# HUMANSOFT HOLDING COMPANY K.S.C. (CLOSED) AND SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

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# INDEPENDENT AUDITORS' REPORT

The Shareholders
Humansoft Holding Company K.S.C. (Closed)

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Humansoft Holding Company K.S.C. (Closed) ("the Parent Company") and subsidiaries (together referred to as "the Group") which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

The Parent Company's 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 preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's 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 entity'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 basis for our audit opinion.

*Opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion, proper books of accounts have been kept by the Parent Company, and the consolidated financial statements, together with the contents of the Parent Company's Board of Directors report relating to these consolidated financial statements, are in accordance therewith. 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 the information that is required by the Commercial Companies Law of 1960, as amended, and by the Parent Company's Articles of Association; that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violation of the Commercial Companies Law of 1960, as amended, or of the Articles of Association have occurred during the year ended 31 December 2011 that might have had a material effect on the business of the Group or on its consolidated financial position.

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21 March 2012

**HUMANSOFT HOLDING COMPANY K.S.C. (CLOSED) AND SUBSIDIARIES**

Consolidated Statement of Financial Position as at 31 December 2011

| | Notes | 2011<br>KD | 2010<br>KD |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and bank balances | 4 | 2,689,351 | 1,068,266 |
| Trade receivables | 5 | 4,024,113 | 2,449,760 |
| Inventories | | 53,464 | 80,240 |
| Prepayments and other assets | | 589,178 | 591,555 |
| | | 7,356,106 | 4,189,821 |
| **Non-current assets** | | | |
| Investment available for sale | 10 | 468 | 28,023 |
| Property and equipment | 7 | 16,377,695 | 14,865,158 |
| Intangible assets | 8 | 8,674,054 | 8,908,125 |
| Investment in associates | 9 | 462,557 | 460,682 |
| | | 25,514,774 | 24,261,988 |
| **Total assets** | | 32,870,880 | 28,451,809 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Bank overdrafts | 4 | 477,832 | 462,557 |
| Short-term loan | 11 | 750,000 | - |
| Trade and other payables | | 608,390 | 564,348 |
| Accruals and other liabilities | 12 | 1,313,027 | 759,395 |
| Deferred income | 13 | 1,684,813 | 1,151,291 |
| Retentions payable | | 311,859 | 184,130 |
| Current portion of long-term debts | 14 | 2,292,000 | 2,431,000 |
| | | 7,437,921 | 5,552,721 |
| **Non-current liabilities** | | | |
| Long-term debts | 14 | 3,415,776 | 4,201,891 |
| Retentions payable | | 130,806 | 342,684 |
| Provision for staff indemnity | | 460,319 | 418,990 |
| | | 4,006,901 | 4,963,565 |
| **Total liabilities** | | 11,444,822 | 10,516,286 |
| **Equity** | | | |
| Share capital | 15 | 11,424,000 | 11,424,000 |
| Share premium | | 1,512,000 | 1,512,000 |
| Statutory reserve | 16 | 1,388,033 | 1,137,664 |
| Voluntary reserve | 17 | 1,388,033 | 1,137,664 |
| Treasury shares | 18 | - | (1,095,127) |
| Gain on sale of treasury shares | | 495,654 | 484,906 |
| Retained earnings | | 5,237,483 | 3,348,418 |
| Foreign currency translation reserve | | (19,145) | (14,002) |
| **Total equity** | | 21,426,058 | 17,935,523 |
| **Total liabilities and equity** | | 32,870,880 | 28,451,809 |

Mr. Hasan Qasim Al-Ali
Chairman

The accompanying notes set out on pages 8 to 35 form an integral part of these consolidated financial statements.

| | Notes | 2011 KD | 2010 KD |
|---|---|---|---|
| Revenue | | 11,129,493 | 7,285,717 |
| Cost of operations | 19 | (3,083,660) | (2,637,049) |
| Gross profit | | 8,045,833 | 4,648,668 |
| General and administrative expenses | 20 | (4,402,609) | (3,436,604) |
| Selling expenses | 21 | (903,888) | (816,968) |
| Finance charges | | (332,540) | (235,022) |
| Share of profit of associates | 9 | 6,117 | 20,054 |
| Other income | | 90,781 | 58,562 |
| **Profit before contribution to Kuwait Foundation for Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST") and Zakat** | | 2,503,694 | 238,690 |
| Contribution to KFAS | 22 | (22,533) | (2,148) |
| NLST | 23 | (64,224) | (8,268) |
| Zakat | 24 | (27,134) | (7,100) |
| **Profit for the year** | | 2,389,803 | 221,174 |
| **Basic and diluted earnings per share (fils)** | 25 | 21.05 | 1.99 |

The accompanying notes set out on pages 8 to 35 form an integral part of these consolidated financial statements.

| | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| **Profit for the year** | 2,389,803 | 221,174 |
| **Other comprehensive income** | | |
| Exchange differences on translating foreign operations | (5,143) | (38,451) |
| **Other comprehensive loss for the year** | (5,143) | (38,451) |
| **Total comprehensive income for the year** | 2,384,660 | 182,723 |

The accompanying notes set out on pages 8 to 35 form an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity - year ended 31 December 2011

| | Share capital | Share premium | Statutory reserve | Voluntary reserve | Treasury shares | Gain on sale of treasury shares | Retained earnings | Foreign currency translation reserve | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2009** | 11,424,000 | 1,512,000 | 1,113,795 | 1,113,795 | (643,202) | 484,906 | 3,174,982 | 24,449 | 18,204,725 |
| Total comprehensive income / (loss) for the year | - | - | - | - | - | - | 221,174 | (38,451) | 182,723 |
| Transfer to reserves | - | - | 23.869 | 23,869 | - | - | (47,738) | - | - |
| Purchase of treasury shares | - | - | - | - | (451,925) | - | - | - | (451,925) |
| **Balance at 31 December 2010** | 11,424,000 | 1,512,000 | 1,137,664 | 1,137,664 | (1,095,127) | 484,906 | 3,348,418 | (14,002) | 17,935,523 |
| Total comprehensive income / (loss) for the year | - | - | - | - | - | - | 2,389,803 | (5,143) | 2,384.660 |
| Transfer to reserves | - | - | 250,369 | 250,369 | - | - | (500,738) | - | - |
| Sale of treasury shares | - | - | - | - | 1,095,127 | 10,748 | - | - | 1,105,875 |
| **Balance at 31 December 2011** | 11,424,000 | 1,512,000 | 1,388,033 | 1,388,033 | - | 495,654 | 5,237,483 | (19,145) | 21,426,058 |

The accompanying notes set out on pages 8 to 35 form an integral part of these consolidated financial statements.

## HUMANSOFT HOLDING COMPANY K.S.C. (CLOSED) AND SUBSIDIARIES

Consolidated Statement of Cash Flows - year ended 31 December 2011

| | Notes | 2011 KD | 2010 KD |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit before provision for contribution to KFAS, NLST and Zakat | | 2,503,694 | 238,690 |
| Adjustments for : | | | |
| Depreciation and amortisation | 7&8 | 895,509 | 724,021 |
| Finance charges | | 332,540 | 235,022 |
| Provision for staff indemnity | | 162,342 | 153,569 |
| Allowance for doubtful debts | 5 | 23,221 | 24,229 |
| Write-off of property and equipment and intangible assets | 7&8 | 92,226 | 1,163 |
| Share of profit of associates | 9 | (6,117) | (20,054) |
| Interest income | | (1,054) | (3,657) |
| Loss / (gain) on disposal of property and equipment and intangible assets | 7&8 | 1,651 | (1,878) |
| | | 4,004,012 | 1,351,105 |
| Increase in trade receivables | | (1,597,413) | (166,266) |
| Decrease in inventories | | 26,776 | 6,929 |
| Decrease / (increase) in prepayments and other assets | | 2,377 | (96,468) |
| Increase in trade and other payables | | 44,042 | 14,567 |
| Increase in accruals and other liabilities | | 489,265 | 220,197 |
| Increase in deferred income | | 533,522 | 43,382 |
| | | 3,502,581 | 1,373,446 |
| Retention paid | | (211,850) | (120,102) |
| Payment of staff indemnity | | (120,315) | (85,762) |
| Payment of KFAS | | (2,148) | (8,176) |
| Payment of NLST | | (8,268) | (25,760) |
| Payment of Zakat | | (7,100) | (10,304) |
| **Net cash generated from operating activities** | | 3,152,900 | 1,123,342 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property and equipment | 7 | (203,114) | (202,854) |
| Payments for capital work in progress | 7&8 | (1,940,431) | (3,641,979) |
| Partial liquidation proceeds of investment available for sale | | 27,555 | - |
| Payments for intangible assets | 8 | - | (5,688) |
| Proceeds from disposal of property and equipment and intangible assets | 7&8 | 511 | 6,413 |
| Interest income received | | 1,054 | 5,539 |
| **Net cash used in investing activities** | | (2,114,425) | (3,838,569) |
| **FINANCING ACTIVITIES** | | | |
| Increase in short-term loan | | 750,000 | - |
| (Decrease) / increase in long-term debts | | (925,115) | 2,517,324 |
| Sale / (purchase) of treasury shares | | 1,105,875 | (451,925) |
| Finance charges paid | | (364,548) | (338,219) |
| **Net cash generated from financing activities** | | 566,212 | 1,727,180 |
| **Net increase / (decrease) in cash and cash equivalents** | | 1,604,687 | (988,047) |
| Effects of exchange rate changes on cash and cash equivalents | | 1,123 | (17,213) |
| Cash and cash equivalents at beginning of the year | | 605,709 | 1,610,969 |
| **Cash and cash equivalents at end of the year** | 4 | 2,211,519 | 605,709 |
| | | | |
| **NON-CASH TRANSACTION** | | | |
| **Investing activity:** | | | |
| Additions to capital work in progress adjusted against retentions payable | | (127,701) | (307,767) |

The accompanying notes set out on pages 8 to 35 form an integral part of these consolidated financial statements.

## 1. INCORPORATION AND PRINCIPAL ACTIVITIES

Humansoft Holding Company K.S.C. (Closed) ("the Parent Company") is a closed Kuwaiti Shareholding Company incorporated on 14 September 1997.

The Parent Company and its subsidiaries (together referred to as "the Group") are engaged in establishing and managing private universities and colleges, providing computer education, language training, executive courses and electronic commerce and media. The Group is also permitted to invest surplus funds in shares and other securities and to acquire interests in related business in Kuwait and abroad.

The Parent Company is listed on the Kuwait Stock Exchange and its registered office is P.O. Box 305, Dasman 15454, State of Kuwait.

These consolidated financial statements were authorised for issue by the Board of Directors of the Parent Company on 21 March 2012 and are subject to approval of shareholders in the Annual General Assembly.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and the interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements have been prepared on the historical cost basis. These consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is the Parent Company's functional and presentation currency.

### 2.2 Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the adoption of the following new and amended IASB Standards and IFRIC Interpretations that are effective from 1 January 2011:

*IAS 24: Related party disclosures (Revised)*

The amended standard clarifies the definition of a related party and lays down additional requirements for disclosure of outstanding commitments to related parties. The adoption of the amendment does not have any impact on the financial position, performance, or disclosures in the consolidated financial statements of the Group.

*IAS 32: Financial Instruments (Amended)*

The definition of a financial liability was amended to classify rights issues for a fixed amount of foreign currency (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these types of instruments.

*Improvements to IFRSs*

In May 2010, IASB issued amendments to various standards and interpretations as part of its annual improvements project. There are separate transitional provisions for each standard.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
### 2.2 Changes in accounting policies (Continued)

*IAS 1 Presentation of Financial Statements*

The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the consolidated statement of changes in equity or in the notes to the consolidated financial statements. The Group provides this analysis in the consolidated statement of changes in equity.

The application of other IASB Standards and IFRIC Interpretations do not have material impact on the consolidated financial statements of the Group.

**Standards and Interpretations in issue not yet effective**

The following IASB Standards and IFRIC Interpretations have been issued but are not yet effective and have not been early adopted by the Group:

- Amendments to IFRS 7 — Disclosures - Transfers of Financial Assets (Effective for annual periods beginning on or after 1 July 2011)
- IFRS 9 — Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2015)
- IFRS 10 — Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013)
- IFRS 11 — Joint Arrangements (effective for annual periods beginning on or after 1 January 2013)
- IFRS 12 — Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2013)
- IFRS 13 — Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)
- Amendments to IAS 1 — Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012)
- Amendments to IAS 12 — Deferred Tax – Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012)
- IAS 19 (as revised in 2011) — Employee Benefits (effective for annual periods beginning on or after 1 January 2013)
- IAS 27 (as revised in 2011) — Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013)
- IAS 28 (as revised in 2011) — Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2013)

*IFRS 9: Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2015)*

This standard will replace IAS 39 upon its effective date. IFRS 9 establishes principles for the financial reporting of financial assets that will present relevant and useful information to users of the consolidated financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows. The application of IFRS 9 is under local regulatory review for early adoption in the State of Kuwait.

In May 2011, Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 (as revised in 2011). These are effective for annual periods beginning on or after 1 January 2013.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation - Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Changes in accounting policies (Continued)

**Standards and Interpretations in issue not yet effective (Continued)**

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements and is effective for annual periods beginning on or after 1 January 2013.

### 2.3 Business combinations

A business combination is the bringing together of separate entities or businesses into one reporting entity as a result of one entity, the acquirer, obtaining control of one or more other businesses. The acquisition method of accounting is used to account for business combinations. The consideration transferred for the acquisition is measured as the fair values of the assets given, equity interests issued and liabilities incurred or assumed at the date of the exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. The acquisition related costs are expensed when incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination (net assets acquired in a business combination) are measured initially at their fair values at the acquisition date. Non-controlling interest in the subsidiary acquired is recognized at the non-controlling interest's proportionate share of the acquiree's net assets.

When a business combination is achieved in stages, the previously held equity interest in the acquiree is re-measured at its acquisition-date fair value and the resulting gain or loss is recognized in the consolidated statement of income. The fair value of the equity of the acquiree at the acquisition date is determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry in the same geographical region.

The Group separately recognizes contingent liabilities assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably.

An indemnification received from the seller in a business combination for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability that is recognized at the acquisition date at its acquisition-date fair value is recognized as an indemnification asset at the acquisition date at its acquisition-date fair value.

The Group uses provisional values for the initial accounting of a business combination and recognizes any adjustment to these provisional values within the measurement period which is twelve months from the acquisition date.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 Consolidation

Subsidiaries are those enterprises, including special purpose entities, controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements on a line-by-line basis, from the date on which control is transferred to the Group until the date that control ceases.

Non-controlling interest in an acquiree is stated at the non-controlling interest's proportionate share in the recognized amounts of the acquiree's identifiable net assets at the acquisition date and the non-controlling interest's share of changes in the equity since the date of the combination. Total comprehensive income is attributed to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interest in a subsidiary that do not result in loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiary and any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the Parent Company's shareholders. Non-controlling interest is presented separately in the consolidated statements of financial position and income. The non-controlling interests are classified as a financial liability to the extent there is an obligation to deliver cash or another financial asset to settle the non-controlling interest.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on latest financial statements of subsidiaries. Intra group balances, transactions, income, expenses and dividends are eliminated in full. Profits and losses resulting from intra group transactions that are recognized in assets are eliminated in full. If a parent loses control of a subsidiary, it derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost as well as related non-controlling interests. Any investment retained is recognized at fair value at the date when control is lost. Any resulting difference along with amounts previously directly recognized in equity is transferred to the consolidated statement of income.

### 2.5 Financial instruments

In the normal course of business the Group uses financial instruments, principally cash and bank balances, trade and other receivables, refundable deposits, investments available for sale, bank overdrafts, short-term loan, trade and other payables, accrued expenses, retentions payable and long-term debts.

In accordance with International Accounting Standard (IAS) 39, the Group classifies financial assets as "loans and receivables" and "available for sale" and financial liabilities as "other than at fair value through profit or loss". Financial assets and liabilities are initially recognized at fair value (which includes transaction costs) and are subsequently remeasured and carried at amortised cost using the effective yield method. All financial liabilities are classified as "other than at fair value through profit or loss".

A financial asset or a financial liability is recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is de-recognised when the contractual rights to receive cash flows from the financial asset has expired or the Group has transferred substantially all risks and rewards of ownership and has not retained control. If the Group has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the financial asset. A financial liability is derecognized when the Group's obligation specified in the contract is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.5 Financial instruments (Continued)

All regular way purchase and sale of financial assets are recognized using settlement date accounting. Changes in fair value between the trade date and settlement date are recognized in the consolidated statement of comprehensive income in accordance with the policy applicable to the related instrument. 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.

The fair value of financial instruments carried at amortised cost is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

*Financial instruments*

All financial assets or financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue are added to the cost of the financial asset or liability.

*Loans and receivables*

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured and carried at amortized cost using the effective yield method.

*Investments available for sale*

These are non-derivative financial assets not included in any of the above classifications and principally acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. These are subsequently measured and carried at fair value and any resultant gains or losses are recognized in the consolidated statement of comprehensive income. When the "investment available for sale"asset is disposed of or impaired, the related accumulated fair value adjustments are transferred to the consolidated statement of income as gains or losses.

**Financial liabilities**

Financial liabilities "other than at fair value through profit or loss" are subsequently measured and carried at amortized cost using the effective yield method. Equity interests are classified as financial liabilities if there is a contractual obligation to deliver cash or another financial asset.

**Impairment**

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of similar assets may be impaired. If such evidence exists, the asset is written down to its recoverable amount. The recoverable amount of an interest bearing instrument is determined based on the net present value of future cash flows discounted at original effective interest rates; and of an equity instrument is determined with reference to market rates or appropriate valuation models. Any impairment loss is recognised in the consolidated statement of income. For "available for sale" equity investments, reversals of impairment losses are recorded as increases in fair valuation reserve through equity.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.6 Cash and cash equivalents

Cash on hand, demand and time deposits with banks whose original maturities do not exceed three months, net of bank overdrafts are classified as cash and cash equivalents.

### 2.7 Investments in associates

Associates are those entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The excess of the cost of investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recognised as goodwill. Goodwill on acquisition of associates is included in the carrying values of investments in associates. Investments in associates are initially recognised at cost and are subsequently accounted for by the equity method of accounting from the date of significant influence to the date it ceases. Under the equity method, the Group recognises in the consolidated statement of income, its share of the associate's post acquisition results of operations and in equity, its share of post acquisition movements in reserves that the associate directly recognises in equity. The cumulative post acquisition adjustments, and any impairment, are directly adjusted against the carrying value of the associate. Appropriate adjustments such as depreciation, amortisation and impairment losses are made to the Group's share of profit or loss after acquisition to account for the effect of fair value adjustments made at the time of acquisition.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivable, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

### 2.8 Inventories

Inventories comprise of course materials and are stated at the lower of cost and net realisable value after making allowance for obsolete and slow moving items. Cost comprises the purchase price, import duties, transportation handling, and other direct costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first in first out ("FIFO") method. Net realisable value represents the estimated selling price less all estimated selling costs.

### 2.9 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Property and equipment are depreciated on a straight-line basis over their estimated economic useful lives, which are as follows:

| | Years |
|---|---|
| Building and land improvements | 20 |
| Computers | 2-3 |
| Furniture, fixtures and decorations | 3-5 |
| Equipment | 3-5 |
| Library books | 4 |

These assets are reviewed periodically for impairment. If there is an indication that the carrying value of an asset is greater than its recoverable amount, the asset is written down to its recoverable amount and the resultant impairment loss is taken to the consolidated statement of income. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.9 Property and equipment (Continued)

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss and are classified as capital work in progress. Cost includes professional fees. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of income.

### 2.10 Intangible assets and goodwill

Identifiable non-monetary assets acquired and developed in connection with the business and from which future benefits are expected to flow are treated as intangible assets. Intangible assets comprise of university and college licenses, curriculum, in-house developed computer diploma programs and software, franchise cost, key money, brand and intellectual property. Intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis (except the university license that has an indefinite useful life) over their estimated useful lives, which are as follows:

| | Years |
|---|---|
| Computer diploma, programs, software, systems and curricula | 2-5 |
| Franchise | 5-10 |
| Trade mark, Key money and brand | 10 |

Goodwill arising in a business combination is computed as the excess of the aggregate of: the consideration transferred; the non-controlling interests proportionate share in the recognized amounts of the acquiree's net identifiable assets at the acquisition date, if any; and in a business combination achieved in stages the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, over the net of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed. Any deficit is a gain from a bargain purchase and is recognized directly in the consolidated statement of income.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is allocated to each of the cash generating units for the purpose of impairment testing. Gains and losses on disposal of an entity or a part of the entity include the carrying amount of goodwill relating to the entity or the portion sold.

Goodwill and intangible assets with indefinite useful lives are tested, at least annually, for impairment and carried at cost less accumulated impairment losses.

Assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash generating units for the purpose of assessing impairment of goodwill and intangible assets.

If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata, on the basis of the carrying amount of each asset in the unit. That relating to goodwill cannot be reversed in a subsequent period. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risk specific to the asset for which the estimates of future cash flows have not been adjusted. The Group prepares formal five year plans for its businesses. These plans are used for the value in use calculation. Long range growth rates are used for cash flows into perpetuity beyond the five year period. Fair value less costs to sell is determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry in the same geographical region.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.11 Foreign currencies

The functional currency of an entity is the currency of the primary economic environment in which it operates and in the case of the Parent Company it is the Kuwaiti Dinar and in the case of subsidiaries it is their respective national currencies or the applicable foreign currency. Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the consolidated statement of financial position date are translated to Kuwaiti Dinars at the rates of exchange prevailing on that date. Resultant gains and losses are taken to the consolidated statement of income.

Translation differences on non-monetary items, such as equities classified as investments available for sale financial assets are included in the investment fair valuation reserve in equity.

The income and cash flow statements of foreign operations are translated into the Parent Company's reporting currency at average exchange rates for the year and their statement of financial position are translated at exchange rates ruling at the year-end. Exchange differences arising from the translation of the net investment in foreign operations (including goodwill, long-term receivables or loans and fair value adjustments arising on business combinations) are taken to the consolidated statement of comprehensive income. When a foreign operation is sold, any resultant exchange differences are recognized in the consolidated statement of income as part of the gain or loss on sale.

### 2.12 Revenue recognition

Revenue is recognised on a time proportion basis as courses are provided. Fees paid in advance are deferred and are taken to the consolidated statement of income when the related service is provided.

Interest income is accrued on a time basis with reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### 2.13 Post employment benefits

The Group is liable to make defined contributions to State Plans and lump sum payments under defined benefit plans to employees at cessation of employment, in accordance with the laws of the place where they are deemed to be employed. The defined benefit plan is unfunded and is computed as the amount payable to employees as a result of involuntary termination on the consolidated statement of financial position date. This basis is considered to be a reliable approximation of the present value of the final obligation.

### 2.14 Borrowing costs

Borrowing costs that are directly attributable to the construction of qualifying assets are capitalised as part of its cost. For funds borrowed specifically for construction of these assets, the borrowing costs are determined using the actual costs of such funds. If the funds utilised for the construction of assets are not specific borrowings, the borrowing costs are determined using the weighted average cost of the general borrowings. All other borrowings costs are recognised as an expense of the period in which it is incurred.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.15 Accounting of leases

*Where the Group is the lessee*

Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

### 2.16 Provisions for liabilities

Provisions for liabilities are recognised, when, as a result of past events it is probable that an outflow of economic resources will be required to settle a present legal or constructive obligation; and the amount can be reliably estimated.

### 2.17 Contingencies

Contingent assets are not recognised as an asset till realization becomes virtually certain. Contingent liabilities are not recognized as a liability unless as a result of past events it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated.

### 2.18 Segment reporting

Operating segments are identified on the basis of internal reports that are regularly reviewed by the decision makers in order to allocate resources to the segments and to assess their performance. Such operating segments are classified as either business segments or geographical segments.

A business segment is a distinguishable component of the Group that is engaged in providing products or services, which is subject to risks and returns that are different from those of other segments.

A geographic segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment which is subject to risks and returns different from those of segments operating in other economic environments.

## 3. SUBSIDIARIES AND ASSOCIATES

The principal subsidiaries and associates of the Group are:

| Subsidiary | Country of incorporation | Percentage of ownership | | Principal activities |
|---|---|---|---|---|
| | | 2011 | 2010 | |
| Humansoft Learning Company K.S.C. (Closed) and its subsidiaries | Kuwait | 100% | 100% | Computer education & training executive courses |
| Al-Arabia Educational Enterprises Company K.S.C. (Closed) | Kuwait | 100% | 100% | Establishment and operation of University & college |
| Track Learning Solutions Co. W.L.L. | Kuwait | 100% | 100% | Computer programming, advertisement publication and distribution |

## 3. SUBSIDIARIES AND ASSOCIATES (CONTINUED)

| Subsidiary | Country of incorporation | Percentage of ownership 2011 | Percentage of ownership 2010 | Principal activities |
|---|---|---|---|---|
| Expression for Private Training Company W.L.L. | Kuwait | 100% | 100% | Open private training institutes |
| Excellence Training & Development Co. W.L.L. | Kuwait | 100% | 100% | Computer education & executive training courses |
| Tawteen Training and Career Development Co. W.L.L. | Kuwait | 100% | 100% | Open private training institutes |
| Humansoft Free Zone – L.L.C. | U.A.E. | 100% | 100% | Technology, e-commerce & media |
| Tawteen Human Investment Co. P.J.S.C. | U.A.E. | 100% | 100% | Establishment and operation of educational institutions |
| New Horizon Training Centre L.L.C. | U.A.E. | 100% | 100% | Computer education & executive training courses |
| Humansoft Learning Solutions | Qatar | 100% | 100% | Administration Training Services |
| Toot for E-business Company W.L.L. | Kuwait | 100% | 100% | Dormant |
| Humansoft Learning Solutions Company W.L.L. | Kuwait | 100% | 100% | Dormant |
| Humansoft Human & IT Investment Company Limited | United Kingdom | 100% | 100% | Dormant |
| Toot E-Business Company Limited | United Kingdom | 100% | 100% | Dormant |
| Tawteen for Recruitment & HR Solutions Company W.L.L. | Bahrain | 100% | 100% | Dormant |
| Humansoft Human & IT Investment Company W.L.L. | Bahrain | 100% | 100% | Dormant |
| Humansoft Recruitment Co. W.L.L. | Kuwait | 100% | 100% | Dormant |
| Humansoft Management and IT Consulting Co. W.L.L. | Kuwait | 100% | 100% | Dormant |
| Tawteen Recruitment & HR Solutions W.L.L. | Kuwait | 100% | 100% | Dormant |
| Value for IT Solutions Co. W.L.L. | Kuwait | 100% | 100% | Dormant |
| Kuwaiti Jordanian Training Co. W.L.L. | Kuwait | 100% | 100% | Dormant |

## 3 SUBSIDIARIES AND ASSOCIATES (CONTINUED)

| Subsidiary | Country of incorporation | Percentage of ownership | | Principal activities |
|---|---|---|---|---|
| Tawteen Recruitment Co. W.L.L. | Kuwait | 100% | 100% | Dormant |
| Picardo Food Supplies Co. W.L.L. | Kuwait | - | 100% | Dormant |

During the year, the Parent Company liquidated a wholly owned dormant subsidiary namely Picardo Food Supplies Co. W.L.L.

| Associate | | | | |
|---|---|---|---|---|
| New Horizons Training Company W.L.L. | Qatar | 40% | 40% | Training and Career Development Programs |
| Al Arabia Training Company W.L.L. | Qatar | 40% | 40% | English Training |
| Tawteen Human Investment Company W.L.L. | Qatar | 40% | 40% | Training and Career Development Programs |

## 4. CASH AND BANK BALANCES

Cash and bank balances include the following cash and cash equivalents:

| | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| Cash on hand and at banks | 2,424,436 | 877,266 |
| Short-term deposits with banks | 264,915 | 191,000 |
| Cash and bank balances | 2,689,351 | 1,068,266 |
| Less: Bank overdrafts | (477,832) | (462,557) |
| Cash and cash equivalents | 2,211,519 | 605,709 |

Overdraft facilities from local banks are denominated in KD and as at 31 December 2011 bear interest ranging from 2% - 2.5% (2010: 2.5 %) per annum over the Central Bank of Kuwait discount rate.

As at the consolidated statement of financial position date, the undrawn bank overdraft facilities amounted to KD 572,168 (2010: KD 337,443).

The effective interest rate on short-term deposits as at 31 December 2011 was 0.2% per annum (2010 – 0.8%).

## 5. TRADE RECEIVABLES

| | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| Trade receivables | 4,330,707 | 3,019,215 |
| Less: allowance for doubtful debts | (306,594) | (569,455) |
| | 4,024,113 | 2,449,760 |

The average credit period granted to customers is 60 days. No interest is charged on the overdue trade receivables. The Group has provided for trade receivables based on estimated irrecoverable amounts, determined by reference to past default experience.

As at 31 December 2011, trade receivables of KD 3,960,735 (2010: KD 330,840) were fully performing.

Included in the Group's trade receivables are debtors with a carrying amount of KD 63,378 (2010: KD 2,118,920) which are past due at the consolidated statement of financial position date for which the Group has not made any provision as management considers these amounts as recoverable based on their assessment of the credit worthiness of these debtors.

The Group does not hold any collateral over these balances.

Aging of past due but not impaired

| | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| 61 - 90 days | 46,652 | 2,093,515 |
| 91 - 120 days | 4,841 | 23,970 |
| 120+ days | 11,885 | 1,435 |
| Total | 63,378 | 2,118,920 |

| | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| Aging of impaired trade receivables | | |
| 61 - 90 days | 8,084 | 4,760 |
| 91 - 180 days | 6,441 | 16,916 |
| 180 - 365 days | 13,558 | 18,027 |
| 365 + days | 278,511 | 529,752 |
| Total | 306,594 | 569,455 |
| Movement in the allowance for doubtful debts: | | |
| Balance at beginning of the year | 569,455 | 807,941 |
| Charge for the year | 23,221 | 24,229 |
| Amounts written off as uncollectible | (285,921) | (262,032) |
| Bad debts recovered | - | (333) |
| Foreign currency translation effect | (161) | (350) |
| Balance at the end of the year | 306,594 | 569,455 |

## 5. TRADE RECEIVABLES (CONTINUED)

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

| | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| KD | 3,776,385 | 2,202,710 |
| UAE Dirham | 169,168 | 215,473 |
| Other currencies | 78,560 | 31,577 |
| | 4,024,113 | 2,449,760 |

The maximum exposure to credit risk at the consolidated statement of financial position date is disclosed in note 28 to these consolidated financial statements.

## 6. RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders and executive officers of the Group, their families and companies of which they are the principal owners. The Group enters into transactions with related parties. Pricing policies and terms are approved by the Group's management.

The related party transactions and balances included in these consolidated financial statements are as follows:

| | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| **a) Transactions** | | |
| Purchase of property and equipment | - | 31,608 |
| General and administrative expenses | 20,000 | 37,000 |

**b) Compensation of key management personnel :**

The compensation of key management during the year comprise of:

| | 2011 | 2010 |
|---|---|---|
| Short-term benefits | 446,060 | 200,864 |
| Post-employment benefits | 10,086 | 13,405 |
| | 456,146 | 214,269 |

## 7. PROPERTY AND EQUIPMENT

| | Freehold land | Building and land improvements | Computers | Furniture, fixtures and decoration | Equipment | Motor vehicles | Library Books | Capital work in progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| | KD | KD | KD | KD | KD | KD | KD | KD | KD |
| **Cost** | | | | | | | | | |
| Balance at 31 December 2009 | 5,297,030 | 5,532,146 | 1,142,724 | 562,084 | 399,237 | 4,650 | 5,442 | 180,085 | 13,123,398 |
| Additions | - | 27,833 | 66,003 | 56,015 | 18,472 | - | 34,531 | 3,922,683 | 4,125,537 |
| Transfers from capital work in progress | - | 270,028 | 49,428 | - | - | - | - | (319,456) | - |
| Disposals | - | - | (63,526) | (20,596) | (144,050) | (4,650) | - | - | (232,822) |
| Write offs | - | - | - | - | - | - | - | (1,163) | (1,163) |
| Exchange adjustments | - | - | (7,492) | (4,601) | (2,336) | - | - | - | (14,429) |
| Balance at 31 December 2010 | 5,297,030 | 5,830,007 | 1,187,137 | 592,902 | 271,323 | - | 39,973 | 3,782,149 | 17,000,521 |
| Transfers | - | - | (7,758) | 14,413 | 230 | - | - | - | 6,885 |
| Additions | - | - | 80,044 | 48,727 | 73,740 | - | 603 | 2,061,462 | 2,264,576 |
| Transfers from capital work in progress | - | 4,060,096 | 605 | 1,176 | 7,800 | - | - | (4,069,677) | - |
| Write-off | - | - | (9,450) | (2,174) | - | - | - | - | (11,624) |
| Disposals | - | - | (6,285) | (12,310) | (4,189) | - | - | - | (22,784) |
| Exchange adjustments | - | - | (3,678) | (2,326) | (1,135) | - | - | - | (7,139) |
| Balance at 31 December 2011 | 5,297,030 | 9,890,103 | 1,240,615 | 640,408 | 347,769 | - | 40,576 | 1,773,934 | 19,230,435 |
| **Accumulated depreciation** | | | | | | | | | |
| Balance at 31 December 2009 | - | 195,317 | 889,927 | 354,203 | 341,701 | 4,649 | 1,479 | - | 1,787,276 |
| Charge for the year | - | 286,783 | 149,647 | 125,645 | 23,993 | - | 5,044 | - | 591,112 |
| Disposals | - | - | (62,716) | (20,160) | (142,199) | (4,649) | - | - | (229,724) |
| Exchange adjustments | - | - | (6,922) | (4,227) | (2,152) | - | - | - | (13,301) |
| Balance at 31 December 2010 | - | 482,100 | 969,936 | 455,461 | 221,343 | - | 6,523 | - | 2,135,363 |
| Transfers | - | - | (7,383) | 14,042 | 226 | - | - | - | 6,885 |
| Charge for the year | - | 475,819 | 143,593 | 91,476 | 30,153 | - | 8,287 | - | 749,328 |
| Write-off | - | - | (9,445) | (2,173) | - | - | - | - | (11,618) |
| Disposals | - | - | (6,282) | (10,155) | (4,185) | | - | - | (20,622) |
| Exchange adjustments | - | - | (3,383) | (2,156) | (1,057) | - | - | - | (6,596) |
| Balance at 31 December 2011 | - | 957,919 | 1,087,036 | 546,495 | 246,480 | - | 14,810 | - | 2,852,740 |
| **Carrying amount** | | | | | | | | | |
| As at 31 December 2011 | 5,297,030 | 8,932,184 | 153,579 | 93,913 | 101,289 | - | 25,766 | 1,773,934 | 16,377,695 |
| As at 31 December 2010 | 5,297,030 | 5,347,907 | 217,201 | 137,441 | 49,980 | - | 33,450 | 3,782,149 | 14,865,158 |

The land is under registered mortgage to secure the long-term debt amounting to KD 5,094,776 (2010: KD 5,418,891) (See note 14). Capital work in progress includes borrowing costs capitalised during the year amounting to KD 28,169 (2010: KD 115,641).

## 8. INTANGIBLE ASSETS

| | Goodwill | University & college licenses | Computer diploma programs, software, systems and curricula | Franchise | Trade mark, key money, and brand | Capital work in progress ("CWIP") | Total |
|---|---|---|---|---|---|---|---|
| | KD | KD | KD | KD | KD | KD | KD |
| **Cost** | | | | | | | |
| Balance at 31 December 2009 | 1,808,850 | 6,752,000 | 838,336 | 175,019 | 73,762 | 180,443 | 9,828,410 |
| Additions | - | - | 5,688 | - | - | 27,063 | 32,751 |
| Transfers from CWIP | - | - | 107,103 | - | - | (107,103) | - |
| Disposals | - | - | (2,250) | - | - | - | (2,250) |
| Exchange adjustments | (8,875) | - | (1,214) | (915) | - | - | (11,004) |
| Balance at 31 December 2010 | 1,799,975 | 6,752,000 | 947,663 | 174,104 | 73,762 | 100,403 | 9,847,907 |
| Transfers | - | - | (12,146) | 11,986 | 14,486 | - | 14,326 |
| Additions | - | - | - | - | - | 6,670 | 6,670 |
| Transfers from CWIP | - | - | 9,197 | - | 4,082 | (13,279) | - |
| Write-off | - | - | (302,621) | - | (11,385) | (92,048) | (406,054) |
| Exchange adjustments | (2,300) | - | (616) | (443) | - | - | (3,359) |
| Balance at 31 December 2011 | 1,797,675 | 6,752,000 | 641,477 | 185,647 | 80,945 | 1,746 | 9,459,490 |
| **Accumulated amortisation** | | | | | | | |
| Balance at 31 December 2009 | - | - | 650,777 | 126,087 | 32,862 | - | 809,726 |
| Charge for the year | - | - | 94,901 | 31,021 | 6,987 | - | 132,909 |
| Disposals | - | - | (813) | - | - | - | (813) |
| Exchange adjustments | - | - | (1,176) | (864) | - | - | (2,040) |
| Balance at 31 December 2010 | - | - | 743,689 | 156,244 | 39,849 | - | 939,782 |
| Transfers | - | - | (17,190) | 17,441 | 14,075 | - | 14,326 |
| Charge for the year | - | - | 128,499 | 10,632 | 7,050 | - | 146,181 |
| Write-off | - | - | (302,452) | - | (11,382) | - | (313,834) |
| Exchange adjustments | - | - | (581) | (438) | - | - | (1,019) |
| Balance at 31 December 2011 | - | - | 551,965 | 183,879 | 49,592 | - | 785,436 |
| **Carrying amount** | | | | | | | |
| As at 31 December 2011 | 1,797,675 | 6,752,000 | 89,512 | 1,768 | 31,353 | 1,746 | 8,674,054 |
| As at 31 December 2010 | 1,799,975 | 6,752,000 | 203,974 | 17,860 | 33,913 | 100,403 | 8,908,125 |

During the year the Group wrote off intangible assets of KD 92,220 (2010: Nil) relating to systems and curriculum, trade mark and capital work in progress as management does not expect any future economic benefits from these assets.

## 8. INTANGIBLE ASSETS (CONTINUED)

**Goodwill**

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the cash generating units (CGU's) are determined based on the value in use method. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

Goodwill and the CGU to which it has been allocated are as follows :

| | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| Excellence Training & Development Co. W.L.L. | 1,552,500 | 1,552,500 |
| New Horizons Training Center (Branch of Tawteen Human Investment Co. P.J.S.C.) | 146,268 | 147,640 |
| New Horizons Training Center L.L.C. | 98,907 | 99,835 |
| | 1,797,675 | 1,799,975 |

**University & college licenses**

University & college licenses represents intangible assets with an indefinite useful life. These represent the value of the various university & college licenses held by Al Arabia Educational Enterprises Company K.S.C. (a subsidiary of the Parent Company). Management has determined that these licenses have an indefinite useful life as they have no specified expiry period and the university & college is expected to continue its operations for the foreseeable future.

The recoverable amounts of these licenses are determined based on the value in use method. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to revenues and direct costs during the period. Management estimates discount rates using rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units. The growth rates are based on university and college growth forecasts. Changes in revenues and direct costs are based on past practices and expectations of future changes in the market.

The Group has performed a sensivity analysis by varying the above input factors by a reasonably possible margin and assessing whether the change in input factors results in any of the goodwill allocated to appropriate CGU or the university & college licenses being impaired. These calculations use pre-tax cashflow projections based on financial budgets approved by management covering a five year period. The recoverable amount so obtained was significantly above the carrying amount of the CGUs.

## 9. INVESTMENT IN ASSOCIATES

This represents the Group's share of investments in associates accounted for using the equity method.

| | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| Opening balance | 460,682 | 453,669 |
| Share of profit for the year (See below) | 6,117 | 20,054 |
| Foreign currency translation adjustment | (4,242) | (13,041) |
| Closing balance | 462,557 | 460,682 |

The Group's share of the associate's assets, liabilities, revenue and results is as follows :

| | 2011 | 2010 |
|---|---|---|
| Assets | 502,640 | 522,078 |
| Liabilities | 142,664 | 164,916 |
| Goodwill from acquisition of investment in associates | 102,580 | 103,520 |
| Revenue | 928,610 | 874,713 |
| Profit of associate | 6,117 | 20,054 |

Tawteen Human Investment Company has not generated any revenue in the current year (2010: Nil) as the Company has not yet commenced its commercial operations. As at the consolidated statement of financial position date, the Group's share of net assets of this associate is nil since the Group's accumulated share of losses of Tawteen Human Investment Company exceed its ownership interest in the associate.

## 10. INVESTMENT AVAILABLE FOR SALE

| | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| Investment in local unquoted shares | 468 | 28,023 |

The investment available for sale is carried at cost since it is not possible to reliably measure its fair value.

## 11. SHORT-TERM LOAN

| | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| Short-term loan | 750,000 | - |

The revolving short-term loan from a local bank is denominated in KD and bears interest rate of 2.5% (2010: Nil) per annum over the CBK discount rate. The loan is secured by the corporate guarantee of the Parent Company and assignment of receivables from a government entity.

## 12. ACCRUALS AND OTHER LIABILITIES

| | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| Accrued expenses | 966,312 | 578,567 |
| Advance from students | 153,535 | 102,250 |
| Others | 193,180 | 78,578 |
| | 1,313,027 | 759,395 |

## 13. DEFERRED INCOME

This represents fees received in advance to be recognized as revenue as and when the service is rendered.

## 14. LONG-TERM DEBTS

| | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| Current portion | 2,292,000 | 2,431,000 |
| Non-current portion | 3,415,776 | 4,201,891 |
| | 5,707,776 | 6,632,891 |

Long-term debts consist of the following:

| **Description** | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| i. KD 295,000 from a local bank that bears an interest rate of 4% over the Central Bank of Kuwait ("CBK") discount rate per annum. The loan is being repaid in 24 monthly instalments starting from 1 December 2009. | - | 139,000 |
| ii. KD 3,000,000 from a local bank that bears an interest rate of 3% over the CBK discount rate per annum. The loan is being repaid in 78 monthly instalments starting from 5 November 2006. | 613,000 | 1,075,000 |
| iii. KD 4,500,000 from a local bank that bears an interest rate of 3.5% over the CBK discount rate per annum. The loan is being repaid in 36 monthly instalments starting from 1 January 2011. | 3,000,000 | 4,500,000 |
| iv. KD 1,000,000 from a local bank that bears an interest rate of 3.5% over the CBK discount rate per annum. The loan is being repaid in 36 monthly instalments starting from 1 January 2011. | 670,000 | 918,891 |
| v. KD 5,000,000 from a local bank that bears an interest rate of 3.5% over the CBK discount rate per annum. The loan will be repaid in 36 monthly instalments starting from 1 January 2014. | 1,424,776 | - |
| | 5,707,776 | 6,632,891 |

Long-term loans ((iii), (iv) and (v) above) amounting to KD 5,094,776 (2010: KD 5,418,891) is secured by mortgage of land with a carrying value of of KD 5,297,030 (2010: KD 5,297,030) and included in property and equipment (See note 7).

As at the consolidated statement of financial position date, the undrawn long-term debts amounted to KD 3,575,224 (2010: KD 81,109).

## 15. SHARE CAPITAL

Share capital comprises of 114,240,000 authorised and issued shares of 100 fils (2010: 114,240,000 shares of 100 fils) each fully paid in cash.

## 16. STATUTORY RESERVE

As required by the Commercial Companies Law and the Parent Company's Articles of Association, 10% of the profit before KFAS, NLST and Zakat is to be transferred to the statutory reserve until the reserve reaches a minimum of 50% of the paid up share capital. This reserve can be utilized only for distribution of a maximum dividend of 5% in years when retained earnings are inadequate for this purpose.

## 17. VOLUNTARY RESERVE

In accordance with the Parent Company's Articles of Association, 10% of the profit before KFAS, NLST and Zakat is required to be transferred to the voluntary reserve until the shareholders decide to discontinue the transfer. There are no restrictions on distributions from the voluntary reserve.

## 18. TREASURY SHARES

| | 2011 | 2010 |
|---|---|---|
| Number of shares | - | 3,690,000 |
| Percentage of issued shares | - | 3.23% |
| Market value (KD) | - | 1,143,900 |

## 19. COST OF OPERATIONS

| | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| Staff salaries and related costs | 2,421,115 | 2,095,574 |
| Facilities costs | 444,295 | 370,963 |
| Material costs | 188,142 | 146,434 |
| Others | 30,108 | 24,078 |
| | 3,083,660 | 2,637,049 |

## 20. GENERAL AND ADMINISTRATIVE EXPENSES

| | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| Staff salaries and related costs | 1,896,480 | 1,276,392 |
| Facilities costs | 667,064 | 595,553 |
| Depreciation and amortisation | 895,509 | 724,021 |
| Write-off of property and equipment and intangible assets | 92,226 | 1,163 |
| Others | 851,330 | 839,475 |
| | 4,402,609 | 3,436,604 |

## 21. SELLING EXPENSES

| | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| Staff salaries and related costs | 344,303 | 308,744 |
| Advertising and sales promotion | 349,012 | 352,375 |
| Allowance for doubtful debts | 23,221 | 24,229 |
| Others | 187,352 | 131,620 |
| | 903,888 | 816,968 |

## 22. CONTRIBUTION TO KFAS

This represents contribution to the Kuwait Foundation for Advancement of Science ("KFAS") computed at 1% of profit for the year after transfer to statutory reserve. Provision for contribution to KFAS is comprised of the following:

| | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| Parent Company | 20,181 | 161 |
| Humansoft Learning Company K.S.C. (Closed) | 2,352 | 1,987 |
| | 22,533 | 2,148 |

## 23. NLST

This represents provision for National Labour Support Tax ("NLST") computed at 2.5% of profit for the year after transfer to statutory reserve.

## 24. ZAKAT

Zakat represents tax payable to Kuwait's Ministry of Finance under Zakat Law No.46 of 2006.

## 25. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share is calculated as follows:

| | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| Profit for the year | 2,389,803 | 221,174 |
| Number of shares outstanding: | Shares | |
| Weighted average number of paid up shares | 114,240,000 | 114,240,000 |
| Less: Weighted average number of treasury shares outstanding | (687,452) | (3,037,863) |
| Weighted average number of outstanding shares | 113,552,548 | 111,202,137 |
| **Basic and diluted earnings per share (fils)** | 21.05 | 1.99 |

## 26. SEGMENT INFORMATION

*Primary segment information – business segments:*

The Group is organised into functional divisions in order to manage its various lines of business. All of the segment revenue reported below is from external customers. For the purpose of segment reporting, the Parent Company's management has grouped the Group's activities into the following business segments:

a) Training and Career Development Programs
b) English Training
c) Learning Solutions
d) Higher Education

Segment results include revenues and expenses directly attributable to a segment. There are no significant inter-segment transactions.

Segment information by business segments is as follows:

| | Training and career development programs | English training | Learning solutions | Higher education | Others | Total |
|---|---|---|---|---|---|---|
| | KD | KD | KD | KD | KD | KD |
| **2011** | | | | | | |
| Segment revenues | 1,383,505 | 1,032,732 | 958,637 | 7,754,619 | - | 11,129,493 |
| Segment expenses | (1,256,184) | (653,813) | (676,564) | (4,335,835) | (686,143) | (7,608,539) |
| Depreciation and amortisation | (30,171) | (11,011) | (24,434) | (822,861) | (7,032) | (895,509) |
| Finance charges | - | - | - | (267,068) | (65,472) | (332,540) |
| Share of profit of associates | - | - | - | - | 6,117 | 6,117 |
| Other income | 8,501 | 252 | 19,944 | 63,888 | (1,804) | 90,781 |
| Profit for the year | 105,651 | 368,160 | 277,583 | 2,392,743 | (754,334) | 2,389,803 |
| **Assets** | | | | | | |
| Segment total assets | 3,095,836 | 581,549 | 579,071 | 22,097,865 | 6,516,559 | 32,870,880 |
| **Liabilities** | | | | | | |
| Segment total liabilities | 502,455 | 203,850 | 205,230 | 9,340,187 | 1,193,100 | 11,444,822 |

## 26. SEGMENT INFORMATION (CONTINUED)

| 2010 | Training and career development programs | English training | Learning solutions | Higher education | Others | Total |
|---|---|---|---|---|---|---|
| | KD | KD | KD | KD | KD | KD |
| Segment revenues | 1,322,392 | 944,026 | 669,361 | 4,349,938 | - | 7,285,717 |
| Segment expenses | (1,141,255) | (725,625) | (551,425) | (3,242,529) | (523,282) | (6,184,116) |
| Depreciation and amortisation | (35,576) | (12,939) | (44,497) | (576,264) | (54,745) | (724,021) |
| Finance charges | - | - | - | (135,326) | (99,696) | (235,022) |
| Share of profits of associates | - | - | - | - | 20,054 | 20,054 |
| Other income | 587 | 1,037 | 36,395 | 19,069 | 1,474 | 58,562 |
| Profit for the year | 146,148 | 206,499 | 109,834 | 414,888 | (656,195) | 221,174 |
| **Assets** | | | | | | |
| Segment total assets | 2,910,656 | 351,516 | 545,058 | 18,946,657 | 5,697,922 | 28,451,809 |
| **Liabilities** | | | | | | |
| Segment total liabilities | 477,899 | 209,278 | 214,144 | 7,692,343 | 1,922,622 | 10,516,286 |

Segment revenue above represents income generated from external customers. There was no inter-segment income during the year (2010: Nil).

Segment profit represents the profit earned by each segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

*Information about major customers*

Included in revenues arising from higher education is an amount of KD 5,854,908 (2010: KD 3,007,146) from one of the Group's largest customer.

*Secondary segment information – geographical segments:*

The Parent Company operates from one location in Kuwait and through its subsidiaries, some of which are located outside Kuwait. Segment revenues and expenses by geographical area are as follows:

| 2011 | Inside Kuwait | Outside Kuwait | Total |
|---|---|---|---|
| | KD | KD | KD |
| Segment revenues | 9,464,075 | 1,665,418 | 11,129,493 |
| Segment expenses | (6,243,817) | (1,364,722) | (7,608,539) |
| Depreciation and amortisation | (865,879) | (29,630) | (895,509) |
| Finance charges | (332,540) | - | (332,540) |
| Share of profits of associates | - | 6,117 | 6,117 |
| Other income / (expenses) | 91,447 | (666) | 90,781 |
| Profit for the year | 2,113,286 | 276,517 | 2,389,803 |
| **Assets** | | | |
| Segment total assets | 31,432,918 | 1,437,962 | 32,870,880 |
| **Liabilities** | | | |
| Segment total liabilities | 11,019,880 | 424,942 | 11,444,822 |

## 26. SEGMENT INFORMATION (CONTINUED)

| 2010 | Inside Kuwait KD | Outside Kuwait KD | Total KD |
|---|---|---|---|
| Segment revenues | 5,839,090 | 1,446,627 | 7,285,717 |
| Segment expenses | (4,923,550) | (1,260,566) | (6,184,116) |
| Depreciation and amortisation | (689,582) | (34,439) | (724,021) |
| Finance charges | (235,022) | - | (235,022) |
| Share of profits of associates | - | 20,054 | 20,054 |
| Other income | 56,799 | 1,763 | 58,562 |
| Profit for the year | 47,735 | 173,439 | 221,174 |
| **Assets** | | | |
| Segment total assets | 27,207,052 | 1,244,757 | 28,451,809 |
| **Liabilities** | | | |
| Segment total liabilities | 10,084,180 | 432,106 | 10,516,286 |

## 27. COMMITMENTS AND CONTINGENT LIABILITIES

| | 2011 KD | 2010 KD |
|---|---|---|
| **Commitments** | | |
| Capital commitments for construction | 862,280 | 488,653 |
| Operating lease commitments for land | 1,504,500 | 1,595,000 |
| Minimum operating lease commitments under the operating lease are as follows: | | |
| Not later than one year | 90,500 | 90,500 |
| Later than one year but not later than five years | 362,000 | 362,000 |
| Later than five years | 1,052,000 | 1,142,500 |
| | 1,504,500 | 1,595,000 |
| **Contingent liabilities** | | |
| Letters of guarantee | 1,212,347 | 1,194,023 |

## 28. FINANCIAL RISK MANAGEMENT

The Group's financial assets have been categorized as follows :

| | Loans and receivables | Available for sale |
|---|---|---|
| | KD | KD |
| **31 December 2011** | | |
| Cash and bank balances | 2,689,351 | - |
| Trade receivables | 4,024,113 | - |
| Other assets | 145,431 | - |
| Investments available for sale | - | 468 |
| **Total** | 6,858,895 | 468 |
| **31 December 2010** | | |
| Cash and bank balances | 1,068,266 | |
| Trade receivables | 2,449,760 | |
| Other assets | 174,538 | |
| Investments available for sale | - | 28,023 |
| **Total** | 3,692,564 | 28,023 |

All financial liabilities are categorized as 'other than at fair value through profit or loss'.

**Financial risk factors**

The Group's use of financial instruments exposes it to a variety of financial risks such as market risk, credit risk and liquidity risk. The Group continuously reviews its risk exposures and takes measures to limit it to acceptable levels. The Board of Directors has the overall responsibility for the establishment and oversight of the Group's risk management framework and developing and monitoring the risk management policies in close co-operation with the Group's operating units. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Group's activities. The Group through its training and management standards and procedures aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Group's Board of Directors oversees how management monitors compliance with the risk management policies and procedures and reviews adequacy of the risk management framework in relation to the risks faced by the Group. The significant risks that the Group is exposed to are discussed below :

(a) Market risk

*(i) Foreign exchange risk*

Foreign currency risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the UAE Dirham and US Dollar. Foreign exchange risk arises from future commercial transactions and recognised monetary assets and liabilities.

## 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

**Market risk (Continued)**

*Foreign currency risk (Continued)*

The Group management has set up a policy that requires Group companies to manage their foreign exchange risk against their functional currency.

The analysis below shows the effect of a 10% strengthening in the foreign currency rates against KD, with all other variables held constant on the profit for the year. A positive amount in the table reflects a net potential increase in the profit for the year, while a negative amount reflects a net potential decrease. There have been no changes in the method and the assumptions used in the preparation of the sensitivity analysis as compared to the prior year.

| | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| **Impact on consolidated statement of income** | | |
| UAE Dirham | 72,822 | 60,205 |
| US Dollar | 26,377 | 10,533 |
| Qatari Riyal | 2,993 | 713 |
| Others | 1,556 | 371 |

A 10 % weakening of the above currencies against the KD would have had an equal, but opposite, effect of the amounts shown above, with all other variables held constant.

*(ii) Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk arises from short-term bank deposits and bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages interest rate risk by monitoring interest rate movements and by borrowing at market linked interest rates.

At 31 December 2011, if interest rates at that date had been 100 basis points higher/lower with all other variables held constant, consolidated profit for the year would have been lower/higher by KD 64,086 (2010 - KD 33,176).

b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets, which potentially subject the Group to credit risk, consist principally of bank balances, trade receivables and other assets. The Group manages this risk by placing its bank balances with high credit rating institutions. The Group considers the credit quality of amounts that are neither past due nor impaired to be high.

During the year, 53% (2010: 41%) of the total revenue is derived from the Group's largest counterparty which is a government entity (See note 26).

For more information refer to Notes 4 and 5.

## 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

Liquidity risk is the risk that the Group may not be able to meet its funding requirements. The Group manages this risk by maintaining sufficient cash and bank balances and availability of funding from committed credit facilities and borrowings. The Parent Company's Board of Directors increases capital or borrowings based on ongoing review of funding requirements.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| **At 31 December 2011** | KD | KD | KD | KD |
| Bank overdrafts | 477,832 | | | - |
| Short-term loan | 750,000 | | | - |
| Trade and other payables | 608,390 | | | - |
| Accruals and other liabilities | 1,159,492 | | | - |
| Retentions payable | 311,859 | 130,806 | | - |
| Long-term debts | 2,565,707 | 2,136,217 | 1,553,006 | - |
| | 5,873,280 | 2,267,023 | 1,553,006 | - |
| **Commitments** | | | | |
| Capital commitments for construction | 862,280 | - | - | - |
| Operating lease commitments for land | 90,500 | 90,500 | 271,500 | 1,052,000 |

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| **At 31 December 2010** | KD | KD | KD | KD |
| Bank overdrafts | 462,557 | - | - | - |
| Trade and other payables | 564,348 | - | - | - |
| Accruals and other liabilities | 657,145 | - | - | - |
| Retentions payable | 184,130 | 342,684 | - | - |
| Long-term debts | 2,756,043 | 2,475,353 | 1,967,188 | - |
| | 4,624,223 | 2,818,037 | 1,967,188 | - |
| **Commitments** | | | | |
| Capital commitments for construction | 488,653 | - | - | - |
| Operating lease commitments for land | 90,500 | 90,500 | 271,500 | 1,142,500 |

**Fair value of financial instruments**

At the consolidated statement of financial position date, the fair value of the Group's financial instruments approximate their respective carrying values.

## 29. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide return on investment to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, returned capital to shareholders, issue new shares or sell assets to reduce debt.

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from previous year.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity (as shown in the consolidated statement of financial position) plus net debt.

*Gearing ratio*

The gearing ratio at year end were as follows:

| | 2011 | 2010 |
|---|---|---|
| | KD | KD |
| Total Borrowings (i) | 6,457,776 | 6,632,891 |
| Less: Cash and cash equivalents | (2,211,519) | (605,709) |
| Net debts | 4,246,257 | 6,027,182 |
| Total Equity | 21,426,058 | 17,935,523 |
| Total Capital | 25,672,315 | 23,962,705 |
| Gearing ratio | 17% | 25% |

(i) Total borrowings include short-term loan as disclosed in note 11 and long-term debts as disclosed in note 14.

## 30. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions 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. Revisions to accounting estimates are recognised 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 future periods.

**Judgements**

The following are the critical judgements, apart from those involving estimations (See below), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in these consolidated financial statements.

*Contingent liabilities / liabilities*

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

## 30. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

**Judgements (Continued)**

*Classification of investments*

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

**Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the consolidated statement of 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.

*Impairment of financial assets*

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

*Impairment of tangible and intangible assets and useful lives*

The Group's management tests annually whether tangible and intangible assets have suffered impairment in accordance with accounting policies stated in note 2. The recoverable amount of an asset is determined based on value-in-use method. This method uses estimated cash flow projections over the estimated useful life of the asset discounted using market rates that reflect current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

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

*Goodwill*

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