AAN Digital Services Holding Company

(Previously: Hits Telecom Holding Co.)
K.S.C. Public
and its subsidiaries
Kuwait
The consolidated financial statements
for the financial year ended December 31, 2017
with
Independent auditor's report

AAN Digital Services Holding Company

(Previously: Hits Telecom Holding Co.)
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Rödl
Middle East
Burgan - International Accountants
Ali Al-Hasawi & Co

Independent auditor's report

The Shareholders
AAN Digital Services Holding Company
(Previously: Hits Telecom Holding Co.)
K.S.C. Public
and its subsidia ries
Kuwait

Report on the Audit of Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of AAN Digital Services Holding Company (Previously: Hits Telecom Holding Co.)- K.S.C. - Public –"the Parent Company" - and its subsidiaries (together referred to as "the Group") which comprise the consolidated statement of financial position as of December 31, 2017, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, and with the exception for any effect that may arise as a result from the basis of qualified opinion - the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of "the Group" as at December 31, 2017, and its financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis of Qualified Opinion

The "Group" hasn't collected the loan mentioned in Note (10) as of its maturity date, the "Group" hasn't also kept a sufficient provision for doubtful debts to cover the non-collection of that loan in the future and its accrued interest amounting to KD 1,150,043 as disclosed in Note (11).

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the Group's consolidated financial statements in the State of Kuwait, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have identified the following key audit matter:

A- Impairment of goodwill

As shown in Note (7) to the consolidated financial statements, "the Group" has a goodwill of KD 14,020,322 (2016: KD 14,202,148) distributed on cash-generating units. An annual test is required to determine whether goodwill is impaired. Due to the importance of goodwill for the Group's consolidated statement of financial position as well as the judgments made by the Group's management relating to the valuation of cash-generating units based on the use method, we have considered impairment to be a key audit. The Group's policy regarding impairment assessment of these items is disclosed in Note (3/5) to the consolidated financial statements.

B- Impairment of available for sale investments

"The Group's" management has recorded impairment losses on available for sale investments included in Note (9) to the consolidated financial statements with an amount of KD 5,779,587 (2016: KD 5,030,443) based on an evaluation by a specialized entity. In opinion of the assumptions underlying the evaluation and the estimates made by management in this regard, this item is considered one of the critical audit matters.

As part of our audit procedures, we have included, among other procedures, regarding the estimate of impairment of both goodwill and available for sale investments through the assessment of assumptions and provisions upon which the Group has relied in the estimation of the value impairment. We obtained impairment assessment reports made by an independent valuer and tested the reasonableness of the key assumptions that were built the basis of which including cash flow projections. The assumptions of future cash flows were also evaluated by comparing current performance against management expectations. In addition, the adequacy of the Group's disclosures included in the consolidated financial statements on management's assessment and the available indicators on impairment of goodwill and available-for-sale investments have been evaluated.

Other information

Other information consists of the information included in the Board of Directors Report, other than the consolidated financial statements and the auditor's report thereon. Management is responsible for the other information. We expected the annual report will be available after the date of the auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and when it becomes available and , in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor' s report, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted for use by the State of Kuwait and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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. 1 of year 2016 and related Executive Regulations as amended, law no. 7 of year 2010 in respect of the establishment of Capital Market Authority and the organization of the securities activity and its executive regulation as amended and "The Parent" company's memorandum and articles of association as amended . According to the information available to us, there were no violations have occurred during the financial year ended December 31, 2017 of either the Companies' Law no. 1 of year 2016 and related Executive Regulations as amended , law no. 7 of 2010 in respect of the establishment of Capital Market Authority and the organization of the securities activity and its executive regulation or of "The Parent" company's memorandum and articles of association as amended that might have had a material effect on "The Parent" company's business or its consolidated financial position.

Abdul Husain M. AL-Rasheed
Licence No. 67 (A)
Rödl Middle East
Burgan International Accountants

March 29, 2018
State of Kuwait

AAN Digital Services Holding Company

(Previously: Hits Telecom Holding Co.)
K.S.C. Public
and its subsidiaries
Kuwait

Consolidated statement of financial position as of December 31, 2017

"All amounts are in Kuwaiti Dinar"

	Note	2017	2016
Assets			
Non-current assets			
Property and equipment	6	**257,346**	253,323
Intangible assets	7	**14,100,559**	14,329,297
Investment in joint venture	8	**283,798**	268,552
Available for sale investments	9	**11,359,478**	17,139,065
Loan to a related party	10	**18,686,527**	18,686,527
		44,687,708	50,676,764
Current assets			
Inventory		**2,736,832**	6,142,832
Accounts receivable and other debit balances	11	**6,171,753**	6,113,439
Due from related parties	12	**1,074,355**	1,046,462
Finance, joint ventures and mudaraba	13	**911,209**	911,209
Investment at fair value – statement of profit or loss	14	**42**	42
Cash and cash equivalents		**427,281**	673,368
		11,321,472	14,887,352
Total assets		**56,009,180**	65,564,116
Equity and liabilities			
Equity			
Share capital	15	**87,234,161**	87,234,161
Share premium		**6,846,580**	6,846,580
Treasury shares		**(640,233)**	(640,233)
Treasury shares reserve		**260,411**	260,411
Cumulative changes in fair value		**(2,906,077)**	(2,906,077)
Foreign currency translation reserve		**1,405,936**	1,709,743
Accumulated losses		**(41,447,021)**	(34,568,578)
Total equity		**50,753,757**	57,936,007
Non-current liabilities			
Provision for end of service indemnity		**474,975**	626,446
Current liabilities			
Accounts payable and other credit balances	17	**4,669,095**	6,867,791
Due to related parties	12	**111,353**	133,872
		4,780,448	7,001,663
Total equity and liabilities		**56,009,180**	65,564,116

Abdel-Mohsen Sharyan
Vice Chairman

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

AAN Digital Services Holding Company

(Previously: Hits Telecom Holding Co.)
K.S.C. Public
and its subsidia ries
Kuwait

Consolidated statement of profit or loss for the financial year ended December 31, 2017
"All amounts are in Kuwaiti Dinar"

	Note	2017	2016
Revenue of activity	18	**45,365,523**	110,373,549
Cost of activity		**(40,493,157)**	(103,230,652)
Gross profit of activity		**4,872,366**	7,142,897
Loss from investment in joint venture		**(13,218)**	(26,275)
Realized gain on sale of investments at fair value – statement of profit or loss		**-**	25,682
Impairment loss on available for sale investments	9	**(5,779,587)**	(5,030,443)
General and administrative expenses	19	**(2,628,819)**	(2,445,288)
Marketing and selling expenses	20	**(3,170,667)**	(4,781,986)
Depreciation and amortization		**(149,398)**	(206,780)
Finance charges		**(6,885)**	(72,980)
Other (expenses)/income		**(2,235)**	17,725
Net loss for the year		**(6,878,443)**	(5,377,448)
Loss per share/(Fils)	21	**(7.95)**	(6.22)

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

AAN Digital Services Holding Company

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K.S.C. Public
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Kuwait

Consolidated statement of profit or loss and other comprehensive income for the financial year ended December 31, 2017
"All amounts are in Kuwaiti Dinar"

	2017	2016
Net loss for the year	**(6,878,443)**	(5,377,448)
Other comprehensive (loss)/income for the year:		
Exchange differences on translating foreign currency	**(303,807)**	60,654
Total other comprehensive (loss)/income for the year	**(303,807)**	60,654
Total comprehensive loss for the year	**(7,182,250)**	(5,316,794)

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

Exhibit – D

AAN Digital Services Holding Company

(Previously: Hits Telecom Holding Co.)
K.S.C. Public
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Kuwait

Consolidated statement of changes in equity for the financial year ended December 31, 2017

"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, 2016	87,234,161	6,846,580	(640,233)	260,411	(2,906,077)	1,649,089	(29,191,130)	63,252,801
Net loss for the year	-	-	-	-	-	-	(5,377,448)	(5,377,448)
Other comprehensive income for the year	-	-	-	-	-	60,654	-	60,654
Total comprehensive loss for the year	-	-	-	-	-	60,654	(5,377,448)	(5,316,794)
Balance as of December 31, 2016	87,234,161	6,846,580	(640,233)	260,411	(2,906,077)	1,709,743	(34,568,578)	57,936,007
Balance at January 1, 2017	87,234,161	6,846,580	(640,233)	260,411	(2,906,077)	1,709,743	(34,568,578)	57,936,007
Net loss for the year	-	-	-	-	-	-	(6,878,443)	(6,878,443)
Other comprehensive loss for the year	-	-	-	-	-	(303,807)	-	(303,807)
Total comprehensive loss for the year	-	-	-	-	-	(303,807)	(6,878,443)	(7,182,250)
Balance as of December 31, 2017	**87,234,161**	**6,846,580**	**(640,233)**	**260,411**	**(2,906,077)**	**1,405,936**	**(41,447,021)**	**50,753,757**

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

AAN Digital Services Holding Company

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K.S.C. Public
and its subsidiaries
Kuwait

Consolidated statement of cash flows for the financial year ended December 31, 2017

"All amounts are in Kuwaiti Dinar"

	2017	2016
Cash flows from operating activities		
Net loss for the year	(6,878,443)	(5,377,448)
Adjustments:		
Depreciation and amortization	138,347	206,780
Disposal of property and equipment at cost	34,544	-
Disposal of intangible assets at cost	7,722	-
Loss from investment in joint venture	13,218	-
Impairment loss on available for sale investments	5,779,587	5,030,443
Provision for doubtful debts	159,727	23,427
Provision for end of service indemnity	211,301	48,088
Finance charges	6,885	72,980
Adjusted (loss)/gain before calculating the effect of changes in working capital items	(527,112)	4,270
Inventory	3,406,000	1,338,554
Accounts receivable and other debit balances	(218,042)	812,253
Related parties	(50,412)	2,505,776
Accounts payable and other credit balances	(2,198,696)	(5,660,385)
Cash generated from/(used in) operations	411,738	(999,532)
End of service indemnity paid	(362,772)	-
Net cash generated from /(used in) operating activities	48,966	(999,532)
Cash flows from investing activities		
Property and equipment	(141,115)	(154,782)
Intangible assets	(3,463)	(13,236)
Investment in joint venture	(15,246)	(23,020)
Net cash used in investing activities	(159,824)	(191,038)
Cash flows from financing activities		
Finance charges paid	(6,885)	(72,980)
Net cash used in financing activities	(6,885)	(72,980)
Foreign currency translation reserve	(128,344)	(31,531)
Net decrease in cash and cash equivalents	(246,087)	(1,295,081)
Cash and cash equivalents at beginning of the year	673,368	1,968,449
Cash and cash equivalents at end of the year	427,281	673,368

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

AAN Digital Services Holding Company

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Kuwait

Notes to the consolidated financial statements for the financial year ended December 31, 2017
"All amounts are in Kuwaiti Dinar unless stated otherwise"

1- Brief on "the Parent Company"

AAN Digital Services Holding Company (Previously: Hits Telecom Holding Company) – K.S.C. Public - was incorporated on May 22, 1999 in accordance with the Commercial Companies' Law of year 1960 article No. 15, and its subsequent amendments. Several amendments took place on the commercial registry last one was on July 13, 2017, Where the commercial name of "the Parent company" changed. "The Parent company's" shares are listed on Kuwaiti Stock Exchange Market.

The objectives for which "The Parent" 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 which related to communication segment only.
- Lending companies in which it holds shares and guaranteeing them to others, providing that the holding parent company 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 available for the parent company 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: Sharq-Complex /Mohamed Saleh Yousef El Bahbahani –floor (3) –Kuwait City.

The consolidated financial statements for the financial year ended December 31, 2017 were authorized for issue from the Board of Directors on March 29, 2018.

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

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

2/1) New amendments that are mandatorily effective for the current year:
In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2017:

- **Amendments to IAS 7 "Disclosure Initiative"**
  The amendments require the entities to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The application of these amendments has had no impact on the Group's consolidated financial statements.
- **Amendments to IFRS 12 included in the Annual Improvements Cycle**
  The Annual Improvements Cycle includes amendments to a number of IFRSs, one of which is effective for annual periods beginning on or after January 1, 2017 is the amendment to IFRS 12.

  IFRS 12 states that the entities need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

  The application of these amendments has had no effect on the Group's consolidated financial statements as none of the Group's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

2/2) 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
IFRS 15	Revenue from Contracts with Customers
IFRS 16	leases
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 10 and IAS 28	sale or contribution of Assets between an investor and its Associate or joint venture
Amendments to IAS 40	Transfers of Investment Property

- **IFRS 9: "Financial Instruments"**
  The IASB issued IFRS 9 'Financial Instruments' in its final form in July 2014 and is effective for annual periods beginning on or after January 1, 2018 with permission to early adoption.
  IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets, impairment of financial assets and hedge accounting. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

i. Classification and measurement

The adoption of this standard will have an effect on the classification and measurement of financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through consolidated statement of profit or loss.

ii. Impairment of financial assets

The impairment requirements apply to financial assets measured at amortised cost, fair value through other comprehensive income, and lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, allowance is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').
Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'.

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.
The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile.

The Group is in the process of evaluating the impact of IFRS 9, but does not expect any significant effect on adoption of this standard.

- **IFRS 15: Revenue from Contracts with customers**
  IFRS 15 was issued by IASB on May 28, 2014, effective for annual periods beginning on or after January 1, 2018. IFRS 15 supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets.

  The Group is in the process of evaluating the impact of IFRS 15 but does not expect any significant effect on adoption of this standard.

- **IFRS 16: Leases**
  In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after January 1, 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognize a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortized over the length of the lease and the financial liability measured at amortized cost. Lessor accounting remains substantially the same as in IAS 17.

  The Group is in the process of evaluating the impact of IFRS 16 on the Group's consolidated financial statements.

- **Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions**
  The amendments clarify the following:

  1) In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
  2) A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

     (i) the original liability is derecognized;
     (ii) the equity-settled share-based payment is recognized at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
     (iii) Any difference between the carrying amount of the liability at the modification date and the amount recognized in equity should be recognized in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after January 1, 2018 with earlier application permitted. Specific transition provisions apply.
The directors of the Group do not anticipate that the amendments in the future will have a significant impact on the Group financial statements as the Group does not have any cash-settled share-based payment arrangements.

- **Amendments to IFRS 10 and IAS 28 sale or contribution of Assets between an investor and its associate or joint venture**
The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

  The directors of the Group anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

- **Amendments to IAS 40 Transfers of Investment Property**
The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction.

  The amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted.

  The Group doesn't have any investment properties, therefore, the management of the Group expects that there will be no substantial impact on its consolidated financial statements.

3- Significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below:

3/1) 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 the preparation of these consolidated financial statements are consistent with those used in preparation of the financial statements of the previous year.
- These consolidated financial statements are prepared under the historical cost basis of measurement following the accrual basis. These consolidated financial statements have been presented in Kuwaiti Dinars.
- The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a high degree of judgment or complexity or areas where assumptions and estimates are significant to these consolidated financial statements are disclosed in note (4).

3/2) Basis of financial statements consolidation

The consolidated financial statements include the financial statements of AAN Digital Services Holding Company (Previously: Hits Telecom Holding Company K.S.C Public) ("the Parent Company") and its subsidiaries (together referred to as "the Group") disclosed under Note 5.

Subsidiaries are those enterprises controlled by the Parent Company. Control exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The control is maintained by the Parent Company when:

- Exercise power over the investee;
- Exposure to variable returns or obtains rights from involvement with the investee,
- Ability to use its power to affect the investee returns.

When "the Parent Company" does not has majority voting rights in the investee, the Parent Company takes into consideration facts and other factors in assessing the control, which include:

- Contractual arrangement between "the Parent Company" and other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Parent Company's voting rights;
- Other potential voting rights.

The financial statements of subsidiaries acquired or disposed are included in the consolidated financial statements from the date the control effectively commences until the date that control effectively end.

The financial statements of the subsidiaries are consolidated on a line–by–line basis by adding together alike items of assets, liabilities, revenues and expenses. All inter–company balances and transactions, including unrealized profits or losses arising from inter–company transactions, are fully eliminated. Consolidated financial statements are prepared using uniform accounting policies for similar transactions and other events which accrue in similar conditions.

The financial statements of the subsidiaries are prepared for the same date or within three months of the reporting period of the Parent Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist between the subsidiaries' financial year date and the Parent Company's financial year date.

Non–controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non–controlling interests consist of the interest at the date of the original business combination and the non–controlling interest share of changes in equity since the date of the combination. Profits and losses attributed to the owners of the Parent Company and to the non–controlling interests in the ratio of their respective shareholdings even if that resulted in the non–controlling interests having a deficit balance.

When ownership of subsidiaries changes without loss of control, the transaction is accounted for within equity. However, when control is lost as a result of change in ownership, then:

- Derecognize the assets and liabilities of the subsidiaries reported in statement of financial position (including goodwill);
- Recognize any remaining investment of the subsidiaries at fair value at date of loss of control;
- Derecognize non–controlling interests.
- Recognize the profit or loss resulting from the loss of control in the statement of profit or loss.

3/3) 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.

3/4) Property and equipment

Property and equipment are stated at the historical cost less accumulated depreciation. The realizable value of property and equipment are reviewed at each financial position date to determine whether the book value exceeds the realizable value in which case the book value is written down to the realizable value. If the useful lives are different from estimated lives of those assets, then the useful lives are adjusted from the beginning of the year in which the change occurred in without going into retroactive periods.
The profits or losses of selling the property and equipment recognized in the statement of profit or loss and other comprehensive income at the difference between the selling of value and the net book value.

Property and equipment are depreciated on straight-line basis to reduce the value to its residual value over their estimated useful lives as follows:

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

3/5) 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.

3/6) 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.

3/7) 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.

3/8) Financial instruments

Classification

The classification of the investments depends on the purpose for which the investments were acquired. Management determines this classification at initial recognition of the financial instrument and reviews this classification when preparing the consolidated financial statements. The group has classified its financial instruments as receivables and financial assets available for sale:

Receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides goods or services directly to clients with no intention of trading these debts.

Financial assets available for sale

These are non-derivative financial assets that are not included in any of the above categories and are principally, acquired to be held, for an indefinite period of time which could be sold when liquidity is needed or upon changes in rates of profit.

Recognition and de-recognition

Regular purchase and sale of financial asset are recognized on settlement date - the date on which the group receives or delivers the asset. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership to another party.

Measurement

Financial assets are initially recognized at fair value plus transaction cost. Except the investments at fair value through consolidated statement of profit or loss.

Subsequently, assets available for sale are carried at fair value and receivables are carried at amortized cost using the effective yield method.

Changes in the fair value of available for sale investments are recognized directly in consolidated statement of changes in equity. When available for sale investments are sold or impaired, the amounts recognized in consolidated statement of changes in equity are transferred to the consolidated statement of profit or loss.

Fair value
The fair value of financial instruments in regular financial market is determined according to the last bid prices.
For the unquoted investments, the group establishes fair value by reference to other investments that are substantially the same, or by using the expected discounted cash flow after adjustment to reflect the same circumstances of the issuing company. Available for sale investments, which its fair value could not be determined are carried at cost less impairment losses.

Impairment in value
The group assesses at each consolidated financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale investments, a significant or prolonged decline in the fair value of these investments below its cost is considered as an indicator that these investments are impaired.

If any evidence for impairment exists for available for sale financial assets, the cumulative losses measured as the difference between the acquisition cost and the current fair value, less any impairment losses on that financial asset previously recognized in prior years are transferred from equity to the consolidated statement of profit or loss and other comprehensive income.
Impairment losses recognized on equity instruments are not reversed through the consolidated statement of profit or loss and other comprehensive income.

3/9) 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.

3/10) 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 profit or loss 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 profit or loss when there is an indication that the impairment losses, recognized for the asset no longer exist or has decreased.

3/11) Payables and liabilities
Payables and liabilities are stated at their nominal value. Liabilities are recognized for amounts to be paid in the future for goods and services received, whether billed by the supplier or not.

3/12) 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.

3/13) 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.

3/14) 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.

3/15) 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.

3/16) 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.

3/17) 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.

3/18) 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.

3/19) 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.

3/20) Foreign currencies

The functional currency of "The Parent" 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.

3/21) 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.

3/22) National Labour Support Tax

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

3/23) 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.

3/24) 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.

4- Critical accounting judgments and key sources of estimation uncertainty

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect amounts reported in these consolidated financial statements, as actual results could differ from these estimates. It also requires management to exercise its judgment in the process of applying the Group accounting policies. Judgments and estimates that are significant to the consolidated financial statements are shown below:

Judgments

Contingent liabilities / liabilities
Contingent liabilities are potential liabilities that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Provisions for liabilities are recorded when a loss is considered probable and can be reasonably estimated. The determination of whether or not a provision should be recorded for any potential liabilities is based on management's judgment.

Classification of investments
On acquisition of an investment, management has to decide whether it should be classified as "at fair value through profit or loss", "available for sale" or as "loans and receivables". In making that judgment the Group considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgment determines whether it is subsequently measured at cost or at fair value and if the changes in fair value of instruments are reported in the consolidated statement of profit or loss or directly in equity.

Impairment of financial assets
The Group's management reviews periodically items classified as "loans and receivables" to assess whether a provision for impairment should be recorded in the consolidated statement of profit or loss. Management estimates the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty.

Key *sources* of estimation uncertainty

Impairment of tangible and intangible assets and useful lives
The Group's management tests annually whether tangible and intangible assets have suffered impairment in accordance with accounting policies stated in Note 3. The recoverable amount of an asset is determined based on value-in-use method. This method uses estimated cash flow projections over the estimated useful life of the asset discounted using market rates.

The Group's management determines the useful lives and related depreciation and amortization charge. The depreciation and amortization charge for the year will change significantly if actual life is different from the estimated useful life of the asset.

Impairment of associates
After application of the equity method, "the Group" determines whether it is necessary to recognize any impairment loss on the Group's investment in its associated companies, at each reporting date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case "the Group" calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the consolidated statement of profit or loss.

Impairment of available for sale investments
The Group treats available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

Impairment of receivables
An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

Useful* lives *of depreciable assets
Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and equipment.

Goodwill
The Group annually tests whether goodwill has suffered any impairment, in accordance with its accounting policy. The recoverable amounts of cash generating units are determined based on value-in-use calculations or at fair value less costs to sell. The fair value less cost to sell is based on recent/ intended market transactions and the related EBITDA multiples used in such transactions. These calculations require the use of estimates.

5- The subsidiaries

The consolidated financial statements include the financial statements of "The Parent" and its subsidiaries as following:

	Country of incorporation	Shareholding percentage 2017	2016
Qanawat Holding Company B.S.C – closed	Bahrain	**%99**	%99
On Touch for General trading Company (previously: Elite Telecommunications Services for General Trading Company) - W.L.L	Kuwait	**%99**	%99
Fawran Telecom Company - W.L.L	KSA.	**%10**	%10
Qanawat for General Trading and contracting Company - W.L.L	Kuwait	**%10**	%10
Qanawat Connect Solutions Company -W.L.L	UAE.	**%10**	%10

The subsidiary Qanawat Holding Company –K.S.C-closed has the subsidiaries as follows:

	Country of incorporation	Shareholding percentage 2017	2016
Fawran Telecom Company - W.L.L	KSA.	**%90**	%90
Qanawat for General Trading and contracting company - W.L.L	Kuwait	**%90**	%90
Qanawat Connect Solutions - W.L.L	UAE.	**%90**	%90

The financial statements for the above subsidiaries have been consolidated based on financial statements prepared by the management as of December 31, 2017, the total assets of these subsidiaries included in the consolidated statement of financial position amounted to KD 18,545,610 (2016: KD 34,949,179) and their net loss included in the consolidated statement of profit or loss amounted to KD 5,088,536 (2016: KD 3,441,234).

AAN Digital Services Holding Company

(Previously: Hits Telecom Holding Co.)
K.S.C. Public
and its subsidiaries
Kuwait

Notes to the consolidated financial statements for the financial year ended December 31, 2017
"All amounts are in Kuwaiti Dinar unless stated otherwise"

6- Property and equipment

	Improvements on buildings	Furniture and fixtures	Office equipment and computers	Machines and equipment	Motor vehicles	M-Pay Machine	Total
Cost							
Balance at January1, 2017	676,092	275,627	620,569	168,327	166,405	208,892	2,115,912
Additions	-	10,547	5,828	7,754	4,378	112,608	141,115
Disposals	-	(5,969)	-	-	(24,111)	(20,491)	(50,571)
Foregin currency translation	(14,717)	(6,029)	(13,546)	(3,715)	(3,495)	(4,614)	(46,116)
Balance at December 31, 2017	661,375	274,176	612,851	172,366	143,177	296,395	2,160,340
Accumulated depreciation							
Balance at January 1, 2017	656,672	163,106	582,296	131,768	131,724	197,023	1,862,589
Charged for the year	6,072	41,085	16,691	10,756	12,146	11,128	97,878
Disposals	-	(3,698)	-	-	(12,329)	-	(16,027)
Foregin currency translation	(14,362)	(3,961)	(12,859)	(2,987)	(2,866)	(4,411)	(41,446)
Balance at December 31, 2017	648,382	196,532	586,128	139,537	128,675	203,740	1,902,994
Net book value							
At December 31, 2017	**12,993**	**77,644**	**26,723**	**32,829**	**14,502**	**92,655**	**257,346**
At December 31, 2016	19,420	112,521	38,273	36,559	34,681	11,869	253,323

AAN Digital Services Holding Company
(Previously: Hits Telecom Holding Co.)
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and its subsidiaries
Kuwait

Notes to the consolidated financial statements for the financial year ended December 31, 2017
"All amounts are in Kuwaiti Dinar unless stated otherwise"

7- Intangible assets

	Key money	Goodwill*	Total
Cost			
Balance at January 1, 2017	224,675	14,202,148	14,426,823
Additions	3,463	-	3,463
Disposals	(19,304)	-	(19,304)
Foregin currency translation	(4,562)	(181,826)	(186,388)
Balance at December 31, 2017	204,272	14,020,322	14,224,594
Accumulted amortization			
Balance at January 1, 2017	97,526	-	97,526
Charged for the year	40,469	-	40,469
Disposals	(11,582)	-	(11,582)
Foregin currency translation	(2,378)	-	(2,378)
Balance at December 31, 2017	124,035	-	124,035
Net book value			
At December 31, 2017	**80,237**	**14,020,322**	**14,100,559**
At December 31, 2016	127,149	14,202,148	14,329,297

* This item represents a Goodwill amounting to KD 14,020,322 resulted from acquisition of a subsidiary company – Qanawat Telecom Company (W.L.L) – Kingdom of Saudi Arabia – the management makes Goodwill impairment test 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, 2017.

8- Investment in joint venture

- During this current financial year, one of the subsidiary companies (Qanawat for systems –W.L.L - KSA) invested in a joint venture project with one of the companies at KSA.
- During this current financial year, one of the Group's subsidiary companies (Fawran Telecommunication-W.L.L) invested in a joint venture with an external party to operate M-Pay machines and online money collections under common management by which 75% of dividend distribution goes to (Fawran Telecommunication-W.L.L)
- In the previous year one of the subsidiaries of the group - Qanawat for general trading & contracting –W.L.L – Kuwait - invested in a joint venture with one of the companies by 99 %, where it operates a telecommunications stores, and its share disclosed in the share of results of the consolidated financial statements at the end of every financial period.

	2017	2016
Invested amount	**268,552**	816,282
Additions	**263,208**	23,020
Collect from the investment	**(247,962)**	(570,750)
Balance at December 31	**283,798**	268,552

9- Available for sale investments

This item represented in non-quoted local shares and following the movement of the investments during the financial year:

	2017	2016
Balance at January 1	**17,139,065**	22,169,508
Impairment loss	**(5,779,587)**	(5,030,443)
Balance at December 31,	**11,359,478**	17,139,065

- These investments are evaluated based on studies done by an external party and the management estimates according to estimated calculations and based on the available information about the consolidated financial position, results of the Investee Company operations and the future expected returns for this companies.
- The impairment in value was recognized according to a prepared external study as of December 31, 2017.

10- 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 with 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 by 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 AAN Digital Services Holding Company (Previously: Hits Telecom Holding Co.)

Due to the discontinuity of Hits Africa Company's business (Ltd)- Cayman Islands (Previously: an associate company) putting it under liquidation, till it is known whether it will be liquidated for good or the company's business will be resumed in the future, and during the previous year the provision for doubtful debts amounted KD 3,500,000 had been charged for hedge purpose to meet any amounts uncollectible from this loan. The Company's management and its external counsel see that there is a possibility to collect this loan in the future.

The loan interest has not been calculated based on the Sharia's opinion which states no calculation of interests before the contract settlement

11- Accounts receivable and other debit balances

	2017	2016
Trade receivables	**852,917**	675,354
Provision for doubtful debts	**(335,286)**	(175,559)
	517,631	499,795
Accrued commissions	**1,811,457**	1,625,883
Accrued income*	**2,312,216**	1,821,630
Retention for letters of guarantee	**621,948**	1,008,293
Prepaid expenses	**311,889**	451,187
Staff receivables	**158,078**	332,647
Advance payments	**300,588**	345,603
Refundable deposits	**112,428**	2,950
Other	**25,518**	25,451
	6,171,753	6,113,439

*The accrued income includes an accrued interests with an amount of KD 1,150,043 for the loan mentioned in note (10) which have been recognized in previous years.

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

	2017	2016
90-120 days	**852,917**	675,354

The carrying value of consolidated accounts receivable approximates their fair value. And also, the other classes within consolidated 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 influenced by such parties. "The Group's management" decides on pricing terms and conditions of these transactions. The amounts and balances due from/to related parties are interest free and have no fixed maturity.

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

Consolidated statement of financial position	2017	2016
Finance, joint ventures and mudaraba – (Note – 13)	**911,209**	911,209
Due from related parties	**1,074,355**	1,046,462
Due to related parties	**111,353**	133,872
Loan to a related party (Note – 10)	**18,686,527**	18,686,527

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

13- 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 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, 2017 due to its short-term maturities.

14- Investment at fair value – statement of profit or loss

	2017	2016
Balance at January 1	**42**	197,374
Disposals	**-**	(197,332)
	42	42

The fair value for the quoted investment was valued based on last bid price as of December 31, 2017.

15- Share capital

The authorized, issued, and fully paid up capital of "The Parent" amounted to KD 87,234,161 divided into 872,341,610 shares and all are cash shares.

	Authorized and issued		**Paid**	
	2017	2016	**2017**	2016
Shares 100 Fils for each (all shares are in cash)	**872,341,610**	872,341,610	**872,341,610**	872,341,610

16- 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, Zakat and National Labor Support Tax 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 the accumulated losses.

AAN Digital Services Holding Company
(Previously: Hits Telecom Holding Co.)
K.S.C. Public
and its subsidiaries
Kuwait

Notes to the consolidated financial statements for the financial year ended December 31, 2017
"All amounts are in Kuwaiti Dinar unless stated otherwise"

17- Accounts payable and other credit balances

	2017	2016
Trade payables	**3,176,519**	5,495,255
Accrued expenses	**876,628**	712,863
Advanced payments from customers	**-**	37,093
Other	**615,948**	622,580
	4,669,095	6,867,791

18- Revenue of activity

The decrease in "the Group's" operating income for the period ended December 31, 2017 resulted from a decrease in revenues of one of the subsidiaries operating in the Kingdom of Saudi Arabia as a result of the following:

- The application of new laws by the Saudi Telecommunications Regulatory Commission, which determined the number of Sim cards to be recorded for each person, this was accordingly reflected in the decrease in the number of Sim cards sold during the period.
- Geographical distribution of the approved agents to work in specific limited areas based on the key operator's plan that has been approved and which had an impact on the company's revenues.

19- General and administrative expenses

	2017	2016
Staff costs	**1,322,092**	1,214,079
Rent	**78,951**	247,267
Professional fees	**232,148**	171,410
Depreciation &Amortization	**138,347**	206,780
Charges and subscriptions fees	**129,845**	136,051
Traveling	**23,622**	94,704
Banking expenses	**28,448**	25,516
Other	**675,366**	349,481
	2,628,819	2,445,288

20- Marketing and selling expenses

	2017	2016
Staff costs	**2,148,430**	2,647,593
Rent	**608,921**	1,088,974
Advertising & promotion	**333,802**	124,040
Consultant fess	**41,206**	265,557
Other	**38,308**	655,822
	3,170,667	4,781,986

21- Loss per share/(Fils)

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

	2017	2016
Net loss for the year	(6,878,443)	(5,377,448)
Weighted average for the outstanding shares during the year	872,341,610	872,341,610
Weighted average number of treasury shares	(7,319,654)	(7,319,654)
Weighted average number of shares, less weighted average of treasury shares	865,021,956	865,021,956
Loss per share/(Fils)	(7.95)	(6.22)

22- Contingent liabilities

At the consolidated financial position date, "The Group" had a contingent liabilities represented in guarantees with an amount of KD 1,856,545 (2016: KD 2,856,991).

23- Lawsuits

"The Group" has some potential lawsuits represented in cases pending at various levels of courts with other parties and the results of which cannot 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.

24- Proposed dividends

On 29 March, 2018 the Board of Directors of "The Parent" proposed not to distribute cash dividends for shareholders for the year ended December 31, 2017. This proposal is subject to the approval of the General Assembly of shareholders.

25- Shareholders' General Assembly

On July 9, 2017, the annual general assembly of the Shareholders held and approved the consolidated financial statements for the financial year ended December 31, 2016 and approved the Board of Directors' proposals for not to distribute dividends for the financial year ended December 31, 2016 and also not to distribute Board of Directors remuneration for the financial year ended December 31, 2016.

26- Operating segments

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

Geographic information

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

Revenue:	**2017**	2016
State of Kuwait	**5,576,562**	6,174,906
Outside State of Kuwait	**39,788,961**	104,198,643
	45,365,523	110,373,549

Assets and liabilities:	**2017**		2016	
Region	**Assets**	**Liabilities**	Assets	Liabilities
State of Kuwait	**13,078,460**	**791,617**	15,877,747	932,157
Outside **State of Kuwait**				
Kingdom of Saudi Arabia	**21,965,633**	**3,741,623**	23,750,997	6,250,278
Africa	**18,686,527**	**-**	18,686,527	-
United Arab of Emirate	**2,278,560**	**722,183**	1,605,643	441,238
Bahrain	**-**	**-**	5,643,202	4,436
	56,009,180	**5,255,423**	65,564,116	7,628,109

27- 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 (3) 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	**2017**	2016
Accounts receivable and other debit balances	**6,171,753**	6,113,439
Due from related parties	**1,074,355**	1,046,462
Loan to a related party	**18,686,527**	18,686,527
Available for sale investments	**11,359,478**	17,139,065
Finance, joint ventures and mudaraba	**911,209**	911,209
Investments at fair value – statement of profit or loss	**42**	42
Cash and cash equivalents	**427,281**	673,368
	38,630,645	44,570,112

Financial liabilities	**2017**	2016
Accounts payable and other credit balances	**4,669,095**	6,867,791
Due to related parties	**111,353**	133,872
	4,780,448	7,001,663

B) Financial risks management

"The Group" uses financial instruments that are exposed to a variety of financial risks as such as credit risks, liquidity risks and market 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 independent counterparty. These risks are managed by diversification of the portfolios.

"The Group" considers its maximum exposure to credit risks to be as follows:

	2017	2016
Cash and cash equivalents	**427,281**	673,368
Accounts receivable and other debit balances	**6,171,753**	6,113,439
	6,599,034	6,786,807

- **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, 2017 is as follows:

	During one year	**More than one year**	**Total**
Provision for end of service indemnity	**-**	**474,975**	**474,975**
Accounts payable and other credit balances	**4,669,095**	**-**	**4,669,095**
Due to related parties	**111,353**	**-**	**111,353**
	4,780,448	**474,975**	**5,255,423**

The maturity analysis of financial liabilities at December 31, 2016 is as follows:

	During one year	More than one year	Total
Provision for end of service indemnity	-	626,446	626,446
Accounts payable and other credit balances	6,867,791	-	6,867,791
Due to related parties	133,872	-	133,872
	7,001,663	626,446	7,628,109

- **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:

	2017		2016	
Currency	**Assets**	**Liabilities**	Assets	Liabilities
US Dollar	**18,686,527**	-	13,686,527	-
Saudi Riyal	**21,965,638**	**3,741,623**	23,750,997	6,250,278
Emirates Dirham	**2,278,560**	**722,183**	1,605,643	441,238
Bahraini Dinar	-	-	5,643,202	4,436

  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.

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.

28- Capital risk management

"The Group" manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders and other beneficiaries through the optimization of the debt and equity.

The capital structure of the "The Group" consists of equity which comprises share capital, share premium, treasury shares, treasury shares reserve, cumulative changes in fair value, foreign currency translation reserve and accumulated losses.