,000** | - |
| Change in fair value | **(4,722,371)** | (921,706) |
| Balance at December 31 | **16,932,230** | 10,702,601 |

- These investments are recorded at cost less the impairment in value as, there is no reliable instrument to measure its fair value as of the consolidated financial statements date. The effect of additions transaction mentioned above has been eliminated from the consolidated statement of cash flows as it is a non-cash movement.

## 11- Accounts receivable and other debit balances

| | 2013 | 2012 |
|---|---|---|
| Trade receivables | **635,376** | 6,817,312 |
| Accrued income | **2,830,093** | 1,115,061 |
| Deferred tax assets | **2,311,903** | 2,831,434 |
| Letters of guarantee | **561,216** | - |
| Prepaid expenses | **389,470** | 1,108,043 |
| Staff receivables | **163,175** | - |
| Refundable deposits | **15,566** | 2,870 |
| Advance payments | **-** | 121,496 |
| Other | **185,224** | 800 |
| | **7,092,023** | 11,997,016 |

Ageing of trade receivables of past due but not impaired are as follows:

| | 2013 | 2012 |
|---|---|---|
| 90-120 days | **560,080** | 3,952,000 |
| 120-180 days | **40,031** | 175,621 |
| 180-365 days | **35,265** | 2,360,680 |
| Above 365 days | **-** | 329,011 |
| | **635,376** | 6,817,312 |

The carrying value of consolidated accounts receivable and other debit balances approximates their fair value. And also, the other classes within consolidated accounts receivable and other debit balances do not contain impaired assets. The maximum exposure to credit risk at the consolidated reporting date is the fair value of each class of receivables mentioned above.

## 12- 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** | **2013** | 2012 |
|---|---|---|
| Finance, joint ventures and mudaraba – (Note – 15) | **911,209** | 911,209 |
| Islamic debt instruments – (Note – 22) | **11,353,598** | 11,729,098 |
| Due from related parties | **5,265,316** | 4,016,683 |
| Due to related parties | **4,150,586** | 4,817,109 |

| **Consolidated statement of income** | **2013** | 2012 |
|---|---|---|
| Finance charges | **69,709** | 3,592 |

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

## 13- Advance payments for purchasing investments

This item represents the amounts paid in prior years for acquiring investments outside State 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 amounts paid plus the interests. As per the company internal lawyer's opinion, the amount could be collected in full during subsequent years based on the final arbitration decision of Brazilian court which expected next year.

During the previous financial year, there were negotiations between the Group and an external party to acquire the investments instead of the Group against settle the debt with the investee company, but the settlement has been stopped until the Group's management decides and measures it benefits from the process.

During the current year, The Group's management recorded a provision for advance payments for purchasing investments according to prudence basis amounted to KD 3,000,000 to cover any uncollected amounts in future.

The following is the movement occurred during the year:

| | **2013** | 2012 |
|---|---|---|
| Balance at January 1 | **5,946,778** | 5,946,778 |
| Provision for advance payments for purchasing investments | **(3,000,000)** | - |
| Balance at December 31 | **2,946,778** | 5,946,778 |

**14- Loan to an associate**

This item represents a loan granted to the associate (Hits Africa Company (Ltd)- Cayman Island) amounted to USD 75,680,606 bearing an interest rate of 6% matured on March 31, 2014. This loan was granted to the associate Hits Africa Company (Ltd) - Cayman Island in prior years as joint venture contract when this associated was a subsidiary to Elite Telecommunication Services for General Trading and Contracting Company W.L.L. (Note-6). Since these transactions were eliminated previously between the parent Company and its subsidiaries, the loan amount wasn't then included in the parent Company's consolidated financial statements.

This loan is secured upon an assignment and transfer of rights agreement between Hits Africa Company (Ltd)- Cayman Islands and one of its subsidiaries and mortgaged shares between Hits Africa Company (Ltd)- Cayman Islands in one of its subsidiaries and the relevant rights in favor of Hits Telecom Company.

**15- Finance, joint ventures and mudaraba**

- This item represents short-term financing contracts, joint ventures and mudaraba with related parties matured within one year from the consolidated financial position date. The Group does not calculate fixed profits on theses finance, joint ventures and mudaraba contracts upon a permission from sharia Supervisory Board until the settlement of these contracts.
- The fair value of investments in financing, joint venture and mudaraba equal to its carrying value as of December 31, 2013 due to its sort-term maturities.

**16- Share capital**

- The Parent company authorized, issued and fully paid-up share capital is KD 72,091,686 divided into 720,916,860 shares, and all are in cash where, the Unordinary General Assembly held on September 10, 2013 decreased this authorized share capital from KD 80,700,000 to KD 72,091,686 which is the paid-up share capital.

| | Authorized | | Paid | |
|---|---|---|---|---|
| | **December 31, 2013** | December 31, 2012 | **December 31, 2013** | December 31,2012 |
| Shares 100 Fils for each | **720,916,860** | 807,000,000 | **720,916,860** | 720,916,860 |

**17- 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 losses during this year.

**18- 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 losses during this year.

## 19- Treasury shares

| | 2013 | 2012 |
|---|---|---|
| Number of shares | **41,325,981** | 41,325,981 |
| Shareholding percentage (%) | **5.73%** | 5.73% |
| Market value (KD) | **2,686,189** | 2,396,907 |

Reserves of the Parent company equivalent to the cost of treasury shares have been classified as non-distribute reserves.

## 20- Accounts payable and other credit balances

| | 2013 | 2012 |
|---|---|---|
| Trade payables | **15,928,188** | 26,304,811 |
| Accrued expenses | **1,242,060** | 1,707,215 |
| Advanced payment from customers | **996,462** | - |
| Deferred income | **458,567** | - |
| Provision for staff leave | **12,772** | - |
| Other | **387,372** | 1,375,808 |
| | **19,025,421** | 29,387,834 |

## 21- Term loans

This item represents loans granted to as subsidiary of the Group (Hits Spain Company - Spain Kingdom). The installments matured 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:

| | 2013 | 2012 |
|---|---|---|
| Current portion | - | 4,206,676 |
| Non-current portion | **666,344** | 658,644 |
| | **666,344** | 4,865,320 |

## 22- Islamic debt instruments

- This item represents financing Mudaraba and morabha contracts some of them are engaged with related parties and they are matured within one year. The Group does not record fixed interest rates on these Mudaraba contracts profit with an amount of KD 10,805,806 according to permission from shari'a Control Authority until the settlement of these contracts.
- A portion of Islamic debts instruments with an amount of KD 547,792 are secured by a pledge on some of the treasury shares.
- The Islamic debt instruments include financing Mudaraba and Murabaha contracts with an amount of KD 4,029,990 which are due but not paid or renewed till the date of the consolidated financial position, and some contracts are engaged with related parties with an amount of KD 3,483,198.

## 23- General and administrative expenses

| | 2013 | 2012 |
|---|---|---|
| Staff costs | **2,963,579** | 5,128,728 |
| Rent | **733,668** | 750,713 |
| Professional fees | **96,710** | 702,643 |
| Networks | **76,354** | 877,525 |
| Marketing & selling | **578,601** | 179,590 |
| Advertising | **16,839** | 56,153 |
| Traveling | **71,284** | 191,539 |
| Printings and stationery | **40,498** | 38,099 |
| Other | **781,137** | 1,023,373 |
| | **5,358,670** | 8,948,363 |

## 24- Loss per share/(Fils)

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

| | 2013 | 2012 |
|---|---|---|
| Net loss for the year | **(5,688,012)** | (5,751,534) |
| Weighted average for the outstanding shares 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 per share (Fils)** | **(8.37)** | (8.46) |

## 25- Contingent liabilities

At the consolidated financial position date, the Group had contingent liabilities represented in bank guarantees with an amount of KD 299,244 (2012: KD 295,753).

## 26- Operating segments

The Group primarily operates on one field 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 focused on the communication activities

***Geographic information***

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

***Revenue:***

| | 2013 | 2012 |
|---|---|---|
| State of Kuwait | - | 270,247 |
| Outside State of Kuwait | **74,943,402** | 91,587,128 |
| | **74,943,402** | 91,857,375 |

***Assets and liabilities:***

| | 2013 | | 2012 | |
|---|---|---|---|---|
| ***Region*** | **Assets** | **Liabilities** | Assets | Liabilities |
| State of Kuwait | **37,150,092** | **14,850,706** | 50,776,586 | 15,375,977 |
| **Outside State of Kuwait** | | | | |
| Kingdom of Saudi Arabia | **19,397,845** | **16,818,441** | 14,665,313 | 13,562,295 |
| Spain | **2,579,289** | **3,785,776** | 2,774,018 | 3,044,682 |
| Africa | **37,065,439** | **-** | 67,576,470 | 32,282,087 |
| | **96,192,665** | **35,454,923** | 135,792,387 | 64,265,041 |

## 27- Proposed dividends

On March 30, 2014, The Parent Company's Board of Directors 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 June 25, 2013, the General Assembly of Shareholders was held and took the following decisions:

- The approval of the consolidated financial statements for the financial year ended December 31, 2012.
- Non-distribution of cash dividends for this year.
- The amortization of the accumulated losses with an amount of KD 28,228,372 through the following accounts, KD 27,303,374 from share premium, KD 462,499 from statutory reserve and KD 462,499 from general reserve.

The extraordinary General Assembly of Shareholders was held on September 10, 2013 and approved the decrease of the authorized share capital from KD 80,700,000 to KD 72,091,686, accordingly the authorized and fully paid-up share capital has become KD 72,091,686.

## 29- Employees shares purchasing option

On May 31, 2012 The Ordinary General Assembly of Shareholders has approved to issue 7,000,000 Shares of 100 Fils for the Group's employees according to the employees' share purchasing option plan. The General Assembly of Shareholders has delegated the Board of Directors to distribute these shares on the employees according to the approved share purchasing option plan and the wavier of the current shareholders on there right to subscribe. Up to date, the preparation of a plan to implement this option is not completed, accordingly there are no outstanding shares based on this decision, also the 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** | **2013** | 2012 |
|---|---|---|
| Accounts receivable and other debit balances | **7,092,023** | 11,997,016 |
| Due from related parties | **5,265,316** | 4,016,683 |
| Advance payments for purchasing investments | **2,946,778** | 5,946,778 |
| Loan to an associate | **21,446,476** | - |
| Available for sale investments | **16,932,230** | 10,702,601 |
| Finance, joint ventures and mudaraba | **911,209** | 911,209 |
| Cash and cash equivalents | **1,815,444** | 2,779,240 |
| | **56,409,476** | 36,353,527 |

| **Financial liabilities** | **2013** | 2012 |
|---|---|---|
| Accounts payable and other credit balances | **19,025,421** | 29,387,834 |
| Due to related parties | **4,150,586** | 4,817,109 |
| License obligations | - | 12,586,923 |
| Term loans | **666,344** | 4,865,320 |
| Loan from shareholders | - | 505,072 |
| Islamic debt instruments | **11,353,598** | 11,729,098 |
| | **35,195,949** | 63,891,356 |

**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 as 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:

| | 2013 | 2012 |
|---|---|---|
| Cash and cash equivalents | **1,815,444** | 2,779,240 |
| Accounts receivable and other debit balances | **7,092,023** | 11,997,016 |
| | **8,907,467** | 14,776,256 |

- **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, 2013 is as follows:

| | During one year | More than one year | Total |
|---|---|---|---|
| Provision for end of service indemnity | - | **258,974** | **258,974** |
| Term loans | - | **666,344** | **666,344** |
| Accounts payable and other credit balances | **19,025,421** | - | **19,025,421** |
| Due to related parties | **4,150,586** | - | **4,150,586** |
| Islamic debt instruments | **11,353,598** | - | **11,353,598** |
| | **34,529,605** | **925,318** | **35,454,923** |

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 |

- **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 risks 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:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| **Currency** | **Assets** | **Liabilities** | Assets | Liabilities |
| US Dollar | - | **959,263** | 47,442,835 | 32,181,577 |
| Euro | **2,579,289** | **3,786,776** | 2,690,385 | 3,009,740 |
| Saudi Riyal | **19,397,845** | **16,818,441** | 8,369,289 | 13,363,514 |

*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 at 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:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **Change in interest rates** | **Effect on loss** | Change in interest rates | Effect on loss |
| Loss of the year | **1%** | **120,199** | 1% | 165,944 |

*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 available for sale investments is not recorded as its an unquoted shares in an active market.

## 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:

| | **2013** | 2012 |
|---|---|---|
| Debts | **12,019,942** | 16,594,418 |
| Less: cash and cash equivalents | **(1,815,444)** | (2,779,240) |
| Net debt | **10,204,498** | 13,815,178 |
| Total equity attributable to the shareholders of the parent company | **60,737,742** | 70,379,283 |
| Total equity and net debt | **70,942,240** | 84,194,461 |
| Net debt ratio | **14%** | 16% |

## 32- Comparative figures

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