

**AAN Digital Services Holding Company K.P.S.C. and its subsidiaries**  
**State of Kuwait**  
**Notes to the interim condensed consolidated financial information (Unaudited)**  
*For the nine months period ended 30 September 2021*

---

**1. Incorporation and activities**

AAN Digital Services Holding Company K.P.S.C. (Formerly Hits Telecom Holding Company K.P.S.C.) was incorporated on 22 May 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 register last one was on 13 July 2017, Where the commercial name of "the Parent company" was changed. The Parent Company operates in accordance with Noble Islamic Shariaa principles. The Parent Company's shares are listed on Boursa Kuwait.

The main activities of the Parent Company are:

1. Owning shares in Kuwaiti and Non-Kuwaiti shareholding companies and owning shares or quotas in Kuwaiti and Non-Kuwaiti limited liability companies or participating in establishing, managing and sponsoring both kinds of companies to others related 10 communication segment only.
2. 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%.
3. Owning industrial property rights of patents or industrial trademarks, or industrial charges or any other rights relating thereto, and leasing to other companies for utilization inside or outside the State of Kuwait related to communication segment only.
4. Holding movables and real estates necessary to initiate its activity in accordance with the Law.
5. Utilizing the surplus funds by investing them in investment and real estate portfolios managed by specialized companies and institutions.

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

The registered Head Office of "The Parent Company" is: Sharq-Complex /Mohamed Saleh Yousef El Bahbahani - floor (3) -Kuwait City.

The interim condensed consolidated financial information for the period ended 30 September 2021 was authorized for issue by Board of Directors of the Parent Company on 14 November 2021.

**2. Basis of preparation**

The interim condensed consolidated financial information is prepared in accordance with IAS 34 *"Interim Financial Reporting"*. The interim condensed consolidated financial information does not include all of the information and footnotes required for complete financial statements prepared in accordance with International Financial Reporting Standards. For further information, refer to the consolidated financial statements and notes thereto for the year ended 31 December 2020. In the opinion of the management all adjustments (consisting of recurring accruals) have been included in the interim condensed consolidated financial information.

The operating results for the nine month period ended 30 September 2021 are not necessarily indicative of the results that may be expected for the year ending 31 December 2021.

The interim condensed consolidated financial information have been presented in Kuwaiti Dinars, which is the functional currency of the Group.

The accounting policies used in the preparation of the interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2020. Certain amendments and interpretations apply for the first time on 1 January 2021, but do not have an impact on the interim condensed consolidated financial information of the Group.

**AAN Digital Services Holding Company K.P.S.C. and its subsidiaries**  
**State of Kuwait**  
**Notes to the interim condensed consolidated financial information (Unaudited)**  
*For the nine months period ended 30 September 2021*

**2. Basis of preparation (continued)**

**New standards, interpretations and amendments adopted by the Group**

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.

These amendments had no impact on the interim condensed consolidated financial information of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

**3. Basis of consolidation**

This interim condensed consolidated financial information for the nine months period ended 30 September 2021 includes the Parent Company and all its subsidiaries. All subsidiaries' accounts were consolidated based on management accounts for the nine months period ended 30 September 2021. Management believes that no adjustments will be required to the subsidiaries' management accounts which may be material to the interim condensed consolidated financial information taken as a whole.

Details of principal operating subsidiaries are as follows:

<u>Name of subsidiary</u>	<u>Country of incorporation</u>	<u>Percentage of ownership interest (%)</u>			<u>Primary activity</u>
		<u>30 September 2021</u>	<u>31 December 2020 (Audited)</u>	<u>30 September 2020</u>	
<b>Direct:</b>					
* Qanawat Holding Company B.S.C. (Closed)	Bahrain	98	98	98	Commercial and industrial services
On Touch for General Trading Company W.L.L.	Kuwait	99	99	99	General trading
Fawran Telecom Company W.L.L.	Saudi Arabia	10	10	10	Telecommunication
Qanawat for General Trading and Contracting Company W.L.L.	Kuwait	10	10	10	Telecommunication, General trading and construction
Qanawat Connect Solutions Company W.L.L.	UAE	10	10	10	Telecommunication

\* The Subsidiary Qanawat Holding Company B.S.C. (Closed) has the subsidiaries as follows:

<u>Name of subsidiary</u>	<u>Country of incorporation</u>	<u>Percentage of ownership interest (%)</u>			<u>Primary activity</u>
		30 September 2021	31 December 2020 (Audited)	30 September 2020	
<b>Indirect:</b>					
Fawran Telecom Company W.L.L.	Saudi Arabia	90	90	90	Telecommunication
Qanawat for General Trading and Contracting Company W.L.L.	Kuwait	90	90	90	Telecommunication, General trading and construction
Qanawat Connect Solutions Company W.L.L.	UAE	90	90	90	Telecommunication

The total assets of consolidated subsidiaries were KD 25,251,389 as at 30 September 2021 and total revenues amounted to KD 44,521,412 and their net losses amounted to KD 258,403.

**AAN Digital Services Holding Company K.P.S.C. and its subsidiaries**  
**State of Kuwait**  
**Notes to the interim condensed consolidated financial information (Unaudited)**  
*For the nine months period ended 30 September 2021*

**4. Goodwill**

Goodwill arise from the acquisition of a subsidiary - Qanawat Telecom Company W.L.L. - Kingdom of Saudi Arabia. The Group's management test goodwill annually for impairment if there are indication that goodwill might be impaired.

The movements of goodwill during the period / year are as follows:

	30 September 2021	31 December 2020 (Audited)	30 September 2020
	KD	KD	KD
Balance at beginning of the period / year	13,984,900	14,080,724	14,080,724
Foreign currency translation differences	(124,792)	(95,824)	1,852
Balance at end of the period / year	13,860,108	13,984,900	14,082,576

**5. Financial assets at fair value through other comprehensive income**

	30 September 2021	31 December 2020 (Audited)	30 September 2020
	KD	KD	KD
Local unquoted shares	6,188,985	6,172,863	9,736,130
	6,188,985	6,172,863	9,736,130

Local unquoted shares includes an investment in Development Capital Real Estate Company K.S.C. (Closed) which is included in the interim condensed consolidated financial information in the amount of KD 2,448,836. As this investment includes investment in Jiyad Holding Company K.P.S.C. for which a decision was issued by the Capital Markets Authority on 1 April 2021, to cancel the subscription in the share capital increase.

These investments were not evaluated at the date of these interim condensed consolidated financial position, as the Group evaluates them at the end of each financial year according to the valuation methods adopted and disclosed in (note 12).

**6. Investment in associate**

<u>Name of associates</u>	<u>Percentage of ownership interest (%)</u>					
	30 September 2021	31 December 2020 (Audited)	30 September 2020	30 September 2021	31 December 2020 (Audited)	30 September 2020
				KD	KD	KD
Balsamee Company						
W.L.L. – United Kingdom	48.87	48.87	-	324,248	324,248	-

During the previous financial year, the Group recorded KD 324,284 as an investment in Balsamee Company W.L.L. - UK as an associate. The Group did not recognize its share of the results of the associate because the relevant financial information haven't been issued.

This investment was previously recognized as advance payments to purchase investments in the financial statements of one of the subsidiary companies (Qanawat Telecom Company - Kingdom of Saudi Arabia). During the previous financial year, the Group's management re-classified and registered it as an investment in an associate in the books of "the parent company".

**AAN Digital Services Holding Company K.P.S.C. and its subsidiaries**  
**State of Kuwait**

**Notes to the interim condensed consolidated financial information (Unaudited)**  
*For the nine months period ended 30 September 2021*

**7. Receivable and other debit balances**

	30 September 2021	31 December 2020 (Audited)	30 September 2020
	KD	KD	KD
Trade receivable	379,773	1,556,082	738,979
Provision for expected credit losses	(88,270)	(103,967)	(247,574)
	291,503	1,452,115	491,405
Accrued income	551,107	479,255	-
Accrued commission	1,019,318	700,517	2,327,699
Letters of guarantee	1,863,649	1,770,890	1,725,549
Advance payments	333,603	754,230	967,130
Prepaid expenses	349,608	249,158	272,698
Staff receivables	6,360	137,942	73,592
Refundable deposits	2,950	2,950	11,052
Others	128,814	48,880	45,260
	4,546,912	5,595,937	5,914,385

**8. Related party disclosures**

Related parties primarily comprise of board of directors, key management personnel, associate companies, subsidiary companies and shareholders of which the Company is principal owner or over which they are able to exercise significant influence. Pricing policies and terms of related party transactions are approved by the company's management.

In the normal course of business of the Group, transactions have been carried out with related parties (principle shareholders).

	30 September 2021	31 December 2020 (Audited)	30 September 2020
	KD	KD	KD
<b>Transactions included in the interim condensed consolidated statement of profit or loss:</b>			
<b>Key management personnel compensation:</b>			
Salaries and other benefits	55,674	24,743	-
<b>Interim condensed consolidated statement of financial position:</b>			
Due from related parties	822,151	262,030	330,687
Investment in mudaraba	911,209	911,209	911,209
Due to related parties	4,490	69,848	219,644

**Interim condensed consolidated statement of profit or loss:**

The interim condensed consolidated statement of profit or loss does not include transactions with related parties.

The transactions with related parties are subject to the approval of the shareholders at the annual general assembly meeting.

**9. Treasury shares**

	30 September 2021	31 December 2020 (Audited)	30 September 2020
Number of treasury shares	7,319,654	7,319,654	7,319,654
Percentage of issued shares (%)	0.839	0.839	0.839
Market value (KD)	102,475	88,568	93,692
Cost of treasury shares (KD)	640,233	640,233	640,233

Reserves equivalent to the cost of the treasury shares held are not available for distribution throughout the holding period of treasury shares.

**AAN Digital Services Holding Company K.P.S.C. and its subsidiaries**  
**State of Kuwait**  
**Notes to the interim condensed consolidated financial information (Unaudited)**  
*For the nine months period ended 30 September 2021*

**10. Loss per share (Fils)**

Basic loss per share is calculated based on the net loss for the period attributable to the shareholders of the Parent Company divided by the weighted average number of issued and outstanding shares during the period as follows:

	<b>For the three months period ended 30 September</b>		<b>For the nine months period ended 30 September</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Net loss for the period (KD)	<b>(298,487)</b>	<b>(246,158)</b>	<b>(482,519)</b>	<b>(292,771)</b>
Weighted average number of issued and outstanding shares during the period (Shares)	<b>872,341,610</b>	872,341,610	<b>872,341,610</b>	872,341,610
Weighted average of the treasury shares (Shares)	<b>(7,319,654)</b>	(7,319,654)	<b>(7,319,654)</b>	(7,319,654)
Weighted average number of shares, less treasury shares (Shares)	<b>865,021,956</b>	865,021,956	<b>865,021,956</b>	865,021,956
Loss per share (Basic and diluted) (fils)	<b>(0.35)</b>	(0.28)	<b>(0.56)</b>	(0.33)

**11. Loan to a related party**

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

This loan is secured upon a transfer of rights agreement between Hits Africa Company (Ltd)- Cayman Islands (Previously: an associate company) and one of its subsidiaries and mortgaged shares of Hits Africa Company (Ltd). Cayman Islands (Previously: an associate company) in one of its subsidiaries and the relevant rights in favor of AAN digital services holding company. Due to the discontinuity of Hits Africa Company's business (Ltd)- Cayman Islands (Previously: an associate company) and being put under liquidation until knowing whether it will be liquidated or decided to resume the company's business in the future and for hedge purpose the provision for doubtful debts amounting to KD 3,500,000 was made by the Group" during the previous year to meet any amounts uncollectible from this loan.

During previous years and according to the adoption of IFRS 9, the Group has estimated its ECL under IFRS 9 and recognized the full amount of the loan to a related party KD 18,686,527, and the credit balance of the foreign currency translation reserve relating to the loan with an amount of KD 761,777. These amounts have been adjusted and were settled as credit losses within the opening balance of the accumulated losses.

**12. Fair value of financial instruments**

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of fair value through other comprehensive income, due from related parties, accounts receivable and other debit balances, investments at fair value through profit or loss, bank balances and short term deposits. Financial liabilities consist of accounts payable and other credit balances. The fair values of financial instruments are not materially different from their carrying values.

**a) Fair value measurements recognised in the interim condensed consolidated statement of financial position**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

**AAN Digital Services Holding Company K.P.S.C. and its subsidiaries**  
**State of Kuwait**  
**Notes to the interim condensed consolidated financial information (Unaudited)**  
*For the nine months period ended 30 September 2021*

**12. Fair value of financial instruments (continued)**

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

<b>30 September 2021</b>	<b>Level 1</b>	<b>Level 3</b>	<b>Total</b>
	<b>KD</b>	<b>KD</b>	<b>KD</b>
<i><b>Financial assets at fair value through profit or loss</b></i>			
Local quoted securities	26,658	-	26,658
<i><b>Financial assets at fair value through other comprehensive income</b></i>			
Local unquoted securities	-	<u>6,188,985</u>	<u>6,188,985</u>
<b>Total</b>	<u>26,658</u>	<u>6,188,985</u>	<u>6,215,643</u>
<b>31 December 2020</b>			
<i><b>Financial assets at fair value through profit or loss</b></i>			
Local quoted securities	89,931	-	89,931
<i><b>Financial assets at fair value through other comprehensive income</b></i>			
Local unquoted securities	-	<u>6,172,863</u>	<u>6,172,863</u>
<b>Total</b>	<u>89,931</u>	<u>6,172,863</u>	<u>6,262,794</u>
<b>30 September 2020</b>			
<i><b>Financial assets at fair value through profit or loss</b></i>			
Local quoted securities	102,165	-	102,165
<i><b>Financial assets at fair value through other comprehensive income</b></i>			
Local unquoted securities	-	<u>9,736,130</u>	<u>9,736,130</u>
<b>Total</b>	<u>102,165</u>	<u>9,736,130</u>	<u>9,838,295</u>

There have been no transfers between levels 1 & 3 during the reporting period.

Valuation techniques and significant unobservable inputs used in determining the fair value measurement of level 3 financial instruments, as well as the inter-relationship between key unobservable inputs and fair value, are set out below.

Valuation of unquoted equity investments classified under level 3 is normally based on price to book value technique, dividend yield method and external valuation with marketability discount ranging from 20% to 30%.

Changing inputs to the level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognized in the consolidated statement of profit or loss, total assets, total liabilities or total equity.

**12. Fair value of financial instruments (continued)**

The measurement of financial assets and liabilities classified in level 3 uses valuation techniques inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

**Reconciliation of Level 3 fair value measurements of financial assets**

	<b>Financial assets at fair value through other comprehensive income</b>
	<b>KD</b>
<b>30 September 2021</b>	
Beginning balance	6,172,863
Total gain or loss	
- Change in foreign currency	<u>16,122</u>
<b>Ending balance</b>	<b><u>6,188,985</u></b>
<b>31 December 2020</b>	
Beginning balance	11,189,168
Total gain or loss	
- Change in fair value reserve	<u>(5,016,305)</u>
<b>Ending balance</b>	<b><u>6,172,863</u></b>
<b>30 September 2020</b>	
Beginning balance	11,189,168
Total gain or loss	
- Change in fair value reserve	<u>(1,453,038)</u>
<b>Ending balance</b>	<b><u>9,736,130</u></b>

The sensitivity analysis of a reasonably possible change in one significant unobservable input, holding other inputs constant, of level 3 financial instruments is provided below:

*Financial assets at fair value through other comprehensive income (level 3)*

	<b><u>Other comprehensive income</u></b>	
	<b><u>Increase</u></b>	<b><u>Decrease</u></b>
	<b>KD</b>	<b>KD</b>
<b>30 September 2021</b>		
If marketability discount changes by 5% with all other factors constant, the impact on the equity would be:	<b>309,449</b>	<b>309,449</b>
<b>31 December 2020</b>		
If marketability discount changes by 5% with all other factors constant, the impact on the equity would be:	308,643	308,643
<b>30 September 2020</b>		
If marketability discount changes by 5% with all other factors constant, the impact on the equity would be:	486,807	486,807

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

**(i) Quoted securities**

All the listed equity securities are publicly traded on a recognized stock exchange. Fair value has been determined by referring to their quoted bid prices at the reporting date.

**(ii) Unquoted securities**

Unlisted securities are measured at fair value estimated using various models like discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates or the latest financial statements or information available on these investments the future financial flows of which are unpredictable.

### 13. Segment information

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

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

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

	For the nine months period ended 30 September 2021		For the nine months period ended 30 September 2020	
	Revenues	Non-current Assets	Revenues	Non-current Assets
	KD	KD	KD	KD
<b>Region</b>				
State of Kuwait	1,842,121	4,064,397	4,015,572	9,757,468
<b>Outside Kuwait</b>				
Kingdom of Saudi Arabia	42,283,013	3,180,292	39,083,235	50,621
UAE	396,278	4,387	287,011	3,428
Bahrain	-	13,225,239	-	14,082,576
	<u>44,521,412</u>	<u>20,474,315</u>	<u>43,385,818</u>	<u>23,894,093</u>

### 14. Annual general assembly

On 24 June 2021, the annual general assembly of the Shareholders, held and approved the consolidated financial statements for the financial year ended 31 December 2020 and approved the Board of Directors' proposals to not distribute dividends for the financial year ended 31 December 2020.

The annual general assembly meeting of the shareholders also approved the use of share premium account to extinguish accumulated losses of KD 6,846,580.

### 15. Lawsuits

"The Group" has some potential lawsuits represented in cases pending at various judicial levels with other parties and according to the legal department of the Group, the potential results of these lawsuits could not be determined until the date of interim condensed consolidated statement of financial position as of 30 September 2021. Therefore "the Group's" management believes that there is no need to make a provision for these amounts until determining the outcome of these claims and issues.

### 16. Impact of COVID - 19

During the early months of last year (2020) until the current year (2021), the Coronavirus pandemic (COVID-19) suddenly erupted at global scale and disturbed normal business operations, financial markets and other economic activities. The resulting financial impact on Group financial position and on profit and loss statement have been adjusted and accounted for as at 30 September 2021. However, the full impact of COVID-19 on Group business cannot be reliably measured from current observations as the pandemic is still in progress as at reporting date.

#### *Expected Credit Loss (ECL)*

The Group has applied both qualitative and quantitative management techniques to assess ECL as at 30 September 2021 and concluded that there is no material impact due to COVID-19.



**16. Impact of COVID – 19 (continued)**

*Property and equipment and investment in associates*

As at 30 September 2021, the Group has not identified any significant impact on the carrying values of its non-financial assets due to COVID-19, especially the cash generating capabilities from these non-financial assets. The Group is aware that certain geographical areas and sectors in which these assets exist are negatively impacted and consistently monitors the market outlook and uses relevant assumptions in reflecting the values of these non-financial assets appropriately in the interim condensed consolidated financial information.

*Going concern*

The Group management performed assessment of impact of COVID-19 on its primary business activities and foresee no threat to going concern principle. Although the future behavior of COVID-19 cannot be measured with precision at this stage, the management believes that business continuity will not be adversely affected.