Hits Telecom Holding Company

K.S.C. PUBLIC

and its subsidiaries

Kuwait

Interim condensed consolidated financial information for the three months ended March 31, 2016 (Unaudited)

Hits Telecom Holding Company

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The Board of Directors
Hits Telecom Holding Co.
K.S.C. Public
And its subsidiaries
State of Kuwait

Review report on the interim condensed consolidated financial information

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Hits Telecom Holding Co. K.S.C. Public - "The Parent" and its subsidiaries together referred to as "The Group" as of March 31, 2016 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the Three months period then ended. Management of "the parent company" is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard No (34) "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditors of the company". A review of interim condensed consolidated financial information consists of making inquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects in accordance with International Accounting Standard No. (34) "Interim Financial Reporting".

Emphasis of matters

Without qualifying our report, we draw attention to Note (5) to the interim condensed consolidated financial information regarding the loan to a related party and the provision for doubtful debts made to the debt for reasons mentioned in the note.

Report on review of other legal and regulatory matters

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the accounting records of "the Parent Company". We further report that, to the best of our knowledge and belief, no violations have occurred during the Three months period ended March 31, 2016 of the Companies Law no. 1 of year 2016 and related Executive Regulations (Note 1), 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 articles and memorandum of association of "the Parent Company" that might have had a material effect on the business of "the Group" or on its interim condensed consolidated financial position.



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May 15, 2016
State of Kuwait

Hits Telecom Holding Company
K.S.C. Public
and its subsidiaries
Kuwait

Interim condensed consolidated statement of financial position as of March 31, 2016 (Unaudited)
"All amounts are in Kuwaiti Dinar"

Assets	Note	March 31, 2016	December 31, 2015 (audited)	March 31, 2015
Non-current assets				
Property and equipment		171,412	255,719	181,601
Intangible assets		14,235,205	14,273,478	14,219,432
Investment in joint venture		2,368,820	2,513,060	1,191,289
Investment in an unconsolidated subsidiary		411,668	414,764	-
Available for sale investments	4	22,169,508	22,169,508	23,078,887
Loan to a related party	5	18,686,527	18,686,527	22,749,969
		58,043,140	58,313,056	61,421,178
Current assets				
Inventory		8,260,010	5,213,858	6,695,854
Accounts receivable and other debit balances	6	7,522,216	6,949,120	8,177,921
Due from related parties	7	1,846,877	3,174,303	2,148,252
Finance, joint ventures and mudaraba		911,209	911,209	911,209
Cash and cash equivalents		1,634,066	1,968,449	787,572
		20,174,378	18,216,939	18,720,808
Total assets		78,217,518	76,529,995	80,141,986
Equity and liabilities				
Equity				
Share capital		87,234,161	87,234,161	87,234,161
Share premium		6,846,580	6,846,580	6,846,580
Treasury shares		(640,233)	(640,233)	(640,233)
Treasury shares reserve		260,411	260,411	260,411
Cumulative changes in fair value		(2,906,077)	(2,906,077)	(2,906,077)
Foreign currency translation reserve		1,374,703	1,649,089	1,766,328
Accumulated losses		(29,027,750)	(29,191,130)	(23,091,533)
Equity attributable to the shareholders of the parent company		63,141,795	63,252,801	69,469,637
Non-current liabilities				
Accounts payable and other credit balances		377,191	489,276	-
Provision for end of service indemnity		598,955	578,358	381,632
		976,146	1,067,634	381,632
Current liabilities				
Credit bank		-	-	187,825
Accounts payable and other credit balances		13,361,786	12,038,901	7,920,956
Due to related parties	7	737,791	170,659	2,181,936
		14,099,577	12,209,560	10,290,717
Total equity and liabilities		78,217,518	76,529,995	80,141,986

Badr Hassan Yousef
Vice Chairman

The accompanying notes form an integral part of the interim condensed consolidated financial information.

Hits Telecom Holding Company
K.S.C. Public
and its subsidiaries
Kuwait

Interim condensed consolidated statement of income for the three months ended March 31, 2016
(Unaudited)
"All amounts are in Kuwaiti Dinar"

	Note	Three months ended March 31, 2016	2015
Revenue of activity		**19,415,691**	17,921,746
Cost of activity		**(17,632,875)**	(16,322,249)
Gross profit of activity		**1,782,816**	1,599,497
General and administrative expenses		**(1,568,536)**	(1,437,201)
Depreciation and amortization		**(46,499)**	(23,992)
Finance charges		**(19,193)**	(3,017)
Profit from investment in joint venture		**20,202**	288,000
Other income		**1,262**	9,265
Net profit for the period before calculating National Labor Support Tax & Zakat		**170,052**	432,552
National Labor Support Tax		**(4,766)**	(10,944)
zakat		**(1,906)**	(4,378)
Net profit for the period		**163,380**	417,230
Profit per share/(Fils)	8	**0.189**	0.49

The accompanying notes form an integral part of the interim condensed consolidated financial information.

Hits Telecom Holding Company
K.S.C. Public
and its subsidiaries
Kuwait

Interim condensed consolidated comprehensive income for the three months ended March 31, 2016
(Unaudited)
"All amounts are in Kuwaiti Dinar"

	Three months ended March 31,	
	2016	2015
Net profit for the period	**163,380**	417,230
Other comprehensive income		
Foreign currency translation differences	**(274,386)**	685,018
Other comprehensive (loss)/income for the period	**(274,386)**	685,018
Total comprehensive (loss)/income for the period	**(111,006)**	1,102,248

The accompanying notes form an integral part of the interim condensed consolidated financial information.

Hits Telecom Holding Company
K.S.C. Public
and its subsidiaries
Kuwait

Interim condensed consolidated Statement of changes in equity for the three months ended March 31, 2016
(Unaudited)
"All amounts are in Kuwaiti Dinar"

	Share capital	Share premium	Treasury shares	Treasury shares reserve	Cumulative changes in fair value	Foreign currency translation reserve	Accumulated losses	Total
Balance at January 1, 2015	87,234,161	6,846,580	(2,740,011)	–	(2,906,077)	1,081,310	(23,508,763)	66,007,200
Net profit for the period	–	–	–		–	–	417,230	417,230
Other comprehensive income for the period	–	–	–	–	–	685,018	–	685,018
Total comprehensive income for the period	–	–	–	–	–	685,018	417,230	1,102,248
Sale of treasury shares	–	–	2,099,778	260,411	–	–	–	2,360,189
Balance as of March 31, 2015	87,234,161	6,846,580	(640,233)	260,411	(2,906,077)	1,766,328	(23,091,533)	69,469,637
Balance at January 1, 2016	87,234,161	6,846,580	(640,233)	260,411	(2,906,077)	1,649,089	(29,191,130)	63,252,801
Net profit for the period	–	–	–	–	–	–	163,380	163,380
Other comprehensive loss for the period	–	–	–	–	–	(274,386)	–	(274,386)
Total comprehensive loss for the period	–	–	–	–	–	(274,386)	163,380	(111,006)
Balance as of March 31, 2016	87,234,161	6,846,580	(640,233)	260,411	(2,906,077)	1,374,703	(29,027,750)	63,141,795

The accompanying notes form an integral part of the interim condensed consolidated financial information.

Hits Telecom Holding Company
K.S.C. Public
and its subsidiaries
Kuwait

Interim condensed consolidated statement of cash flows for the three months ended March 31, 2016
(Unaudited)
"All amounts are in Kuwaiti Dinar"

	Three months ended March 31	
	2016	**2015**
Cash flows from operating activities		
Net profit for the period	**163,380**	417,230
Adjustments:		
Depreciation and amortization	**46,499**	23,992
Provision for end of service indemnity	**20,597**	5,216
Finance charges	**19,193**	3,017
Operating profit before calculating the effect in working capital items	**249,669**	449,455
Inventory	**(3,046,152)**	1,481,131
Accounts receivable and other debit balances	**(573,095)**	455,884
Related parties	**1,970,638**	1,675,376
Accounts payable and other credit balances	**1,210,800**	(3,338,243)
Net cash (used in)/generated from operating activities	**(188,140)**	723,603
Cash flows from investing activities		
Available for sale investments	-	(2,468,553)
Investment in joint venture	-	(876,813)
Net cash used in investing activities	-	(3,345,366)
Cash flows from financing activities		
Bank overdraft	-	187,825
Finance charges paid	**(19,193)**	(3,017)
Change in treasury shares	-	2,327,264
Net cash (used in)/generated from financing activities	**(19,193)**	2,512,072
Foreign currency translation reserve	**(127,050)**	121,577
Net (decrease)/ increase in cash and cash equivalents	**(334,383)**	11,886
Cash and cash equivalents at the beginning of the period	**1,968,449**	775,686
Cash and cash equivalents at the end of the period	**1,634,066**	787,572

The accompanying notes form an integral part of the interim condensed consolidated financial information.

Hits Telecom Holding Company
K.S.C. Public
and its subsidiaries
Kuwait

Notes to the interim condensed consolidated financial information for the three months ended March 31, 2016
(Unaudited)
"All amounts are in Kuwaiti Dinar unless stated otherwise"

1- Brief on "The Parent company"

Hits Telecom Holding Company – K.P.S.C. - was incorporated on May 22, 1999 in accordance with the Commercial Companies' Law of 1960 article No. 15, and its subsequent amendments. The parent company's shares are listed on Kuwaiti Stock Exchange Market.

The objectives for which the parent company was incorporated are:

- Owning shares in Kuwaiti and Non-Kuwaiti shareholding companies and owning shares or quotas in Kuwaiti and Non-Kuwaiti limited liability companies or participating in establishing, managing and sponsoring both kinds of companies to others related to communication 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 industrial trademarks, or industrial charges or any other rights relating thereto, and leasing to other companies for utilization inside or outside the State of Kuwait related to communication segment only.
- Holding movables and real estates necessary to initiate its activity in accordance with the Law.
- Utilizing the surplus funds by investing them in investment and real estate portfolios managed by specialized companies and institutions.

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" operates its activities according to Islamic Sharia regulations.

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

The interim condensed consolidated financial information for the three months ended March 31, 2016 were authorized for issue from the Board of Directors on 15 May 2016.

2- Significant Accounting Policies

2/1) Basis of preparation

The interim condensed consolidated financial information of "the Group" has been prepared in accordance with IAS 34, "***Interim Financial Reporting***". Accordingly, it does not include all of the information and footnotes required for complete consolidated financial statements prepared in accordance with International Financial Reporting Standards.

The accounting policies used in the preparation of this interim condensed consolidated financial information are consistent with those used in the preparation of the annual audited consolidated financial statements of "the Group" for the year ended December 31, 2015.

During the period "the Group" has adopted all the standards that came into effect for annual periods beginning January 1, 2016. The adoption of these standards did not have any material impact on this interim condensed consolidated financial information.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. For further information, refer to the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2015.

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

Amendments to IFRSs which are effective for annual accounting period starting from January 1, 2016 did not have any material impact on the accounting policies, financial position or performance of "the Group".

2/2) **Critical Judgments and estimates**

The preparation of interim condensed consolidated financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgments made by management in applying "the Parent company's" accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual audited consolidated financial statements as at and for the year ended December 31, 2015.

3- Subsidiaries

The interim condensed consolidated financial information includes the interim condensed financial information of "the Parent company" and its subsidiaries as following:

	Country of incorporation	Ownership percentage March 31, 2016	Ownership percentage March 31, 2015
Qanawat Holding Company B.S.C - closed (Previously : Rehab Al Madina Real Estate Company - B.S.C - closed)	Bahrain	99%	99%
Elite Telecommunications Services for General Trading company (W.L.L)	Kuwait	99%	99%
Fawran Telecom Company (W.L.L)	Saudi Arabia	10%	10%
Qanawat for general trading and contracting company (W.L.L)	Kuwait	10%	10%

The interim condensed consolidated financial information for all subsidiaries has been consolidated based on the financial statements prepared by the management for the three months period ended March 31, 2016, total assets of these subsidiaries included in the interim condensed consolidated statement of financial position are KD 44,766,008 and their net profit included in the interim condensed consolidated statement of income is KD 142,055.

4- Available for sale investments

This available for sale investments represent unquoted local and foreign investments. The following movement occurred during the period:

	March 31, 2016	December 31, 2015 (audited)	March 31, 2015
Balance at January 1,	22,169,508	20,610,334	20,610,334
Additions	-	5,237,278	2,468,553
Impairment losses	-	(3,678,104)	-
	22,169,508	22,169,508	23,078,887

Investments have been recorded at cost less impairment at value due to the unavailability of a reliable method to measure the fair value at the date of the interim condensed consolidated financial statements.

5- Loan to a related party

This item represents a loan granted to Hits Africa Company (Ltd)- Cayman Island (Previously: an associate company) amounted to USD 75,680,606 bearing an interest rate of 6% matured on March 31, 2017. This loan was granted to Hits Africa Company (Ltd) - Cayman Island (Previously: an associate company) in prior years as a joint venture contract and it hasn't been disclosed in the consolidated financial statements. Since these transactions were eliminated previously between "The Parent" company and its subsidiaries for the consolidation purpose.

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

Due to the discontinuity of Hits Africa Company's business (Ltd)- Cayman Islands (Previously: an associate company) until know whether it will be liquidated or decided to resume in the future the company's business and for hedge purpose the provision for doubtful debts amounting to KD 3,500,000 was made by "the Group" during the previous year to meet any amounts uncollectible from this loan. See that there is a possibility the company's management and its external counsel for see the possibility of a good collection of the loan in the future.

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

6- Accounts receivable and other debit balances

	March 31, 2016	December 31, 2015 (audited)	March 31, 2015
Trade receivables	**1,158,180**	1,182,637	4,582,820
Provision for doubtful debts	**(152,132)**	(152,132)	-
	1,006,048	1,030,505	4,582,820
Accrued commissions	**1,944,603**	2,110,063	-
Accrued income	**2,305,157**	1,619,696	1,726,220
Letters of guarantees	**1,596,458**	1,416,805	566,536
Prepaid expenses	**465,060**	468,407	483,344
Staff receivable	**192,943**	233,569	1,013
Refundable deposits	**11,947**	2,950	784,379
Advance payments	-	67,125	-
Other	-	-	33,609
	7,522,216	6,949,120	8,177,921

7- Transactions with related parties

Related parties comprise of associates, major shareholders, directors and key management personnel of the Group's entities controlled, jointly controlled or significantly controlled 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 interests free and have no fixed maturity.

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

Interim condensed consolidated Statement of financial position	March 31, 2016	December 31, 2015 (audited)	March 31, 2015
Finance, joint ventures and mudaraba	**911,209**	911,209	911,209
Due from related parties	**1,846,877**	3,174,303	2,148,252
Due to related parties	**737,791**	170,659	2,181,936
Loan to a related party	**18,686,527**	18,686,527	22,749,969

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

8- Profit per share/(Fils)

Profit per share is computed by dividing the net profit for the period by the weighted average number of shares outstanding during the period as follow:

	Three months ended March 31	
	2016	2015
Net profit for the period	**163,380**	417,230
Weighted average number of shares outstanding during the period	**872,341,610**	872,341,610
Weighted average of the treasury shares	**(7,319,654)**	(25,191,031)
Weighted average number of shares, less treasury shares	**865,021,956**	847,150,579
Profit per share/(Fils)	**0.189**	0.49

9- Shareholders' General Assembly

Until the date of preparing these interim condensed consolidated financial information the Ordinary General Assembly of shareholders has not been held to approve the consolidated financial statements for the year ended December 31, 2015.

10- Segment information

"The Group" monitors the operating results of its segments separately for the purpose of making decisions about resource allocations performance assessment.

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

Geographic information
"The Group" operates in various geographic regions: and the following table shows the distribution of the Group's income and non-current assets by region:

	Three months ended March 31, 2016		Three months ended March 31, 2015	
Region	**Revenues**	**Non-current assets**	Revenues	Non-current assets
State of Kuwait	**1,852,472**	**41,946,367**	3,610,392	44,427,784
Outside Kuwait				
Kingdom of Saudi Arabia	**17,563,219**	**16,096,773**	14,311,354	16,993,394
	19,415,691	**58,043,140**	17,921,746	61,421,178

11- Financial instruments

Categories of financial instruments
The Group's financial assets and liabilities are classified in the interim condensed consolidated statement of financial position as follows:

Financial assets	**March 31, 2016**	March 31, 2015
Available for sale investments	**22,169,508**	23,078,887
Investment in joint venture	**2,368,820**	1,191,289
Accounts receivable and other debit balances	**7,522,216**	8,177,921
Due from related parties	**1,846,877**	2,148,252
Loan to a related party	**18,686,527**	22,749,969
Financing, joint ventures and mudaraba	**911,209**	911,209
Cash and cash equivalents	**1,634,066**	787,572
	55,139,223	59,045,099

Financial liabilities	March 31, 2016	March 31, 2015
Credit bank	-	187,825
Accounts payable and other credit balances	13,738,977	7,920,956
Due to related parties	737,791	2,181,936
	14,476,768	10,290,717

Fair value of financial instruments

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The Group has used the assumptions and accepted methods in the assessment of fair values of financial instruments. The fair values of the Group's financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on future discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- Fair value of the non-derivative financial instruments is not materially different from its respective carrying value.

12- Lawsuits

"The Group" has some potential lawsuits represented in cases pending at various levels of judgment with other parties and it could not determine their outcome until to the date of interim condensed consolidated statement of financial position. Therefore "the Group's" management believes that there is no need to make provision for these amounts until determining the outcome of these claims and issues.