Hits Telecom Holding Company

K.S.C. (Public)
and its subsidiaries
Kuwait
The consolidated financial statements
for the financial year ended December 31, 2014
with
Independent auditors' report

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HLB Kuwaiti Accountant Auditing
Certified Public Accountants, Consultants, Businises Advisors

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, 2014 and the consolidated statements of profits or losses, comprehensive profits or losses, 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 of "the Parent" 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.

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Certified Public Accountants, Consultants, Business Advisors

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, 2014, and its financial performance and its consolidated 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 Note (2) to the consolidated financial statements regarding the Going-concern of some subsidiaries.

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, 2014 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)
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Burgan International Accountants

Adel Al- Sanea
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Kuwaiti Accountant Auditing
A member of H.L.B International

March 30 ,2015
State of Kuwait

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

Consolidated statement of financial position as of December 31, 2014
"All amounts are in Kuwaiti Dinar"

	Note	2014	2013
Assets			
Non-current assets			
Property and equipment	7	**292,048**	299,659
Intangible assets	8	**14,222,157**	14,733,506
Investment in joint venture		**314,476**	-
Investment in an associate	9	**-**	15,618,963
Available for sale investments	10	**20,610,334**	16,932,230
		35,439,015	47,584,358
Current assets			
Inventory		**8,176,985**	9,131,061
Accounts receivable and other debit balances	11	**8,633,805**	7,092,023
Due from related parties	12	**3,611,602**	5,265,316
Advance payments for purchasing investments	13	**-**	2,946,778
Loan to a related party	14	**22,186,527**	21,446,476
Finance, joint ventures and mudaraba	15	**911,209**	911,209
Cash and cash equivalents		**775,686**	1,815,444
		44,295,814	48,608,307
Total assets		**79,734,829**	96,192,665
Equity and liabilities			
Equity			
Share capital	16	**87,234,161**	72,091,686
Share premium		**6,846,580**	6,846,580
Other reserves		**-**	147,896
Treasury shares	19	**(2,740,011)**	(6,837,335)
Cumulative changes in fair value		**(2,906,077)**	(5,644,077)
Foreign currency translation reserve		**1,081,310**	(178,996)
Accumulated losses		**(23,508,763)**	(5,688,012)
Total equity		**66,007,200**	60,737,742
Non-current liabilities			
Accounts payable and other credit balances	20	**568,075**	-
Provision for end of service indemnity		**376,416**	258,974
Term loans		**-**	666,344
		944,491	925,318
Current liabilities			
Accounts payable and other credit balances	20	**10,691,123**	19,025,421
Due to related parties	12	**2,092,015**	4,150,586
Islamic debt instruments	21	**-**	11,353,598
		12,783,138	34,529,605
Total equity and liabilities		**79,734,829**	96,192,665

Dr. Khaled Y. Al Mutawa
Chairman

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

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

Consolidated statement of profits or losses for the financial year ended December 31, 2014
"All amounts are in Kuwaiti Dinar"

	Note	2014	2013
Revenue of activity		**173,315,795**	74,943,402
Cost of activity		**(165,569,013)**	(68,566,796)
Gross profit of activity		**7,746,782**	6,376,606
Impairment losses on available for sale investments	10	**(2,738,000)**	-
"the Group" share in an associate's results	9	**(1,158,042)**	-
Cancellation of granted loan to a subsidiary	22	**(901,591)**	-
Settlement profits with creditors of "the Parent" company	23	**8,555,498**	-
General and administrative expenses	24	**(6,235,571)**	(5,358,670)
Depreciation and amortization		**(80,279)**	(504,782)
Finance charges		**(34,114)**	(121,733)
Impairment of goodwill	9	**(8,075,325)**	(570,333)
Provision for advance payments for purchasing investments	13	**(2,946,778)**	(3,000,000)
Profit/(loss) from sale investment in subsidiary	31	**174,895**	(3,658,707)
Tax income		-	134,534
Interests payable		-	959,263
Other income		**121,823**	55,810
Net loss for the year		(5,570,702)	(5,688,012)
Loss per share/(Fils)	25	(7.96)	(8.37)

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

Hits Telecom Holding Company

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

Consolidated statement of comprehensive income for the financial year ended December 31, 2014

"All amounts are in Kuwaiti Dinar"

	2014	2013
Net loss for the year	**(5,570,702)**	(5,688,012)
Other comprehensive loss for the year:		
Change in fair value of available for sale investment	-	(4,722,371)
Transferred to statement of profits or losses as impairment value	**2,738,000**	-
Exchange differences on translating foreign currency	**1,260,306**	768,842
Total other profit/(loss) comprehensive for the year	**3,998,306**	(3,953,529)
Total comprehensive loss for the year	**(1,572,396)**	(9,641,541)

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

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

Consolidated statement of cash flows for the financial year ended December 31, 2014
"All amounts are in Kuwaiti Dinar"

	2014	2013
Cash flows from operating activities		
Net loss for the year	**(5,570,702)**	(5,688,012)
Adjustments:		
Depreciation and amortization	**80,279**	504,782
Disposal of property and equipment at cost	**112,143**	19,984,365
Cancellation of granted loan to a subsidiary	**901,561**	-
Disposal of intangible assets at cost	**718,449**	30,388,764
Impairment of goodwill	**8,075,325**	570,333
Settlement profits with creditors of "the Parent" company	**(8,555,498)**	-
Provision for end of service indemnity	**117,442**	(114,711)
Profit/(loss) from sale investment in subsidiary	**(174,895)**	3,658,707
"the Group" share in an associate's results	**1,158,042**	-
Provision for advance payments for purchasing investments	**2,946,778**	3,000,000
Finance charges	**34,114**	121,733
The effect of changes in working capital items	**(156,962)**	52,425,961
Inventory	**954,076**	(2,972,507)
Accounts receivable and other debit balances	**2,323,752**	1,246,286
Related parties	**1,653,714**	(1,915,156)
License obligations	**-**	(12,586,923)
Accounts payable and other credit balances	**(3,977,346)**	(10,362,413)
Net cash generated from operating activities	**797,234**	25,835,248
Cash flows from investing activities		
Property and equipment	**(139,628)**	(90,356)
Loan to a related party	**-**	(21,446,476)
Intangible assets	**(218,000)**	(14,666)
Investment in joint venture	**(314,476)**	345,760
Net cash used in investing activities	**(672,104)**	(21,205,738)
Cash flows from financing activities		
Term loans	**(666,344)**	(4,198,976)
Finance charges paid	**(34,114)**	(121,733)
Loan from shareholders	**-**	(505,072)
Islamic debt instruments	**-**	(375,500)
Change in non-controlling interests	**-**	(1,148,063)
Net cash used in financing activities	**(700,458)**	(6,349,344)
Effects of exchange rate changes	**(464,430)**	756,038
Net decrease in cash and cash equivalents	**(1,039,758)**	(963,796)
Cash and cash equivalents at beginning of the year	**1,815,444**	2,779,240
Cash and cash equivalents at end of the year	**775,686**	1,815,444

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, 2014

"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, 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	-	(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
Balance at January 1, 2014	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
Increase share capital	15,142,475	-	-	-	-	-	-	-	-	15,142,475	-	15,142,475
Net loss for the year	-	-	-	-	-	-	-	-	(5,570,702)	(5,570,702)	-	(5,570,702)
Other comprehensive loss for the year	-	-	-	-	-	-	2,738,000	1,260,306	-	3,998,306	-	3,998,306
Total comprehensive loss	-	-	-	-	-	-	2,738,000	1,260,306	(5,570,702)	(1,572,396)	-	(1,572,396)
Settlement profits with creditors of "the Parent" company (Note – 23)	-	-	-	-	-	-	-	-	(8,555,498)	(8,555,498)	-	(8,555,498)
Loss from sale treasury shares	-	-	-	-	-	4,097,324	-	-	(3,694,551)	402,773	-	402,773
Disposal of reserve resulted from sale a subsidiary	-	-	-	-	(147,896)	-	-	-	-	(147,896)	-	(147,896)
Balance as of December 31, 2014	87,234,161	6,846,580	-	-	-	(2,740,011)	(2,906,077)	1,081,310	(23,508,763)	66,007,200	-	66,007,200

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, 2014
"All amounts are in Kuwaiti Dinar unless stated otherwise"

1- Brief on "the Parent"

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 estate 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, 2014 were authorized for issue from the Board of Directors on March 30, 2015.

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 also, their accumulated losses have exceeded its half or full share capital. and, there is a financial support submitted by "the Parent" company for those companies as mentioned below:

- Fawran Telecom company W.L.L. (a subsidiary - Kingdom of Saudi Arabia) has incurred accumulated losses amounted to KD 1,187,424 up to December 31, 2014, which exceed the company's share capital.
- Qanawat for contracting and general trading company (W.L.L) – (Previously: Elite Telecommunication Services) (a subsidiary - Kuwait) has incurred accumulated losses amounted to KD 191,374 up to December 31, 2014, which exceed the company's share capital.
- Elite Telecommunication for general trading company (W.L.L) – (Previously: Al Rawda Al-Ahlia for general trading Waleed Ahmed and partners - W.L.L.) (a subsidiary - Kuwait) has incurred accumulated losses amounted to KD 8,129,608 up to December 31, 2014, which exceed the company's share capital.
- "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)

3/1) Amendments to IFRSs that are mandatorily effective for the current year

In the current year, "the Group" has applied the following amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2014:

- **Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities**
  The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

  To qualify as an investment entity, a reporting entity is required to:

a) Obtain funds from one or more investors for the purpose of providing them with investment management services;
b) Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
c) Measure and evaluate performance of substantially all of its investments on a fair value basis.

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

As "the Group" is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

- **Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities**
  The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off'. The amendments also classify the application of the IAS 32 offsetting criteria to settlement systems (such as central cleaning house systems) which apply gross settlement mechanisms that are not simultaneous.
  That adoption of the amendments is not expected to have any impact on the consolidated financial position, performance, as disclosures in the consolidated financial statements of the Group.

- **Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets**
  The amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. the amendments also require disclosure of the recoverable amounts for the assets as cash generating units (CGUs) for which impairment loss has been recognized as reversed during the period.

  The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

3/2) ***New and revised IFRSs in issue but not yet effective:***

"the Group" has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- **IFRS 9: Financial Instruments**
  (Effective for annual periods beginning on or after January 1, 2018 with earlier application permitted).
  IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

  Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value.
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires "the Group" to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

- **IFRS 15: Revenue from Contracts with Customers**
  (Effective for annual periods beginning on or after January 1, 2017 with earlier application permitted).
  In May 2014, IFRS 15 was issued which establishes a single comprehensive model for group to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

  The core principle of IFRS 15 is that group should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which "the Group" expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-Step approach to revenue recognition:

  Step 1: Identify the contract(s) with a customer.
  Step 2: Identify the performance obligation in the contract.
  Step 3: Determine the transaction price.
  Step 4: Allocate the transaction price to the performance obligations in the contract.
  Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

  Under IFRS 15, "the Group" recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

- **Amendments to IFRS 11: Accounting for Acquisitions of Interest in Joint Operations**
  (Effective for annual periods beginning on or after January 1, 2016 with earlier application permitted).
  The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.
  A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

- **Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization**
  (Effective for annual periods beginning on or after January 1, 2016 with earlier application permitted).
  The amendments to IAS 16 prohibit group from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) When the intangible asset is expressed as a measure of revenue; or
b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

"the Group" believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets.

- **Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants**
  (Effective for annual periods beginning on or after January 1, 2016 with earlier application permitted).
  The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41.The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

- **Amendments to IAS 19: Defined Benefit Plans - Employee Contributions**
  (Effective for annual periods beginning on or after July 1, 2014 with earlier application permitted).
  The amendments to IAS 19 clarify how group should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

  For contributions that are independent of the number of years of service, "the Group" may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, "the Group" is required to attribute them to the employees' periods of service.

  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 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 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 following the revised accrual basis of return of financial assets valued at fair value as described in the detailed policies and other explanatory notes.
- 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.

6- The subsidiary companies

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

	Country of incorporation	Ownership percentage	
		2014	2013
Qanawat Telecom Company (W.L.L)	Saudi Arabia	99%	99%
Fawran Telecom Company (W.L.L)	Saudi Arabia	99%	99%
Qanawat for contracting and general trading company (W.L.L) – (Previously: Elite Telecommunication Services)	Kuwait	99%	99%
Elite Telecommunication for general trading company (W.L.L) – (Previously: Al Rawda Al-Ahlia for general trading Waleed Ahmed and partners - W.L.L.)	Kuwait	99%	-

- The financial statements of subsidiaries are consolidated based on the audited financial statements as of December 31, 2014.
- During the year, "the Group" acquired Elite Telecommunication for general trading company (W.L.L) – (Previously: Al Rawda Al-Ahlia for general trading Waleed Ahmed and partners - W.L.L.) by 99% and since "the Group" had control over the financial and operating policies of this company, and based on that this company has been classified as a subsidiary and their financial data was consolidate from the date of acquisition (note - 30).
- During the year, "the Group" through its subsidiary Qanawat for contracting and general trading company (W.L.L) – (Previously: Elite Telecommunication Services) has sold its whole share in one of its subsidiaries Hits Spain Telecommunications Company (SA), which was 100% to an external party and as a result of this selling process, a net profit of KD 174,895 was achieved according to financial reports prepared by the management at the selling date, and after the sale process mentioned above "the Group" lost control on the financial and operating policies of this company, the effect of this transaction has been eliminated from "the Group" consolidated financial statements (note - 31).

7- Property and equipment

	Improvements on buildings	Furniture and fixtures	Office equipment and computers	Motor vehicles	Machines and equipment	Total
Cost						
Balance at January1, 2014	187,194	127,552	718,438	107,677	788,414	1,929,275
Additions	3,903	78,514	24,477	32,734	-	139,628
Disposals	(79,382)	(87,199)	(197,497)	(2,201)	(13,590)	(379,869)
Foregin currency translation	49,782	985	23,907	4,186	6,893	85,753
Balance at December 31, 2014	161,497	119,852	569,325	142,396	781,717	1,774,787
Accumulated depreciation						
Balance at January 1, 2014	184,797	111,683	690,320	87,202	555,614	1,629,616
Charged for the year	33,345	9,476	5,466	8,937	12,155	69,379
Disposals	(79,382)	(20,940)	(152,212)	(1,603)	(13,590)	(267,727)
Foregin currency translation	19,097	568	21,779	3,654	6,373	51,471
Balance at December 31, 2014	157,857	100,787	565,353	98,190	560,552	1,482,739
Net book value						
At December 31, 2014	**3,640**	**19,065**	**3,972**	**44,206**	**221,165**	**292,048**
At December 31, 2013	2,397	15,869	28,118	20,475	232,800	299,659

- The disposals mentioned above resulted from selling the full shares of Hits Spain Telecommunications Company (SA) (Note -31). The effect of this transaction has been eliminated from the consolidated statement of cash flows as it is a non-cash movement.

Notes to the consolidated financial statements for the financial year ended December 31, 2014
"All amounts are in Kuwaiti Dinar unless stated otherwise"

8- Intangible assets

	Lisence fees	Goodwill*	Software and trade mark	Total
Cost				
Balance at January 1, 2014	-	14,708,386	1,614,487	16,322,873
Additions	218,000	-	-	218,000
Disposal as result of lose control on a subsidiary	-	(693,329)	(1,614,487)	(2,307,816)
Balance at December 31, 2014	218,000	14,015,057	-	14,233,057
Accumulted amortization				
Balance at January 1, 2014	-	-	1,589,367	1,589,367
Charged for the year	10,900	-		10,900
Disposals		-	(1,589,367)	(1,589,367)
Balance at December 31, 2014	10,900	-	-	10,900
Net book value				
At December 31, 2014	**207,100**	**14,015,057**	-	**14,222,157**
At December 31, 2013	-	14,708,386	25,120	14,733,506

* This item represents a Goodwill amounting to KD 14,015,057 resulted from acquisition of a subsidiary company - Qanawat Telecom Company (W.L.L), the management makes an impairment test for the Goodwill annually, and "the Parent" management believes that there is no indication for an impairment in value of Goodwill based on an external party study as of December 31, 2014.

- The disposals mentioned above resulted from selling the full shares of Hits Spain Telecommunications Company (SA) (Note -31). The effect of this transaction has been eliminated from the consolidated statement of cash flows as it is a non-cash movement.

9- Investment in an associate

- During the year, "the Group" has sold a portion share from its ownership of (Hits Africa Company -Ltd. Cayman Island) by 14% amounted to KD 2,736,030 to a one party, accordingly its ownership share in (Hits Africa Company -Ltd. Cayman Island) reduced from 32.82 % to 18.82%, which led to the re-classifying investment in (Hits Africa Company -Ltd. Cayman Island) from investment in an associate company to available for sale investment, and the impairment of the goodwill full amount recorded in the books by KD 8,075,325 and recognising it in the consolidated statement of profits or losses, and the necessary procedures to transfer the sold ownership to the buyer are being taken. The effect of this transaction has been eliminated from the consolidated statement of cash flows as it is a non-cash movement, the resulted sale value was recorded under trade receivables (note -11).
- The share result in an associate company amounting to KD 1,158,042 has been recognised based on financial statements prepared by management on the selling date.

Notes to the consolidated financial statements for the financial year ended December 31, 2014
"All amounts are in Kuwaiti Dinar unless stated otherwise"

10- Available for sale investments

	2014	2013
Balance at January 1	**16,932,230**	10,702,601
Additions	**3,678,104**	10,952,000
Change in fair value	**-**	(4,722,371)
Balance at December 31	**20,610,334**	16,932,230

- 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.
- Based on the assessment of an independent valuer an impaired of available for sale investments was recorded with amount of KD 2,738,000 in the consolidated statement of profits or losses, this amount previously was recorded within the cumulative changes in fair value of consolidated equity.
- The additions mentioned above are resulted from re-classifying (Hits Africa Company -Ltd. Cayman Island) investment in an associate company to available for sale investment, (note -9). The effect of this transaction has been eliminated from the consolidated statement of cash flows as it is a non-cash movement.

11- Accounts receivable and other debit balances

	2014	2013
Trade receivables	**3,608,050**	635,376
Accrued income	**3,020,911**	2,830,093
Deferred tax assets	**-**	2,311,903
Retention for letters of guarantee	**1,347,966**	561,216
Prepaid expenses	**416,962**	389,470
Staff receivables	**184,331**	163,175
Refundable deposits	**12,010**	15,566
Advance payments	**42,535**	-
Other	**1,040**	185,224
	8,633,805	7,092,023

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

	2014	2013
90-120 days	**3,485,867**	560,080
120-180 days	**30,990**	40,031
180-365 days	**91,193**	35,265
	3,608,050	635,376

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.

Notes to the consolidated financial statements for the financial year ended December 31, 2014
"All amounts are in Kuwaiti Dinar unless stated otherwise"

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

Consolidated statement of financial position	**2014**	2013
Finance, joint ventures and mudaraba – (Note – 15)	**911,209**	911,209
Islamic debt instruments – (Note – 21)	**-**	11,353,598
Due from related parties	**3,611,602**	5,265,316
Due to related parties	**2,092,015**	4,150,586

Consolidated statement of profits or losses	**2014**	2013
Finance charges	**-**	69,709

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 Parent" company has filed a request of arbitration against this party and based on the arbitration decision, "the Parent" company has the right in all amounts paid plus the interests. This arbitration decision will be enforceable after obtaining the execution procedure from Brazilian court.

During the current year, "The Group's management" based on procedure basis has increased the provision for advance payments for purchasing investments with KD 2,946,778 to cover the full investment vlaue.

The following is the movement occurred during the year:

	2014	2013
Balance at January 1	**5,946,778**	5,946,778
Provision for advance payments for purchasing investments	**(5,946,778)**	(3,000,000)
Balance at December 31	**-**	2,946,778

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, 2015. 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 Qanawat for contracting and general trading company (W.L.L) – (Previously: Elite Telecommunication Services). 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.

The loan interest has not been calculated based on the Sharia's opinion which states non calculation of interests before the contract settlement.

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, 2014 due to its sort-term maturities.

16- Share capital

	Authorized		Paid	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31,2013
Shares 100 Fils for each	**872,341,610**	**720,916,860**	**872,341,610**	**720,916,860**

- On November 16, 2014 the settlement with creditors of "the parent company" was applied (note - 23) and this led to increase the issued shares with 151 424 750 new shares with a par value of 100 fils per share for a total of KD 15,142,475, according to the decision of the Extraordinary General Assembly of shareholders, which was approved on July 3, 2014 to increase the share capital from KD 72,091,686 (Seventy Two Million Ninety One Thousand Six Hundred and Eighty Six Kuwaiti Dinar) to KD 87,234,161(Eighty Seven Million Two Hundred Thirty Four Thousand and One Hundred Sixty One Kuwaiti Dinar) increased by allocating shares to creditors amounting to KD 15,142,475 (Fifteen Million One Hundred Forty Two Thousand and Four Hundred Seventy Five Kuwaiti Dinar) with a nominal value of Fils 100 per share, with a waiver of some existing shareholders for their right to subscribe. Recording in the commercial register on the capital increase was done on October 1, 2014.

17- Statutory reserve

In accordance with the 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

	2014	2013
Number of shares	**31,325,981**	41,325,981
Shareholding percentage (%)	**%3.59**	%5.73
Market value (KD)	**939,779**	2,686,189

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

	2014	2013
Trade payables	**9,299,466**	15,928,188
Accrued expenses	**1,072,226**	1,242,060
Deferred cheques	**260,000**	-
Advanced payment from customers	**140,215**	996,462
Provision for staff leave	**13,460**	12,772
Other	**473,831**	845,939
	11,259,198	19,025,421

21- Islamic debt instruments

- During the year, "the Group" made a settlement on due balances of creditors of Islamic debt instruments, upon which new shares have been issued for the benefit of creditors of "the parent" company (note -23). "the Group" obtained a clearance from creditors after the completion of underwriting procedures of shares increase of equity capital.

22- Cancellation of a loan granted to a subsidiary

- During the year, "the parent" has written off a loan granted to a subsidiary of Hits Spain Telecom (SA), a subsidiary of Qanawat Telecom for General Trading and Contracting - (W.L.L) (Previously: Elite Telecommunication Services for General Trading and Contracting) as a result of its financial distress and inability to settle it.

23- Settlement profits with creditors of "the Parent" company

- On November 16, 2014 of a settlement with "the Parent" creditors was applied through issuing 151 424 750 new shares with a nominal value of 100 fils per share, a total of KD 15,142,475 for the settlement of debt of "the Parent" of KD 15,142,475 the net profit for the settlement with creditors of KD 8,555,498 has been included in consolidated statement of profits or losses which represents the difference between the fair value of shares issued at KD 6,586,977 and the carrying amount of indebtedness of "the Parent", which was settled and above mentioned. The difference between the nominal value and the fair value of new shares at KD 8,555,498 was recorded in accumulated losses in the statement of changes in consolidated equity.

24- General and administrative expenses

	2014	2013
Staff costs	**3,340,084**	2,963,579
Rent	**786,685**	733,668
Professional fees	**152,662**	96,710
Networks	**-**	76,354
Marketing & selling	**496,511**	578,601
Advertising	**204,556**	16,839
Traveling	**64,537**	71,284
Printings and stationery	**13,278**	40,498
Other	**1,177,258**	781,137
	6,235,571	5,358,670

25- 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:

	2014	2013
Net loss for the year	**(5,570,702)**	(5,688,012)
Weighted average for the outstanding shares during the year	**740,000,527**	720,916,860
Weighted average number of treasury shares	**(40,056,497)**	(41,325,981)
Weighted average number of shares, less treasury shares	**699,944,030**	679,590,879
Loss per share (Fils)	**(7.96)**	(8.37)

26- Contingent liabilities

At the consolidated financial position date, "the Group" had contingent liabilities represented in guarantees with an amount of KD 3,516,432 (2013: KD 299,244).

27- Lawsuits

"The Group" has some potential lawsuits represented in cases pending at various levels of courts with other parties and the results of which can not be determined till the date of consolidated statement of financial position. Therefore the internal legal department of "the Group" believes that there is no need to make provision for these amounts before determining the outcome of these claims and issues.

28- Proposed dividends

On March 30, 2015, "the Parent" Board of Directors proposed not to distribute cash dividends for shareholders. This proposal is subject to the approval of the General Assembly of shareholders.

29- Shareholders' General Assembly

- On June 26, 2014, the General Assembly of Shareholders was approved the consolidated financial statements as of December 31, 2013 and for non-distribution of cash dividends for this year.

- On July 3, 2014, the extraordinary General Assembly of Shareholders was held and approved to increase the share capital from KD 72,091,686 (Seventy Two Million Ninety One Thousand Six Hundred and Eighty Six Kuwaiti Dinar) to KD 87,234,161(Eighty Seven Million Two Hundred Thirty Four Thousand and One Hundred Sixty One Kuwaiti Dinar) increased by allocating shares to creditors amounting to KD 15,142,475 (Fifteen Million One Hundred Forty Two Thousand and Four Hundred Seventy Five Kuwaiti Dinar) with a nominal value of Fils 100 per share, with a waiver of some existing shareholders for their right to subscribe.

30- Acquisition of subsidiary

During the year " the Group" acquired the Elite Telecommunication for general trading company (W.L.L) – (Previously: Al Rawda Al-Ahlia for general trading Waleed Ahmed and partners - W.L.L.) by 99% and where it became " the Group" exercise control over the financial and operating policies of this company, and based on that this company has been classified as a subsidiary and its financial data was consolidated from the acquisition date.

	Elite Telecommunication for general trading company (W.L.L) – (Previously: Al Rawda Al-Ahlia for general trading Waleed Ahmed and partners - W.L.L.)
The net acquired company's assets	**5,500**
Cost of acquisition	**(5,500)**
Net increase paid	**-**

31- Disposal of a subsidiary

During the year "the Group" has sold through by its subsidiary Qanawat Telecom for General Trading and Contracting Company –W.L.L) (Previously: Elite Telecommunication Services for General Trading and Contracting Company) its full share in one of its subsidiaries Hits Spain Telecom (SA), which reach 100% to an external party, as a result of this sale transaction, a net profit amounted to KD 174, 895. According to the financial information prepared by the management, and after this sale transaction mentioned above "the Group" has lost the control on the financial and operating policies of this company. The effect of this transaction has been eliminated from the consolidated statement of cash flows as it is a non cash transaction.

Following statement with the assets and liabilities of the subsidiary Hits Spain Telecom (S.A) on the sale date:

	KD
Assets	
Cash and cash equivalent	**6,944**
Inventory	**2,620,921**
Accounts receivable and other debit balances	**21,993**
Available for sale investments	**821**
Intangible assets	**20,998**
Property and equipment	**5,676**
Total assets	**2,677,353**
Liabilities	
Term loans	**(1,230,721)**
Accounts payable and other credit balances	**(2,629,021)**
Provision for end of service indemnity	**(36,173)**
Total liabilities	**(3,895,915)**
Net assets disposed of	**(1,218,562)**
Less:	
Disposed of Goodwill registered in subsidiary books (note - 8)	**693,329**
Disposed reserves recorded in the subsidiary books	**360,338**
	1,053,667
Sale value	**(10,000)**
Sale profit - consolidated statement profits and losses	**174,895**

32- 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:	**2014**	2013
State of Kuwait	**4,049,968**	270,247
Outside State of Kuwait	**169,265,827**	91,587,128
	173,315,795	91,857,375

Assets and liabilities:	2014		2013	
Region	**Assets**	**Liabilities**	Assets	Liabilities
State of Kuwait	**15,916,460**	**3,011,682**	37,150,092	14,850,706
Outside State of Kuwait				
Kingdom of Saudi Arabia	**29,739,740**	**10,715,948**	19,397,845	16,818,441
Bahrain	**8,214,000**	-	-	-
Spain	-	-	2,579,289	3,785,776
Africa	**25,864,631**	-	37,065,439	-
	79,734,831	**13,727,630**	96,192,665	35,454,923

33- 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" financial assets and liabilities are classified in the consolidated statement of financial position are as follows:

Financial assets	**2014**	2013
Accounts receivable and other debit balances	**8,633,805**	7,092,023
Due from related parties	**3,611,602**	5,265,316
Advance payments for purchasing investments	-	2,946,778
Loan to an associate	**22,186,527**	21,446,476
Available for sale investments	**20,610,334**	16,932,230
Finance, joint ventures and mudaraba	**911,209**	911,209
Cash and cash equivalents	**775,686**	1,815,444
	56,729,163	56,409,476

Financial liabilities	**2014**	2013
Accounts payable and other credit balances	**11,259,198**	**19,025,421**
Due to related parties	**2,092,015**	**4,150,586**
Term loans	-	**666,344**
Islamic debt instruments	-	**11,353,598**
	13,351,213	**35,195,949**

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:

	2014	2013
Cash and cash equivalents	775,686	1,815,444
Accounts receivable and other debit balances	8,633,805	7,092,023
	9,409,491	8,907,467

- **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, 2014 is as follows:

	During one year	More than one year	Total
Provision for end of service indemnity	-	376,416	376,416
Accounts payable and other credit balances	10,691,123	568,075	11,259,198
Due to related parties	2,092,015	-	2,092,015
	12,783,138	944,491	13,727,629

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

- **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
Euro	-	-	2,579,289	3,786,776
Saudi Riyal	**17,758,161**	**10,728,868**	19,397,845	16,818,441

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:

	2014		2013	
	Change in interest rates	**Effect on loss**	Change in interest rates	Effect on loss
Loss of the year	**%1**	**-**	%1	120,199

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.

34- 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	**665,754**	12,019,942
Less: cash and cash equivalents	**(775,686)**	(1,815,444)
Net debt	**(109,932)**	10,204,498
Total equity attributable to the shareholders of "the Parent" company	**66,007,200**	60,737,742
Total equity and net debt	**65,897,268**	70,942,240
Net debt ratio	**-**	%14