# Hits Telecom Holding Company

**K.S.C. (Holding)**
**and its subsidiaries**
**Kuwait**
**The consolidated financial statements**
**for the year ended December 31, 2010**
**with**
**Independent auditors' report**

# Hits Telecom Holding Company

K.S.C. (Holding)
and its subsidiaries
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The consolidated financial statements
for the year ended December 31, 2010
with
Independent auditors' report

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# Independent auditors' report

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

## Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Hits Telecom Holding Company - K.S.C. (Holding) - (the parent company), and its subsidiaries (together referred to as the Group) - which comprise the consolidated statement of financial position as of December 31, 2010 and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Management's responsibility for the consolidated financial statements

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

## Auditors' responsibility

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

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

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

## Opinion

In our opinion - the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2010, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

**Emphasis of matter**
Without qualifying our opinion, we draw attention to note (2) to the consolidated financial statements regarding the going concern of some subsidiaries and note (29) to the consolidated financial statements as mentioned in the accompanying notes

**Report on other legal and regulatory requirements**
Furthermore, in our opinion, proper books of account have been kept by the parent company and the consolidated financial statements, together with the contents of the report of the parent company's board of directors relating to these consolidated financial statements, are in accordance there with. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies' Law of 1960, and its subsequent amendments and the parent company's Articles of Association and stocktaking was carried out in accordance with recognized practice. According to the information available to us, no violations of the Commercial Companies' Law of 1960 and its subsequent amendments or of the Articles of Association of the parent company have occurred during the year that might have had a material effect on the business of the Group or its consolidated financial position.

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

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

March 31, 2011
State of Kuwait

HLB
Kuwaiti Accountant Auditing
CERTIFIED PUBLIC ACCOUNTANTS

Exhibit - A

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

## Consolidated statement of financial position as of December 31, 2010
*"All amounts are in Kuwaiti Dinar"*

| | Note | 2010 | 2009 (Restated) |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property and equipment | 7 | **23,079,924** | 23,246,353 |
| Intangible assets | 8 | **90,037,899** | 85,752,480 |
| Investment in joint venture | | **200,800** | 348,809 |
| | | **113,318,623** | 109,347,642 |
| **Current assets** | | | |
| Inventory | | **987,611** | 886,446 |
| Assets held for sale | 9 | **-** | 3,516,295 |
| Loan to an associate | 9 | **-** | 358,775 |
| Accounts receivable and other debit balances | 10 | **6,072,283** | 5,843,167 |
| Due from related parties | 11 | **3,284,463** | 2,294,833 |
| Advance payments for purchasing investments | 12 | **5,946,778** | 5,946,778 |
| Finance, joint ventures and mudaraba | 13 | **12,587,511** | 11,624,307 |
| Cash and cash equivalents | 14 | **1,830,756** | 1,918,987 |
| | | **30,709,402** | 32,389,588 |
| **Total assets** | | **144,028,025** | 141,737,230 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 15 | **72,091,686** | 72,091,686 |
| Share premium | | **34,149,954** | 34,149,954 |
| Statutory reserve | 16 | **462,499** | 462,499 |
| General reserve | 17 | **462,499** | 462,499 |
| Other reserves | | **147,896** | 136,120 |
| Treasury shares | 18 | **(6,837,335)** | (6,837,335) |
| Foreign currency translation reserve | | **(845,700)** | 1,538,939 |
| Accumulated losses | | **(2,080,517)** | (2,283,361) |
| Equity attributable to the shareholders of the parent company | | **97,550,982** | 99,721,001 |
| Non-controlling interests | | **(3,276,550)** | (231,933) |
| | | **94,274,432** | 99,489,068 |
| **Non-current liabilities** | | | |
| Provision for end of service indemnity | | **259,145** | 263,791 |
| License obligations | 19 | **6,182,000** | 6,314,440 |
| Term loans | 20 | **772,731** | 731,149 |
| Accounts payable and other credit balances | 21 | **1,595,678** | 115,817 |
| | | **8,809,554** | 7,425,197 |
| **Current liabilities** | | | |
| Accounts payable and other credit balances | 21 | **21,049,814** | 22,550,524 |
| Due to related parties | 11 | **3,577,232** | 3,240,819 |
| License obligations | 19 | **3,091,000** | 3,157,220 |
| Term loans | 20 | **3,268,816** | 1,263,634 |
| Islamic debt instruments | 22 | **9,957,177** | 4,610,768 |
| | | **40,944,039** | 34,822,965 |
| **Total equity and liabilities** | | **144,028,025** | 141,737,230 |

**Khaled y. Al Mutawa**
**Vice chairman**

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

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

**Consolidated statement of income for the year ended December 31, 2010**
*"All amounts are in Kuwaiti Dinar"*

| | Note | 2010 | 2009 (Restated) |
|---|---|---|---|
| Revenue of activity | | **73,391,707** | 125,541,588 |
| Cost of activity | | **(67,897,138)** | (121,952,808) |
| Gross profit | | **5,494,569** | 3,588,780 |
| General and administrative expenses | 23 | **(10,017,776)** | (10,960,019) |
| Depreciation and amortization | | **(1,837,419)** | (983,388) |
| Finance charges | | **(803,797)** | (562,617) |
| Inventory written-off | | **(167,834)** | - |
| Bad Debts | | **(92,016)** | - |
| Group share from joint venture income | | **175,185** | 84,793 |
| Finance, joint venture and mudaraba income | | **1,599,397** | 838,810 |
| Tax income | | **436,817** | 457,059 |
| Other income | 24 | **1,498,600** | 3,488,796 |
| Gain from sale of a subsidiary | | **-** | 1,328,988 |
| **Loss for the year before Contribution to Kuwait Foundation for the Advancement of Science, National Labor Support Tax and Zakat** | | **(3,714,274)** | (2,718,798) |
| Contribution to Kuwait Foundation for the Advancement of Sciences | 25 | **(1,911)** | - |
| National Labor Support Tax | 26 | **(5,308)** | - |
| Zakat | 27 | **(2,268)** | - |
| **Net loss for the year** | | **(3,723,761)** | (2,718,798) |
| **Attributable to** | | | |
| **Shareholders of parent company** | | **202,844** | (280,256) |
| **Non-controlling interests** | | **(3,926,605)** | (2,438,542) |
| | | **(3,723,761)** | (2,718,798) |
| **Earning (loss) per share/(Fils)** | 28 | **0.30** | (0.41) |

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

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

**Consolidated statement of comprehensive income for the year ended December 31, 2010**
*"All amounts are in Kuwaiti Dinar"*

| | 2010 | 2009 (Restated) |
|---|---|---|
| Net loss for the year | **(3,723,761)** | (2,718,798) |
| **Other comprehensive income for the year** | | |
| Foreign currency translation differences | **(2,384,639)** | (332,884) |
| **Total other comprehensive loss for the year** | **(2,384,639)** | (332,884) |
| **Total comprehensive loss for the year** | **(6,108,400)** | (3,051,682) |
| **Attributable to** | | |
| **Shareholders of parent company** | **(2,181,795)** | (613,140) |
| **Non-controlling interests** | **(3,926,605)** | (2,438,542) |
| | **(6,108,400)** | (3,051,682) |

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

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

**Consolidated statement of cash flows for the year ended December 31, 2010**
*"All amounts are in Kuwaiti Dinar"*

| | Note | 2010 | 2009 (Restated) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net loss for the year | | **(3,723,761)** | (2,718,798) |
| **Adjustments:** | | | |
| Depreciation and amortization | | **1,837,419** | 983,388 |
| Disposal of property and equipment at cost | | **49,734** | 1,341,319 |
| Provision for end of service indemnity | | **14,886** | 18,191 |
| Finance, joint venture and mudaraba income | | **(1,599,397)** | (838,810) |
| Bad Debts | | **92,016** | - |
| Inventory write-off | | **167,834** | - |
| Finance charges | | **803,797** | 562,617 |
| Gain from sale of a subsidiary | | - | (1,328,988) |
| **Working capital changes:** | | **(2,357,472)** | (1,981,081) |
| Inventory | | **(241,528)** | (543,298) |
| Accounts receivable and other debit balances | | **294,398** | 873,672 |
| Related parties | | **744,020** | 7,703,259 |
| Accounts payable and other credit balances | | **(2,588,252)** | 4,823,463 |
| Cash (used in)/generated from operations | | **(4,148,834)** | 10,876,015 |
| End of service indemnity paid | | **(467)** | - |
| Net cash (used in)/generated from operating activities | | **(4,149,301)** | 10,876,015 |
| **Cash flows from investing activities** | | | |
| Property and equipment | | **(1,294,235)** | (11,727,043) |
| Intangible assets | | **(478,168)** | (132,250) |
| Acquisition of a subsidiary | | **(650,375)** | - |
| Finance, joint venture and mudaraba | | **(963,204)** | - |
| Investment in joint venture | | **148,009** | (348,809) |
| Net cash used in investing activities | | **(3,237,973)** | (12,208,102) |
| **Cash flows from financing activities** | | | |
| Other reserves | | **11,776** | 136,120 |
| Purchase of treasury share | | - | (2,493,028) |
| Sale of treasury share | | - | 2,009,120 |
| Term loans | | **1,391,262** | 1,256,829 |
| Finance charges paid | | **(341,283)** | (562,617) |
| Islamic debt instruments | | **4,883,895** | (9,495,375) |
| Banks overdraft | | - | (1,426,453) |
| Change in non-controlling interests | | **856,099** | (415,242) |
| Net cash generated from/(used in) financing activities | | **6,801,749** | (10,990,646) |
| Foreign currency translation reserve | | **403,378** | (1,220,196) |
| Net decrease in cash and cash equivalents | | **(182,147)** | (13,542,929) |
| Net Cash form acquisition of a subsidiary | 31 | **93,916** | - |
| Cash and cash equivalents at the beginning of the year | | **1,918,987** | 15,461,916 |
| **Cash and cash equivalents at the end of the year** | 14 | **1,830,756** | 1,918,987 |

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

Exhibit- E

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

## Consolidated statement of changes in equity for the year ended December 31, 2010
***"All amounts are in Kuwaiti Dinar"***

| | Equity attributable to parent company's shareholders | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Statutory reserve | General reserve | Other reserves | Treasury shares | Foreign currency translation reserve | Accumulated losses | Total | Non-controlling interests | Total equity |
| Balance at January 1, 2009 | 72,091,686 | 34,149,954 | 462,499 | 462,499 | - | (9,741,404) | 1,871,823 | 1,384,872 | 100,681,929 | 2,621,851 | 103,303,780 |
| Net loss for the year (restated) Note – 32 | - | - | - | - | - | - | - | (280,256) | (280,256) | (2,438,542) | (2,718,798) |
| Other comprehensive loss (restated) | - | - | - | - | - | - | (332,884) | - | (332,884) | - | (332,884) |
| Total comprehensive loss (restated) | - | - | - | - | - | - | (332,884) | (280,256) | (613,140) | (2,438,542) | (3,051,682) |
| Share of the parent company from subsidiaries in other reserves | - | - | - | - | 136,120 | - | - | - | 136,120 | - | 136,120 |
| Purchase of treasury shares | - | - | - | - | - | (2,493,028) | - | - | (2,493,028) | - | (2,493,028) |
| Sale of treasury shares | - | - | - | - | - | 5,397,097 | - | - | 5,397,097 | - | 5,397,097 |
| Loss of sale treasury shares | - | - | - | - | - | - | - | (3,387,977) | (3,387,977) | - | (3,387,977) |
| Change in non-controlling interests | - | - | - | - | - | - | - | - | - | (415,242) | (415,242) |
| Balance as of December 31, 2009 (restated) | 72,091,686 | 34,149,954 | 462,499 | 462,499 | 136,120 | (6,837,335) | 1,538,939 | (2,283,361) | 99,721,001 | (231,933) | 99,489,068 |
| Balance at January 1, 2010 (restated) | 72,091,686 | 34,149,954 | 462,499 | 462,499 | 136,120 | (6,837,335) | 1,538,939 | (2,283,361) | 99,721,001 | (231,933) | 99,489,068 |
| Net profit for the year | - | - | - | - | - | - | - | 202,844 | 202,844 | (3,926,605) | (3,723,761) |
| Other comprehensive loss | - | - | - | - | - | - | (2,384,639) | - | (2,384,639) | - | (2,384,639) |
| Total comprehensive loss | - | - | - | - | - | - | (2,384,639) | 202,844 | (2,181,795) | (3,926,605) | (6,108,400) |
| Share of the parent company from subsidiaries in other reserves | - | - | - | - | 11,776 | - | - | - | 11,776 | - | 11,776 |
| Change in non-controlling interests | - | - | - | - | - | - | - | - | - | 881,988 | 881,988 |
| **Balance as of December 31, 2010** | **72,091,686** | **34,149,954** | **462,499** | **462,499** | **147,896** | **(6,837,335)** | **(845,700)** | **(2,080,517)** | **97,550,982** | **(3,276,550)** | **94,274,432** |

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

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

**Notes to the consolidated financial statements for the year ended December 31, 2010**
*"All amounts are in Kuwaiti Dinar unless stated otherwise"*

## 1- Formation and activities

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

The objectives for which the parent company was established are:

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

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

The registered head office of the parent company is: Al-Enizy Tower – Mubarak Al Kabir Street – Kuwait City.

The consolidated financial statements for the year ended December 31, 2010 were authorized for issue from the Board of Directors on March 31, 2011.

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

## 2- Going concern

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

- Fawran Telecom company W.L.L. (a subsidiary in Kingdom of Saudi Arabia) has incurred accumulated losses amounted to KD 584,449 up to the date of December 31, 2010, which exceed the company's share capital.
- Hits Telecom Spain company S.A (a subsidiary in Spain) has incurred accumulated losses amounted to KD 4,297,934 up to the date of December 31, 2010 which exceed company's share capital and its current liabilities exceed current assets with amount of KD 791,862, that may affect the company's ability to continue as a going concern in absent of the sufficient financial support.

- Excellentcom Tanzania company W.L.L. (a subsidiary to Hits Africa) has incurred accumulated losses amounted to KD 5,588,181 until the date of December 31, 2010 which exceed its company's share capital and its current liabilities exceed current assets with amount of KD 5,583,776 that may affect the company's ability to continue as a going concern, in absent of the sufficient financial support.

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

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

**3/1) Standards and interpretations adopted during the year:**

***Annual Improvements for accounting standards:***

The IASB has issued Improvements for International Financial Reporting Standards 2009 and 2010 which have led to a number of changes in the detail of the group's accounting policies – some of which are changes in terminology only, and some of which are substantive but have had no material effect on amounts reported. Most of these amendments become effective in annual periods beginning on or after July 1, 2009 or January 1, 2010.

The group has adopted the new standards, interpretations and amendments to (IFRS) issued by International Accounting Standards Board (IASB), which are related to the group's consolidated financial statements and effective for the annual period beginning on or after January 1, 2009. The new requirements in respect of these amendments are summarized below:

- *IAS 1 "Presentation of Financial Statements" (Revised):*
  The revised standard separates owner and non-owner changes in equity. The consolidated statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the consolidated statement of comprehensive income: it presents all items of recognized income and expenses, either in a single statement, or in two linked statements. The Group elected to present two linked statements.
- *IFRS 3 Business Combinations (Revised)*
  The standard is applicable for business combinations occurring in reporting periods beginning on or after July 1, 2009 and will be applied prospectively. The new standard introduces changes to the accounting requirements for business combinations, but still requires use of the purchase method, and will have a significant effect on business combinations occurring in future reporting periods.
- *IAS 27 Consolidated and Separate Financial Statements (Revised)*
  *Effective from July 1, 2009*
  The revised standard introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the group's interest in subsidiaries and will be applied prospectively in accordance with the transitional provisions and so do not have an immediate effect on the group's consolidated financial statements.

- *IAS 28 Investments in Associates (Revised)*
  *Effective from July 1, 2009*
  The revised standard introduces changes to the accounting requirements for the loss of significant influence of an associate and for changes in the group's interest in associates. and will be applied prospectively in accordance with the transitional provisions and so do not have an immediate effect on the group's consolidated financial statements.
- *IFRIC 17 Distributions of Non-Cash Assets to Owners*
  The Interpretation provides evidence on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. This interpretation is applied prospectively for annual periods beginning on, or after July 1, 2009.
- *IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"*
  *Effective for the periods beginning on or after January 1, 2010*
  As part of Improvements to IFRSs during (2009) disclosures in the consolidated financial statements have been modified to reflect the IFRSs clarification that the disclosure requirements in Standards other than IFRS 5 do not generally apply to non-current assets classified as held for sale and discontinued operations.
- *IAS 7 "Consolidated Statement of Cash Flows"*
  *Effective for the periods beginning on or after January 1, 2010*
  The amendments of IAS 7 (as a part of improvements to IFRSs 2009) specify that only expenditures that result in a recognized asset in the consolidated statement of financial position can be classified as investing activities in the consolidated statement of cash flows. Consequently, cash flows in respect of development costs that do not meet the criteria in IAS 38 Intangible Assets for capitalization as part of an internally generated intangible assets (and, therefore, are recognized in the consolidated statement of income as incurred) have been reclassified from investing to operating activities in the consolidated statement of cash flows.

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

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

- ***Amendments to IFRS 1:***
  *(Effective for annual periods beginning on or after July 1, 2010)*
  Limited exemption from comparative Disclosures for first-time IFRS Adopters.
- ***Amendments to IFRS 7: Disclosures:***
  *(Effective for the periods beginning on or after July 1, 2011)*
  The amendments to IFRS 7 *Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risks exposure when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the year.
- ***IFRS 9 (As amended in 2010):***
  *(Effective for annual periods beginning on or after January 1, 2013 with earlier application permitted)*
  IFRS 9 *"Financial Instruments"* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognizing.

IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods.

All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of a financial liability relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liabilities.

Specifically, under IFRS 9, for financial liabilities that are designated at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to financial liability's credit risks are not subsequently reclassified to profit or loss.

Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognized in consolidated statement of income.

(As per the instructions of Ministry of Commerce and Industry of Kuwait dated on December 28, 2010, the technical committee of the Ministry which is responsible for adopting the accounting standards decided to postpone the application of International Financial Reporting Standard "9" until another notice, due to the non-completion of its remaining stages).

- ***IAS 24 (revised in 2009):***

  *(Effective for annual periods beginning on or after January 1, 2011)*

  IAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of the related parties and simplifies disclosures for government-related entities. The disclosures exemptions introduced in IAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of the related parties may come within the scope of the Standard.

- ***Amendments to IAS 32:***

  *(Effective for annual periods beginning on or after February 1, 2010)*

  The amendments to IAS 32 titled *Classification of Rights* Issues address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues.

- ***IFRIC 19: "extinguishment of a financial liability by the issue of equity instruments"***
  *(Effective for annual periods beginning on or after July 1, 2010)*
  IFRIC 19 provides guidance regarding the accounting for the extinguishment of the financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future. IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognized in profit or loss.

The management anticipates that the new standards and interpretations that are related to the group's consolidated financial statements will be adopted for the period beginning on or after the effective date of the pronouncement. Certain other new standards and interpretations have been issued but are not relevant to the group's operations and therefore not expected to have a material impact on the group's consolidated financial statements.

## 4- Significant accounting policies

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

### 4/1) Basis of preparation

- The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Boards (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and State of Kuwait Commercial Company's Law requirements and amendments.
- The accounting policies used in preparation of these consolidated financial statements are consistent with those used in preparation of the financial statements of previous year.

### 4/2) Accounting convention

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

### 4/3) Basis of consolidation

The consolidated financial statements include the financial statements of the parent company and its subsidiaries as of December 31, 2010 (Note – 6), the date of all subsidiaries' financial statements is December 31, 2010.

- Subsidiaries are the companies controlled by the parent company. Control is achieved where the parent company - directly or indirectly - has the power to govern the financial and operating policies of an entity to obtain benefits from its activities. The results of subsidiaries acquired or (disposed of during the period) are included in the consolidated financial statements from the date of acquisition or (up to the date of disposals).
- The financial statements of subsidiaries are consolidated on a line-by-line basis by adding together alike items of assets, liabilities, revenue and expenses.

- All inter-company balances and transactions, including unrealized profits or losses arising, are eliminated on consolidations. The consolidated financial statements are prepared using consistent accounting policies and for like transactions and other events in the same circumstances.
- The financial statements of a subsidiary are prepared within three months of the reporting period of the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist between the subsidiaries' financial year date and the parent company's financial year date.
- Acquisition of subsidiaries are accounted according to the purchasing method as the cost of acquisition represents the fair value of the amounts paid or assets acquired or liabilities that carried to acquire the subsidiary in addition to the direct costs related to the acquisition.
- Any excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill, if the cost acquisition is less then fair value of the net assets of the subsidiary acquired the difference is recognized directly in the consolidated statement of income on the period acquiring.
- Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests .Total other comprehensive income are attributed to the owners of the parent company and to the non-controlling interests even if this results in the non-controlling interest having a deficit balance.
- The parent company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

**4/4) Non-current assets held for sale**

The assets are classified as held for sale when the criteria to be classified as held for sale has been met or it has been disposed. An item is classified as held for sale if its book value will be recovered principally through a sale transaction rather than through continuing use. The assets held for sale are measured at the lower of their book value or fair value less costs of sale.

Non-current assets (or disposal Group) classified as held for sale are measured at the lower of its carrying amount and fair value less costs to sell.

**4/5) Property and equipment**

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

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

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

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

**4/6) Intangible assets and goodwill**

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

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

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

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

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

**4/8) Inventory**

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

**4/9) Trade receivables**

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

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

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

**4/11) Financial Impairment of non-financial assets**

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

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

**4/12) Accounts payable**

Accounts payable are stated at their nominal value.

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

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

**4/14) Trading and settlement date accounting**

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

**4/15) Murabaha investments**

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

**4/16) Treasury shares**

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

**4/17) Provision for end of service indemnity**

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

**4/18) Provisions**

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

**4/19) Revenue recognition**

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

**4/20) Borrowing costs**

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

**4/21) Foreign currencies**

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

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

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

**4/22) Income taxes**

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

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

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

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

**4/23) Offsetting**

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

**4/24) Dividend distribution**

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

**4/25) Contingencies**

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

## 5- Critical accounting judgments and key sources of estimation uncertainty

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

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

**Critical judgments in applying the Group's accounting policies**

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

*Classification of investments*

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

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

*Impairment of investments*

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

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

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

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

6- **Subsidiaries**
The consolidated financial statements include the financial statements of the following subsidiaries:

| | Country of incorporation | Shareholding % | |
|---|---|---|---|
| | | **2010** | 2009 |
| Qanawat Telecom Company (W.L.L) | Saudi Arabia | **100%** | 100% |
| Fawran Telecom Company (W.L.L) | Saudi Arabia | **100%** | 100% |
| Hits Telecom Spain Company (S.A.) | Spain | **68.69%** | 62.06% |
| Hits Africa Company (Ltd) | Cayman Islands | **92.82%** | 90.67% |

- During the period, the Group increased its ownership percentage in the share capital of Hits Africa Ltd and Hits Telecom Spain Company (S.A) to 92.82% and 68.69% respectively.
- On December 31, 2010, the financial statements of SEMA Tel SPRL – Congo (a subsidiary to Hits Africa) – have been consolidated based on the financial statements prepared by management of this subsidiary as the latest audited financial statements issued for the company were dated on December 31, 2009 and there were no material movements carried out during the year. The Group is currently re-engineering the company and will submit financial support during the next periods.
- The group increased its ownership share in Atlantic Warless Company (a subsidiary for Hits Africa) from 30% to 55% as stated in note (31), and then the Group exercises control over the financial and operating policies and the company has been classified as a subsidiary accordingly.

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

**Notes to the consolidated financial statements for the year ended December 31, 2010**
*"All amounts are in Kuwaiti Dinar unless stated otherwise"*

## 7- Property and equipment

| | Land | Improvements on buildings | Furniture and fixtures | Office equipment and computers | Motor vehicles | Machines and equipments | Capital work-in-progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Balance at January1, 2010 (Restated) | 87,655 | 635,387 | 430,834 | 1,268,382 | 122,523 | 736,359 | 21,086,987 | 24,368,127 |
| Additions | - | 38,910 | 28,434 | 874,436 | 123,988 | 226,720 | 1,747 | 1,294,235 |
| Result from Acquisition a subsidary | 8,849 | 234,517 | 60,994 | 40,522 | 182,607 | 6,251,782 | - | 6,779,271 |
| Disposals | (8,849) | - | (146) | (24,568) | (12,027) | (30,718) | - | (76,308) |
| Transfferred from captial work-in progress | 945 | 16,558 | 109,361 | 906,335 | - | 8,242,286 | (9,275,485) | - |
| Foregin curency translation reserve | (2,392) | (61,482) | (56,112) | (152,127) | (10,154) | (594,191) | (1,240,039) | (2,116,497) |
| Balance at December 31, 2010 | 86,208 | 863,890 | 573,365 | 2,912,980 | 406,937 | 14,832,238 | 10,573,210 | 30,248,828 |
| **Accumulated depreciation** | | | | | | | | |
| Balance at January 1, 2010 | - | 132,992 | 75,371 | 643,296 | 34,746 | 235,369 | - | 1,121,774 |
| Charged for the year | - | 94,624 | 68,325 | 261,975 | 66,108 | 1,010,255 | - | 1,501,287 |
| Result from Acquisition a subsidary | - | 43,074 | 26,386 | 33,806 | 148,052 | 4,397,316 | - | 4,648,634 |
| Disposals | - | - | (50) | (9,260) | (5,399) | (11,865) | - | (26,574) |
| Foregin curency translation reserve | - | (12,668) | (4,168) | (29,074) | (3,868) | (26,439) | - | (76,217) |
| Balance at December 31, 2010 | - | 258,022 | 165,864 | 900,743 | 239,639 | 5,604,636 | - | 7,168,904 |
| **Net book value** | | | | | | | | |
| **At December 31, 2010** | **86,208** | **605,868** | **407,501** | **2,012,237** | **167,298** | **9,227,602** | **10,573,210** | 23,079,924 |
| At December 31, 2009 (Restated) | 87,655 | 502,395 | 355,463 | 625,086 | 87,777 | 500,990 | 21,086,987 | 23,246,353 |

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

Notes to the consolidated financial statements for the year ended December 31, 2010
*"All amounts are in Kuwaiti Dinar unless stated otherwise"*

## 8- Intangible assets

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

| | Lisence fees | Goodwill* | Software and trade mark | Other intangiable assets | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at January 1, 2010 (Restated) | 16,368,324 | 67,867,645 | 1,695,323 | 176,211 | 86,107,503 |
| Additions | - | 412,248 | 31,149 | 34,771 | 478,168 |
| Result from acquisition a subsidary | - | 5,067,662 | - | - | 5,067,662 |
| Foreign currency translation | (384,806) | (415,799) | (165,358) | (4,378) | (970,341) |
| Balance at December 31, 2010 | 15,983,518 | 72,931,756 | 1,561,114 | 206,604 | 90,682,992 |
| **Accumulted amortization** | | | | | |
| Balance at January 1, 2010 | 15,474 | - | 339,549 | - | 355,023 |
| Charged for the year | 17,381 | - | 318,751 | - | 336,132 |
| Foreign currency translation | (2,810) | - | (43,252) | - | (46,062) |
| Balance at December 31, 2010 | 30,045 | - | 615,048 | - | 645,093 |
| **Net book value** | | | | | |
| **At December 31, 2010** | **15,953,473** | **72,931,756** | **946,066** | **206,604** | **90,037,899** |
| At December 31, 2009 | 16,352,850 | 67,867,645 | 1,355,774 | 176,211 | 85,752,480 |

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

- This item represents goodwill amounted to KD 33,747,166 resulted from acquisition of subsidiary - Hits Africa Company (W.L.L) located in Cayman Islands, and goodwill amounted to KD 14,015,057 resulted from acquisition of the subsidiary company - (Qanawat Telecoms Company (W.L.L) located in (Kingdom of Saudi Arabia). and goodwill amounted to KD 5,067,662 resulted from acquisition of the subsidiary company - (Atlantic Wireless Company – Liberia) as a subsidiary for Hits Africa –Limited and goodwill amounted to KD 693, 330 resulted from Hits Telecom Spain (S.A).

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

## 9- Assets held for sale/loan to an associate

During 2007, the Group – through a subsidiary company – has acquired 30% stake in Atlantic Wireless Inc "Atlantics" a mobile phone operator in Liberia, for a total consideration of US Dollar 12,251,046 which includes loan amounting to US Dollar 1,250,000 to Atlantic Wireless equal to KD 351,250

On October 5, 2009, the subsidiary's Board of Directors has resolved to sell the investment to the remaining shareholders in Atlantic Wireless Company, as per a draft agreement dated on November 20, 2009, which is effective within 8 months from the date of contract. Consequent to the Board's resolution, this investment has been reclassified as assets held for sale recorded at its carrying value but not as per the equity method.

On October 31, 2010, the Group changed its decision for selling and increasing its percentage from 30% to 55%, accordingly the company has been reclassified as a subsidiary – note (31).

## 10- Accounts receivable and other debit balances

| | **2010** | 2009 (Restated) |
|---|---|---|
| Trade receivables | **1,024,392** | 151,986 |
| Accrued income | **1,598,863** | 1,908,318 |
| Deferred tax assets | **1,931,753** | 1,551,383 |
| Letter of guaranties | **809,965** | 669,550 |
| Prepaid expenses | **546,010** | 601,782 |
| Refundable deposits | **19,332** | 263,270 |
| Advance payments | **36,490** | 7,708 |
| Other | **105,478** | 689,170 |
| | **6,072,283** | 5,843,167 |

## 11- Related parties' transactions

Related parties comprise of associates, major shareholders, directors and key management personnel of the Group, entities controlled, jointly controlled or significantly by such parties. The Group's management decides on terms and conditions of these transactions. The amounts and balances due from/to related parties are interests 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 | 2010 | 2009 (Restated) |
|---|---|---|
| Finance, joint ventures and mudaraba – (Note – 13) | **12,587,511** | 11,624,307 |
| Islamic debt instruments – (Note – 22) | **9,445,385** | 4,078,645 |
| Due from related parties | **3,284,463** | 2,294,833 |
| Due to related parties | **3,577,232** | 3,240,819 |

| Consolidated statement of income | 2010 | 2009 |
|---|---|---|
| Gain from sale of subsidiary | – | 1,328,988 |
| Finance and joint ventures income | **1,599,397** | 838,810 |
| Finance charges | **462,515** | 3,989 |

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

## 12- Advance payments for purchasing investments

This item represents the amount paid for acquiring foreign investments. The procedures of transferring ownership of these investments are under process.

## 13- Financing, joint ventures and mudaraba

- This item represents short-term financing contract and joint venture with a related party. The average effective rate of return is 7 % as of December 31, 2010 and a Mudaraba & Musharaka in Profit Agreement matures in August 9, 2011, the expected profit is approximately 4%.
- The fair value of investments in financing and joint venture and mudaraba equals to its carrying value as of December 31, 2010 as their maturities are short term.

## 14- Cash and cash equivalents

| | 2010 | 2009 |
|---|---|---|
| Cash and bank balances | **919,547** | 1,007,791 |
| Cash on portfolio | **911,209** | 911,196 |
| | **1,830,756** | 1,918,987 |

## 15- Share capital

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

| | Authorized | | Paid | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Shares 100 Fils for each | **807,000,000** | 807,000,000 | **720,916,860** | 720,916,860 |

## 16- Statutory reserve

In accordance with the Commercial Companies Law and the parent company's Articles of Association, 10% of net profit before contribution to Kuwait Foundation for the Advancement of Sciences, Board of Directors remuneration, National Labor Support Tax and Zakat has been transferred to the statutory reserve. The Group may discontinue such transfer when the reserve equal 50 % of share capital. There were no transfers to the statutory reserve due to accumulated losses incurred during the year.

## 17- General reserve

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

## 18- Treasury shares

| | **2010** | 2009 |
|---|---|---|
| Number of shares | **41,325,981** | 41,325,981 |
| Ownership percentage (%) | **5.73%** | 5.73% |
| Market value (KD) | **3,264,752** | 3,801,990 |

## 19- License obligations

The license obligations comprises of outstanding balance owed to the Ministry of Post and Telecommunications for the cellular telephony public network license acquired in the Democratic Republic of Congo for KD 9,273,000 The above outstanding balance pertains to a subsidiary company and is paid in installments starting in 2010 and ending in 2011.
during the year the subsidiary did not pay the installment of the year 2010 as all the frequencies has not been allotted to the subsidiary according the agreement with the government of Democratic Republic of Congo. Therefore the subsidiary will set a new business plan and re-schedule the installments. Up to the date of consolidated financial statements approval, the times of paying these installments were not determined.

The payments due within a year from the financial position date are classified as current liabilities and the installments due afterwards are classified as non-current liabilities as follows:

| | **2010** | 2009 |
|---|---|---|
| Current portion | **3,091,000** | 3,157,220 |
| Non-current portion | **6,182,000** | 6,314,440 |
| | **9,273,000** | 9,471,660 |

## 20- Term loans

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

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

| | **2010** | 2009 |
|---|---|---|
| Current portion | **3,268,816** | 1,263,634 |
| Non-current portion | **772,731** | 731,149 |
| | **4,041,547** | 1,994,783 |

The average effective interest rate on return of these loans is 7 %.

## 21- Accounts payable and other credit balances

| | **2010** | 2009 (Restated) |
|---|---|---|
| Trade payables | **19,963,653** | 18,843,210 |
| Payable to minority | **-** | 1,435,100 |
| Accrued expenses | **2,012,865** | 1,728,177 |
| Other | **668,974** | 659,854 |
| | **22,645,492** | 22,666,341 |

## 22- Islamic debt instatements

This item represents financing Murabaha contracts with related parties due within one year. The average cost is 4%: 7%. The fair value of financing Murabaha contracts approximates their carrying value as of December 31, 2010 as they are bearing cost rates equal to the markets' prevailing rates part of Islamic debt instruments amounting KD 511,792 are secured by pledge on treasury shares (Note – 18).

## 23- General and administrative expenses

| | **2010** | 2009 (Restated) |
|---|---|---|
| Staff cost | **4,574,186** | 3,292,194 |
| Rents | **1,009,125** | 126,587 |
| Professional fees | **695,681** | 354,867 |
| Networks | **1,172,631** | 838,885 |
| Selling and marketing | **360,350** | 2,094,408 |
| Advertising | **387,944** | 713,307 |
| Travel | **367,796** | 411,752 |
| Printings and stationary | **46,291** | 948 |
| Other | **1,403,772** | 3,127,071 |
| | **10,017,776** | 10,960,019 |

## 24- Other income

This item includes the amount of KD 1,434,600 represented in credit balance of a payable in a subsidiary has been canceled as per an agreement between both parties during the year, it is not expected to bear any obligation towards the other party by the Group as a result of canceling the liability in accordance to the agreement.

## 25- Contribution to Kuwait Foundation for the Advancement of Science

The share of contribution to Kuwait foundation for the advancement of science was computed 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.

## 26- National Labor Support Tax

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

## 27- Zakat

This item represents Zakat provision computed 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 computed 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.

## 28- Earning / (loss) per share/(Fils)

Earning / (loss) per share is computed by dividing net profit / (loss) for the year by the weighted average number of shares outstanding during the year as follows:

| | **2010** | 2009 (Restated) |
|---|---|---|
| Net profit\ (loss) for the year | **202,844** | (280,256) |
| Weighted average for the shares outstanding during the year | **720,916,860** | 720,916,860 |
| Weighted average number of treasury shares | **(41,325,981)** | (35,448,927) |
| Weighted average number of shares, less treasury shares | **679,590,879** | 685,467,933 |
| **Earning/(loss) per share/Fils** | **0.30** | (0.41) |

## 29- Contingent liabilities

At the consolidated financial position date, the Group had claims and disputes as mentioned below:

- On going disputes between a subsidiary for the Group (Excellentcom Tanzania Limited) and a Technology Company (the vendor) operates on mobiles field which was commissioned for a Turnkey Project in 2008. The project has stalled since mid 2009 due to ongoing disputes between the subsidiary and the technologies Company (the vendor). The amounts paid for the project are KD 6,261,620 up to the financial position date which represent the advance payments made to the project recorded within Capital work-in-progress (CWIP) stated in note (7) and the Technologies Company (the vendor) has an effective lien over most of (CWIP).

In February 2011, the Technologies Company (the vendor) went to Court and Sought to wind up the company for failure to pay them. This petition was dismissed as the matter was supposed to be resolved amicably, but the Technologies Company (the vendor) has filed a new winding up petition against the subsidiary and the case is set for mentioning on April 12, 2011.
The subsidiary's ability to realize value from the (CWIP) depends on how quickly and successfully it can resolve the dispute with the vendor and the directors are confident that dispute will be resolved without any loss to the company.

- A subsidiary for the Group (Excellentcom Tanzania Limited) has entered in an agreement with Celtel Tanzania Limited (CTL) on January 22, 2009, for national roaming services for interconnection minutes and a certain minimum charge regardless of the actual minutes used. Due to unavoidable circumstances, the testing phase of the project was not formally completed and the project was therefore stalled. CTl claimed for costs associated with the whole contract, but the subsidiary has refused this dispute and filed a counter claim against CTL to demand the advance payment made to them as the service has never rendered by CTL.

- Potential claims from owners of sites determined by a subsidiary to place communication towers, as the subsidiary has entered into agreements with 440 site owners to place their towers, these agreements were due on behalf of the Company. Only 141 towers have been completed to date, and 43 towers are in various stages of completions. The company has not recognized the liability for the 256 sites on which no work has been done at all. The agreements stipulate that the rental obligations begin when all permits have been obtained by the company. In regard to the 256 sites, the permits required under the agreement have not been obtained.

  In 2008 and 2009 the liabilities for the 43 towers were recognized and the rent element amortized over the life of the lease to date, but in 2010, the liability and corresponding prepaid component were reversed. Site rental obligations reversed amounted to KD 37,187. The basis of reversal being that the contract entered with the site owners stipulate that no rent shall accrue until the tower is fully complete. However there may be potential claims from the 43 site owners for preventing them from using their land for other purposes.

## 30- Other contingencies liabilities

At the consolidated financial position date, the Group had other contingent liabilities represented in Bank Guarantees amounting to KD 3,371,850 (2009: KD 11,746,629)

## 31- Subsidiary acquisition

On October 31, 2010, the Group has increased its share in (Atlantic Wireless Company – Liberia) from 30% to 55% after the Board of Directors decided to back in sale decision, and the increase is done against paying US $ 2,314,500 equal to (KD 650,375) and transferring the loan and the original investment recorded in the books at the date of acquisition as a part of the investment value in the company acquired, accordingly the Group has become exercising its control over the financial and operating policies for this company. Therefore, the acquired company has been classified as a subsidiary from the date of acquisition. The following is the effect of transaction on the consolidated statement of cash flows for the year ended December 31, 2010:

| | 2010 |
|---|---|
| Cash and cash equivalents | 93,916 |
| Accounts receivable and other debit balances | 489,903 |
| Due from related parties | 341,275 |
| Inventory | 27,471 |
| Intangible assets | 590,100 |
| Property and equipment | 2,130,637 |
| Accounts payable and other credit balances | (2,569,832) |
| Due to related parties | (417,808) |
| Loans and bank facilities | (628,130) |
| **Net assets** | 57,532 |
| | |
| Non-controlling from subsidiary acquisition | (25,889) |
| Group's share in net assets acquired | 31,643 |
| Add goodwill result from acquisition | 4,477,562 |
| Acquisition cost | 4,509,205 |
| Less: cash and cash equivalents | (93,916) |
| **Net cash paid from subsidiary acquisition** | 4,415,289 |

## 32- Prior years' adjustments

The consolidated financial statements of December 31, 2009 included financial statements prepared by management for its subsidiaries - Qanawat Telecom Company (W.L.L), SEMA TEL - Congo - (a subsidiary to Hits Africa). As during the year, the audited financial statements for these subsidiaries have been issued and disclosed profit with amount of KD 192,644 and loss with amount of KD 926,392 respectively, while the financial statements prepared by the management included in the consolidated financial statements for previous year disclosed profit with amount of KD 870,683 and loss with amount of KD 808,820 for the mentioned subsidiaries respectively, the Group restated the comparative figures of previous year because the adjustments were material and affect the net assets of the Group as of December 31, 2010.

Based on the above, the accumulated losses, foreign currency translation reserve, and non controlling shares as of December 31, 2009 have been restated with amount of KD 728,169, KD 309, KD 46,637 respectively, and the book value of assets and liabilities as stated in table below have been also restated:

| | Before restatement | Restatements | After restatements |
|---|---|---|---|
| Property and equipment | 23,422,564 | (176,211) | 23,246,353 |
| Intangible assets | 85,576,269 | 176,211 | 85,752,480 |
| Investment in joint venture | - | 348,809 | 348,809 |
| Inventory | 1,193,972 | (307,526) | 886,446 |
| Accounts receivable and other debit balances | 6,987,438 | (1,144,271) | 5,843,167 |
| Due from related parties | 1,903,369 | 391,464 | 2,294,833 |
| Accounts payable and other credit balances | 22,571,329 | 95,012 | 22,666,341 |
| Due to related parties | 3,272,240 | (31,421) | 3,240,819 |

The effect of adjustment on consolidated statement of income is increase in the previous year loss with amount of KD 728,169.

## 33- Operating segment information

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

***Geographic information***

The Group operates in various geographic regions:

The following table shows the distribution of the Group's income, assets and liabilities by region:

| *Revenue:* | **2010** | 2009 (Restated) |
|---|---|---|
| Kuwait | **1,599,397** | 2,329,478 |
| Non-Kuwait | **75,502,309** | 129,410,556 |
| | **77,101,706** | 131,740,034 |

| *Assets and liabilities:* | **2010** | | 2009 (Restated) | |
|---|---|---|---|---|
| ***Region*** | **Assets** | **Liabilities** | Assets | Liabilities |
| Kuwait | **71,187,334** | **12,639,085** | 66,811,596 | 6,959,324 |
| **Non-Kuwait** | | | | |
| Kingdom of Saudi Arabia | **5,050,239** | **5,746,606** | 7,630,991 | 6,469,601 |
| Spain | **3,286,566** | **3,460,183** | 3,970,658 | 3,441,543 |
| Africa | **64,503,886** | **27,907,719** | 63,323,985 | 25,377,694 |
| | **144,028,025** | **49,753,593** | 141,737,230 | 42,248,162 |

## 34- Proposed dividends

On March 31, 2011, the Board of Directors of parent company proposed not to distribute cash dividends for shareholders. This proposal is subject to the approval of the General Assembly of shareholders.

## 35- Shareholders' General Assembly

On July 1, 2010, the Ordinary General Assembly of Shareholders approved the consolidated financial statements for the year ended December 31, 2009 and non-distribution of cash dividends for this year.

## 36- Employees shares option

The Annual General Assembly meeting of Shareholders held on May 31, 2009 approved to issue 7,000,000 shares of 100 fils for each for Group's employees under employees' share option plan. The General Assembly of shareholders authorized the Board of Directors to distribute these shares for the employees according to the approved share option plan by assigning the right of subscription from shareholders to the employees. Up to date, the preparation of implementing the plan for this option is not completed and then there were no outstanding shares based on this decision, and IFRS 2: "Share based payment" has not been applied until finalizing the plan.

## 37- Financial instruments and risks management

### A) Financial instruments:

**Significant accounting policies**

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

**Categories of financial instruments**

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

| **Financial assets** | **2010** | 2009 (Restated) |
|---|---|---|
| Assets held for sale | - | 3,516,295 |
| Loan to an associate | - | 358,775 |
| Accounts receivable and other debit balances | **6,072,283** | 5,843,167 |
| Due from related parties | **3,284,463** | 2,294,833 |
| Advance payments for purchasing investments | **5,946,778** | 5,946,778 |
| Financing, joint ventures and mudaraba | **12,587,511** | 11,624,307 |
| Cash and cash equivalents | **1,830,756** | 1,918,987 |
| | **29,721,791** | 31,503,142 |

| **Financial liabilities** | **2010** | 2009 (Restated) |
|---|---|---|
| Accounts payable and other credit balances | **22,645,492** | 22,666,341 |
| Due to related parties | **3,577,232** | 3,240,819 |
| License obligations | **9,273,000** | 9,471,660 |
| Term loans | **4,041,547** | 1,994,783 |
| Islamic debt instruments | **9,957,177** | 4,610,768 |
| | **49,494,448** | 41,984,371 |

**Fair value of financial instruments**

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

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

### B) Financial risks management

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

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

- **Credit risks**

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

*Risks concentration of maximum exposure to credit risks*

Concentrations of credit risks arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other condition. Credit risks can also arise due to a significant concentration of Group's assets to any single counterparty. These risks are managed by diversification of the portfolios.

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

| | 2010 | 2009 (Restated) |
|---|---|---|
| Current accounts at banks | **905,347** | 941,080 |
| Accounts receivable and other debit balances | **6,072,283** | 5,843,167 |
| | **6,977,630** | 6,784,247 |

- **Liquidity risks**

Liquidity risks are the risks 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 financial instruments 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, 2010 is as follows:

| | During one year | More than one year | Total |
|---|---|---|---|
| Provision for end of service indemnity | - | **259,145** | **259,145** |
| License obligations | **3,091,000** | **6,182,000** | **9,273,000** |
| Term loans | **3,268,816** | **772,731** | **4,041,547** |
| Accounts payable and other credit balances | **21,049,814** | **1,595,678** | **22,645,492** |
| Due to related parties | **3,577,232** | - | **3,577,232** |
| Islamic debt instruments | **9,957,177** | - | **9,957,177** |
| | **40,944,039** | **8,809,554** | **49,753,593** |

The maturity analysis of financial liabilities at December 31, 2009 is as follows:

| | During one year | More than one year | Total |
|---|---|---|---|
| Provision for end of service indemnity | - | 263,791 | 263,791 |
| License obligations | 3,157,220 | 6,314,440 | 9,471,660 |
| Term loans | 1,263,634 | 731,149 | 1,994,783 |
| Accounts payable and other credit balances | 22,550,524 | 115,817 | 22,666,341 |
| Due to related parties | 3,240,819 | - | 3,240,819 |
| Islamic debt instruments | 4,610,768 | - | 4,610,768 |
| | 34,822,965 | 7,425,197 | 42,248,162 |

- **Market risks**

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

*Foreign currencies risks*

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

Exchange rate exposures are managed within approved policy parameters.

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

| | 2010 | | 2009 | |
|---|---|---|---|---|
| **Currency** | **Assets** | **Liabilities** | Assets | Liabilities |
| US Dollar | **696,765** | **20,967,427** | 595,363 | 22,345,649 |
| Euro | **2,166,732** | **1,203,613** | 1,500,016 | 1,805,424 |
| Saudi Riyal | **3,102,166** | **4,366,840** | 4,981,858 | 7,418,758 |

*Interest rate risks*

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

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

*Sensitivity of interest rates*

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

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

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Change in interest rates** | **Effect on profit** | Change in interest rates | Effect on profit |
| Profit for the year | **1%** | **139,987** | 1% | 66,056 |

*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.

At present, the Group is not exposed to equity price risks, as the Group does not have financial investments in stock markets.

## 38- Capital risk management

### A- Capital risks management objectives:

The parent company objectives to manage capital are:

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

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

### B- Debts to equity ratio:

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

The net debt ratio is as follows:

| | **2010** | 2009 (Restated) |
|---|---|---|
| Debts | **13,998,724** | 6,605,551 |
| Less: cash and cash equivalents | **(1,830,756)** | (1,918,987) |
| Net debt | **12,167,968** | 4,686,564 |
| Total equity attributable to the shareholders of the parent company | **97,550,982** | 99,721,001 |
| Total equity and net debt | **109,718,950** | 104,407,565 |
| Net debt ratio | **11.09%** | 4.49% |

## 39- Comparative figures

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