

**Al Khaleej Training and Education Company
and its Subsidiaries**

(A Saudi Joint Stock Company)

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

Al Khaleej Training and Education Company

A Saudi Joint Stock Company

FINANCIAL STATEMENTS AND AUDITORS' REPORT

For the year ended 31 December 2015

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**AUDITORS' REPORT TO THE SHAREHOLDERS OF
AL KHALEEJ TRAINING AND EDUCATION COMPANY
(A SAUDI JOINT STOCK COMPANY)**

Scope of audit

We have audited the accompanying consolidated balance sheet of Al Khaleej Training and Education Company - a Saudi Joint Stock Company - (the Company) and its Subsidiaries (the Group) as of 31 December 2015 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and the related notes from 1 to 29 which form an integral part of these consolidated financial statements. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with Article 123 of Regulation for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified opinion

In our opinion, the consolidated financial statements taken as a whole:

- i) present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2015 and the consolidated results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia appropriate to the nature of the Company.
- ii) comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

International Accountants

Khalid Ali Ibrahim Otain
Registration No. 373



Riyadh 8 Jumada Al awal 1437
17 February 2016

Al Khaleej Training and Education Company and its Subsidiaries

BALANCE SHEET

As at 31 December 2015

	Notes	2015 SR	2014 SR
ASSETS			
Current Assets			
Bank balances and cash		26,397,041	26,969,315
Accounts receivable and prepayments	4	404,398,052	328,787,711
Accrued revenue	5	10,248,454	21,577,510
Inventories	6	11,953,744	12,147,481
Amounts due from related parties	7	5,181,800	895,300
Total Current Assets		458,179,091	390,377,317
Non Current Assets			
Investment in securities available for sale	8	18,795,045	18,759,045
Advance on account of purchase of investments		1,126,800	2,802,115
Property and equipment, net	9	617,280,491	499,643,281
Intangible assets, net	10	35,471,901	36,005,197
Total Non Current Assets		672,638,237	557,209,638
Total Assets		1,130,817,328	947,586,955
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Due to banks		53,474,817	19,020,299
Short term loans	11	168,000,000	113,000,000
Current portion of term loans	11	80,059,494	25,000,000
Deferred gain from sale of property and equipment – current portion	12	803,748	-
Murabaha financing – current portion		-	1,500,580
Obligations under capital leases – current portion	12	3,482,993	2,027,746
Accounts payable and accruals	13	39,505,576	89,632,260
Amounts due to related parties	7	4,799,153	4,530,755
Zakat provision	14	3,386,113	2,107,785
Total Current Liabilities		353,511,894	256,819,425
Non Current Liabilities			
Long term loans	11	114,050,389	155,438,947
Deferred gain from sale of property and equipment – non current portion	12	14,869,342	-
Obligations under capital leases	12	70,066,107	1,209,050
Employees' terminal benefits	15	41,930,661	34,730,430
Total Non Current Liabilities		240,916,499	191,378,427
Total Liabilities		594,428,393	448,197,852
OWNERS' EQUITY			
SHAREHOLDERS' EQUITY			
Share Capital	16	400,000,000	350,000,000
Statutory reserve		63,577,698	56,688,813
Retained earnings	17	62,562,539	79,462,577
Foreign currency translation adjustments		(1,210,565)	(1,201,602)
Total Shareholders' Equity		524,929,672	484,949,788
Minority interests		11,459,263	14,439,315
Total Owners' Equity		536,388,935	499,389,103
Total Liabilities and Owners' Equity		1,130,817,328	947,586,955

The attached notes 1 to 29 form part of these consolidated financial statements.

Al Khaleej Training and Education Company and its Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2015

	Notes	2015 SR	2014 SR
Revenue		725,953,742	724,008,768
Direct costs		(545,769,812)	(529,659,960)
GROSS PROFIT		180,183,930	194,348,808
EXPENSES			
Selling and marketing	18	(43,414,091)	(41,564,654)
General and administration	19	(54,969,450)	(56,206,252)
		(98,383,541)	(97,770,906)
INCOME FROM MAIN OPERATIONS		81,800,389	96,577,902
Other income, net	20	2,659,107	3,630,220
Goodwill impairment	10	(173,514)	(479,715)
Financial charges		(9,452,222)	(7,675,028)
INCOME BEFORE MINORITY INTEREST AND ZAKAT		74,833,760	92,053,379
Minority interest		(2,365,774)	(3,389,051)
INCOME BEFORE ZAKAT		72,467,986	88,664,328
Zakat	14	(3,579,139)	(2,600,000)
NET INCOME FOR THE YEAR		68,888,847	86,064,328
EARNING PER SHARE:	25		
Attributable to income from main and continuing operation		1.99	2.33
Attributable to net income for the year		1.72	2.15

The attached notes 1 to 29 form part of these consolidated financial statements.

Al Khaleej Training and Education Company and its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 SR	2014 SR
OPERATING ACTIVITIES		
Income before minority interests and zakat	74,833,760	92,053,379
Adjustments for:		
Depreciation and amortization	21,683,833	16,165,847
Goodwill impairment	173,514	479,715
Realized gain on investments in securities available for sale	(387,507)	(586,125)
Provision for employees' terminal benefits	15,183,576	11,479,848
Bad debt	2,121,835	-
Provision for doubtful debts	7,229,309	2,966,294
	120,838,320	122,558,958
Changes in operating assets and liabilities:		
Accounts receivable and prepayments	(82,839,650)	(68,272,445)
Inventories	193,737	(1,814,389)
Accrued revenue	9,207,221	(8,465,375)
Accounts payable and accruals	(50,126,684)	10,955,326
Cash (used in) from operations	(2,727,056)	54,962,075
Employees' terminal benefits paid	(7,983,345)	(7,971,968)
Zakat paid	(2,300,811)	(2,552,521)
Net cash (used in) from operating activities	(13,011,212)	44,437,586
INVESTING ACTIVITIES		
Purchase of property and equipment	(122,198,294)	(92,376,339)
Purchase of investment in securities available for sale	-	710,000
Advance on account of purchase of investments	1,675,315	(390,489)
Proceeds from sale of property and equipment	75,000,000	5,136,837
Intangible assets	(702,370)	(1,926,986)
Net cash used in investing activities	(46,225,349)	(88,846,977)
FINANCING ACTIVITIES		
Due to banks	34,454,518	14,066,006
Long term loans proceeds, net	68,670,936	67,824,759
Net changes in related parties' balances	(4,018,102)	3,738,067
Obligations under capital lease, net	(4,687,696)	(728,935)
Board remunerations	(900,000)	(900,000)
Murabaha financing, net	(1,500,580)	(6,807,403)
Dividends paid	(28,000,000)	(30,000,000)
Foreign currency translation adjustments	(8,963)	(589,409)
Minority interests	(5,345,826)	(3,379,581)
Net cash from financing activities	58,664,287	43,223,504
DECREASE IN BANK BALANCES AND CASH	(572,274)	(1,185,887)
Bank balances and cash at the beginning of the year	26,969,315	28,155,202
BANK BALANCES AND CASH AT THE END OF THE YEAR	26,397,041	26,969,315
Non Cash Transactions:		
Transfer to proposed capital increase (note 17)	50,000,000	50,000,000
Assets held under capital lease	75,000,000	-

The attached notes 1 to 29 form part of these consolidated financial statements.

Al Khaleej Training and Education Company and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2015

	Share Capital SR	Statutory reserve SR	Retained earnings SR	Unrealized losses on revaluation of investments in securities SR	Foreign currency translation adjustments of investments in overseas subsidiaries SR	Total SR
Balance at 31 December 2013	300,000,000	48,082,380	82,904,682	(180,544)	(612,193)	430,194,325
Transfer to capital (note 17)	50,000,000	-	(50,000,000)	-	-	-
Dividends distribution (note 17)	-	-	(30,000,000)	-	-	(30,000,000)
Board remunerations (note 17)	-	-	(900,000)	-	-	(900,000)
Net income for the year	-	-	86,064,328	-	-	86,064,328
Transfer to statutory reserve	-	8,606,433	(8,606,433)	-	-	-
Unrealised gains on revaluation of investments in securities (note 8)	-	-	-	180,544	-	180,544
Foreign currency translation adjustments	-	-	-	-	(589,409)	(589,409)
Balance at 31 December 2014	350,000,000	56,688,813	79,462,577	-	(1,201,602)	484,949,788
Transfer to capital (note 17)	50,000,000	-	(50,000,000)	-	-	-
Dividends distribution (note 17)	-	-	(28,000,000)	-	-	(28,000,000)
Board remunerations (note 17)	-	-	(900,000)	-	-	(900,000)
Net income for the year	-	-	68,888,847	-	-	68,888,847
Transfer to statutory reserve	-	6,888,885	(6,888,885)	-	-	-
Foreign currency translation adjustments	-	-	-	-	(8,963)	(8,963)
Balance at 31 December 2015	400,000,000	63,577,698	62,562,539	-	(1,210,565)	524,929,672

The attached notes 1 to 29 form part of these consolidated financial statements.

Al Khaleej Training and Education Company and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

1 ACTIVITIES

Al Khaleej Training and Education Company (the Company) is a Saudi Joint Stock Company registered under commercial registration number 1010103367 dated 30 Jamad Awal 1413 H (corresponding to 24 Novemebre 1992), and is engaged in the training services for computer and related electronics services, establishment and constructions of schools and cafeterias, teaching English language, holding training courses, operation maintenance and computer softwares, installation of networks, infrastructures, communication systems, call centers and technical supports.

The following is the list of subsidiaries included in these consolidated financial statements which provide training services:

<i>Subsidiary companies</i>	<i>Country of incorporation</i>	<i>Shareholdings %</i>
Fast Lane Group (Fast Lane Consultancy duty free – LTD.)		
and Stage 2 Learning Solutions Company	United Arab Emirates	80%
Al Khaleej Training and Information Technology Company	Egypt	57 %
Online Trading Academy Duty FZ – LTD.	United Arab Emirates	100%
E-Arts Consulting (1)	United Arab Emirates	60%
Applied Digital Media Services Company	United Arab Emirates	90%
Franklin Covey Middle East Company and its subsidiaries	United Arab Emirates	51%
Linguaphone Limited Company	United Kingdom	100%

- 1) The operating activities have stopped at E-Arts Consulting Company, and it is now in liquidation phase.

The Company also has a 50% interest in Al Khaleej Training and Education Company and Al Alamiah Education and Training Company (the joint Project), jointly controlled entity, which is involved in providing training services in computer and related electronics services and the maintenance thereof, the operating activities have stopped in the project and it will be closing after the collection of outstanding receivables in the project.

2 BASIS OF CONSOLIDATION

These consolidated financial statements include assets, liabilities and the result of operations of the company and its subsidiaries (the Group) listed in note (1) above.

Subsidiary companies are those in which the Company has long term investments comprising an interest of more than 50% in the voting capital and over which it exerts practical control. Subsidiaries are consolidated from the date the Company obtains control on these subsidiaries until such time as control ceases.

The Group has an interest in a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest. The Group recognises its interest in the joint venture using proportionate consolidation. The Group combines its share of each of the assets, liabilities, income and expenses of the joint venture with the similar items, line by line, in its consolidated financial statements.

The jointly controlled entity is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

All significant inter-company balances and transactions have been eliminated on consolidation.

Minority interest represents the portion of profit or loss and net assets not held by the Company and are presented separately in the consolidated balance sheet and in the consolidated statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

These consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

Accounting convention

These consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of investments in available for sale securities.

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Property and equipment

Freehold land and construction work in progress are not depreciated. The cost less estimated residual value of other property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets.

Repair and maintenance expenses are charged to the income.

Leasehold improvements which materially increase over the value or useful life of related asset are capitalized.

Intangible assets

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the fair value of the acquiree's net assets. Following initial recognition, goodwill is tested annually for impairment, and carried at cost less any accumulated impairment losses.

Franchises

Franchises, being treated as intangible assets, are measured on initial recognition at cost. Following initial recognition, franchises are carried at cost less accumulated amortization and accumulated impairment losses, if any. Franchises are amortised over the estimated useful lives of benefits.

Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of the asset is determined and any impairment loss is recognized by the difference between the asset's recoverable amount and the carrying value. Impairment loss is recognized in the statement of income.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense in the consolidated statement of income. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where an impairment loss subsequently reverses, the carrying amount of the asset or the cash generating unit is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the depreciation/amortisation amount that would have been recognized had the original impairment not occurred for the asset or cash generating unit in prior years. A reversal of an impairment loss is recognised as income immediately in the consolidated statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in securities

Investments in securities represents investments in available for sale securities and after initial recognition, investments purchased neither with the intention of being held to maturity nor for trading purposes are remeasured at fair value. Unrealised gains and losses are reported as a separate component of shareholders' equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss-previously reported in shareholders' equity-is included in the consolidated statement of income for the year.

Fair value is determined by reference to the market value if an open market exists, or using other alternative method. Otherwise, cost is considered to be the fair value.

Inventories

Inventories are valued at the lower of cost and market. Cost is determined on a weighted average basis.

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the amount is no longer probable. Bad debts are written off as incurred.

Accounts payable and accruals

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

Provisions

Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably.

Statutory reserve

In accordance with Saudi Arabian Regulations for Companies, the company must set aside 10% of its net income for the year till it has built up a reserve equal to one half of the capital. This having been achieved, the company has resolved to discontinue such transfers. The reserve is not available for distributions.

Zakat and income tax

Zakat on the Company is provided for in accordance with Saudi Arabian fiscal regulations.

Overseas subsidiaries provide for income tax liabilities, if any, in accordance with the regulations of the countries in which they operate. Zakat and income tax provision is charged to the consolidated statement of income.

Employees' terminal benefits

Provision for employees terminal benefits is provided in accordance with Saudi Labor Law, overseas subsidiaries, provide it in accordance with the regulations of the countries in which they operate.

Revenue recognition

Revenue represents the value of services rendered by the Group during the year, net of discounts.

Leases

Capital leases are capitalized at the present value of the minimum lease payments at the inception of the lease term and are disclosed as "assets held under capital leases" under property and equipment. 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 charged directly to the consolidated statement of income.

Capitalised leased assets are depreciated over the lease term.

Operating lease receipts and payments are recognised as an income and expense in the consolidated statement of income on a straight line basis over the lease term.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenses

Selling and marketing expenses are those which specifically relate to salesmen, promotions, advertising and marketing as well as provision for doubtful debts. All other expenses are classified as general and administration expenses.

Foreign currencies

Transactions

Transactions in foreign currencies are recorded in Saudi Riyals at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income.

Foreign currency translation

The financial statements of overseas subsidiaries' operations are translated into Saudi Riyals using the exchange rate at each balance sheet date, for assets and liabilities, and the average exchange rate for each year for revenues, expenses, gains and losses. Components of equity, other than retained earnings, are translated at the rate ruling at the date of occurrence of each component. Translation adjustments are recorded as a separate component of shareholders' equity.

Segmental information

A segment is a distinguishable component of the Group that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments. Because the Company carries out majority of its activities in the Kingdom of Saudi Arabia, reporting is provided by business segment only.

4 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2015 SR	2014 SR
Trade accounts receivable	317,179,782	246,685,943
Prepaid expenses	79,263,394	66,850,849
Cheques under collection	-	12,733,926
Other receivables	18,073,876	9,717,153
	414,517,052	335,987,871
Provision for doubtful debts	(10,119,000)	(7,200,160)
	404,398,052	328,787,711

Included in trade accounts receivable are amounts totaling SR 225 million (2014 - SR 171 millions) due from government and quasi-government institution in which balance of SR 42 million due over one year as of 31 December 2015 (2014:SR 37.4 millions). The management believes the wholly collectability of these amounts.

Movements in the Provision for doubtful debts were as follows:

	2015 SR	2014 SR
At 1 January	7,200,160	7,767,383
Charge for the year (not 18)	7,229,309	2,966,294
Amounts written off	(4,310,469)	(3,533,517)
At 31 December	10,119,000	7,200,160

Al Khaleej Training and Education Company and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2015

5 ACCRUED REVENUES

Accrued revenues balance represents the value of educational services, provided to governmental institutions, unbilled for as at the balance sheet date.

6 INVENTORIES

Inventories comprise mainly books and educational curriculums distributed during courses.

7 RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of major related party transactions during the year:

<u>Related party</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>	
		<u>2015</u>	<u>2014</u>
		<u>SR</u>	<u>SR</u>
Companies owned by directors	Rent as lessee	1,320,000	1,320,000
	Rent as Lessor	1,399,992	1,399,992
Directors	Salaries and remunerations	4,706,732	4,900,000

Amounts due from / to related parties are shown in the assets and liabilities in the consolidated balance sheet respectively.

8 INVESTMENTS IN SECURITIES AVAILABLE FOR SALE

These investments represent the company's investments in current and non-current shares and investment funds in local and foreign companies.

	<u>2015</u>	<u>2014</u>
	<u>SR</u>	<u>SR</u>
Cost:		
At the beginning of the year	18,759,045	19,469,045
Disposals	-	(710,000)
At the end of the year	18,759,045	18,759,045
Unrealized losses on revaluation:		
At the beginning of the year	-	(180,544)
Realized gain for the year	-	180,544
At the end of the year	-	-
Carrying amount	18,759,045	18,759,045

Investments in securities available for sale as of 31 December 2015 represent the Company's 14.7% share in NWHW Holdings Inc., a company incorporated in the state of Delaware, USA.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2015

9 PROPERTY AND EQUIPMENT

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	33 years	Motor vehicles	4 years
Office furniture, equipment and tools	4 to 10 years	Assets held under capital lease	4 years
Leasehold improvements	7 years		

	<i>Land*</i> SR	<i>Buildings</i> SR	<i>Office furniture, equipment and tools</i> SR	<i>Leasehold improvements</i> SR	<i>Motor vehicles</i> SR	<i>Assets held under capital leases</i> SR	<i>Construction work in progress</i> SR	<i>Total 2015 SR</i>	<i>Total 2014 SR</i>
Cost:									
At the beginning of the year	132,856,543	90,521,701	118,442,550	93,750,140	4,296,908	34,693,754	227,008,430	701,570,026	619,276,980
Additions	1,109,119	-	18,532,582	34,463,029	-	76,049,012	67,044,552	197,198,294	92,376,339
Disposals	(15,991,014)	(42,932,022)	(276,874)	(147,090)	-	(24,589,722)	-	(83,936,722)	(10,083,293)
Transfers	-	208,479,076	-	-	-	-	(208,479,076)	-	-
At the end of the year	117,974,648	256,068,755	136,698,258	128,066,079	4,296,908	86,153,044	85,573,906	814,831,598	701,570,026
Depreciation:									
At the beginning of the year	-	18,884,219	89,892,170	62,903,015	3,534,744	26,712,597	-	201,926,745	192,765,159
Charge for the year	-	4,318,490	6,304,894	5,532,847	299,746	4,165,704	-	20,621,681	14,694,167
Disposals	-	-	(260,507)	(147,090)	-	(24,589,722)	-	(24,997,319)	(5,532,581)
At the end of the year	-	23,202,709	95,936,557	68,288,772	3,834,490	6,288,579	-	197,551,107	201,926,745
Net book amounts:									
At 31 December 2015	117,974,648	232,866,046	40,761,701	59,777,307	462,418	79,864,465	85,573,906	617,280,491	
At 31 December 2014	132,856,543	71,637,482	28,550,380	30,847,125	762,164	7,981,157	227,008,430		499,643,281

Assets held under capital leases include building held under capital lease with cost of SR 75 million leased for 20 years through a sale and lease-back transaction (Note 12).

Al Khaleej Training and Education Company and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2015

9 PROPERTY AND EQUIPMENT (continued)

Depreciation charge for the year is allocated as follows:

	2015 SR	2014 SR
Direct costs	17,345,852	12,073,038
General and administration expenses (note 19)	3,275,829	2,621,129
	<u>20,621,681</u>	<u>14,694,167</u>

10 INTANGIBLE ASSETS

	2015 SR	2014 SR
Goodwill (a)	29,901,586	30,075,100
Franchises (b)	5,570,315	5,930,097
	<u>35,471,901</u>	<u>36,005,197</u>

a) Goodwill

Goodwill is tested annually for impairment by management. According to the impairment test by management as at 31 December 2015, goodwill carrying amounts were found to be less than their recoverable amounts. Except for the Goodwill related to Franklin Covey Company's subsidiaries which has been declined by SR 173,514 (2014: SR 479,715). Recoverable amounts were determined on the basis of the value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Group's management.

b) Franchises

Franchises are amortized over ten years.

	2015 SR	2014 SR
Cost:		
At the beginning of the year	12,850,218	10,923,232
Additions	702,370	1,926,986
At the end of the year	<u>13,552,588</u>	<u>12,850,218</u>
Amortisation:		
At the beginning of the year	6,920,121	5,448,441
Charge for the year	1,062,152	1,471,680
At the end of the year	<u>7,982,273</u>	<u>6,920,121</u>
Net carrying amount	<u>5,570,315</u>	<u>5,930,097</u>

11 BANK LOANS

The Company has obtained facilities from local banks, in the form of letters of guarantee, short term loans, and term loans, to finance its working capital requirements and finance expansions in the educational projects sector. These are secured by promissory notes and personal guarantees from some major shareholders and accrue commission at commercial prevailing rates.

Al Khaleej Training and Education Company and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2015

12 OBLIGATIONS UNDER CAPITAL LEASES

These represent obligations resulting from the acquisition of assets through capital leases. Such assets consist of computers leased for a period of 3-4 years in addition to a building leased through a sale and lease-back transaction, as the Company has completed, on 15 September 2015, the sale of a newly constructed management building in Al-Ghadeer area in Riyadh, the cost of which is approximately SR 58.9 million, to Manafe' Holding Company, at a selling price of SR 75 million, in order to finance the Company's expansion in educational projects. Gain from the sale transaction, amounting to approximately SR 16 million, was deferred in accordance with the requirements of the Leases Accounting Standards issued by the Saudi Organization for Certified Public Accountants, and will be recognized in subsequent periods in correlation with depreciation, as the leaseback was classified as a capital lease. SR 401,874 of the deferred gain has been recognized in the consolidated statement of income during the year.

	2015 SR			2014 SR
	Computers	Building	Total	Total
Current portion	1,707,897	1,775,096	3,482,993	2,027,746
Non-current portion	598,269	69,467,838	70,066,107	1,209,050
Deferred finance charges	78,555	48,207,574	48,286,129	137,176
Remaining minimum annual lease payments	<u>2,384,721</u>	<u>119,450,508</u>	<u>121,835,229</u>	<u>3,373,972</u>

The minimum lease payments for the years after the balance sheet date, in totals, are as follows:

Year	Computers	Building	Total
2016	1,775,940	5,812,500	7,588,440
2017	608,781	5,812,500	6,421,281
2018	-	5,812,500	5,812,500
2019	-	5,812,500	5,812,500
2020 – 2024	-	30,515,625	30,515,625
2025 – 2029	-	32,041,406	32,041,406
2030 – 2034	-	33,643,477	33,643,477
	<u>2,384,721</u>	<u>119,450,508</u>	<u>121,835,229</u>

13 ACCOUNTS PAYABLE AND ACCRUALS

	2015 SR	2014 SR
Accrued expenses	22,146,161	56,998,629
Trade accounts payable	12,975,355	14,228,828
Advances from customers	2,440,786	6,028,268
Advance on account of sale of building	-	10,000,000
Other payables	1,943,274	2,376,535
	<u>39,505,576</u>	<u>89,632,260</u>

Al Khaleej Training and Education Company and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2015

14 ZAKAT AND INCOME TAX

- a) The consolidated zakat liability for the Company amounting to SR 3,579,139 (2014: SR 2,107,785) represents the zakat on Al Khaleej Training and Education Company.

The current year's provision is based on the following:

	2015 SR	2014 SR
Equity	457,251,370	399,294,325
Opening provisions and loans and other adjustments	283,525,542	178,969,271
Book value of long term assets	(671,498,159)	(546,214,291)
	69,278,753	32,049,305
Zakatable income for the year	73,886,826	92,172,208
Zakat base	143,165,579	124,221,513

The differences between the financial and the zakatable results are mainly due to provisions which are not allowed in the calculation of zakatable income

- b) The following is the movement of zakat provision for the year ended 31 December:

	2015 SR	2014 SR
At the beginning of the year	2,107,785	2,060,306
Provided during the year	3,579,139	2,600,000
Paid during the year	(2,300,811)	(2,552,521)
At the end of the year	3,386,113	2,107,785

- c) Zakat provided during the year consists of the following:

	2015 SR	2014 SR
Current year provision	3,579,139	2,538,783
Prior years adjustments	-	61,217
At the end of the year	3,579,139	2,600,000

- d) Zakat assessments have been agreed with the Department of Zakat and Income Tax (DZIT) up to 2008. The company has obtained final certificates up to the year 2014.
- e) The subsidiary companies are not subject to income tax, as these companies are currently exempt from income tax in their respective countries.

15 EMPLOYEES' TERMINAL BENEFITS

The movement in the provision was as follows:

	2015 SR	2014 SR
At the beginning of the year	34,730,430	31,222,550
Provided during the year	15,183,576	11,479,848
Payments during the year	(7,983,345)	(7,971,968)
At the end of the year	41,930,661	34,730,430

Al Khaleej Training and Education Company and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2015

16 SHARE CAPITAL

The company's capital consists of 40 Million shares (2014: 35 Million shares) of SR 10 each.

17 GENERAL ASSEMBLY RESOLUTIONS

The General Assembly has, in its meeting held on 2 Rajab 1436 (21 April 2015) approved the following proposition of Board of Directors:

- Distribution of cash dividends amounting to SR 28 million (SR 0,80 per share).
- Increasing the share capital of the Company by SR 50 million to be SR 400 million by the issuance of bonus shares at one share for each seven shares held.
- The Board of Directors remunerations amounting to SR 900,000.

18 SELLING AND MARKETING EXPENSES

	2015 SR	2014 SR
Employee costs	24,637,051	26,292,420
Advertising	11,529,224	12,305,940
Provision for doubtful debts (note 4)	7,247,816	2,966,294
	<u>43,414,091</u>	<u>41,564,654</u>

19 GENERAL AND ADMINISTRATION EXPENSES

	2015 SR	2014 SR
Salaries and related costs	30,149,318	32,612,989
Rent	8,450,697	8,364,597
Depreciation (note 9)	3,275,829	2,621,129
Professional fees	3,026,423	2,958,037
Telecommunication	1,165,446	1,983,603
Debts written off	2,121,835	1,500,000
Others	6,779,902	6,165,897
	<u>54,969,450</u>	<u>56,206,252</u>

20 OTHER INCOME, NET

	2015 SR	2014 SR
Rental income (note 21)	2,627,529	2,974,392
Realized gain from disposal of property and equipment	387,507	586,125
Foreign currency exchange loss	(401,811)	-
Others	45,882	69,703
	<u>2,659,107</u>	<u>3,630,220</u>

Al Khaleej Training and Education Company and its Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
31 December 2015

21 OPERATING LEASES

Leases as lessee:

Rent expense relating to operating leases for year ended 31 December 2015 amounted to SR 23,799,168 (2014: SR 23,025,563). Minimum lease payments committed as of 31 December 2015 was SR 13,567,598 (2014: SR 17,154,534).

Leases as lessor:

During the current year SR 2,627,529 (2014: SR 2,974,392) was recognized as rental income in the consolidated statement of income in respect of operating leases. Minimum lease payments receivable as of 31 December 2015 is SR 2 million (2014: SR 3 million)

22 CONTINGENT LIABILITIES

At 31 December 2015, the Group's bankers have issued on its behalf bank guarantees amounting to SR 73 Million (2014: SR 84 Million), in the normal course of business.

23 CAPITAL COMMITMENTS

Capital commitments as at the balance sheet date represent the value of the capital expenditures contracted for by the Company to construct schools, not yet executed, totaling SR 80 million (2014: SR 127 million).

24 SEGMENT INFORMATION

The segmental information are attributable to the Company's activities and business as approved by the Group management to be used as a basis for the financial reporting and consistent with the internal reporting process.

The segment results and assets comprise items that are directly attributable to certain segment and items that can reasonably be allocated between business segments.

The Group is organised into following main business segments:

1- Computer training

Serves individual and corporate segments. Individual segment incorporates training courses with period from 3 month to two years diplomat. Corporate segment incorporates all advanced programming, networking and computer solutions. The Group follows the global methodology of New Horizon Company, of which the Group owns the franchise in the Middle East Region.

2- Language

Provides training courses in English language, consisting of 6 levels. The courses are held over a period of 2 to 14 months. The Group follows the global methodology of Direct English Company, of which the Group owns the franchise in the Middle East Region.

3- Educational projects

This segment represents the educational projects related to universities and the Ministry of Education, including operating the orientation years for several Saudi universities. These projects are focused on providing the academic staff for the orientation years according to scientific basis and standards set by the universities, and managing these human resources for the universities.

4- Financial and management training

This segment aims to provide trainees with information and various skills and up-to-date methods in relation to their jobs, and to improve and develop their abilities and skills. This includes development courses in management, leadership, stock trading and others, improving their efficiency and productivity through international certifications.

Al Khaleej Training and Education Company and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2015

24 SEGMENT INFORMATION - continued

5- Communication centers

This segment provides management and operating services of customer services centers via telephone for a number of companies and bodies.

6- Schools

This segment is engaged in incorporating private educational schools for boys and girls inside the Kingdom of Saudi Arabia.

	Computer SR	Educational projects SR	Language SR	Communic ation center SR	Schools SR	Financial and management training SR	Total SR
31 December 2015							
Revenue	158,025,898	78,507,692	157,825,257	54,176,018	229,089,377	48,329,500	725,953,742
Gross profit	37,235,188	28,194,613	28,926,917	24,687,716	48,329,435	12,810,061	180,183,930
Property and equipment, net	132,127,313	66,063,656	8,808,488	13,212,731	6,000,375	391,067,928	617,280,491
Total assets	307,087,695	153,543,848	20,472,513	30,708,770	210,571,938	408,432,564	1,130,817,328
Total liabilities	87,316,301	43,658,150	5,821,087	8,731,630	46,144,535	402,756,690	594,428,393
31 December 2014							
Revenue	163,168,261	173,469,285	82,928,310	209,380,264	35,018,408	60,044,240	724,008,768
Gross profit	41,564,012	32,097,035	33,750,672	52,531,206	5,671,157	28,734,726	194,348,808
Property and equipment, net	100,231,850	6,682,123	50,115,925	4,509,112	328,081,086	10,023,185	499,643,281
Total assets	267,815,254	17,883,083	134,123,126	158,664,332	342,276,535	26,824,625	947,586,955
Total liabilities	47,456,820	3,159,188	23,693,909	29,443,467	339,705,686	4,738,782	448,197,852

Substantially, all the Group's operating assets are located in the Kingdom of Saudi Arabia. It is not meaningful to disclose information to individual geographic areas.

25 EARNING PER SHARE

Earnings per share is calculated by dividing the net income for the year by the weighted average number of shares outstanding during the year, amounting to 40 Million share as at 31 December 2015. Earnings per share for the comparative period of 2014 have been modified, retroactively, to reflect the effect of bonus shares.

26 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Financial instruments comprise of financial assets and financial liabilities.

The Group's financial assets consist of bank balances and cash, receivables and investments in securities and its financial liabilities consist of bank overdrafts, term loans, obligations under capital leases, payables, and accrued expenses.

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

27 RISK MANAGEMENT

Interest rate risk

The Group is subject to interest rate risk on its interest bearing liabilities, including bank overdrafts and term loans.

Credit risk

The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables. At the balance sheet date, no significant concentrations of credit risk were identified by management. Outstanding receivables includes amounts due from governmental parties (note 4).

The Group provides its services to a large number of customers in addition to government institutions.

Liquidity risk

The Group limits its liquidity risk by ensuring that bank facilities are available.

Currency risk

The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars during the year.

28 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors in its meeting held on 8 Jumada Al Awal 1437H (corresponding to 17 February 2016), has approved the consolidated financial statements and proposed the following:

- Distribution of cash dividends amounting to SR 40 Million (at SR 1 per share).

Such propositions would be presented in the next meeting of the General Assembly of the shareholders for approval.

29 COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform with the presentation in the current year.