

**GEMS MENASA (Cayman) Limited
and its subsidiaries**

**INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

FOR THE PERIOD ENDED 28 FEBRUARY 2018

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF GEMS MENASA (CAYMAN) LIMITED

Opinion

We have audited the interim consolidated financial statements of GEMS MENASA (Cayman) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the interim consolidated statement of financial position as at 28 February 2018, and the interim consolidated statement of profit or loss, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the six month period then ended, and notes to the interim consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying interim consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 28 February 2018 and its consolidated financial performance and its consolidated cash flows for the six month period then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

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

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the interim consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the interim consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying interim consolidated financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF
GEMS MENASA (CAYMAN) LIMITED (continued)**

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Capital work-in-progress</i></p> <p>As disclosed in note 7 to the interim consolidated financial statements, the Group has capital work-in-progress (CWIP) amounting to USD 178.3 million as at 28 February 2018 which mainly represents costs incurred towards buildings and improvements related to the school premises. The capitalised costs are considered to be directly attributable to the construction of school premises.</p> <p>It requires management to exercise significant judgement in concluding whether all these costs can be capitalised in accordance with IFRSs. Further, there is also significant judgement involved in the impairment assessment of CWIP. As such, the Group is exposed to the following risks:</p> <ul style="list-style-type: none"> - capitalisation of ineligible costs to CWIP; and - impairment of CWIP. 	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> - enquiries of management in respect of ongoing projects, inspection of relevant contracts and minutes of the meetings of the Board of Directors. - review of the nature of significant additions to CWIP during the period to assess the appropriateness of capitalisation of these costs to CWIP in accordance with IFRS. - evaluation of management's assessment of CWIP impairment for major projects and review of the related projected cash flows. - enquiries of management about the projects on hold and discontinued projects. <p>The Group has not recognised any impairment loss in respect of CWIP for the period ended 28 February 2018.</p>

Business Combinations

As disclosed in note 6 to the interim consolidated financial statements, the Group has completed two acquisitions during the period ended 28 February 2018. The accounting for such acquisitions can be complex, including the identification and valuation of assets and liabilities acquired and, in certain circumstances, there is judgement on the date of control and as to whether they should be consolidated.

We considered these acquisitions to be a key audit matter as these are significant transactions during the period which require significant management judgement regarding the allocation of the purchase price to the assets and liabilities acquired and adjustments made to align accounting policies of the newly acquired entities with those of the Group. This exercise also requires management to determine the fair values of the assets and liabilities acquired and to identify intangible assets acquired in the acquisition.

There is a risk that these acquisitions may not be correctly presented and disclosed in the interim consolidated financial statements. Also, the business combinations may not be accounted for in accordance with IFRS 3.

Our audit procedures included, amongst others:

- review of the signed sale and purchase agreements in relation to these acquisitions to obtain an understanding of the transactions and the key terms.
- verification of the consideration paid and review of the fair valuation of the acquired assets, including intangible assets and liabilities, by corroborating this information based on our discussion with management and understanding of the business of these entities.
- assessment of the reasonableness of the valuation assumptions, such as discount and growth rates, by comparing these assumptions to source data and market data.
- evaluation of the appropriateness of accounting and adequacy of the disclosures in the interim consolidated financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF
GEMS MENASA (CAYMAN) LIMITED (continued)**

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Classification of Subordinated Perpetual Certificates ("Sukuk")</i>	
<p>As disclosed in note 22 to the interim consolidated financial statements, the Group issued Sukuk Certificates (Sukuk) in November 2013. The Sukuk is perpetual in nature with no fixed date by which the Group would be under the obligation to redeem the certificates and the Sukuk rank pari passu with each other, without any preference or priority.</p> <p>It requires management to exercise significant judgement in concluding on the classification of Sukuk as equity or a liability. The Group has classified the Sukuk as equity in its interim consolidated financial statements.</p>	<p>We have performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> - review of the Sukuk issuance document and gaining an understanding of the terms and conditions. - critical evaluation of the conclusion reached by management in classifying the Sukuk as equity. - evaluation of the appropriateness of the accounting and adequacy of the disclosures in the interim consolidated financial statements.
<i>Impairment of Goodwill</i>	
<p>Under IFRSs, the Group is required to annually test the goodwill for impairment. This annual impairment test was significant to our audit because the carrying value of goodwill of USD 88.3 million as of 28 February 2018 as disclosed in note 9 is material to the interim consolidated financial statements. In addition, management's assessment process is judgmental and is based on certain assumptions, specifically fee increases, gross margins, maintaining student numbers & market penetration and discount rate that are affected by expected future market or economic conditions.</p> <p>Goodwill is monitored by the management at the operating segment level. The Group has identified the school operations, school support services and corporate head office and others as its operating segments. Goodwill has been allocated to the school operations segment.</p>	<p>We evaluated management's future cash flow forecasts and the process by which they were drawn up, and tested the integrity of the underlying discounted cash flow model. We compared the forecasts used in this model to the plan and assessed the actual performance in the period against the prior year budgets to evaluate historical forecasting accuracy.</p> <p>We also evaluated management's assumptions of future cash flow growth in the plan, by:</p> <ul style="list-style-type: none"> • Comparing the future cash flow growth assumptions to economic and industry forecasts; • Assessing the reasonableness of the management's forecast by reviewing previous forecasts against historical actual performance; • Performing a sensitivity analysis in respect of the key assumptions to ascertain the extent of change in those assumptions which, either individually or collectively, would be required for the goodwill to be impaired. We assessed the likelihood of these changes in assumptions arising. <p>For impairment assessment we:</p> <ul style="list-style-type: none"> • Involved our internal valuation specialists to test the discount rates, by comparing key inputs, where relevant, to externally derived data or data for comparable listed organisation; • Considered the use of the long-term GDP growth rate for the country in which the CGU operates for the growth rate used beyond the period covered by the plan. <p>Furthermore, we evaluated the adequacy of the Group's disclosures concerning goodwill in Note 9 to the interim consolidated financial statements.</p>

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF
GEMS MENASA (CAYMAN) LIMITED (continued)**

Other matter

We have not audited or reviewed the financial information for the six-month period ended 28 February 2017 and accordingly do not express an opinion thereon.

Responsibilities of management and those charged with governance for the interim consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the interim consolidated financial statements

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

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

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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF
GEMS MENASA (CAYMAN) LIMITED (continued)**

Auditor's responsibilities for the audit of the interim consolidated financial statements (continued)

- Evaluate the overall presentation, structure and content of the interim consolidated financial statements, including the disclosures, and whether the interim consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the interim consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

For Ernst & Young



Signed by:
Anthony O'Sullivan
Partner
Registration No.: 687

10 April 2018

Dubai, United Arab Emirates

GEMS MENASA (Cayman) Limited and its subsidiaries

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months period ended 28 February

	<i>Notes</i>	<i>2018 USD in millions (Audited)</i>	<i>2017 USD in millions (Unaudited)</i>
REVENUE		602.6	550.4
EXPENSES			
Education and administrative expenses		(399.6)	(356.1)
Depreciation, impairment and amortisation	7 & 9	(36.3)	(32.8)
Pre-operative expenses		(0.5)	(1.8)
TOTAL OPERATING EXPENSES		(436.4)	(390.7)
OPERATING PROFIT FOR THE PERIOD		166.2	159.7
Finance income		4.9	5.5
Finance costs	4	(35.7)	(27.6)
Net finance costs		(30.8)	(22.1)
PROFIT BEFORE TAX FOR THE PERIOD		135.4	137.6
Income tax expense		-	-
PROFIT FOR THE PERIOD	5	135.4	137.6
Attributable to:			
Equity holders of the Holding Company		134.4	137.0
Non-controlling interests	23	1.0	0.6
		135.4	137.6
Earnings per share (USD) on profit attributable to equity holders of the Holding Company:			
Basic and Diluted EPS (USD)	24	359,675	366,940

The attached notes 1 to 28 form part of these interim consolidated financial statements.

GEMS MENASA (Cayman) Limited and its subsidiaries

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months period ended 28 February

	<i>Notes</i>	2018 USD in millions (Audited)	2017 USD in millions (Unaudited)
PROFIT FOR THE PERIOD		135.4	137.6
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Change in fair value of cash flow hedge	15	-	0.2
Reclassification adjustment for losses included in profit or loss on cash flow hedge	15	0.2	-
Exchange differences on translation of foreign operations		-	(0.1)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		0.2	0.1
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial valuation gain on defined benefit plans	16	2.5	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		2.5	-
Other comprehensive income for the period		2.7	0.1
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		138.1	137.7
Attributable to:			
Equity holders of the Holding Company		137.1	137.1
Non-controlling interests	23	1.0	0.6
		138.1	137.7

The attached notes 1 to 28 form part of these interim consolidated financial statements.

GEMS MENASA (Cayman) Limited and its subsidiaries

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 28 February 2018

	<i>Notes</i>	<i>28 February 2018 USD in millions</i>	<i>31 August 2017 USD in millions</i>
ASSETS			
Non-current assets			
Property and equipment	7	1,331.6	1,143.6
Loan to a related party	8	-	80.0
Intangible assets	9	106.3	103.6
		<u>1,437.9</u>	<u>1,327.2</u>
Current assets			
Inventories	10	10.8	11.2
Loan to a related party	8	80.0	-
Accounts receivable and prepayments	11	162.0	140.3
Bank balances and cash	12	75.0	119.9
		<u>327.8</u>	<u>271.4</u>
TOTAL ASSETS		<u>1,765.7</u>	<u>1,598.6</u>
LIABILITIES			
Current liabilities			
Accounts payable and accruals	13	(431.3)	(427.7)
Term loans	14	(10.8)	(154.6)
Derivative financial instruments at fair value	15	-	(0.2)
Other financial liabilities	17	(20.1)	(26.7)
		<u>(462.2)</u>	<u>(609.2)</u>
Non-current liabilities			
Term loans	14	(951.6)	(689.5)
Employees' benefits	16	(71.8)	(68.5)
Other financial liabilities	17	(2.7)	-
		<u>(1,026.1)</u>	<u>(758.0)</u>
TOTAL LIABILITIES		<u>(1,488.3)</u>	<u>(1,367.2)</u>
NET ASSETS		<u>277.4</u>	<u>231.4</u>
EQUITY			
Share capital	18	-	-
Restricted reserve	19	0.5	0.5
Share-based payment reserve	21	4.2	3.4
Cash flow hedge reserve	15	-	(0.2)
Foreign currency translation reserve		(0.1)	(0.1)
Retained earnings		75.6	33.1
		<u>80.2</u>	<u>36.7</u>
Equity attributable to the owners of the Holding Company		<u>80.2</u>	<u>36.7</u>
Subordinated perpetual certificates	22	193.7	193.7
Non-controlling interests	23	3.5	1.0
TOTAL EQUITY		<u>277.4</u>	<u>231.4</u>

The interim consolidated financial statements were approved on 10 April 2018 by:



Director



Director

The attached notes 1 to 28 form part of these interim consolidated financial statements.

GEMS MENASA (Cayman) Limited and its subsidiaries

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months period ended 28 February

	<i>Notes</i>	2018 USD in millions (Audited)	2017 USD in millions (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax for the period		135.4	137.6
Adjustments for:			
Share appreciation rights	21	0.8	0.8
Depreciation	7	33.7	29.1
Amortisation of intangible assets	9	2.6	1.9
Provision for employees' benefits	16	6.9	6.2
Finance costs		35.7	27.6
Finance income		(4.9)	(5.5)
Gain on disposal of property and equipment		(0.3)	-
Impairment losses on intangible assets	9	-	1.8
Bargain purchase gain	6	(1.5)	-
		<u>208.4</u>	<u>199.5</u>
Working capital changes:			
Decrease in inventories		2.4	0.4
Increase in accounts receivable and prepayments		(79.8)	(55.5)
Decrease in accounts payable and accruals		(13.8)	(41.4)
		<u>117.2</u>	<u>103.0</u>
Net cash generated from operations		117.2	103.0
Finance costs paid		(19.2)	(19.9)
Employees' end of service benefits paid	16	(1.7)	(2.2)
		<u>96.3</u>	<u>80.9</u>
Net cash generated from operating activities		96.3	80.9
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment*	7	(221.7)	(142.9)
Proceeds from disposal of property and equipment		0.7	-
Purchase of intangible assets	9	(0.3)	(0.5)
Net cash (outflows)/inflows on acquisition of businesses	6	(1.2)	22.4
Settlement of deferred and contingent consideration	17 (b)	(21.2)	-
Interest received		0.1	0.7
		<u>(243.6)</u>	<u>(120.3)</u>
Net cash used in investing activities		(243.6)	(120.3)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from term loans	14	997.8	164.9
Repayments of term loans	14	(859.5)	(30.3)
Transaction cost paid on Senior Syndicated Facility	14	(23.4)	-
Mudaraba profit payment for subordinated perpetual certificates		(12.0)	(12.0)
Net movement in short term deposits	12	(0.5)	(2.4)
Net movement of facility service reserve deposit account	12	85.3	(1.2)
Dividend paid to non-controlling interests	23	(0.5)	(0.4)
		<u>187.2</u>	<u>118.6</u>
Net cash generated from financing activities		187.2	118.6
INCREASE IN CASH AND CASH EQUIVALENTS		39.9	79.2
Cash and cash equivalents at the beginning of the period		<u>20.6</u>	<u>118.1</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	12	60.5	197.3

* During the period ended 28 February 2017, the Group accepted the put option to buy back the tenant's rights, title and interest in and to the lease, buildings and improvements for three schools (previously sold under a sale and lease back transaction) for an aggregate consideration of USD 159.8 million, from which the first tranche of USD 60.7 million was settled in February 2017. The balance amount was settled in full in March 2017, hence the unpaid amount of the transaction is not reflected in the interim consolidated statement of cash flows.

The attached notes 1 to 28 form part of these interim consolidated financial statements.

GEMS MENASA (Cayman) Limited and its subsidiaries

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months period ended 28 February 2018

Attributable to owners of the Holding Company

	Share capital USD in millions	Restricted reserve USD in millions	Share-based payment reserve USD in millions	Cash flow hedge reserve USD in millions	Foreign currency translation reserve USD in millions	Retained earnings USD in millions	Total USD in millions	Subordinated perpetual certificates USD in millions	Non-controlling interests USD in millions	Total equity USD in millions
Balance at 1 September 2017	-	0.5	3.4	(0.2)	(0.1)	33.1	36.7	193.7	1.0	231.4
Profit for the period	-	-	-	-	-	134.4	134.4	-	1.0	135.4
Other comprehensive income	-	-	-	0.2	-	2.5	2.7	-	-	2.7
Total comprehensive income for the period	-	-	-	0.2	-	136.9	137.1	-	1.0	138.1
Mudaraba profit payable for subordinated perpetual certificates (note 22)	-	-	-	-	-	(12.0)	(12.0)	-	-	(12.0)
Put option on non-controlling interest	-	-	-	-	-	(2.5)	(2.5)	-	-	(2.5)
Adjustments on account of acquisition of an entity under common control (note 6)	-	-	-	-	-	(14.9)	(14.9)	-	-	(14.9)
Share based payments during the period (note 21)	-	-	0.8	-	-	-	0.8	-	-	0.8
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	2.0	2.0
Dividend paid during the period (note 20)	-	-	-	-	-	(65.0)	(65.0)	-	(0.5)	(65.5)
Balance at 28 February 2018	-	0.5	4.2	-	(0.1)	75.6	80.2	193.7	3.5	277.4

The attached notes 1 to 28 form part of these interim consolidated financial statements.

GEMS MENASA (Cayman) Limited and its subsidiaries

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months period ended 28 February 2018

	Attributable to equity holders of the Holding Company									
	Share capital USD in millions	Restricted reserve USD in millions	Share-based payment reserve USD in millions	Cash flow hedge reserve USD in millions	Foreign currency translation reserve USD in millions	Retained earnings/ (accumulated losses) USD in millions	Total USD in millions	Subordinated perpetual certificates USD in millions	Non-controlling interests USD in millions	Total equity USD in millions
Balance at 1 September 2016 (Audited)	-	0.5	1.6	(0.4)	-	(72.4)	(70.7)	193.7	1.0	124.0
Profit for the period	-	-	-	-	-	137.0	137.0	-	0.6	137.6
Other comprehensive income	-	-	-	0.2	(0.1)	-	0.1	-	-	0.1
Total comprehensive income for the period	-	-	-	0.2	(0.1)	137.0	137.1	-	0.6	137.7
Mudaraba profit payable for subordinated perpetual certificates (note 22)	-	-	-	-	-	(12.0)	(12.0)	-	-	(12.0)
Share based payments during the period	-	-	0.8	-	-	-	0.8	-	-	0.8
Dividend paid during the period	-	-	-	-	-	-	-	-	(0.4)	(0.4)
Balance at 28 February 2017 (Unaudited)	-	0.5	2.4	(0.2)	(0.1)	52.6	55.2	193.7	1.2	250.1

The attached notes 1 to 28 form part of these interim consolidated financial statements.

GEMS MENASA (Cayman) Limited and its subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 28 February 2018

1 STATUS AND ACTIVITIES

GEMS MENASA (Cayman) Limited (the “Holding Company”) was incorporated and registered in the Cayman Islands as a limited liability company on 19 February 2007, under the Companies Law (2004 revision) of the Cayman Islands. The interim consolidated financial statements incorporate the results of financial statements of the Holding Company and its subsidiaries (collectively referred to as the “Group”). The principal activities of the Group are to invest in, manage and operate K-12 schools and to provide associated educational services. The registered address of the Holding Company is PO Box 309GT, Uglan House, Grand Cayman, KY1 – 1104, Cayman Islands. During the previous years, the shareholder of the Holding Company was changed pursuant to the transfer of ownership of the Holding Company to GEMS MENASA Holdings Limited (the “Immediate Parent Company”) by GEMS Global (Cayman) Limited (the “Parent Company”). The name of the intermediate parent company is Varkey Group Limited (the “Intermediate Parent Company”), a company incorporated and registered in the British Virgin Islands as a limited liability company. The name of the ultimate parent entity is the Varkey Settlement (the “Ultimate Parent”) of which Mr. Sunny Varkey and his immediate family members are beneficiaries.

The Group has a 100% ownership interest in all of its, subsidiaries, except, where mentioned otherwise. The material entities in which the Group has a legal or beneficial ownership and which are consolidated as subsidiaries with principal activities are as follows:

School operations

Under the school operations, the Group owns and operates schools and pre-schools, which provide education across a range of different curricula and fee points for children from and including kindergarten through to the end of secondary school, referred to as K-12 schools, which are located and operated in UAE and Qatar.

1. Premier Schools International (LLC) (PSI LLC) – registered in the United Arab Emirates (UAE) (one of the branches is 75% owned)*
2. GEMS Wellington Primary School- registered in the UAE (converted as a branch of PSI LLC on 26 February 2018)
3. GEMS American Academy Abu Dhabi Private School LLC- registered in the UAE
4. GEMS World Academy Abu Dhabi LLC- registered in the UAE
5. GEMS Winchester School Abu Dhabi LLC- registered in the UAE
6. GEMS Cambridge International School Abu Dhabi LLC- registered in the UAE
7. GEMS International School Al Khail LLC- registered in the UAE
8. GEMS New Millennium School LLC Al Khail LLC- registered in the UAE
9. Bradenton Preparatory Academy Dubai- registered in the UAE
10. GEMS Wellington Academy Al Khail LLC- registered in the UAE
11. GEMS United Indian School L.L.C. (formerly Our Own English High School)- registered in the UAE
12. Our Own English High School – Al Ain- registered in the UAE
13. Our Own English High School – Fujairah- registered in the UAE
14. Cambridge High School L.L.C- registered in the UAE
15. GEMS Westminster School Sharjah LLC- registered in the UAE
16. GEMS Westminster School Ras Al Khaimah LLC- registered in the UAE
17. GEMS First Point School LLC- registered in the UAE
18. GEMS Winchester School – Fujairah LLC - registered in the UAE
19. Premier Schools International Qatar – registered in Qatar
20. Wes Green Int. Pvt. School LLC - registered in the UAE
21. Wes Green Int. (Al Qaraieen School) LLC - registered in the UAE
22. Green Belt (Al Qaraieen Nursery) LLC - registered in the UAE
23. GEMS Wellington Academy-FZE- registered in the UAE

GEMS MENASA (Cayman) Limited and its subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 28 February 2018

1 STATUS AND ACTIVITIES (continued)

School support services

School support services includes, school transport services, sale of school uniforms, school management services, school security services, facility management services and business involving extra-curricular activities.

24. School Improvement Partnership Limited – registered in the Cayman Islands
25. School Transport Services (LLC) – registered in the UAE
26. Bright Bus Transport – registered in the UAE
27. Global Educational Management Systems Saudi Limited – registered in the Kingdom of Saudi Arabia
28. GEMS MENASA Ltd – registered in the Kingdom of Saudi Arabia
29. GEMS Manco (Egypt) Limited – registered in Egypt
30. East Sports Equipment Articles and Services LLC – registered in the UAE (75% owned)*
31. School Sports Solutions Limited - registered in the Cayman Islands
32. Safecor Security – registered in the UAE
33. STS Security Devices & Equipment Trading LLC- registered in the UAE
34. Al Kawakeb Garage - registered in the UAE
35. TELLAL Professional & Management Dev.Training LLC- registered in the UAE
36. STSS Auto Repairing LLC- registered in the UAE
37. Threads Holdings Limited – registered in the British Virgin Islands
38. Hamilton Aquatics Swimming Training Ltd – registered in the British Virgin Islands (60% owned*) (Note 6)
39. Hamilton Aquatics Swimming Training LLC – registered in the UAE (60% owned*) (Note 6)
40. Infracare Maintenance Cleaning Services LLC – registration is in progress (Note 6)
41. Delta Learning and Training Institute L.L.C. – registered in the UAE

Corporate head office and others

Corporate head office and others being the unallocated operations related to central head office and other investment entities.

42. Global Educational Management Systems Establishment – registered in the UAE
43. GEMS MENASA IPCO (Cayman) Limited - registered in the Cayman Islands
44. GEMS MEA SUKUK Limited - registered in the Cayman Islands
45. Education Holdings 1 Limited – registered in the UAE
46. Education Holdings 2 Limited – registered in the UAE
47. P S G Investment LLC- registered in the UAE
48. GEMS Education Limited – registered in the Cayman Islands
49. Global Education Management Systems Limited – registered in the British Virgin Islands
50. GEMS Group Holdings Limited - registered in the UAE
51. GEMS Group Management Limited - registered in the UAE

*The Group has a 25% profit sharing arrangement with a third party, for one of the branches in PSI LLC and 25% and 40% of East Sports Equipment Articles and Services LLC and Hamilton Aquatics Swimming Training Ltd respectively, are owned by third parties. These arrangements are considered to be non-controlling interests in the Group.

The student strength for the period ended 28 February 2018 was 118,408 students (28 February 2017: 113,345 students). The Group had 17,463 employees at 28 February 2018 (28 February 2017: 14,984 employees).

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The interim consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and contingent consideration which have been measured at fair value.

The interim consolidated financial statements are presented in United States Dollars (USD). However, the Group's functional currency is the United Arab Emirates Dirham (AED). The AED is currently pegged to the US Dollar. The Group is using USD as its presentation currency to comply with the internal reporting requirements of the Holding Company. Balances and transactions have been translated from AED to USD at the rate at which the currencies are fixed for the period ended 28 February 2018 and 28 February 2017 and year ended 31 August 2017, USD 1 being equivalent to AED 3.675. All values are rounded to the nearest USD one hundred thousand (USD 0.1 million), except when otherwise stated.

Basis of consolidation

Subsidiaries

The interim consolidated financial statements comprise the financial statements of the Holding Company and its subsidiaries as at the reporting date. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the interim consolidated statement of profit or loss from the date the Group gains control until the date the Group ceases to control the subsidiary.

The interim consolidated statement of profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Holding Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 August 2017, except for the adoption of new standards effective as of 1 September 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these amendments apply for the first time in 2018, they do not have a material impact on the interim consolidated financial statements of the Group. The nature and the impact of each amendment is described below:

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Group applied amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Amendments to IAS 7 Statement of cash flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). These amendments did not have a significant impact on the Group as the Group is already following the requirement of these amendments.

Annual Improvements 2014-2016 Cycle

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

As at 28 February 2018, these amendments did not affect the Group's interim consolidated financial statements as there are no held for sale investments which are in the scope of the amendments.

(b) Standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's interim consolidated financial statements are disclosed as follows. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group has assessed the impact of IFRS 15 and based on the assessment performed by the Group management, there will be no significant impact on the Group's consolidated financial statements. The Group plans to adopt the new standard on the required effective date.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) Standards and interpretations issued but not yet effective (continued)

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent. The Group plans to adopt the new standard on the required effective date.

(a) *Classification and measurement*

The Group does not expect a significant impact on its interim consolidated financial position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9.

(b) *Impairment*

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables and the Group expects no significant impact on its equity. However the more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact is in progress.

(c) *Hedge accounting*

The Group believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect a significant impact as a result of applying IFRS 9.

IFRS 16 *Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) Standards and interpretations issued but not yet effective (continued)

IFRS 16 Leases (continued)

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective dates of these amendments indefinitely, but an entity that adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

Amendments to IFRS 2 Share based payments: *Classification and Measurement of Share-based Payment Transactions*

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. These amendments are not expected to have a significant impact on the Group.

Annual Improvements 2014-2016 Cycle

These improvements include:

IFRS 1 *First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Group.

IAS 28 *Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

The amendments clarify that:

An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.

If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) Standards and interpretations issued but not yet effective (continued)

Annual Improvements 2014-2016 Cycle (continued)

The amendments to IAS 28 are effective for annual periods beginning on or after 1 January 2018. These amendments are not expected to have a significant impact on the Group.

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

- (i) The beginning of the reporting period in which the entity first applies the Interpretation; or
- (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of Interpretation is permitted and must be disclosed. However, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its interim consolidated financial statements.

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the Interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the Interpretation may affect its interim consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable taking into account contractually defined terms of payment and net of discounts and rebates and excluding sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Fee income

Fee income includes tuition, transport, registration, annual, admission, computer fees, management fees and operational fees.

The revenue from different fee income is recognised as follows:

- Tuition, annual and computer fees are recognised over the period of time the services are rendered.
- Registration and admission fees are recognised at the time of enrolment.
- Transportation fees are recognised over the period of time the services are rendered.
- Facility management fees are recognised over the period of time the services are rendered.
- Sports coaching fees and facility rental are recognised over the period of time the services are rendered or period of facilities are rented.
- Management fees are recognised over the period of time that management services are rendered.
- Operational fees are recognised over the period of operations.

Interest income

Interest income is recognised as the interest accrues using the effective interest method.

Other income

Other income includes commission income from sale of books, uniforms and canteen sales and is recognised in the same period of sales.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the interim consolidated statement of profit or loss in the period in which they are incurred.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of the property and equipment. When significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

All other repair and maintenance costs are recognised in the interim consolidated statement of profit or loss as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land and capital work-in-progress are not depreciated.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives. Estimated useful lives of the assets as follows:

Freehold/leasehold buildings and improvements	3 to 50 years
Furniture, fixtures and equipment	3 to 7 years
Motor vehicles	5 to 10 years
Library books	4 years

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the interim consolidated statement of profit or loss in the year the asset is derecognised.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the interim consolidated statement of profit or loss as the expense is incurred.

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively if appropriate, at each financial period end.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the interim consolidated statement of profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the interim consolidated statement of profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in interim consolidated statement of profit or loss when the asset is derecognised.

Software costs

Software costs are initially recognised at amounts paid and expenses incurred by the Group for developing the ERP and GEMS learning gateway software. Following initial recognition, these are carried at cost less any accumulated amortisation and any impairment losses. Software costs are amortised on a straight line basis over a period of 5 years.

Brand

Brand acquired, separately or as part of a business combination, is capitalised if they meet the definition of an intangible asset and the recognition criteria is satisfied. Brand value is amortised on a straight-line basis over a period of 5 years.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 the risks specific to the asset.

In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, of quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the interim consolidated statement of profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Derecognition of financial instruments

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial instruments (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When 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 the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the interim consolidated statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the interim consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. These derivative financial instruments are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and financial liabilities when the fair value is negative. The fair value of interest rate swaps is determined by reference to market values for similar instruments.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the interim consolidated statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in the interim consolidated statement of comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk);
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objectives and strategies for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair values or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair values or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

For the purpose of hedge accounting, the interest rate swaps are classified as cash flow hedges if they effectively hedge the Group's exposure to variability in cash flows attributable to future interest payments on Group borrowings. The effective portion of the gain or loss on the interest rate swaps is recognised in the other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised in the interim consolidated statement of profit or loss. Amounts recognised as other comprehensive income are transferred to interim consolidated statement of profit or loss when the hedged transaction affects interim consolidated statement of profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Upon such discontinuance in the case of cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. When such transactions occurs, the gain or loss retained in equity is recognised in the interim consolidated statement of profit or loss or included in the initial measurement of the cost of the related asset or liability, as appropriate. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the interim consolidated statement of profit or loss.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Derivative financial instruments which are used to manage interest rate risk arising from the non-contracted liabilities are classified as held for trading and do not qualify for hedge accounting.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the interim consolidated statement of profit or loss.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- a) In the principal market for the asset or liability, or
- b) In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the interim consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the interim consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Current versus non-current classification

The Group presents assets and liabilities in interim consolidated statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Accounting for business combinations involving entities or businesses under common control

Accounting for business combinations involving entities or businesses under common control is outside the scope of IFRS 3 *Business Combinations*. In the case of an absence of a specific guidance in IFRS, the management use their judgement in developing and applying an accounting policy that is relevant and reliable. In making that judgement the management may also consider the most recent pronouncement of other standard setting bodies that use a similar conceptual frame work to develop accounting standards, to the extent that they do not conflict with the IFRS.

Management have adopted the acquisition method to account for the business combination of entities under common control with substance. Acquisition method of accounting is explained in Business combinations and goodwill policy.

The pooling of interest method is used to account for the business combination of entities under common control other than combinations with substance. This method involves the following:

- The assets and liabilities of the combining entities are reflected at their carrying amounts
- No goodwill is recognised as a result of combination. The only goodwill recognised is relating to the combining entities. Any difference between the consideration paid/transferred and the equity 'acquired' is reflected within equity.

The interim consolidated statement of profit or loss reflects the results of the full period irrespective of when combination took place under pooling of interest method.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition. Cost is determined using the weighted average method.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on disposal. Obsolete inventory items are written off during the year in which they are identified.

Accounts receivable

Accounts receivable are stated at the original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off against the estimate when there is no possibility of recovery.

Cash and cash equivalents

For the purpose of the interim consolidated statement of cash flows, cash and cash equivalents comprise cash at hand, bank balances and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts, if any.

Impairment and uncollectibility of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, any impairment loss is recognised in the interim consolidated statement of profit or loss. Impairment is determined as follows:

- a) For available-for-sale assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the interim consolidated statement of profit or loss;
- b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Term loans

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

Subsequent to initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method.

Gains and losses are recognised in the interim consolidated statement of profit or loss when the liabilities are derecognised as well as through the amortisation process.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Interest is charged as an expense as it accrues, with unpaid amounts included in 'accounts payable and accruals'.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or in profit or loss.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Value added tax

Expenses and assets are recognised net of the amount of value added tax, except:

- When the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of value added tax included

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the interim consolidated statement of financial position.

Earnings per share (EPS)

Basic EPS is calculated by dividing the profit for the period attributable to equity holders of the Holding Company by the weighted average number of shares outstanding during the period.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for charges on any dilutive potential ordinary shares) by the weighted average number of ordinary shares outstanding during the year/period plus the weighted average number of ordinary shares that would be issued on conversion of any dilutive potential ordinary shares into ordinary shares.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the interim consolidated statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Employees' benefits

The Group's obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed at each reporting period by a qualified actuary using the projected unit credit method. Re-measurements of the defined benefit liability, which comprise actuarial gains and losses are recognised immediately in interim consolidated statement of comprehensive income. The Group determines the net interest expense on the obligation at the beginning of the annual period to the then defined benefit liability, taking into account any changes in the defined benefit liability during the period as a result of benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in interim consolidated statement of profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Share based payment arrangement

Equity-settled transactions

The cost of equity-settled transactions is determined by reference to the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised in employee benefits expense, together with a corresponding increase in equity, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). This period may commence prior to the grant date. In this situation, the Group estimates the grant date fair value of the equity instruments for the purposes of recognising the services received during the period between service commencement date and grant date. Once the grant date has been established, the Group revises the earlier estimate so that the amounts recognised for services received is ultimately based on the grant date fair value of the equity instruments.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Share based payment arrangement (continued)

Equity-settled transactions (continued)

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in arrangement.

Finance leases, which transfer to the Group (being the lessee) substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the interim consolidated statement of profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense by the lessee in the interim consolidated statement of profit or loss on a straight-line basis over the lease term.

Sale and leaseback transactions

If the sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term.

If the sale and leaseback transaction results in an operating lease, any profit or loss is recognised immediately in the interim consolidated statement of profit or loss unless the loss is compensated by future lease payments at below market price, in which case the profit or loss is to be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over the fair value is deferred and amortised over the period for which the asset is expected to be used.

Contingencies

Contingent liabilities are not recognised in the interim consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the interim consolidated financial statements but disclosed when an inflow of economic benefits is probable.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

The Group's financial statements are presented in United States Dollars, which is the Group's presentation currency.

The Group's functional currency is the United Arab Emirates Dirham.

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the interim consolidated statement of profit or loss with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the interim consolidated statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in interim consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

ii) Group companies

The assets and liabilities of foreign operations are translated into AED at the rate of exchange prevailing at the reporting date and their income statements are translated at average month end exchange rate. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the interim consolidated statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Subordinated Perpetual Certificates

The Subordinated Perpetual Certificates (the "Certificates") are perpetual with no fixed redemption date. The Certificates carry a fixed periodic profit rate of 12% per annum, payable semi-annually in arrears, however these can be deferred at the option of the Group. Management has accounted for these instruments as equity in the interim consolidated financial statements as the Certificates do not carry an obligation to make payments save in the case of certain triggering events all of which are within the control of the Group. The transaction cost incurred on issuance of these Certificates has been deducted from equity.

Segment reporting

The Group has presented the segment information in respect of its business and geographical segments in the same way as it is presented internally to the management.

3 JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the interim consolidated financial statements requires management to make judgements, estimates and assumptions that may affect the reported amount of assets and liabilities, revenues, expenses, disclosure of contingent liabilities and the resultant provisions and fair values. Such estimates are necessarily based on assumptions about several factors and actual results may differ from reported amounts.

3 JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgements

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

Classification of leases - Group as a lessee

The Group has entered into commercial property leases for leasehold buildings and improvements. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that under the current arrangements the Group does not acquire all the significant risks and rewards of ownership of these commercial property leases and therefore record these as operating leases.

Classification of subordinated perpetual certificates – equity or liability

The Group has issued certificates which have no contractual obligations either:

- to deliver cash or another financial asset to another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group.

Accordingly, the certificates have been classified as equity in the interim consolidated financial statements by management.

Going concern

Management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Further, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the interim consolidated financial statements continue to be prepared on a going concern basis.

Consolidation of entities prior to the date of consideration transferred

The Group considers that it controls Hamilton even though consideration was paid or payable subsequent to the date of acquisition. This is because the Group was controlling all operational and financial decisions from the date of acquisition and all the substantial conditions precedent were met from that date.

Estimates and assumptions

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 and in any future periods affected.

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

Fair value of financial instruments

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group used discounted cash flow methods with best estimated cash flows and discount rates to arrive at the fair value.

Impairment of goodwill

Goodwill is tested for impairment annually and other times when such indicators exist. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

The carrying amount of goodwill as at 28 February 2018 was USD 88.3 million (31 August 2017: USD 88.3 million). The goodwill is assessed for impairment at least annually. As per the annual impairment testing carried out as at 31 August 2017 by the management of the Group, no impairment was recognised since recoverable amount was assessed as higher than the carrying value. Further, reasonably possible changes in key assumptions would not eliminate the headroom in either of the two CGU's. The key assumptions used in the impairment assessment are included in note 9.

3 JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Impairment of fees receivable

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

At the reporting date, gross fees receivable and the provision for doubtful debts are disclosed in note 11 to the interim consolidated financial statements. Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the interim consolidated statement of profit or loss.

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a impairment applied according to the inventory type and the degree of ageing or obsolescence, based on anticipated selling prices.

At the reporting date, gross inventories were USD 13.1 million (31 August 2017: USD 13.6 million) with provisions for old and obsolete inventories of USD 2.3 million (31 August 2017: USD 2.4 million). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the interim consolidated statement of profit or loss.

Useful lives of property and equipment

The Group's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates (note 7).

Useful lives of intangible assets

The Group's management determines the estimated useful lives of its intangible assets for calculating amortisation. This estimate is determined after considering the expected usage of the asset. Management reviews the residual value and useful lives annually and future amortisation charge would be adjusted where the management believes the useful lives differ from previous estimates (note 9).

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets except goodwill are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Employee benefit plans

The cost of the end of service benefit and long service benefit and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds.

3 JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)**Estimates and assumptions (continued)****Share-based payments**

Estimating fair value for equity settled share-based payment transactions at grant date requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model. The option valuation models are not used to estimate the fair value as the share-based payments or share appreciation rights ("SARs") settle in cash and contain no payoff terms as a call option. Since the shares of the Intermediate Parent Company are not listed, the fair value of the SARs is measured at the grant date using fixed formula with fixed multiple of EBITDA (Earnings before interest, tax, depreciation, amortisation and monitoring charges) as at the grant date taking into account the terms and conditions on which the instruments were granted. The assumptions used for estimating fair value for share-based payment transactions are disclosed in note 21.

Contingent consideration

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently re-measured at fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor (refer note 6 for details).

As part of the accounting for the acquisition of Wes Green Group and Threads, contingent consideration with an estimated fair value of USD 15.6 million and USD 31.8 million respectively was recognised at the respective acquisition dates. As at 28 February 2018, contingent consideration with an estimated fair value of USD 5.9 million and USD 3.9 million relating to Wes Green was outstanding. These amounts were remeasured with no fair value changes noted as at the reporting date. Future developments may require further revisions to the estimate.

4 FINANCE COSTS

	<i>For the six months ended</i>	
	<i>28 February 2018</i>	<i>28 February 2017</i>
	<i>USD in millions (Audited)</i>	<i>USD in millions (Unaudited)</i>
Term loan interest	17.0	18.1
Amortisation of loan arrangement fee (see note below)	13.2	2.2
Unwinding of other financial liabilities	0.6	3.9
Bank charges and others	4.9	3.4
	<u>35.7</u>	<u>27.6</u>

Note:

Amortisation of loan arrangement fee includes an amount of USD 11.5 million which represents the unamortised portion of the loan arrangement fee on the Senior Facility. As disclosed in note 14, the Group repaid the Senior Facility during the period and as such, the related unamortised portion of the loan arrangement fee was charged to the interim consolidated statements of profit or loss during the period ended 28 February 2018.

At 28 February 2018

5 PROFIT FOR THE PERIOD

The profit for the period is stated after charging:

	<i>For the six months ended</i>	
	28 February 2018 USD in millions (Audited)	28 February 2017 USD in millions (Unaudited)
Staff costs	294.2	257.7
Rental-operating leases	39.4	35.6
Depreciation (note 7)	33.7	29.1
Amortisation of intangible assets (note 9)	2.6	1.9
Impairment losses on intangible assets (note 9)	-	1.8

6 BUSINESS COMBINATIONS**a) For the period ended 28 February 2018*****Acquisition of Hamilton Aquatics Swimming Training Ltd (“Hamilton”)***

During the period, the Group obtained control of Hamilton, which is registered in the British Virgin Islands. Hamilton is an entity providing swimming coaching services and related activities within the UAE and Qatar. The sale and purchase agreement (“SPA 1”) was signed relating to the acquisition of a 60% legal and beneficial ownership of Hamilton with conditions precedent for the completion of the restructuring of ownership structure, which were completed subsequently and the Shareholder Agreement (“SHA”) was signed on 25 February 2018.

As per the SHA, the Group has a call option to acquire the NCI shares and also has given a put option to allow the NCI shareholder to sell their shares to the Group. The put option may be exercised any time between 1 April 2020 and 1 April 2023. The call option can be exercised at any time from 31 March 2018 until 31 March 2023. The pricing mechanism for the put and the call option are the same. The Group considered 1 September 2017 as the acquisition date as the power to govern financial and operational decision making along with right to variable returns were transferred on that date. As at 28 February 2018, the legal restructuring of the Qatar operations was not yet completed.

The Group recognised the present value of the redemption amount of put options granted to non-controlling interests as a financial liability (note 17 (c)). Fair value changes in the carrying amount of the financial liability are recognised in profit or loss.

During the period ended 28 February 2018, Hamilton contributed revenue of USD 3.4 million and profit of USD 0.6 million to the Group’s results.

Acquisition of Infracare Maintenance Cleaning Services LLC (“FM Business”)

During the period, the Group entered into a Business and Assets Sale and Purchase Agreement (“SPA 2”) on 28 February 2018 to obtain control of the FM Business of one of the subsidiaries of the Intermediate Parent Company of the Group. The FM Business is primarily engaged in facilities maintenance, swimming pools maintenance, air conditioning maintenance, electromechanical maintenance, building maintenance and building cleaning services. The customer base of the FM business mostly includes entities within the Group. The legal restructuring of the FM Business is currently under progress and upon completion of the restructuring, FM Business will be included under Infracare Maintenance Cleaning Services LLC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 28 February 2018

6 BUSINESS COMBINATIONS (continued)**a) For the period ended 28 February 2018 (continued)****Acquisition of Infracore Maintenance Cleaning Services LLC (“FM Business”) (continued)**

This acquisition is a common control business combination without commercial substance and accounted for using the pooling of interest method as per the Group’s accounting policy. As per the pooling of interest method, results of the FM Business are accounted for from the start of the earliest period presented, however in this case prior periods are not restated as the impact is not material. Consideration paid over and above the carrying value of net assets has been recognised in equity to the overall interim consolidated financial statements.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	<i>Hamilton USD in millions</i>	<i>FM Business USD in millions</i>
Assets		
Property and equipment	0.2	0.7
Intangible assets	5.0	-
Inventories	-	2.0
Accounts receivable and prepayments	0.5	13.8
Bank balance and cash	0.2	-
	<u>5.9</u>	<u>16.5</u>
Liabilities		
Accounts payable and accruals	(0.6)	(8.7)
Employees’ benefits	(0.2)	(0.6)
	<u>(0.8)</u>	<u>(9.3)</u>
Total identifiable net assets	5.1	7.2
Less: Non-controlling interest measured at fair value	(2.0)	-
Less: Initial and deferred consideration paid and payable	(1.6)	(14.0)
Less: Excluded net overdue receivable and payable	-	(8.1)
	<u>(1.5)</u>	<u>-</u>
Excess consideration adjusted in retained earnings	<u>-</u>	<u>14.9</u>
Cash flow on acquisition		
	<i>Hamilton USD in millions</i>	<i>FM Business USD in millions</i>
Net cash acquired	0.2	-
Cash paid	(1.4)	-
Net cash flow on acquisition	<u>(1.2)</u>	<u>-</u>

6 BUSINESS COMBINATIONS (continued)

a) For the period ended 28 February 2018 (continued)

Hamilton

The Group determined the fair value of the net assets of Hamilton on the acquisition date and accordingly, a brand value of USD 5.0 million was recognised. As per the purchase price allocation performed by the Group, a bargain purchase gain of USD 1.5 million was recognised in the interim consolidated financial statements for the period ended 28 February 2018.

Initial and deferred consideration

As per the terms of the SPA 1, initial consideration (USD 1.4 million) is to be settled on the completion date (date of all conditions precedent being completed). As of the date of the interim consolidated financial statements, some conditions precedent related to restructuring of the legal structure were not met. Initial consideration was deferred upon two major conditions precedents as below:

- Restructuring of UAE operations – USD 1.4 million
- Restructuring of Qatar operations – USD 0.2 million

USD 1.4 million was paid subsequent to the acquisition date upon successful completion of the UAE operations restructuring.

FM Business

The net assets recognised in the interim consolidated financial statements are based on the respective carrying values. Accordingly, the difference between the consideration and net assets acquired at to the acquisition date (28 February 2018) amounting to USD 14.9 million is adjusted in the interim consolidated statement of changes in equity as per the accounting policy of the Group.

As per the terms of the SPA 2, consideration is to be settled in full at the completion of the conditions precedent.

A reconciliation of the fair value measurement of the deferred and contingent consideration liability is provided in note 17 (a).

b) For the year ended 31 August 2017

Acquisition of Wes Green Int. Pvt. School LLC, Wes Green Int. (Al Qaraïen School) and Green Belt (Al Qaraïen Nursery) (collectively referred to as Wes Green Group)

During the year ended 31 August 2017, the Group obtained control of two schools, Wes Green Int. Pvt. School LLC, and Wes Green Int. (Al Qaraïen School) and one nursery, Green Belt (Al Qaraïen Nursery) (the “Wes Green Group”), each registered in the UAE and operating in Sharjah. The sale and purchase agreement (“SPA 3”) was signed relating to the acquisition of 100% legal and beneficial ownership of the Wes Green Group on 24 July 2016 with conditions precedent for the completion of the acquisition. The Group obtained control of the Wes Green Group effective from 1 September 2016 and consolidated its results with effect from 1 September 2016.

Acquisition of Threads Holdings Limited

During the year ended 31 August 2017, the Group obtained control of Threads Holdings Ltd, BVI (“Threads”), which sells school uniforms to students. Threads was owned by one of the subsidiaries of Intermediate Parent Company of the Group. As per the sale and purchase agreement (“SPA 4”), the purchase consideration has been settled, partly by exchange of receivable balance in the books of Threads from Intermediate Parent Company and partly in cash. The Group obtained the control of Threads with effect from 1 September 2016.

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At 28 February 2018

6 BUSINESS COMBINATIONS (continued)

b) For the year ended 31 August 2017 (continued)

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts (fair value) of assets acquired and liabilities assumed at the date of acquisition (1 September 2016).

	<i>Wes Green Group USD in millions</i>	<i>Threads USD in millions</i>	<i>Total USD in millions</i>
Assets			
Equipment	0.9	0.7	1.6
Inventories	0.1	2.3	2.4
Accounts receivable and prepayments	1.6	3.4	5.0
Bank balance and cash	18.1	4.3	22.4
	<u>20.7</u>	<u>10.7</u>	<u>31.4</u>
Liabilities			
Accounts payable and accruals	(8.9)	(4.5)	(13.4)
Employees' benefits	(1.5)	(0.1)	(1.6)
	<u>(10.4)</u>	<u>(4.6)</u>	<u>(15.0)</u>
Total identifiable net assets at fair value	10.3	6.1	16.4
Less: Initial and deferred consideration payable	(53.8)	(31.8)	(85.6)
Less: Contingent consideration payable	(18.9)	-	(18.9)
Total consideration	<u>(72.7)</u>	<u>(31.8)</u>	<u>(104.5)</u>
Goodwill	<u>62.4</u>	<u>25.7</u>	<u>88.1</u>
Cash flow on acquisition			
	<i>Wes Green Group USD in millions</i>	<i>Threads USD in millions</i>	<i>Total USD in millions</i>
Net cash acquired	18.1	4.3	22.4
Cash paid	(58.5)	(1.0)	(59.5)
Net cash flow on acquisition	<u>(40.4)</u>	<u>3.3</u>	<u>(37.1)</u>

Wes Green Group

The goodwill of USD 62.4 million is comprised of the value of expected synergies arising from the acquisition and existing student strength, which is not separately recognised as it does not meet the criteria for recognition as an intangible asset under IAS 38.

6 BUSINESS COMBINATIONS (continued)

b) For the year ended 31 August 2017 (continued)

Initial and deferred consideration

As per the terms of the SPA 3, initial consideration is to be settled on the completion date (date of all conditions precedent being completed). As of the acquisition date, some conditions precedent related to government approvals were in progress. Therefore the initial consideration was deferred until the completion of conditions precedent, which was paid subsequent to the acquisition date.

Contingent consideration

As part of the sale and purchase agreement with the previous owners of the Wes Green Group, certain contingent considerations have been agreed. There will be additional cash payments to the previous owners of the Wes Green Group as set out below:

- 25% of net profit for the year ended 31 August 2016 of the Wes Green Group;
- Additional capacity consideration (future expansion of 1,500 capacity) of USD 19.0 million;
- Excess capacity consideration of USD 2.7 million for every 500 students increases over and above additional capacity; and
- Consideration for fee increases of 2016, 2017 and 2018.

As at the acquisition date, the fair value of the contingent consideration was estimated to be USD 18.9 million. The fair value is determined using Discounted Cash Flow ("DCF") method.

Significant unobservable valuation inputs are provided below:

- Assumed probability-adjusted fee increase of 2017 and 2018 are USD 0.4 million and USD 0.3 million respectively;
- Assumed additional capacity construction will be started and completed within the agreed time period in the SPA 3;
- Assumed no excess capacity increases over and above additional capacity; and
- Discount rate 11.0% (expected rate of return)

Fair value of contingent consideration will have impact from changes in assumptions given below;

- significant increase / (decrease) in the fee increases of 2017 and 2018;
- significant increase / (decrease) in the discount rate; and
- significant changes in assumptions on additional capacity and excess capacity.

Threads Holdings Limited

The net assets recognised in the consolidated financial statements are based on an assessment of their fair value and accordingly, the goodwill of USD 25.7 million is also recognised. Fair value will be reassessed within the permitted time period under IFRS.

As per the terms of the SPA 4, consideration is to be settled in full within a specified period after the completion date. Prior to the year end, the consideration amounting to USD 26.3 million was settled by way of taking over a payable balance to Threads and USD 1.0 million paid in cash. The balance consideration of USD 7.5 million was paid subsequent to the year end. These outflows were discounted and recognised at the fair value of purchase consideration as at the acquisition date.

Deferred and contingent consideration relating to above acquisitions are disclosed in note 17.

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7 PROPERTY AND EQUIPMENT

	Freehold Land USD in millions	Freehold/ leasehold buildings and improvements USD in millions	Furniture, fixtures and equipment USD in millions	Motor vehicles USD in millions	Library books USD in millions	Capital work-in-progress USD in millions	Total USD in millions
28 February 2018 :							
Cost:							
At 1 September 2017	19.5	966.7	196.4	133.8	17.4	138.6	1,472.4
Additions	-	60.7	33.9	19.1	1.2	106.8	221.7
Disposals	-	(0.1)	(1.4)	(0.8)	-	-	(2.3)
Acquisition of businesses (note 6)	-	-	0.8	-	-	0.1	0.9
Transfers to Intermediate Parent Company	-	-	-	-	-	(0.5)	(0.5)
Transfers from capital-work-in-progress	-	50.0	12.4	-	0.1	(62.5)	-
At 28 February 2018	19.5	1,077.3	242.1	152.1	18.7	182.5	1,692.2
Depreciation/impairment:							
At 1 September 2017	-	121.5	108.5	81.8	12.8	4.2	328.8
Provided during the period	-	10.6	18.4	3.9	0.8	-	33.7
Related to disposals	-	(0.1)	(1.0)	(0.8)	-	-	(1.9)
At 28 February 2018	-	132.0	125.9	84.9	13.6	4.2	360.6
Net carrying amount at 28 February 2018	19.5	945.3	116.2	67.2	5.1	178.3	1,331.6

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7 PROPERTY AND EQUIPMENT (continued)

	Land USD in millions	Freehold/ leasehold buildings and improvements USD in millions	Furniture, fixtures and equipment USD in millions	Motor vehicles USD in millions	Library books USD in millions	Capital work-in-progress USD in millions	Total USD in millions
Cost:							
At 1 September 2016	19.5	525.7	139.3	111.0	15.7	323.5	1,134.7
Additions	-	161.2	15.6	13.8	0.8	50.6	242.0
Disposals	-	-	-	-	-	-	-
Acquisition of businesses	-	0.4	1.1	0.1	-	-	1.6
Transfer from capital-work-in-progress	-	191.4	12.3	-	0.1	(203.8)	-
At 28 February 2017	19.5	878.7	168.3	124.9	16.6	170.3	1,378.3
Depreciation:							
At 1 September 2016	-	95.9	75.5	72.2	10.8	-	254.4
Provided during the period	-	8.4	14.7	5.0	1.0	-	29.1
At 28 February 2017	-	104.3	90.2	77.2	11.8	-	283.5
Net carrying amount at 28 February 2017	19.5	774.4	78.1	47.7	4.8	170.3	1,094.8

GEMS MENASA (Cayman) Limited and its subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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7 PROPERTY AND EQUIPMENT (continued)

- a) Leasehold buildings and improvements represent the building costs related to the school premises, which are constructed on leasehold land.
- b) The long term leases are renewable on periodic basis although certain leases are for periods of up to 50 years. In the case of certain schools, the leases have been assigned or sublet to PSI LLC. In certain other cases, the leases are held in the name of a beneficiary of the Ultimate Parent and the assignment process is either ongoing or had not started as at the reporting date. In such cases, the leases are confirmed to be held beneficially for the Group.
- c) Borrowing and staff costs amounting to USD 2.2 million and USD 3.9 million (28 February 2017: USD 0.6 million and USD 1.6 million) respectively have been capitalised during the period. The rate used to determine the amount of borrowing costs eligible for capitalisation is 4.5% per annum (28 February 2017: 4.5% per annum), which is the effective interest rate of the borrowings.
- d) Certain motor vehicles are hypothecated against bank loans obtained by the Group to finance the purchase of these vehicles.
- e) Capital work-in-progress includes capital expenditure incurred towards buildings and improvements related to the school premises.
- f) During the period, the Group has bought back the tenant's rights, title and interest in and to the lease, buildings and improvements for a school (previously sold under a sale and lease back transaction) for an aggregate consideration of USD 53.1 million. The amount of acquired assets includes, the buyback of tenant's rights, title and interest in and to the lease, buildings and improvements of that school.
- g) During the previous year, the Group accepted the put option to buy back the tenant's rights, title and interest in and to the lease, buildings and improvements for three schools (previously sold under sale and lease back transaction) with effect from 1 September 2016 for an aggregate consideration of USD 159.8 million. The amount of acquired assets includes, the buyback of tenant's rights, title and interest in and to the lease, buildings and improvements of these three schools.
- h) With effect from 1 September 2017, the average estimated useful lives of motor vehicles and furniture fixtures and equipment were revised by the management, from 5–8 years to 5-10 years and from 3-5 years to 3-7 years, respectively. Further, management believes that the estimated residual value for busses and mini busses (including vans) at the end of their useful lives is 5% of cost and 10% of cost, respectively. As a result of this change in the estimated useful lives and residual values, the depreciation charged for the period is lower and the net book value of motor vehicles and furniture at 28 February 2018 is higher by USD 4.8 million. Consequently, the total comprehensive income for the period is higher by USD 4.8 million. The above change will affect future periods as well. However, the impact on future period has not been disclosed as it was considered impracticable to do so.

8 RELATED PARTY BALANCES AND TRANSACTIONS

Transactions with related parties, included in the interim consolidated financial statements, are as follows:

	<i>For the six months ended</i>	
	28 February 2018	28 February 2017
	USD in millions	USD in millions
	(Audited)	(Unaudited)
i) Entities under control of the Ultimate Parent:		
<i>Revenue</i>	0.5	0.4
<i>Expenses</i>		
Cleaning and facility management expenses included under education and administrative expenses	-	6.2
<i>Capitalised expenses</i>		
Leasehold improvements and capital work-in-progress	85.0	33.6

GEMS MENASA (Cayman) Limited and its subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 28 February 2018

8 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

	<i>For the six months ended</i>	
	28 February 2018 USD in millions (Audited)	28 February 2017 USD in millions (Unaudited)
ii) Net expenses recharged to the Parent Company and Intermediate Parent Company	0.1	0.8
iii) Transfer of capital-work-in-progress to Intermediate Parent Company	0.5	-
iv) Interest income on loan to the Parent Company	4.8	4.8
v) Balances with related parties included in the interim consolidated statement of financial position are as follows:		
	28 February 2018 USD in millions	31 August 2017 USD in millions
<i>Loan to a related party:</i>		
Non-current portion	-	80.0
Current portion	80.0	-
	80.0	80.0
<i>Loan to a related party:</i>		
Loan to a related party pertains to an unsecured Murabaha facility (in accordance with Murabaha Agreement dated 25 November 2013) given by the Holding Company to the Parent Company for five years at a profit rate of 12.12% per annum on proceeds of the Subordinated Perpetual Certificates. The loan is repayable at the end of five years and any amounts expected to be realised within the next twelve months are classified as current.		
	28 February 2018 USD in millions	31 August 2017 USD in millions
<i>Amounts due from related parties:</i>		
Immediate Parent Company	11.9	13.7
Parent Company	5.5	-
	17.4	13.7
<i>Amounts due to related parties:</i>		
Entities under control of the Intermediate Parent Company	56.6	18.3
Parent Company	-	0.6
	56.6	18.9
<i>Deferred consideration</i>		
Entities under control of the Intermediate Parent Company (note 17 (a))	14.0	7.5

Note 6 also discloses the acquisition of a subsidiary from an Intermediate Parent Company.

The impairment assessment is undertaken each financial year through examining the financial position of the related parties and the country in which the related party operates. As at 28 February 2018, there was no impairment of amounts owed by related parties (31 August 2017: Nil). Outstanding balances at the period-end/year-end are unsecured and interest free.

GEMS MENASA (Cayman) Limited and its subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 28 February 2018

8 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Compensation of key management personnel

The remuneration of members of key management during the period was as follows:

	<i>For the six months ended</i>	
	28 February 2018 USD in millions (Audited)	28 February 2017 USD in millions (Unaudited)
Salary and other benefits	3.7	2.3

The amount disclosed above are the amounts recognised as an expense during the reporting period.

9 INTANGIBLE ASSETS

28 February 2018	<i>Software costs USD in millions</i>	<i>School management contracts USD in millions</i>	<i>Goodwill USD in millions</i>	<i>Brand value USD in millions</i>	<i>Total USD in millions</i>
Cost:					
At 1 September 2017	23.0	3.2	88.3	-	114.5
Additions	0.3	-	-	-	0.3
Acquisition of businesses (note 6)	-	-	-	5.0	5.0
At 28 February 2018	23.3	3.2	88.3	5.0	119.8
Amortisation:					
At 1 September 2017	7.7	3.2	-	-	10.9
Amortisation charge for the period	2.1	-	-	0.5	2.6
At 28 February 2018	9.8	3.2	-	0.5	13.5
Net carrying amount: At 28 February 2018	13.5	-	88.3	4.5	106.3
	<i>Software costs USD in millions</i>	<i>School management contracts USD in millions</i>	<i>Goodwill USD in millions</i>	<i>Brand value USD in millions</i>	<i>Total USD in millions</i>
28 February 2017					
Cost:					
At 1 September 2016	16.6	3.2	0.2	-	20.0
Additions	0.5	-	-	-	0.5
Acquisition of businesses (note 6)	-	-	88.1	-	88.1
At 28 February 2017	17.1	3.2	88.3	-	108.6
Amortisation:					
At 1 September 2016	4.6	1.2	-	-	5.8
Amortisation charge for the year	1.7	0.2	-	-	1.9
Impairment losses	-	1.8	-	-	1.8
At 28 February 2017	6.3	3.2	-	-	9.5
Net carrying amount: At 28 February 2017	10.8	-	88.3	-	99.1

9 INTANGIBLE ASSETS (continued)

a) School management contracts

School management contract had been recognised as an intangible asset at the time of the acquisition of Global Education Management Systems Saudi Limited. During the prior period, the balance of the school management contract was impaired due to termination of contract subsequent to the previous reporting period.

b) Software costs

Software costs represent amounts paid and expenses incurred by the Group for developing the in-house software and GEMS learning gateway software. Following initial recognition, these are carried at cost less any accumulated amortisation and any impairment losses.

During the period ended 28 February 2018, software development includes employees and related costs amounting to USD 0.2 million (31 August 2017: USD 0.7 million), related to development of the software.

c) Goodwill

The Group performed its impairment testing on annual basis. Management believes that the assessment stands valid as at 28 February 2018 as no indicators of impairment were noted since previous assessment date.

Wes Green Group

The recoverable amount of the Wes Green Group CGU, USD 156.0 million as at 1 September 2017, has been determined based on a value in use calculation using cash flow projections from financial budgets/business plans approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the prevailing market conditions and future expectations of those conditions. The discount rate applied to cash flow projections is 10.1% and cash flows beyond the five-year period are extrapolated using zero growth rate.

As a result of the analysis, there is headroom of USD 79.5 million (2x).

Threads

The recoverable amount of the Threads CGU, USD 66.3 million as at 1 September 2017, has been determined based on a value in use calculation using cash flow projections from financial budgets/business plans approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the prevailing market conditions and future expectations of those conditions. The discount rate applied to cash flow projections is 10.1 % and cash flows beyond the five-year period are extrapolated using zero growth rate.

As a result of the analysis, there is headroom of USD 32.7 million (2x).

Key assumptions used in value in use calculations and sensitivity to changes in assumptions

The calculation of value in use for both Wes Green and Threads CGUs is most sensitive to the following assumptions:

- Fee increases and Gross margins
- Maintaining student numbers
- Discount rates

Fee increases and Gross margins

Gross margins are based on average values achieved in the three years preceding the beginning of the budget period. The same gross margins have been applied for the Threads CGU for the five year projections. Decreased demand or increase in raw material prices can lead to a decline in the gross margins. A decrease in the gross margin by 23% would result in impairment in the Threads CGU. Further, the projections of Wes Green Group considered a 3% p.a. fee increases for the five year projection, which is less than historical fee increases received by the Group. A decrease in the gross margin by 3% would not eliminate the headroom of the Wes Green Group CGU.

Maintaining student numbers and market penetration

The management expects an increase in student strength in Wes Green Group over the projection period with an additional capacity being constructed. Further, the management expects an increase in the market penetration of Threads as per the integration process. Thread's market penetration assumed for the five year projection was based on the historical trends.

Although management expects the Group's market penetration and student numbers to increase over the forecasted period, a decline in the market penetration of Threads and a decline in student number of Wes Green Group by 23% and by 53% respectively would result in an impairment.

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9 INTANGIBLE ASSETS (continued)

c) Goodwill (continued)

Key assumptions used in value in use calculations and sensitivity to changes in assumptions (continued)

Discount rates

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Specific risk is incorporated by applying beta factors. The beta factors are evaluated annually based on publicly available market data along with management judgement. A rise in the discount rate to 19.8% (i.e. +13.3%) and 19.9% (i.e. +13.4%) in the Wes Green unit and Threads unit respectively would result in impairment.

Reasonably possible change in key assumptions would not eliminate the headroom in either of the two CGUs.

d) Brand value

Brand value represents the value allocated to Hamilton brand as part of purchase price allocation of the Hamilton acquisition (note 6).

10 INVENTORIES

	28 February 2018	31 August 2017
	USD in millions	USD in millions
Uniforms	7.9	8.6
Books, stationery and others	1.7	3.5
Vehicle spare parts and consumables	3.5	1.5
	<u>13.1</u>	<u>13.6</u>
Provision for old and obsolete inventories	(2.3)	(2.4)
	<u>10.8</u>	<u>11.2</u>

11 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	28 February 2018	31 August 2017
	USD in millions	USD in millions
Prepaid expenses	62.2	75.7
Accounts receivable	40.7	13.8
Amounts due from related parties (note 8)	17.4	13.7
Deposits	15.6	14.4
Advances to suppliers	11.9	15.3
VAT receivable	4.3	-
Other receivables	9.9	7.4
	<u>162.0</u>	<u>140.3</u>

As at 28 February 2018, accounts receivable with a nominal value of USD 6.0 million (31 August 2017: USD 4.5 million) were impaired. Movements in the allowance for impairment of fees receivable were as follows:

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At 28 February 2018

11 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

	28 February 2018	31 August 2017
	USD in millions	USD in millions
Balance at the beginning of period/year	4.5	3.0
Charge for the period/year	1.5	3.3
Amounts written off	-	(1.8)
	<u>6.0</u>	<u>4.5</u>

As at 28 February 2018 and 31 August 2017, the ageing of unimpaired fees receivable was as follows:

	<i>Past due but not impaired</i>					
		<i><30 days</i>	<i>30-60 days</i>	<i>61-90 days</i>	<i>91-120 days</i>	<i>>120 days</i>
	<i>Total USD in millions</i>	<i>USD in millions</i>	<i>USD in millions</i>	<i>USD in millions</i>	<i>USD in millions</i>	<i>USD in millions</i>
28 February 2018	40.7	13.4	18.7	1.4	1.1	6.1
31 August 2017	13.8	1.5	0.8	0.8	2.4	8.3

Unimpaired fees receivable are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over fees receivable.

Prepaid expenses include an amount of USD 4.7 million (31 August 2017: USD 5.2 million) representing advance payment of rent for the operating lease of school buildings commencing 1 July 2007 for a period of 15 years.

12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the interim consolidated statement of cash flows consist of the following:

	28 February 2018	31 August 2017	28 February 2017
	USD in millions	USD in millions	USD in millions
Bank balances	56.2	104.6	176.1
Term deposits	14.5	14.0	81.8
Cash in hand	4.3	1.3	3.0
	<u>75.0</u>	<u>119.9</u>	<u>260.9</u>
Less: Term deposits (maturity over three months)	(14.5)	(14.0)	(13.7)
Less: Facility service reserve deposit account	-	(85.3)	(49.9)
	<u>60.5</u>	<u>20.6</u>	<u>197.3</u>

Included in bank balances and cash are bank deposits amounting to USD 14.5 million (31 August 2017: USD 14.0 million) with commercial banks in the UAE. These are denominated in UAE Dirhams with effective interest rates ranging from 1.0% to 2.0% per annum (31 August 2017: 1.0% to 2.0% per annum). These deposits are held under lien by banks as security for the financial guarantees and UAE Ministry of Labour for labour guarantees.

GEMS MENASA (Cayman) Limited and its subsidiaries

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12 CASH AND CASH EQUIVALENTS (continued)

Facility service reserve deposit account means the AED account specified as a pledged account maintained by the Group as per the Senior Facility agreement. During the period, the Group signed a new common term agreement (New CTA) and settled the Senior Facility. Facility service reserve deposit account is not required under the New CTA (note 14).

13 ACCOUNTS PAYABLE AND ACCRUALS

	<i>28 February 2018 USD in millions</i>	<i>31 August 2017 USD in millions</i>
Fees received in advance and unearned fees	190.0	224.9
Accrued expenses	95.3	73.8
Amounts due to related parties (note 8)	56.6	18.9
Trade payables	32.8	44.3
Other payables	56.6	65.8
	<u>431.3</u>	<u>427.7</u>

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 30 to 90 day terms.
- Other payables are non-interest bearing and have an average term of 60 to 120 days.

14 TERM LOANS

	<i>Senior facility USD in millions</i>	<i>Senior syndicated facility USD in millions</i>	<i>Other term loans USD in millions</i>	<i>Total USD in millions</i>
<i>At 28 February 2018</i>				
Balance as at 1 September 2017	725.4	-	118.7	844.1
Loans obtained during the period	-	952.0	45.8	997.8
Principal repayments during the period	(725.4)	-	(134.1)	(859.5)
Transaction cost incurred on Senior Syndicated Facility	-	(23.4)	-	(23.4)
Unwinding /accrued interest	-	9.5	-	9.5
Amortisation of transaction cost	-	0.7	-	0.7
Term loan interest paid during the period	-	(6.8)	-	(6.8)
Balance as at 28 February 2018	<u>-</u>	<u>932.0</u>	<u>30.4</u>	<u>962.4</u>
<i>At 31 August 2017</i>				
Balance as at 1 September 2016	669.3	-	8.1	677.4
Loans obtained during the year	112.0	-	117.0	229.0
Repayments during the year	(55.9)	-	(6.4)	(62.3)
Balance as at 31 August 2017	<u>725.4</u>	<u>-</u>	<u>118.7</u>	<u>844.1</u>

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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14 TERM LOANS (continued)

Term loans are included in the interim consolidated statement of financial position as follows:

	28 February 2018 USD in millions	31 August 2017 USD in millions
Current portion	10.8	154.6
Non-current portion	951.6	689.5
	962.4	844.1

Senior Facility

The Senior Facility comprised of conventional facilities with a consortium of banks for USD 233.6 million and Islamic facilities with a consortium of banks for USD 582.7 million.

The Senior Facility consisted of Facility A, Facility B and Facility C. Facility A was obtained for the purpose of refinancing the prior syndicated loan facility and acquisitions and capital expenditure. Facility B and Facility C were obtained for the purpose of acquisitions and capital expenditure. Facility A, Facility B and Facility C were repayable in 14, 10 and 10 half yearly installments beginning 30 September 2015, 30 September 2017 and 30 September 2017, respectively, until 31 March 2022.

The Senior Facility agreement required the Group to meet certain financial covenants and ratio tests all of which the Group was in compliance with.

The facility was secured by the following:

- a) pledge over 65% of the shares of the GEMS MENASA (Cayman) Limited.;
- b) pledge over 100% of the shares of School Improvement Partnership Limited;
- c) assignment of rights by the Group and certain of its subsidiaries;
- d) assignment of credit card collection of fees for certain subsidiaries; and
- e) pledge over facility service reserve deposit account.

The Senior Facility agreement carried profit/interest rate of EIBOR plus margin. The margin was dependent on certain standard loan conditions and it ranged from 3.0% to 3.5% per annum (31 August 2017: from 3.0% to 3.5% per annum).

On 3 December 2017, the Group entered in to a Senior Syndicated Facility with a consortium of bankers to obtain a loan facility amounting to USD 1,250 million. During the period ended 28 February 2018, the Group has partially drawn the Senior Syndicated Facility and settled the outstanding balance of Senior Facility.

Senior Syndicated Facility

On 3 December 2017, the Group signed a new common term agreement (New CTA) with a consortium of bankers to obtain a new term loan facility ("Senior Syndicated Facility") amounting to USD 1,250.0 million. The Senior Syndicated Facility consists of Facility A and Facility B, comprises of Islamic and conventional facilities with AED and USD denominations. Facility A was obtained for the purpose of the refinancing in full of all amounts outstanding under and in connection with each Existing Facility Agreement (except vehicle loan facilities) and for application towards the general corporate purposes of the Group.

Facility B was obtained for the acquisitions, capital expenditure, acquisition or renewal of vehicles, maintenance of assets, repayment of the Subordinated Instrument, funding expenses payable under any of the Transaction Documents and for general corporate purposes of the Group.

The facility carries interest/profit rate of 2.5% -3.0% ("Margin") + 3 months LIBOR or 3 months EIBOR depending on the loan denominations.

Repayment of Facility A is scheduled to start from 30 September 2020 and 50% of Facility A is scheduled to be settled by 31 March 2024. The remaining 50% of Facility A is scheduled to be settled in full on 30 September 2024. Facility B is scheduled to be repaid in full ("bullet payment") after 5 years (on 4 December 2022) from the date of New CTA.

GEMS MENASA (Cayman) Limited and its subsidiaries

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At 28 February 2018

14 TERM LOANS (continued)

The Senior Syndicated Facility agreement requires the Group to meet certain financial covenants and ratio tests all of which the Group is in compliance with.

The Senior Syndicated Facility is secured by the following:

- a) assignment of school receivables;
- b) assignment of credit card collection of fees for certain subsidiaries; and
- c) pledge over collection account and the operating account;

During the period ended 28 February 2018, the Group drew USD 952.0 million from Facility A. The funds have been partially utilised to settle all existing term loans (including existing Senior Facility) and working capital loans other than vehicle loans. The remaining undrawn amount of Facility A is USD 48.0 million available within 12 months (till 4 December 2019) from the date of New CTA. Facility B (USD 250 million) is available for drawdown within 54 months (till 4 June 2022) from the date of New CTA.

Other term loans

Other term loans included a loan of USD 66.7 million obtained during the year ended 31 August 2017 for the acquisition of Wes Green Group and Threads and carried average interest rate of 4.5% to 5.8% per annum.

Other term loans also included vehicle loans amounting to USD 16.6 million outstanding as at 31 August 2017. These term loans were secured over motor vehicles (refer note 8 for more details) and carried an average interest rate of 3.8% to 5.5% per annum.

Further, during the year ended 31 August 2017, the Group also obtained a working capital loan amounting to USD 35.4 million with interest rate of 4.5% per annum.

During the period ended 28 February 2018, the Group partially utilised Senior Syndicated Facility to fully settle loans obtained to acquire Wes Green Group and Threads Holdings Limited along with working capital loans.

As at 28 February 2018, other term loans of USD 30.2 million representing vehicle loans secured over motor vehicles and carrying an average interest rate of minimum 4.75% per annum. These vehicle loans are repayable on a quarterly basis up to 30 November 2021.

15 DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate swaps

The Group had entered into interest rate swap ("IRS") agreements to hedge its exposure against interest rate fluctuations on Senior Facility (note 14). An IRS is a derivative instrument in which one party exchanges a stream of interest payments for another party's stream of cash flows. The IRS exchanges an obligation to pay fixed cash flows in exchange for receiving cash flows based on floating interest rates and thereby limits the Group's exposure of a significant rise in a floating rate, but limits the benefits of a drop in that floating rate.

The Group's interest rate liability was capped between the range of 4.5% - 7.0% per annum (31 August 2017: 4.5% - 7.0% per annum). In the current period, the Group has entered in to a new club facility and the existing IRS could not be designated as a hedging instrument due to the lack of an effective hedge relationship. Accordingly, the Group transferred the cumulative loss through the interim consolidated statement of other comprehensive income to interim consolidated statement of profit or loss during the current period.

The fair value of the derivative financial instruments, which are equivalent to the market value, together with the notional amount are set out below:

	<i>Notional amounts by term to maturity</i>			
	<i>Negative fair value USD in millions</i>	<i>Notional amount USD in millions</i>	<i>Within 1 years USD in millions</i>	<i>1 to 5 yrs USD in millions</i>
28 February 2018	-	50.3	50.3	-
31 August 2017	0.2	66.2	66.2	-

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16 EMPLOYEES' BENEFITS

a) Employees' end of service benefits

The benefit is governed by Section 16 of UAE Labour Law, 'Payment of Gratuity'. An outline of the scheme is as follows:

Definitions

Credited Service	: Number of years of service
Plan Salary	: Last monthly basic salary, excluding allowances and overtime pay
Normal Retirement Age	: 60 years
Form of Payment	: Lump sum

There is no regulatory requirement to fund for these benefits in advance. The Group intends to pay benefits directly as they fall due. Therefore the end of service liability is not funded.

b) Long service award benefits

The Group operates a defined benefit plan to reward employees who provide continuous service for more than 10 years in the organisation.

Definitions

Credited Service	: Number of years of service
Plan Salary	: Last monthly base salary, excluding allowances and overtime pay
Normal Retirement Age	: 60 years
Form of Payment	: Lump sum

There is no regulatory requirement to fund for these benefits in advance. The Group intends to pay benefits directly as they fall due. Therefore the long service award liability is not funded.

Changes in the present value of the employees' benefits:

	<i>Employees' end of service benefits USD in millions</i>	<i>Long service award benefits USD in millions</i>	<i>Total employees' benefits USD in millions</i>
28 February 2018			
Provision at the beginning of the period	60.3	8.2	68.5
Current service cost	5.5	0.5	6.0
Interest cost on benefit obligation	0.8	0.1	0.9
Actuarial gain arising from changes in assumptions	(1.5)	(0.4)	(1.9)
Actuarial gain arising from experience	(0.6)	-	(0.6)
End of service benefits paid	(1.6)	(0.1)	(1.7)
Acquisition of businesses (note 6)	0.8	-	0.8
Employee benefits transferred to related parties, net	(0.1)	(0.1)	(0.2)
Provision at the end of the period	63.6	8.2	71.8
	<i>Employees' end of service benefits USD in millions</i>	<i>Long service award benefits USD in millions</i>	<i>Total employees' benefits USD in millions</i>
28 February 2017			
Provision at the beginning of the period	49.1	6.6	55.7
Current service cost	5.1	0.4	5.5
Interest cost on benefit obligation	0.7	-	0.7
Acquisition of businesses	1.6	-	1.6
End of service benefits paid	(2.0)	(0.2)	(2.2)
Total	54.5	6.8	61.3

GEMS MENASA (Cayman) Limited and its subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 28 February 2018

16 EMPLOYEES' BENEFITS (continued)

The principal assumptions used in determining employees' end of service benefits for the Group's plans are shown below:

	28 February 2018	28 February 2017
Discount rate per annum	3.50%	3.00%
Withdrawal rate per annum	0-4 years 20%, 5-9 year 12%, 8% thereafter	22%
Retirement age	60 years	65 years
Salary escalation rate per annum	4.5%	5%
AED/USD exchange rate	3.675	3.675

Sensitivity of assumptions used

A quantitative sensitivity analysis for significant assumptions is shown below:

28 February 2018:

	<i>Employees' end of service benefits</i>		<i>Long service award benefits</i>	
	<i>Increase USD in millions</i>	<i>Decrease USD in millions</i>	<i>Increase USD in millions</i>	<i>Decrease USD in millions</i>
Discount rate 0.5% movement	(2.0)	2.2	(0.3)	0.4
Salary escalation rate 0.5% movement	2.3	(2.1)	0.2	(0.1)
Withdrawal rate 5% movement	(1.4)	1.5	(0.3)	0.2

28 February 2017:

	<i>Employee end of service benefits</i>		<i>Long service award benefits</i>	
	<i>Increase USD in millions</i>	<i>Decrease USD in millions</i>	<i>Increase USD in millions</i>	<i>Decrease USD in millions</i>
Discount rate 0.5% movement	(1.0)	1.0	(0.2)	0.2
Salary escalation rate 0.5% movement	1.0	(1.0)	0.1	(0.1)
Withdrawal rate 5% movement	(1.3)	1.7	(0.5)	0.5

The sensitivity analyses above have been determined based on a method that extrapolates the impact on defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The following payments are expected contributions to the employee benefit plan in future years as at 28 February 2018 and 31 August 2017:

28 February 2018:

	<i>Employees' end of service benefits USD in millions</i>	<i>Long service award benefits USD in millions</i>	<i>Total employees' benefits USD in millions</i>
Within the next 12 months	10.3	0.7	11.0
Between 2 and 5 years	36.1	2.8	38.9
Between 5 and 10 years	45.2	5.4	50.6
Total expected payments	<u>91.6</u>	<u>8.9</u>	<u>100.5</u>

GEMS MENASA (Cayman) Limited and its subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 28 February 2018

16 EMPLOYEES' BENEFITS (continued)

28 February 2017:

	<i>Employees' end of service benefit USD in millions</i>	<i>Long service award benefit USD in millions</i>	<i>Total employees' benefit USD in millions</i>
Within the next 12 months	10.6	1.0	11.6
Between 2 and 5 years	39.2	3.5	42.7
Between 5 and 10 years	34.8	3.8	38.6
Total expected payments	<u>84.6</u>	<u>8.3</u>	<u>92.9</u>

The average duration of the defined benefit plan obligation at the end of the reporting period is 7 years (28 February 2017: 4.1 years) for employee end of service benefit and 8.1 years (28 February 2017: 5 years) for the long service award benefits.

17 OTHER FINANCIAL LIABILITIES

	28 February 2018 <i>USD in millions</i>	31 August 2017 <i>USD in millions</i>
<i>Other financial liabilities at amortised cost, other than interest bearing loans and borrowings</i>		
Deferred consideration (note 17 (a))	14.2	-
<i>Financial liabilities at fair value through profit or loss</i>		
Contingent consideration (note 17 (b))	5.9	26.7
Put option liability on Hamilton NCI (note 17 (c))	2.7	-
Total	<u>22.8</u>	<u>26.7</u>

Other financial liabilities are included in the interim consolidated statement of financial position as follows:

	28 February 2018 <i>USD in millions</i>	31 August 2017 <i>USD in millions</i>
Current portion	20.1	26.7
Non-current portion	2.7	-
	<u>22.8</u>	<u>26.7</u>

a) Deferred consideration

Reconciliation of deferred consideration liability is given below;

28 February 2018

	<i>Hamilton USD in millions</i>	<i>FM Business USD in millions</i>	<i>Total USD in millions</i>
Liability arising on business combination (note 6)	1.6	14.0	15.6
Settled during the period (note 6)	(1.4)	-	(1.4)
As at 28 February 2018	<u>0.2</u>	<u>14.0</u>	<u>14.2</u>

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At 28 February 2018

17 OTHER FINANCIAL LIABILITIES (continued)

a) Deferred consideration (continued)

31 August 2017

	<i>Wes Green Group USD in millions</i>
Liability arising on business combination	53.8
Unwinding of liability	3.3
Settled during the period	(57.1)
As at 31 August 2017	-

b) Contingent consideration

Reconciliation of fair value measurement of the contingent consideration liability is given below;

28 February 2018

	<i>Wes Green Group USD in millions</i>	<i>Threads USD in millions</i>	<i>Total USD in millions</i>
Balance as at 1 September 2017	19.2	7.5	26.7
Unwinding of liability	0.3	0.1	0.4
Settled during the period (note 6)	(13.6)	(7.6)	(21.2)
As at 28 February 2018	5.9	-	5.9

31 August 2017

	<i>Wes Green Group USD in millions</i>	<i>Threads USD in millions</i>	<i>Total USD in millions</i>
Liability arising on business combination	18.9	31.8	50.7
Unwinding of liability	1.7	3.0	4.7
Settled during the period	(1.4)	(1.0)	(2.4)
Settlement by taking over of payable balances	-	(26.3)	(26.3)
As at 31 August 2017	19.2	7.5	26.7

Wes Green Group

During the period, the Group settled the first installment of additional capacity consideration amounting to USD 13.6 million. Furthermore, the fee increase relating to academic year 2018 was confirmed by the Ministry of Education of UAE, which was equal to the estimated fee increase included for the purpose of calculation of contingent consideration at the acquisition date. Discount rate used to calculate the fair value of contingent consideration had no significant changes.

Fair value of contingent consideration as at 28 February 2018 will have an impact due to changes in assumptions (unobservable inputs) given below:

- significant increase / (decrease) in the forecasted fee increases of 2019;
- significant increase / (decrease) in the discount rate; and
- significant changes in the assumptions on requirement of excess capacity.

Threads

The purchase consideration was contingent upon agreement of final transaction price, which was deferred at the date of acquisition. As per the terms of the final Share purchase agreement, the parties agreed on the final consideration with no significant fair value changes. The balance consideration of USD 7.5 million was paid on 24 September 2017.

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17 OTHER FINANCIAL LIABILITIES (continued)

c) Put option liability on Hamilton NCI

The group has written put options over the 40% NCI shares, which permit the NCI shareholder to put his shares in the subsidiary back to the group at the value arrived from the pre-determined formula (agreed in the SHA) at the anytime during the period from at any time from 1 April 2020 until 1 April 2023. The amount that may become payable under the option on exercise is initially recognised at the present value of the redemption amount within other financial liabilities with a corresponding charge directly to equity.

The liability is subsequently accreted through finance charges up to the redemption amount that is payable at the date at which the option first becomes exercisable. In the event that the option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

As at the acquisition date, the fair value of the put option was estimated to be USD 2.5 million. The fair value is determined using Discounted Cash Flow (“DCF”) method. The Group reassessed the fair value of the option liability as at 28 February 2018, no fair value changes noticed as assumptions used in the initial recognition are still valid.

Significant assumptions (unobservable inputs) made on valuation inputs are provided below:

- Average EBITDA for 2018, 2019 and 2020 are USD 1.1 million, USD 1.3 million and USD 1.8 million respectively (as per the business plan);
- NCI sale option will be exercised on 1 September 2020; and
- Discount rate of 11.0% (expected rate of return)

Any changes to the above unobservable input will have an impact on the fair value of the liability.

Reconciliation of fair value measurement of the contingent consideration liability is given below;

	28 February 2018 USD in millions	31 August 2017 USD in millions
Acquisition of subsidiary	2.5	-
Unwinding of liability	0.2	-
28 February 2018	2.7	-

18 SHARE CAPITAL

	28 February 2018 USD in millions	31 August 2017 USD in millions
<i>Authorised</i>		
50,000 shares of USD 1 each	0.1	0.1
<i>Issued and fully paid</i>		
340 shares of USD 1 each	-	-

19 RESTRICTED RESERVE

Restricted reserve represents statutory reserve of the subsidiary companies. The reserve is not available for distribution except in the circumstances stipulated by the Commercial Companies Law prevailing in the countries in which the subsidiaries have been incorporated.

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20 DIVIDENDS

During the period ended 28 February 2018, the Holding Company declared a dividend amounting to USD 65.0 million. This transaction had been treated as non-cash transaction in the interim consolidated statement of cash flows, as settlement had been recorded by offsetting receivable balances of the Immediate Parent Company.

21 SHARE-BASED PAYMENTS

In June 2016, the Immediate Parent Company offered a share based payment scheme (“Share our future” or “scheme”) to employees of all the schools (excluding principals or head of schools) of the Group (“eligible employees”), which are located in the UAE. As per the Share our future scheme, the eligible employees who have completed more than two years of services as at 1 September 2015 (“Commencement date”) receive remuneration in the form of SARs, which will be settled in cash by the Immediate Parent Company on 31 August 2020 (“Vesting date”) provided that eligible employees continue to render services over the period from Commencement date to the Vesting date. As per the terms and conditions of the scheme, subsidiaries of the Immediate Parent Company have no obligation to provide SARs to their employees and only Immediate Parent Company has the obligation to provide SARs to eligible employees of its subsidiaries. Therefore, this scheme is an equity settled share based payment transaction for the Group. The Share our future scheme provided 15,675.5 SARs to employees based on seniority (number of years completed as at Commencement date) and employee category.

Eligible employees accepted the certificate on 12 June 2016 and both parties have the same understanding of the terms and condition of the arrangement as on that date (“Grant date”).

The fair value of the SARs was estimated at the Grant date, taking into account the terms and conditions on which the SARs were granted. Continued service is considered in determining the number of instruments that will ultimately vest.

Option valuation models have not been used to fair value SARs as the SARs are cash settled and contain no payoff terms as a call option. Since the shares of the Immediate Parent Company are not listed, the fair value of SARs is measured at the Grant date using fixed formula with fixed multiple of EBITDA (Earnings before interest, tax, depreciation, amortisation and monitoring charges) as at the Grant date taking into account the terms and conditions on which the instruments were granted.

The value recognised in equity at 28 February 2018 and expense recognised for employee services received during the period then ended is shown as follows:

	<i>28 February 2018 USD in millions</i>	<i>31 August 2017 USD in millions</i>
Carrying value of share based payment reserve	<u><u>4.2</u></u>	<u><u>3.4</u></u>
Expense arising from equity-settled share-based payment transactions	<u><u>0.8</u></u>	<u><u>1.8</u></u>

As at 28 February 2018, the SARs expected to vest were reassessed for changes in assumptions based on actual experience.

Fair value as at Grant date of an SARs (a share) is calculated at USD 1,035 and number of SARs expected to vest is 8,105. The Group uses below assumptions on valuation of SARs

Initial annual attrition rate	22%
Expected yearly attrition rate reduction	2%

At 28 February 2018, 3,250.50 SARs (31 August 2017: 2,925.25 SARs) had forfeited.

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22 SUBORDINATED PERPETUAL CERTIFICATES

	<i>28 February 2018 USD in millions</i>	<i>31 August 2017 USD in millions</i>
Subordinated Perpetual Certificates	<u>193.7</u>	<u>193.7</u>

GEMS MEA Sukuk Limited (the “Issuer”), a limited liability company registered in the Cayman Islands and a wholly-owned subsidiary of the Holding Company, established a trust pursuant to which on 21 November 2013 the Issuer issued USD 200.0 million (AED 735.0 million) Subordinated Perpetual Certificates (the “Certificates” or “Sukuk”).

Issuance costs amounting to USD 6.3 million were incurred. The Sukuk is listed on the Irish Stock Exchange and NASDAQ Dubai.

This Sukuk is a perpetual security in respect of which there is no fixed redemption date. The Sukuk is callable by the issuer 5 years after the issue date, being 21 November 2018 (the “First Call Date”). The Sukuk bears an expected Mudaraba profit rate of 12% per annum, from the issue date to, but excluding the First Call Date, payable semi-annually in arrears, however these can be deferred. The Mudaraba profit distribution cannot be deferred if certain events occur as defined in the Mudaraba agreement. Mudaraba profit distributions have been reported in the interim consolidated statement of changes in equity.

Mudaraba profit

During the period, the Group has paid Mudaraba profit on its due date and made accrual for proportionate Mudaraba profit amounting to USD 6.7 million in the current period (28 February 2017: USD 6.7 million).

23 NON-CONTROLLING INTERESTS

	<i>28 February 2018 USD in millions</i>	<i>31 August 2017 USD in millions</i>
Balance at the beginning of the period/year	1.0	1.0
Acquisition of a subsidiary	2.0	-
Share of total comprehensive income for the period/year	1.0	0.6
Dividends paid during the period/year	<u>(0.5)</u>	<u>(0.6)</u>
Balance at the end of the period/year	<u>3.5</u>	<u>1.0</u>

The non-controlling interests represent 25% (31 August 2017: 25%) of the equity of one of the schools under PSI LLC (GEMS Jumeirah Primary School – note 1) and 25% (31 August 2017: 25%) of the equity in East Sports Equipment Articles and Services L.L.C. (note 1).

Further, during the period ended 28 February 2018 the Group acquired 60% equity ownership of Hamilton Aquatics Swimming Training Ltd and 40% equity ownership by third party investor was recognised as non-controlling interest.

GEMS MENASA (Cayman) Limited and its subsidiaries

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24. EARNINGS PER SHARE

The following table reflects the income and share data used in the basic and diluted earnings per share ("EPS") computations:

	<i>28 February 2018 USD in millions</i>	<i>28 February 2017 USD in millions</i>
Profit attributable to equity holders of the Holding Company for basic EPS	134.4	137.0
Less: Mudaraba profit payable for subordinated perpetual certificates	(12.0)	(12.0)
	<u>122.4</u>	<u>125.0</u>
Weighted average number of ordinary shares for basic EPS	340	340
Basic and Diluted EPS (USD)	<u><u>359,675</u></u>	<u><u>366,940</u></u>

25. SEGMENT INFORMATION

Management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the interim consolidated financial statements. Transactions between segments are conducted at estimated market rates on an arm's length basis and eliminated on consolidation.

Geographic segments

The Group is currently developing a number of international business opportunities outside the UAE that will have a significant impact in future years. As at 28 February 2018, the majority of business activities and operations of the Group are in the UAE and the operations outside the UAE are not significant.

Primary segment information

The following operating segments (refer note 1 for principal activities and entities included) were identified as reportable segments:

- **School operations**
- **School support services**
- **Corporate head office and others**

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 28 February 2018

25 SEGMENT INFORMATION (continued)

Segmental information is presented below:

Period ended 28 February 2018 (audited)

	<i>School operations USD in millions</i>	<i>School support services USD in millions</i>	<i>Corporate head office and others USD in millions</i>	<i>Adjustments and eliminations USD in millions</i>	<i>Consolidated USD in millions</i>
Revenue					
External customers	525.0	77.5	0.1	-	602.6
Inter-segment	1.3	11.2	0.2	(12.7)	-
Total revenue	526.3	88.7	0.3	(12.7)	602.6
Expenses					
Staff costs	(250.6)	(30.3)	(14.6)	1.3	(294.2)
Rental - operating leases	(37.2)	(1.7)	(0.5)	-	(39.4)
Depreciation, impairment and amortisation	(30.8)	(4.3)	(0.8)	(0.4)	(36.3)
Other education and administrative expenses*	(54.8)	(16.9)	(3.6)	9.3	(66.0)
Segmental profit/(loss)	152.9	35.5	(19.2)	(2.5)	166.7
Add: One-off costs	-	-	3.0	-	3.0
Add: Depreciation, impairment and amortisation	30.8	4.3	0.8	0.4	36.3
Adjusted EBITDA**	183.7	39.8	(15.4)	(2.1)	206.0

	<i>School operations USD in millions</i>	<i>School support services USD in millions</i>	<i>Corporate head office and others USD in millions</i>	<i>Adjustments and eliminations USD in millions</i>	<i>Consolidated USD in millions</i>
Revenue					
External customers	485.2	65.0	0.2	-	550.4
Inter-segment	1.0	5.9	0.2	(7.1)	-
Total revenue	486.2	70.9	0.4	(7.1)	550.4
Expenses					
Staff costs	(222.2)	(26.2)	(10.5)	1.2	(257.7)
Rental - operating leases	(34.3)	(0.8)	(0.5)	-	(35.6)
Depreciation, impairment and amortisation	(24.3)	(5.5)	(1.0)	(2.0)	(32.8)
Other education and administrative expenses*	(53.7)	(13.6)	(1.3)	5.8	(62.8)
Segmental profit/(loss)	151.7	24.8	(12.9)	(2.1)	161.5
Add: Depreciation, impairment and amortisation	24.3	5.5	1.0	2.0	32.8
Adjusted EBITDA**	176.0	30.3	(11.9)	(0.1)	194.3

*excluding pre operating expenses

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25 SEGMENT INFORMATION (continued)

**The Group uses Adjusted EBITDA (Adjusted Earnings before interest, tax, depreciation and amortisation) as supplemental financial measures of the Group's operating performance. The Group defines Adjusted EBITDA as (loss)/profit for the period plus income tax expense, net finance (costs)/income, impairment of intangible assets and property and equipment, depreciation and impairment, one off costs and pre-operative expenses of new schools.

Other segment information

Segmental information in respect of assets and liabilities relating to the Group's operating segments is as follows:

<i>28 February 2018</i>	<i>School operations USD in millions</i>	<i>School support services USD in millions</i>	<i>Corporate head office and others USD in millions</i>	<i>Adjustments and eliminations USD in millions</i>	<i>Consolidated USD in millions</i>
Segment assets	1,674.6	311.8	2,087.7	(2,308.4)	1,765.7
Segment liabilities	(1,344.4)	(182.6)	(1,952.4)	2,453.3	(1,026.1)
Capital expenditure	203.5	19.7	0.6	(2.1)	221.7
<i>31 August 2017</i>	<i>School operations USD in millions</i>	<i>School support services USD in millions</i>	<i>Corporate head office and others USD in millions</i>	<i>Adjustments and eliminations USD in millions</i>	<i>Consolidated USD in millions</i>
Segment assets	1,450.5	232.9	1,938.4	(2,023.2)	1,598.6
Segment liabilities	(1,269.4)	(140.7)	(1,675.5)	1,718.4	(1,367.2)
Capital expenditure	318.0	25.0	0.2	-	343.2

Inter-segment revenues and other adjustments are eliminated upon consolidation and reflected in the 'adjustments and eliminations' column.

Reconciliation of profit

	<i>For the six months ended</i>	
	<i>28 February 2018 USD in millions (Audited)</i>	<i>28 February 2017 USD in millions (Unaudited)</i>
Segment profit	166.7	161.5
Pre-operative expenses	(0.5)	(1.8)
Finance costs	(35.7)	(27.6)
Finance income	4.9	5.5
Profit before tax	135.4	137.6

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At 28 February 2018

26 COMMITMENTS AND CONTINGENCIES

a) Capital expenditure commitments

The Group has contracted, but not provided for, estimated capital expenditure of approximately USD 41.9 million (31 August 2017: USD 50.3 million) at the reporting date on account of leasehold buildings and improvements.

b) Share subscription agreement executed

On 22 August 2017, the Group entered in to a share subscription agreement (“the agreement”) to acquire a company that provides catering services. The agreement is subject to the conditions precedent for the completion in accordance with the pre-completion conditions in the agreement. The Group assessed it’s the control over the acquiree as at the reporting date and concluded that the Group did not obtain control as at 28 February 2018 as the completion of major conditions precedent was in progress.

As per the agreement, the Group will subscribe to new shares issued to obtain 60% equity interest at an aggregate subscription price of USD 1.9 million. Further as per the agreement, the Group has a call option to acquire the NCI and also has written a put option to allow the NCI to sell its shares to the Group. Since the call and put option on the entire NCI (40%) are given on the same terms within the period from 1 September 2021 to 1 September 2024, the Group will effectively acquire 100% interest in the acquiree on the acquisition date.

As per the agreement, the Group has commitments to settle the purchase consideration in the following manner:

- (a) An initial subscription price estimated at USD 1.5 million, will be paid at the completion of the transaction;
- (b) Deferred subscription price estimated at USD 0.4 million will be paid as per the requirement of the business; and
- (c) Estimated option price to exercise call or fund the put option amounting to USD 4.3 million will be settled during the period of 1 September 2021 to 1 September 2024.

At 28 February 2018, the signing of the shareholder agreement is pending and commitment under the share subscription agreement continued to be effective.

c) Operating lease commitments

Commitments under non-cancellable operating leases approximate to the following:

	<i>28 February 2018 USD in millions</i>	<i>31 August 2017 USD in millions</i>
Within one year	72.4	74.2
Between two and five years	303.0	316.8
Greater than five years	1,207.0	1,226.7
Total operating lease expenditure contracted for at the reporting date	<u>1,582.4</u>	<u>1,617.7</u>

Not included in the above commitments are contingent rental payments, which may arise in the event of;

- rental review in accordance with lease agreements;
- renewal of the lease agreement
- committed contingent escalation in the lease agreement

d) Bank and other guarantees

The Group has given financial guarantees to the UAE Ministry of Labour and Social Affairs and banks totaling to USD 15.7 million as at 28 February 2018 (31 August 2017: USD 15.6 million) in respect of work permit and related other matters.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 28 February 2018

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise trade payables, term loans and due to related parties. The Group's financial assets are accounts receivable, due from related parties, loan to a related party and cash and bank balances.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Group's management reviews and agrees policies for managing each of these risks, which are summarised below.

Interest rate risk

Interest risk is the risk that the fair value of future cash flows of financial instrument will fluctuate because of a change in interest rates. The Group is not exposed to any significant interest rate risk on its interest bearing assets (short-term deposits) and liabilities (fixed interest rate vehicle loans and other term loans). The Group is exposed to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The following table demonstrates the sensitivity of the interim consolidated statement of profit or loss to reasonably possible changes in interest rates, with all other variables held constant.

The sensitivity of the interim consolidated statement of profit or loss is the effect of the assumed changes in interest rates on the Group's profit based on the floating rate financial liabilities held at 28 February 2018. The effect of a decrease in interest rates is expected to be equal and opposite to the effect of the increases as shown below:

	28 February 2018 USD in millions	28 February 2017 USD in millions
Increase in 50 basis points	(2.3)	(1.8)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group is exposed to credit risk on its bank balances and receivables as follows:

	28 February 2018 USD in millions	31 August 2017 USD in millions
Bank balances	56.2	104.6
Short term deposits	14.5	14.0
Accounts receivable	40.7	13.8
Amounts due from related parties	17.4	13.7
Deposits	15.6	14.4
Loan to a related party	80.0	80.0
Other receivables	9.9	7.4
VAT receivable	4.3	-
	238.6	247.9

The Group seeks to limit its credit risk with respect to student's fees by regularly monitoring outstanding fees receivable. The Group limits its credit risk with regard to bank deposits by only dealing with reputable banks. Credit risk is limited to the carrying values of financial assets in the interim consolidated statement of financial position.

With respect to credit risk arising from the other financial assets of the Group, including cash and cash equivalents, and derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

GEMS MENASA (Cayman) Limited and its subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 28 February 2018

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group limits its liquidity risk by ensuring bank facilities or related party funds are available. The terms of admission of students of the educational entities require fees to be paid within the academic term or on a monthly basis. Trade payables are settled on the basis of credit terms agreed with the respective suppliers.

The Group's terms of invoices require amounts to be paid within 30 days of the date of invoice.

The table below summarises the maturities of the Group's undiscounted financial liabilities at period ended, based on contractual payment dates and current market interest rates.

<i>At 28 February 2018</i>	<i>Less than 3 months USD in millions</i>	<i>3 to 12 months USD in millions</i>	<i>1 to 5 years USD in millions</i>	<i>>5 years USD in millions</i>	<i>Total USD in millions</i>
Trade payables	32.8	-	-	-	32.8
Other payables	-	56.6	-	-	56.6
Term loans; including interest	5.8	37.0	431.7	731.6	1,206.1
Amounts due to related parties	-	56.6	-	-	56.6
Other financial liabilities	14.6	5.7	3.5	-	23.8
Total	53.2	155.9	435.2	731.6	1,375.9

<i>At 31 August 2017</i>	<i>Less than 3 months USD in millions</i>	<i>3 to 12 months USD in millions</i>	<i>1 to 5 years USD in millions</i>	<i>>5 years USD in millions</i>	<i>Total USD in millions</i>
Trade payables	44.3	-	-	-	44.3
Other payables	-	65.8	-	-	65.8
Term loans; including interest	94.4	82.0	757.0	9.5	942.9
Amounts due to related parties	-	18.9	-	-	18.9
Other financial liabilities	21.5	5.7	-	-	27.2
Total	160.2	172.4	757.0	9.5	1,099.1

Currency risk

The Group is not exposed to any significant currency risk.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the period/year ended 28 February 2018 and 31 August 2017. Capital comprises the share capital, restricted reserve, share-based payment reserve, cash flow hedge reserve, foreign currency translation reserve, retained earnings, subordinated perpetual certificates and non-controlling interests and is measured at USD 277.4 million as at 28 February 2018 (31 August 2017: USD 231.4 million).

GEMS MENASA (Cayman) Limited and its subsidiaries

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

At 28 February 2018

28 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets, financial liabilities and derivative financial instruments.

Financial assets consist of cash and bank balances, accounts receivables, amounts due from related parties, other receivables and loan to a related party. Financial liabilities consist of term loans, deferred and contingent consideration, put option on NCI, trade payables, accrued expenses, amounts due to related parties and other payables.

The fair values of financial instruments are not materially different from their carrying values.

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Determination of fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

28 February 2018	<i>Total USD in millions</i>	<i>Level 1 USD in millions</i>	<i>Level 2 USD in millions</i>	<i>Level 3 USD in millions</i>
Liabilities measured at fair value:				
Contingent consideration	5.6	-	-	5.6
Put option liability on NCI	2.7	-	-	2.7
	<u>8.3</u>	<u>-</u>	<u>-</u>	<u>8.3</u>
31 August 2017	<i>Total USD in millions</i>	<i>Level 1 USD in millions</i>	<i>Level 2 USD in millions</i>	<i>Level 3 USD in millions</i>
Liabilities measured at fair value:				
Interest rate swap	0.2	-	0.2	-
Contingent consideration	26.7	-	-	26.7
	<u>26.9</u>	<u>-</u>	<u>0.2</u>	<u>26.7</u>

During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 at fair value measurements.