

## IMPORTANT NOTICE

**THIS PROSPECTUS MAY ONLY BE DISTRIBUTED TO PERSONS WHO ARE OUTSIDE OF THE UNITED STATES.**

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**Restrictions:** UNDER NO CIRCUMSTANCES SHALL THE ATTACHED DOCUMENT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE SECURITIES IN THE UNITED STATES OR ANY OTHER JURISDICTION IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL. ANY SECURITIES TO BE ISSUED HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES.

THE ATTACHED DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON WITHOUT THE PRIOR WRITTEN CONSENT OF THE JOINT LEAD MANAGERS (AS DEFINED BELOW) AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. DISTRIBUTION OR REPRODUCTION OF THE ATTACHED DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE SECURITIES LAWS OF OTHER JURISDICTIONS.

THIS DOCUMENT IS NOT BEING DISTRIBUTED TO, AND MUST NOT BE PASSED ON TO, THE GENERAL PUBLIC IN THE UNITED KINGDOM. RATHER, THE COMMUNICATION OF THIS DOCUMENT (A) IF EFFECTED BY A PERSON WHO IS NOT AN AUTHORISED PERSON UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FSMA), IS BEING ADDRESSED TO, OR DIRECTED AT, ONLY THE FOLLOWING PERSONS: (I) PERSONS WHO ARE INVESTMENT PROFESSIONALS AS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (THE FINANCIAL PROMOTION ORDER), AND (II) PERSONS FALLING WITHIN ANY OF THE CATEGORIES OF PERSONS DESCRIBED IN ARTICLE 49(2) OF THE FINANCIAL PROMOTION ORDER; AND (B) IF EFFECTED BY A PERSON WHO IS AN AUTHORISED PERSON UNDER THE FSMA, IS BEING ADDRESSED TO, OR DIRECTED AT, ONLY THE FOLLOWING PERSONS: (I) PERSONS FALLING WITHIN ONE OF THE CATEGORIES OF INVESTMENT PROFESSIONAL AS DEFINED IN ARTICLE 14(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (PROMOTION OF COLLECTIVE INVESTMENT SCHEMES) (EXEMPTIONS) ORDER 2001 (THE PROMOTION OF CIS ORDER), (II) PERSONS FALLING WITHIN ANY OF THE CATEGORIES OF PERSON DESCRIBED IN ARTICLE 22(a)-(d) OF THE PROMOTION OF CIS ORDER AND (III) ANY OTHER PERSON TO WHOM IT MAY OTHERWISE LAWFULLY BE MADE IN ACCORDANCE WITH THE PROMOTION OF CIS ORDER. THIS COMMUNICATION IS BEING DIRECTED ONLY AT PERSONS HAVING PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS AND ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS COMMUNICATION RELATES WILL BE ENGAGED IN ONLY WITH SUCH PERSONS. NO OTHER PERSON SHOULD RELY ON IT.

Confirmation of your representation: The attached document is delivered to you at your request and on the basis that you have confirmed to Abu Dhabi Islamic Bank P.J.S.C., Credit Suisse Securities (Europe) Limited, Mashreqbank psc and Morgan Stanley & Co. International plc (together, the **Joint Lead Managers**), GEMS MENASA (Cayman) Limited (**GEMS**) and GEMS MEA Sukuk Limited (the **Issuer**) that (i) you are located outside the United States; (ii) you consent to delivery by electronic transmission; (iii) you will not transmit the attached document (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the prior written consent of the Joint Lead Managers; and (iv) you acknowledge that you will make your own assessment regarding any

credit, investment, legal, taxation or other economic considerations with respect to your decision to subscribe or purchase any of the Certificates.

This document has been made available to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of GEMS, the Issuer, the Joint Lead Managers nor any person who controls or is a director, officer, employee or agent of GEMS, the Issuer, the Joint Lead Managers nor any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version. By accessing this document, you consent to receiving it in electronic form. A hard copy of the document will be made available to you only upon request to the Joint Lead Managers.

You are reminded that the attached document has been delivered to you on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

Neither the Joint Lead Managers nor any of their respective affiliates accepts any responsibility whatsoever for the contents of this document or for any statement made or purported to be made by any of them, or on any of their behalf, in connection with GEMS, the Issuer or the offer. The Joint Lead Managers and their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of such document or any such statement. No representation or warranty, express or implied, is made by any of the Joint Lead Managers or their respective affiliates as to the accuracy, completeness, verification or sufficiency of the information set out in this document.

The Joint Lead Managers are acting exclusively for GEMS and the Issuer and no one else in connection with the offer. They will not regard any other person (whether or not a recipient of this document) as their client in relation to the offer and will not be responsible to anyone other than GEMS and the Issuer for providing the protections afforded to its clients nor for giving advice in relation to the offer or any transaction or arrangement referred to herein.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction the offering shall be deemed to be made by such Joint Lead Managers or such affiliate on behalf of GEMS and the Issuer in such jurisdiction.

Under no circumstances shall this document constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the attached document who intend to subscribe for or purchase any securities to be issued are reminded that any subscription or purchase may only be made on the basis of the information contained in the final version of the attached document.

If you received this document by e-mail, you should not reply by e-mail to this communication. Any reply e-mail communications, including those you generate by using the "Reply" function on the e-mail software, will be ignored or rejected. Your receipt of the electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



## GEMS MEA SUKUK LIMITED

(incorporated as an exempted company in the Cayman Islands with limited liability)

### U.S.\$200,000,000 Subordinated Perpetual Certificates

The U.S.\$200,000,000 Subordinated Perpetual Certificates (the **Certificates**) issued by GEMS MEA Sukuk Limited (in its capacity as issuer, the **Issuer** and, in its capacity as trustee for and on behalf of the holders of the Certificates (the **Certificateholders**), the **Trustee**) will be constituted by a declaration of trust (the **Declaration of Trust**) dated 21 November 2013 (the **Issue Date**) entered into between the Issuer, the Trustee, GEMS MENASA (Cayman) Limited (**GEMS**) and Deutsche Trustee Company Limited (the **Delegate**). Pursuant to the Declaration of Trust, the Trustee will declare that it will hold the Trust Assets (as defined in the Conditions) upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificates (the **Conditions**).

The Issuer will (save as described below) pay Periodic Distribution Amounts from and including the Issue Date to but excluding 21 November 2018 (the **First Call Date**) at a Profit Rate of 12.00 per cent. per annum, payable semi-annually in arrear on each Periodic Distribution Date and (if the Certificates have not been previously redeemed and/or purchased and cancelled in accordance with the Conditions on or prior to the First Call Date) thereafter pay Periodic Distribution Amounts in respect of each Reset Period at a Profit Rate which shall be equal to the Relevant Five Year Reset Rate plus the Initial Margin and the Step-up Margin (each as defined in the Conditions). Following the occurrence of a Change of Control Event, unless the Issuer redeems the Certificates in accordance with the Conditions, the Profit Rate payable on the Certificates (whether before or after the First Call Date) will be subject to an increase in an amount equal to the Change of Control Margin from (and including) the expiration of the Change of Control Redemption Period (each as defined in the Conditions). In certain circumstances as more particularly described in Condition 7.5, the Trustee (acting on the instructions of GEMS in its capacity as mudareb (the **Mudareb**) pursuant to the Mudaraba Agreement (as defined in the Conditions)) may, in its sole and absolute discretion, defer payment of all or part of a Periodic Distribution Amount. Any such Periodic Distribution Amounts so deferred will be cumulative and shall constitute (together with the Additional Profit Amount (as defined in the Conditions) payable thereon) **Optionally Outstanding Payments** which will be payable in the circumstances described in Condition 7.6.

Subject as aforesaid, each payment of a Periodic Distribution Amount will be made by the Issuer provided that the Mudareb shall have paid the Rab-al-Maal Mudaraba Profit and the Rab-al-Maal Final Mudaraba Profit (as applicable) (each as defined in the Conditions) equal to such Periodic Distribution Amount pursuant to the terms of the Mudaraba Agreement.

The Certificates will constitute perpetual subordinated instruments with no fixed redemption date. The Certificates may be redeemed at the Issuer's option (on the instructions of the Mudareb (in its sole and absolute discretion)) on the First Call Date or on any Periodic Distribution Date thereafter. Further, the Issuer shall (acting only on the instructions of the Mudareb in its sole and absolute discretion) redeem all outstanding Certificates on 21 November 2016 or at any time thereafter up to, but excluding, the First Call Date upon the occurrence of an Initial Equity Offering Call Event (as defined in the Conditions). In addition, the Issuer shall (acting only on the instructions of the Mudareb in its sole and absolute discretion) redeem all outstanding Certificates at any time upon the occurrence of a Tax Event, an Accounting Event, or a Change of Control Event (each as defined in the Conditions) or if GEMS or any Subsidiary (as defined in the Conditions) of GEMS has purchased more than 80 per cent. of the initial aggregate face amount of the Certificates, in each case in accordance with the Conditions. The payment obligations of GEMS under the Mudaraba Agreement will constitute direct, unsecured and subordinated obligations of GEMS, rank subordinated and junior to all payment obligations of GEMS (other than the *Pari Passu* Obligations and Junior Obligations (each as defined in the Conditions)) and senior only to Junior Obligations.

The Certificates will be limited recourse obligations of the Issuer. An investment in the Certificates involves certain risks. For a discussion of these risks, see "*Risk Factors*".

This Prospectus has been approved by the Central Bank of Ireland (the **Central Bank**) as competent authority under Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State) (the **Prospectus Directive**). Such approval relates only to the Certificates which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area. The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and European Union (EU) law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Certificates to be admitted to the official list (the **Official List**) and trading on its regulated market (the **Main Securities Market**). The Main Securities Market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC) (**MiFID**). This Prospectus has been approved by the Dubai Financial Services Authority (the **DFSA**) under the DFSA's Markets Rule 2.6 and is therefore an Approved Prospectus for the purposes of Article 14 of the DFSA's Markets Law 2012. Application has also been made to the DFSA for the Certificates to be admitted to the official list of securities maintained by the DFSA and to NASDAQ Dubai for such Certificates to be admitted to trading on NASDAQ Dubai. References in this Prospectus to Certificates being listed (and all related references) shall mean that such Certificates have been admitted to listing on the Official List and the official list of securities maintained by the DFSA and have been admitted to trading on the Main Securities Market and on NASDAQ Dubai.

This Prospectus relates to an Exempt Offer in accordance with the Markets Rules (the **Markets Rules**) of the DFSA. This Prospectus is intended for distribution only to persons of a type specified in the Markets Rules. It must not be delivered to, or relied on by, any other person.

The DFSA does not accept any responsibility for the content of the information included in this Prospectus, including the accuracy or completeness of such information, nor has it determined whether the Certificates are *Shari'a* compliant. The liability for the content of this Prospectus lies with the Issuer and GEMS. The DFSA has also not assessed the suitability of the Certificates to which this Prospectus relates to any particular investor or type of investor. If you do not understand the contents of this Prospectus or are unsure whether the Certificates to which this Prospectus relates are suitable for your individual investment objectives and circumstances, you should consult an authorised financial adviser.

The Certificates may only be offered, sold or transferred in registered form in minimum face amounts of U.S.\$150,000 and integral multiples of U.S.\$1,000 in excess thereof.

The Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States (as defined in Regulation S under the Securities Act (**Regulation S**)) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Certificates are being offered or sold solely to persons outside the United States in reliance on Regulation S. Each purchaser of the Certificates is hereby notified that the offer and sale of Certificates to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

The Certificates will be represented by interests in a global certificate in registered form (the **Global Certificate**) deposited on or about the Issue Date with, and registered in the name of a nominee for, a common depository (the **Common Depository**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Definitive Certificates evidencing holdings of interests in the Certificates will be issued in exchange for interests in the Global Certificate only in certain limited circumstances described herein.

#### *Joint Structuring Advisers, Joint Lead Managers and Joint Bookrunners*

Abu Dhabi Islamic Bank

Credit Suisse

Morgan Stanley

#### *Joint Lead Manager and Joint Bookrunner*

Mashreqbank psc

This Prospectus complies with the requirements in Part 2 of the Markets Law (DIFC Law No. 1 of 2012) and Chapter 2 of the Markets Rules and comprises a prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, the Trustee, GEMS, GEMS and its subsidiaries (together with GEMS, the **Group**) and the Certificates which, according to the particular nature of the Issuer, the Trustee, GEMS, the Group and of the Certificates, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, the Trustee, GEMS, the Group and of the Certificates. Each of the Issuer and GEMS accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Issuer and GEMS (each having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Prospectus in connection with the offering of the Certificates and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, GEMS, the Joint Lead Managers (as defined under “*Subscription and Sale*”), the Trustee, the Delegate, the Agents (as defined herein) or any other person.

Neither the delivery of this document nor any sale of any Certificates shall, under any circumstances, constitute a representation or create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Certificates is correct as of any time subsequent to the date hereof. The Joint Lead Managers expressly do not undertake to review the financial condition or affairs of the Issuer or GEMS during the life of the Certificates or to advise any investor in the Certificates of any information coming to their attention or that there has been no change in the affairs of any party mentioned herein since that date.

None of the Joint Lead Managers, the Delegate or the Agents has independently verified the information contained herein. To the fullest extent permitted by law, the Joint Lead Managers accept no responsibility whatsoever for the contents of this Prospectus, or for any other statement made or purported to be made by a Joint Lead Manager or on its behalf in connection with the Issuer, GEMS or the issue and offering of the Certificates. Each Joint Lead Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of them as to the accuracy, adequacy, reasonableness or completeness of the information contained in this Prospectus or any other information provided by the Issuer or GEMS in connection with the issuance of the Certificates, their distribution or their future performance.

Neither this Prospectus nor any other information supplied in connection with the Certificates: (a) is intended to provide the basis of any credit or other evaluation; or (b) should be considered as a recommendation by the Issuer, the Trustee, GEMS, the Joint Lead Managers, the Delegate or the Agents that any recipient of this Prospectus should purchase any of the Certificates. Each investor contemplating purchasing any Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and GEMS. None of the Joint Lead Managers, the Delegate or the Agents accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer and GEMS in connection with the Certificates. None of the Joint Lead Managers undertakes to review the financial condition or affairs of the Issuer or GEMS during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Certificates of any information coming to the attention of any of the Joint Lead Managers.

No comment is made or advice given by the Issuer, the Trustee, GEMS, the Joint Lead Managers, the Delegate or the Agents in respect of taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under any applicable law.

**EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX ADVISER, LEGAL ADVISER AND BUSINESS ADVISER AS TO TAX, LEGAL, BUSINESS AND RELATED MATTERS CONCERNING THE PURCHASE OF THE CERTIFICATES.**

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction.



The distribution of this Prospectus and the offer or sale of the Certificates may be restricted by law in certain jurisdictions. None of the Issuer, the Trustee, GEMS, the Joint Lead Managers, the Delegate or the Agents represents that this Prospectus may be lawfully distributed, or that any Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Trustee, GEMS, the Joint Lead Managers, the Delegate or the Agents which is intended to permit a public offering of any Certificates or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of the Certificates. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Certificates in the United States, the United Kingdom, the Cayman Islands, the Kingdom of Saudi Arabia, the State of Qatar, the Kingdom of Bahrain, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, Malaysia, Singapore and Hong Kong, see “*Subscription and Sale*”.

The Certificates may not be a suitable investment for all investors. Each potential investor in Certificates must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (a) has sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained in this Prospectus;
- (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio;
- (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency for payments of principal or profit is different from the potential investor’s currency;
- (d) understands thoroughly the terms of the Certificates and is familiar with the behaviour of any relevant indices and financial markets; and
- (e) is able to evaluate possible scenarios for economic, profit rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Certificates are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as standalone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Certificates unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Certificates will perform under changing conditions, the resulting effects on the value of the Certificates and the impact this investment will have on the potential investor’s overall investment portfolio.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (a) the Certificates are legal investments for it; (b) the Certificates can be used as collateral for various types of borrowing; and (c) other restrictions apply to its purchase or pledge of any Certificates. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Certificates under any applicable risk based capital or similar rules.

**IN CONNECTION WITH THE ISSUE OF THE CERTIFICATES, MORGAN STANLEY & CO. INTERNATIONAL PLC, IN ITS CAPACITY AS STABILISING MANAGER (THE *STABILISING MANAGER*) OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER MAY EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL BUT IN SO DOING, THE STABILISING MANAGER SHALL ACT AS PRINCIPAL AND NOT AS AGENT OF THE ISSUER OR**

**GEMS. HOWEVER, THERE CAN BE NO ASSURANCE THAT THE STABILISING MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE ISSUE DATE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE CERTIFICATES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE CERTIFICATES.**

**ANY STABILISATION ACTION SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

#### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This Prospectus contains “forward-looking statements” – that is statements related to future, not past, events. In this context, forward-looking statements often address GEMS’s expected future business and financial performance, and often contain words such as “expect”, “anticipate”, “intend”, “plan”, “believe”, “seek” or “will”. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For GEMS, particular uncertainties that could adversely or positively affect its future results include: the behaviour of financial markets and macro-economic conditions; the impact of regulation and regulatory, investigative and legal actions; strategic actions, including acquisitions and dispositions; and numerous other matters of national, regional and global scale, including those of a political, economic, business and competitive nature. These uncertainties may cause GEMS’s actual future results to be materially different than those expressed in its forward-looking statements.

The forward-looking statements in this Prospectus speak only as at the date of this Prospectus. Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “*Risk Factors*”. Without prejudice to any requirements under applicable laws and regulations, GEMS expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any forward-looking statement is based.

#### **CERTAIN PUBLICLY AVAILABLE INFORMATION**

Certain information under the headings “*Regulation*” and “*Industry Overview*” has been extracted from information provided by or obtained from: the World Bank, the Saudi Arabian Ministry of Education, a report published in 2011 by Booz & Company entitled “*A Decade of Opportunity, The Coming Expansion of the Private School Market in the GCC*”, a report published in 2011 by Al Masah Capital entitled “*MENA: Education Sector Report*” and a report published by Alpen Capital in 2012 entitled “*GCC Education Industry*” and, in each case, the relevant source of such information is specified where it appears under those headings. None of the Joint Lead Managers, the Issuer or GEMS accepts responsibility for the factual correctness of any such information but both the Issuer and GEMS confirm that all such third party information has been accurately reproduced and, so far as the Issuer and GEMS are aware and have been able to ascertain from that published information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

#### **PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

In this Prospectus, unless otherwise specified or the context otherwise requires, references to “\$”, “*U.S.\$*”, “*USD*”, “*U.S. dollars*”, “*United States dollars*” and “*dollars*” are to the lawful currency for the time being of the United States of America and references to “*Dirham*” and “*AED*” are to the lawful currency for the time being of the United Arab Emirates.

The historical financial information presented in this Prospectus is based on the Group’s audited consolidated financial statements as at and for the financial years ended 31 March 2013 (including the comparative information as at and for the financial year ended 31 March 2012) and 31 March 2012 (including the comparative information as at and for the financial year ended 31 March 2011). The consolidated financial statements of the Group for each of the financial years ended 31 March 2012 and 31 March 2013 have been audited in accordance with International Standards on Auditing by Ernst & Young, independent auditors, as stated in their reports appearing herein.

References to “*FY11*”, “*FY12*” and “*FY13*” are references to the financial years ended 31 March 2011, 2012 and 2013 respectively. References to “*FY12 Financial Statements*” and “*FY13 Financial Statements*”

are references to the consolidated financial statements of the Group for the financial years ended 31 March 2012 and 2013, respectively.

Unless otherwise specified, where financial information in this Prospectus has been translated into U.S. dollars, it has been so translated, for the convenience of the reader only, as the rate of AED3.675 equals U.S.\$1. Such conversions should not be construed as representations that the AED amounts actually represent such dollar amounts or could actually be converted into dollars at the rate indicated.

Certain figures contained in this Prospectus, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this Prospectus may not conform exactly to the total figure given for that column or row.

The Issuer is not required under Cayman Islands law, and does not intend, to publish audited financial statements or appoint any auditor.

### **Non-IFRS Financial Measures**

In this Prospectus, certain financial measures are presented that are not recognised by IFRS which include EBITDA and adjusted EBITDA each as defined below.

EBITDA is defined as net profit for the year before deduction of finance costs, depreciation and amortisation of intangible assets. The Group has calculated EBITDA for each period as the sum of: (a) its consolidated profit for that period; (b) its consolidated finance costs for that period (excluding any capitalised finance costs); and (c) its consolidated depreciation and amortisation charge in respect of intangible assets for that period.

The Group has calculated adjusted EBITDA, which GEMS defines as EBITDA after adding (a) pre-operative expenses, (b) capital work in progress write-offs, (c) the Group's share of the loss made by an associate and (d) certain other costs (see "*Selected Financial Information*" for a description of such other costs) and after deducting income received on the close out of an interest rate collar agreement and certain interest rate swap derivatives transactions.

EBITDA and adjusted EBITDA are not defined by or presented in accordance with IFRS, are not a measure of performance and should not be considered as alternatives to:

- profit after tax from continuing operations (as determined in accordance with IFRS), or as a measure of operating performance;
- cash flows from operating, investing or financing activities (as determined in accordance with IFRS), or as a measure of the Group's liquidity; or
- any other measures of performance under IFRS.

EBITDA and adjusted EBITDA as presented in this document may not be comparable to similarly titled measures reported by other companies due to differences in the way these measures are calculated.

EBITDA and adjusted EBITDA have limitations as analytical tools, and an investor should not consider these measures in isolation from, or as a substitute for, analysis of the Group's results of operations as reported under IFRS. Some limitations of EBITDA and adjusted EBITDA as a measure are that:

- EBITDA and adjusted EBITDA do not reflect the Group's cash expenditures or future requirements for capital expenditures or contractual commitments;
- EBITDA and adjusted EBITDA does not reflect changes in, or cash requirements, for the Group's working capital needs;
- EBITDA and adjusted EBITDA do not reflect the significant interest expense or the cash requirements necessary to service interest or principal repayments, in respect of any borrowings;
- although depreciation and amortisation are non-cash charges, the assets being depreciated and amortised will often have to be replaced in the future and EBITDA and adjusted EBITDA do not reflect any cash requirements for such replacements; and
- other companies may calculate EBITDA and adjusted EBITDA differently from how the Group does, limiting their usefulness as a comparative measure.

EBITDA and adjusted EBITDA may not be indicative of the Group's historical operating results, nor are they meant to be a projection or forecast of future results.

GEMS believes that EBITDA and adjusted EBITDA provide useful information to investors because the measures are used by management in analysing the Group's core performance excluding the impact of certain non-operating factors, as they remove the results of certain decisions that are outside the control of management and can differ significantly from company to company depending on long term strategic decisions regarding capital structure, the stage of growth development, capital expenditure requirements and the jurisdictions in which certain Group companies operate and make capital investments. In addition, GEMS believes that EBITDA is a measure commonly used by investors, analysts and other interested parties in the Group's industry. EBITDA and adjusted EBITDA are not subject to audit or review by any independent auditors.

#### **NOTICE TO RESIDENTS OF THE UNITED KINGDOM**

The Certificates represent interests in a collective investment scheme (as defined in the FSMA) which has not been authorised, recognised or otherwise approved by the United Kingdom Financial Services Authority. Accordingly, this Prospectus is not being distributed to and must not be passed on to the general public in the United Kingdom.

The distribution in the United Kingdom of this Prospectus and any other marketing materials relating to the Certificates: (a) if effected by a person who is not an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **Financial Promotion Order**); and (ii) persons falling within any of the categories of persons described in Article 49(2) (High net worth companies, unincorporated associations, etc.) of the Financial Promotion Order; and (b) if effected by a person who is an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the **Promotion of CISs Order**); (ii) persons falling within any of the categories of person described in Article 22(a)-(d) (High net worth companies, unincorporated associations, etc.) of the Promotion of CISs Order; and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Promotion of CISs Order. Persons of any other description in the United Kingdom may not receive and should not act or rely on this Prospectus or any other marketing materials in relation to the Certificates.

Potential investors in the United Kingdom in the Certificates are advised that all, or most, of the protections afforded by the United Kingdom regulatory system will not apply to an investment in the Certificates and that compensation will not be available under the United Kingdom Financial Services Compensation Scheme.

Any individual intending to invest in the Certificates should consult his professional adviser and ensure that he fully understands all the risks associated with making such an investment and that he has sufficient financial resources to sustain any loss that may arise from such investment.

#### **NOTICE TO RESIDENTS OF THE CAYMAN ISLANDS**

**No invitation may be made to any member of the public of the Cayman Islands to subscribe for the Certificates.**

#### **NOTICE TO RESIDENTS OF THE STATE OF QATAR**

This Prospectus does not and is not intended to constitute an offer, sale or delivery of the Certificates under the laws of the State of Qatar and has not been and will not be reviewed or approved by the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority or the Qatar Central Bank in accordance with their regulations or any other regulations in the State of Qatar. The Certificates are not and will not be traded on the Qatar Exchange.

#### **NOTICE TO RESIDENTS OF MALAYSIA**

**The Certificates may not be offered for subscription or purchase and no invitation to subscribe for or purchase the Certificates in Malaysia may be made, directly or indirectly, and this Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia other than to persons falling within the categories set out in Schedule 6 or Section 229(1)(b), Schedule 7 or**



**Section 230(1)(b) and Schedule 8 or Section 257(3) of the Capital Market and Services Act 2007 of Malaysia (CMSA).**

**The Securities Commission of Malaysia shall not be liable for any non-disclosure on the part of the Issuer, the Trustee or GEMS and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Prospectus.**

#### **NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN**

In relation to investors in the Kingdom of Bahrain, securities issued in connection with this Prospectus and related offering documents may only be offered in registered form to existing account holders and accredited investors as defined by the Central Bank of Bahrain (CBB) in the Kingdom of Bahrain where such investors make a minimum investment of at least U.S.\$100,000 or any equivalent amount in other currency or such other amount as the CBB may determine.

This offer does not constitute an offer of securities in the Kingdom of Bahrain in terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (decree Law No. 64 of 2006). This Prospectus and related offering documents have not been and will not be registered as a prospectus with the CBB. Accordingly, no securities may be offered, sold or made the subject of an invitation for subscription or purchase nor will this Prospectus or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase securities, whether directly or indirectly, to persons in the Kingdom of Bahrain, other than to accredited investors for an offer outside Bahrain.

The CBB has not reviewed, approved or registered the Prospectus or related offering documents and it has not in any way considered the merits of the securities to be offered for investment, whether in or outside the Kingdom of Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this document and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this document. No offer of securities will be made to the public in the Kingdom of Bahrain and this Prospectus must be read by the addressee only and must not be issued, passed to, or made available to the public generally.

#### **NOTICE OF THE RESIDENTS OF THE KINGDOM OF SAUDI ARABIA**

**This Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the *Capital Market Authority*). The Capital Market Authority does not make any representations as to the accuracy or completeness of this Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus. Prospective purchasers of Certificates should conduct their own due diligence on the accuracy of the information relating to the Certificates. If a prospective purchaser does not understand the contents of this Prospectus they should consult an authorised financial adviser.**

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## RISK FACTORS

*The purchase of Certificates may involve substantial risks and is suitable only for sophisticated investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of an investment in the Certificates. Before making an investment decision, prospective purchasers of Certificates should consider carefully, in the light of their own financial circumstances and investment objectives, all of the information in this Prospectus.*

*Each of the Issuer and GEMS believes that the factors described below represent the principal risks inherent in investing in the Certificates, but the inability of the Issuer to pay any amounts on or in connection with any Certificate may occur for other reasons and neither the Issuer nor GEMS represents that the statements below regarding the risks of holding any Certificate are exhaustive.*

*Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision. Words and expressions defined in “Terms and Conditions of the Certificates” shall have the same meanings in this section.*

*References in this “Risk Factors” section to the “Issuer” and the “Trustee” shall mean GEMS MEA Sukuk Limited acting in any capacity, except where the context does not permit.*

### **Risk factors relating to the Issuer**

The Issuer is an exempted company with limited liability incorporated in the Cayman Islands on 22 July 2013 and, accordingly, only has a limited operating history. The Issuer has not as at the date of this Prospectus, and will not, engage in any business activity other than the issuance of the Certificates, the acquisition of the Trust Assets as described herein, acting in the capacity as Trustee and other activities incidental or related to the foregoing as required under the Transaction Documents.

The Issuer’s only material assets, which will be held on trust for Certificateholders, will be the Trust Assets, including the right to receive amounts paid by the Mudareb under the Mudaraba Agreement.

The ability of the Issuer to pay amounts due on the Certificates will be dependent upon receipt from GEMS of amounts paid under the Mudaraba Agreement (which in aggregate may not be sufficient to meet all claims under the Certificates and the Transaction Documents). Therefore, the Issuer is subject to all the risks to which GEMS is subject to the extent that such risks could limit GEMS’s ability to satisfy in full and on a timely basis its obligations under the Mudaraba Agreement. See “*Risk factors relating to the Group and its business*” below for a further description of these risks.

### **Risk factors relating to the Group and its business**

*The Group’s businesses are concentrated in Dubai and the UAE and are affected by the economic and political conditions in the markets in which they operate*

All of the Group’s businesses are, and will continue to be, affected by economic and political developments in or affecting the UAE and the Middle East and Africa (MEA) region. The Group currently has a significant proportion of its operations and interests in the UAE, with a particular focus on Dubai. In FY13, substantially all of the Group’s revenues and EBITDA were attributable to its operations in the UAE, principally Dubai. Therefore, as the majority of the Group’s revenues are derived from operations in the UAE, any changes in the political, social, economic or other conditions in the UAE, including events which impact on Dubai’s attractiveness as a business, conference or tourist destination, as well as any factors that result in a decline in the population of the UAE, may lead to a fall in demand for GEMS Schools, result in a decrease in utilisation rates (being the number of enrolments divided by the number of places available) at existing GEMS Schools, cause regulators to freeze fee increases or in the worst case impose fee reductions at existing GEMS Schools, and this may have a disproportionate effect on the Group’s business, prospects, results of operations and financial condition when compared with the effect of any such changes in other countries in which the Group operates.

While the UAE is currently seen as a relatively stable political environment, certain other jurisdictions in the Middle East are not and there is no guarantee that the UAE will continue to be so in the future. In particular, since early 2011 there has been, and in some cases continues to be, political unrest in a range of countries in the MEA region, including Algeria, Bahrain, Egypt, Libya, Oman, Saudi Arabia, Syria, Tunisia and Yemen. This unrest has ranged from public demonstrations to, in extreme cases, armed conflict and has given rise to increased political uncertainty across the region. It is not possible to predict the

occurrence of events or circumstances such as war or hostilities, or the impact of such occurrences, and no assurance can be given that such events will not impact the business of the Group.

There can be no assurance that either the economic performance of, or political stability in, the countries in which the Group currently operates or may in the future operate can or will be sustained. To the extent that economic growth or performance in these countries or the MEA region as a whole slows or begins to decline, or political conditions become sufficiently unstable to adversely affect the Group's operations in those countries, this could cause the Group to suspend its expansion plans in the MEA region and the Group's business, prospects, results of operations and financial condition may be adversely affected.

***Risks relating to the licensing requirements in the jurisdictions in which the Group operates***

The Group's activities are subject to various licensing requirements in each of the Emirates of the UAE and the other countries in which the Group operates. As at 30 September 2013, the Group operated 39 K-12 schools in the MEA region located in Dubai, Abu Dhabi, Sharjah, Al Ain, Fujairah, Ras Al Khaimah, Kenya and Uganda. Furthermore, pursuant to its expansion strategy the Group will also be subject to more licensing requirements in any new countries in which expands its operations. Licences are renewed individually for each school on a periodic basis and contain various on-going conditions. Any termination or suspension of any licence or non-renewal of any of the Group's licences for whatever reason would result in the cessation of the respective business under that licence, significantly curtail the Group's ability to enrol new students and/or cause the Group to incur costs to fulfil its obligations to the enrolled students. Consequently, the Group's business, financial condition, results of operations and prospects may be adversely affected. See "Regulation" for licensing requirements in each of the Emirates within the UAE and the other countries in which the Group operates.

***The Group's business is subject to regulatory oversight in the jurisdictions in which it operates, which may be uncertain and subject to change, possibly at short notice***

The Group's business and operations are subject to various governmental regulations and policies in the UAE and the other countries in which it has operations. For example, tuition fee increases in certain of the jurisdictions in which the Group operates are subject to regulatory approval by the relevant regulator in that jurisdiction. However, the relevant regulator may not impose any control on costs incurred by schools and consequently the regulation of the Group's revenue through capping tuition fees without any control on costs could have an adverse effect on the overall business and results of operations of the Group, particularly in the event of on-going costs increases due to high levels of inflation.

In addition, there can be no assurance that regulatory authorities in other jurisdictions in which the Group operates will not impose restrictions on fees or on increases in fees in the future. Therefore, the Group may have limited control over the nature and timing of changes to certain aspects of regulation of its business resulting from future changes in any regulations and/or policies to which it is subject. There can be no assurance that such regulations and policies will not be introduced in countries in which the Group operates. Changes in such regulations, which can often occur at short notice, may have an adverse effect on the Group's business, prospects, results of operations and financial condition.

***The Group may face significant competition in each geographic market in which it operates, and if it does not compete efficiently, it may lose market share***

The K-12 education sector in the MEA region is evolving, highly fragmented and competitive. The GEMS Schools compete with other private sector K-12 schools and other providers, including those that offer the same curricula and operate at similar fee points. In the future, the Group may experience increased competition in the region if (as expected by management) more private K-12 schools are established or the industry undergoes consolidation. Some of the Group's competitors may have greater financial and other resources and, as a result, may be in a better position to compete for future business opportunities. Therefore, if the GEMS Schools are not able to differentiate the academic experience offered to their students from that offered by their competitors, this may lead to a decrease in enrolment and profitability which may in turn have an adverse effect on the Group's business, prospects, results of operations and financial condition.

***Risks relating to the Group's expansion strategy***

The Group's business has recently experienced, and anticipates future, rapid growth. Growth and expansion of its operations through opening new schools, acquiring third party schools and expanding



operations into new geographical markets may place a significant strain on resources and increase demands on management information and reporting systems and financial management controls. The Group may not be able to maintain or accelerate its current growth rate, effectively manage the expansion of its operations or achieve its planned growth on a timely or profitable basis.

As part of its expansion strategy, the Group expects to establish and operate new schools in the future. Establishing new schools poses unique challenges. Risks associated with opening and operating new schools include, but are not limited to:

- identification of suitable sites and negotiation of acceptable commercial terms;
- obtaining regulatory approvals;
- construction related issues, such as cost overruns, reliance on third party performance, availability and costs of material and labour, adverse weather conditions and changing governmental regulation. See “*The Group may incur unanticipated costs due to the delay in completing the construction of GEMS Schools*” below; and
- management and operation of the schools at a satisfactory level.

The Group is also seeking to grow its operations through a strategy of expansion into new geographical markets in the MEA region. The risks faced in pursuing this expansion strategy include those that are inherent in operating in jurisdictions in which the Group has limited or no experience. These risks include cultural factors affecting those markets, relationships with education authorities, complexity of operations across borders, potentially high set-up costs, currency exchange fluctuations, monetary policy risks such as inflation, hyperinflation and deflation, and potential political and economic instability.

Additionally, the Group may acquire existing private schools and private school companies in the region and integrate them into its existing portfolio of GEMS Schools. This strategy poses significant risks and uncertainties, including, but not limited to:

- availability of suitable targets for acquisition;
- availability of sufficient financial or operational resources to fund such acquisitions;
- ability to obtain required licences, authorisations and permits to acquire and/or operate new schools;
- ability of GEMS Schools to implement and maintain standard controls, policies and procedures across all of its schools;
- distraction of management’s attention from the normal business of running the day-to-day operations of the Group during the integration process;
- the ability of GEMS Schools to integrate and appropriately motivate key personnel at the acquired schools;
- unforeseen expenses associated with the integration efforts; and
- the emergence of issues not discovered during the due diligence process which affect an acquired school, including legal contingencies.

If the Group is unable to manage its growth effectively and if it is unable to address any of the above risks, it may experience operating inefficiencies and this may adversely affect its business, prospects, results of operations and financial condition.

***If the Group is not able to attract, employ, train and retain well qualified teachers, it may impact the quality of instruction at GEMS Schools, compromising academic performance and overall reputation***

Well trained and sufficiently qualified teachers are critical to maintaining the quality of instruction provided at GEMS Schools. The Group’s ability to deliver high quality education across a range of curricula is dependent on the availability of qualified teachers and its ability to continue to recruit, employ, train and retain such teachers. In addition, the Group’s ability to retain and, where necessary, attract teachers, principals, school administrators and support staff is critical to maintaining its current and future intended growth strategy. A shortage of quality teaching personnel and a high turnover rate of staff could lead to ineffective delivery of the curricula offered to students, impacting their academic performance and the reputation and brand of the GEMS Schools. An adverse impact on the Group’s reputation and brand may lead to an adverse effect on its business, prospects, results of operations and financial condition.

***The Group may not be able to retain key personnel or hire and retain additional personnel needed to sustain and grow its business as planned***

The Group's success depends, to a large degree, on its ability to attract and retain highly qualified principals, school administrators, support staff and corporate management. The Group may have difficulty locating and hiring quality personnel, and retaining such personnel once hired. In addition, key personnel may leave the organisation and subsequently join a competitor. The Group does not have key man insurance for its key personnel, Chairman, directors or senior managers. Therefore, the loss of service of any of its key personnel including the Chairman of the Group or a failure to attract and retain other qualified and experienced personnel on acceptable terms could impair the Group's ability to successfully sustain and grow its business, which could have an adverse effect on its business, prospects, results of operations and financial condition.

***The Group's financial performance depends in part on its ability to increase the profitability of the GEMS Schools***

Fees charged at the GEMS Schools are maintained at a competitive level in all the markets in which the Group operates. Certain factors could have an adverse impact on the Group's ability to maintain or increase the level of tuition fees that it charges. These factors include, among other things:

- negative perceptions of the quality of education offered at the GEMS Schools;
- resistance to tuition fee increases by tuition payers (parents and employers) due to difficult economic conditions or previous fee increases in recent academic years;
- reductions or discounts of tuition fees by other schools that seek to compete in the Group's markets and lower fees of new competitor schools; and
- imposition of limitations by educational authorities and regulators on the ability to increase tuition fees.

In addition, changes in the compensation and benefits packages of those parents whose employers pay for their children's tuition fees may alter the amount or way in which employers pay for tuition fees and may negatively affect the Group's ability to maintain or increase tuition fees. A change may cause parents to become more price sensitive in respect of the tuition fees they are willing to pay. The inability to maintain or increase tuition fees could have an adverse effect on the Group's business, prospects, results of operations and financial condition.

***The Group's performance is dependent on enrolment and re-enrolment of students in existing and new GEMS Schools***

Increasing enrolments and utilisation rates and maintaining re-enrolment figures in GEMS Schools is critical in ensuring the sustained financial performance of the Group. A number of factors may contribute to a drop in student enrolment rates at the existing GEMS Schools, including competition with other providers of private education, an economic downturn, political instability in the MEA region, expatriate relocation, graduation, decline in student performance, parent satisfaction, maintaining curricula that is attractive to students or other disruptive events which could cause the temporary or permanent closure of any of the GEMS Schools. In addition, if education quality is not maintained at the GEMS Schools, parents may choose not to re-enrol their children or to remove their children from the schools. Any reduction in numbers of students enrolling in or attending the existing GEMS Schools could have an adverse effect on the Group's business, prospects, results of operations and financial condition.

***If the pattern of payment of fees in the GEMS Schools changes, this could create cash flow issues for the Group***

Tuition fees are invoiced by GEMS Schools in either 10 monthly instalments, three instalments or two instalments during each academic year. The timing of the Group's expenses, however, may not necessarily correspond to this pattern. If the Group were required by regulation or as a result of market conditions to collect fees other than by way of the instalments as described above, this would have a negative effect on the Group's cash flow and the Group may require additional working capital or third party funding to finance its operations. Such financing may not be available at commercially reasonable rates, or at all.

The Group relies on the timely payment of the tuition fees it charges to its students. For the financial year ended 31 March 2013, bad debts provisions were minimal, representing 0.2 per cent. of total revenues. Any future increase in defaults and/or significant delays in the payment of tuition fees may impact the Group's

cash flows and its ability to meet its obligations which may in turn have an adverse effect on its business, prospects, results of operations and financial condition.

***The Group's brand is dependent upon its intellectual property rights, and any failure or inability to protect those rights could reduce the value of the Group's services and brand***

The Group's trademarks, copyrights, trade secrets and other intellectual property rights distinguish the GEMS Schools and the services provided through its other businesses from those of its competitors and are critical to its ability to continue to develop and enhance its brand recognition. In particular, the Group has registered or is registering "GEMS Education" as a trademark and has registered approximately 70 domain names including www.gemseducation.com.

In addition, the Group seeks to maintain certain intellectual property, such as its bespoke information systems, as trade secrets. To protect its brand and other intellectual property, the Group relies on a combination of trademarks, copyrights and confidentiality agreements with its employees, contractors and others. However, there can be no assurance that the efforts to protect its intellectual property rights will be adequate or that any third party will not infringe or misappropriate these rights whether in the jurisdictions where the Group currently operates or elsewhere. Additionally, there can be no assurance that the Group's competitors will not independently develop similar intellectual property.

Any infringement or misappropriation of the Group's intellectual property rights or the development by its competitors of similar intellectual property may have an adverse effect on the Group's business, prospects, results of operations and financial condition.

***The Group may be liable for events that occur at the GEMS Schools or from the provision of certain GEMS Integrated Services and the Group's insurance may be inadequate or premiums may increase substantially as a result of the occurrence of such events or the provision of such services***

The Group's business involves an inherent risk of liability. The activities in which the Group engages include a series of risks related to the health and safety of students and other beneficiaries of the services that it provides. Such risks including, among other things, liability for the actions of principals, teachers, staff and students on or off the GEMS Schools' premises and any accidents, injuries or incidents occurring from the activities organised by or for GEMS, and the transportation services provided by GEMS Integrated Services. The Group could also be held liable for any accidents, injuries or loss suffered by students, staff or third parties at schools or at events supervised by the GEMS Schools. The Group could also face claims alleging that it was negligent, provided inadequate supervision or was otherwise liable.

The Group currently maintains liability insurance, which it believes is adequate and consistent with industry practice and that it considers reasonable and appropriate for its activities. It is possible, however, that such insurance cover may be inadequate for all risks and/or eventualities and that claims may be rejected by the relevant insurers. Irrespective of the availability of insurance, a successful claim against the Group due to injuries suffered by its students or other people at the GEMS Schools or while transporting students to and from school could adversely affect its reputation and have a significant impact on its financial results. Even if unsuccessful, such a claim could cause unfavourable publicity, require substantial cost to defend and divert management time and attention, and claims in excess of the Group's insurance coverage or claims not covered by its insurance could arise.

Furthermore, there can be no assurance that the Group will be able to obtain liability insurance coverage in the future on acceptable terms or at all. Claims against the Group, regardless of their merit or eventual outcome, may increase the premiums payable by it for the insurance coverage and also have a material adverse effect upon its reputation and its ability to attract or retain students. A successful claim against the Group which is not covered by or is in excess of its insurance coverage could have a material adverse effect on its business, prospects, results of operations and financial condition. See "Description of the Group – Insurance".

***Risks related to the closure or disposal of one or more of the GEMS Schools***

Following a disposal or closure of a GEMS School, the Group may fail to achieve the forecasted cost savings and other benefits originally anticipated from the disposal or closure of that school. Additionally, the Group could be subject to claims by parents, the new owner of a school (in the case of a disposal of one of the GEMS Schools) and/or educational authorities for unforeseen liabilities. The overall reputation of the Group may suffer and parents may react negatively to the closure or disposal of the school. In addition,

if the new owner of a school previously owned by the Group does not operate the school in a way that meets the Group's established standards, the Group's reputation could suffer by association if it is perceived that the new school continues to have a link with the Group, even though it no longer has any control over the operations of the school. If this were to occur, the attitude of parents or actual and potential students of other GEMS Schools could be adversely impacted, which may in turn further damage the Group's reputation.

It may be costly for the Group to respond to any such disputes and any liabilities that emerge or continue after the closure of a GEMS School or the termination of a contract could adversely affect its business, prospects, results of operations and financial condition.

#### ***Real estate risks related to the Group***

*The valuation of real estate assets owned by the Group is recorded at historic cost not market value and their realisable value is inherently subjective. Therefore, the values attributed to these assets in the financial statements may not accurately reflect their market value at any future date and they may be difficult to sell*

The Group's real estate assets comprise school buildings constructed on leasehold land. No assurance can be given that the carrying value of the Group's real estate assets will reflect actual market or sale prices, even if any such sale occurs shortly after the relevant valuation date. Significant differences between assets recorded at historic cost (and not market value) and actual sales prices could have an adverse effect on the Group's financial condition and results of operations in the event of a sale of such assets.

Real estate assets in general are relatively illiquid and as a result the ability of the Group promptly to sell one or more of its properties in response to changing political, economic, financial and investment conditions is limited. The Group cannot predict the length of time needed to find a willing purchaser of any of its properties and complete such sale. There is also no assurance as to whether it would be able to find a purchaser of any of its properties and, even if it were able to find a purchaser, to sell the property on commercially reasonable terms. If the Group were to sell any assets at a price lower than their market value or if it were unable to find a purchaser for any of its assets either at all or at commercially reasonable terms this could have an adverse effect on its business, prospects, results of operation and financial condition.

*The success of the Group's business strategy and profitability depends upon its ability to locate and secure leasehold land suitable for development at attractive prices*

The Group's growth and profitability to date have been attributable, in part, to its ability to locate leasehold land at attractive prices, and the success of its business strategy and future profitability depends upon its continued ability to do so. In the past, the Group has been able to locate and secure land suitable for its planned schools, but there can be no assurance that in the future it will continue to be able to locate and lease land suitable for development at attractive prices. In addition, the Group faces the risk that competitors and other third parties interested in the land may anticipate and capitalise on certain potential opportunities in advance of the Group doing so, which could adversely affect its business, prospects, results of operations and financial condition.

*Termination of leases or inability to renew them on acceptable terms*

In many cases, the buildings that the Group occupies have undergone renovations or been custom-built to meet internal requirements and those of the relevant regulator. If the Group is unable to renew leases for GEMS School facilities on acceptable terms or if leases are terminated by a particular landlord for any reason it may be exposed to the following risks:

- inability to find a new property with the amenities and in the location required, which may, in the worst case, lead to closure of the GEMS School;
- relocation to a school in a less desirable location;
- relocation to a school with facilities that do not meet internal requirements or those of the relevant regulator;
- significant costs incurred in connection with identifying, securing and relocating to the replacement location, and developing such location to the required standards; and



- significant disruption in operations and, as a result, the Group may be unable to collect tuition fees for the period of disruption or retain students at that GEMS School and may be subject to litigation in respect of such disruption.

Each of these consequences may adversely affect GEMS School's reputation.

If any leases are terminated or if the Group is unable to renew any of the leases for the GEMS School facilities on acceptable terms, this may adversely affect the Group's business, prospects, results of operations and financial condition.

*Reliance on the landlords of GEMS Schools' properties performing their obligations under the terms of existing leases and dependence on there being no changes to the landlords of existing GEMS Schools*

A good working relationship with the landlords of the GEMS Schools' properties is important to the successful operation of the GEMS Schools and can also generate additional property development opportunities that support long-term growth. During the course of any of the Group's leases, the landlord of one or more of the GEMS Schools could change, for example due to its insolvency or the sale of the underlying land, and the Group may need to develop and establish a relationship with a new contracting party. The Group may encounter certain issues with any new landlords, including but not limited to, the new landlord and the Group having conflicting interests, the new landlord being less willing to expand the capacity of the particular GEMS School or improve its facilities or being a less reliable counterparty in fulfilling its obligations under the terms of the relevant lease. If an existing landlord or a new landlord does not comply with the terms of the Group's leases for any reason, the Group could suffer disruptions in the operations of the GEMS Schools resulting in an increase of its costs which could adversely affect the Group's business, prospects, results of operations and financial condition.

***The Group may be unable to develop, renovate or expand the facilities of existing GEMS Schools***

When seeking to develop, renovate or expand the facilities of GEMS Schools, the following difficulties could be experienced:

- the relevant leasehold land and buildings may not have the capacity to accommodate the necessary or desired changes;
- the existing facilities may not be configured to provide for such renovations;
- the costs of developments, renovations and expansions may be uneconomic and the anticipated benefits of the new facilities may not be realised;
- the Group may not be able to negotiate reasonable terms with the landlord or developer and make such changes within acceptable timeframes; and
- the Group may not be able successfully to negotiate amendments to the terms of the relevant lease from the landlord that would permit the necessary investments to allow for the relevant GEMS School to be expanded.

The Group's inability or failure to develop, renovate or expand the facilities of existing GEMS Schools could prevent the successful implementation of the Group's growth strategy and may adversely affect its business, prospects, results of operations and financial condition.

***The Group may incur unanticipated costs due to the delay in completing the construction of GEMS Schools***

There are a number of financing, construction and operating risks associated with the construction of new schools. Furthermore, given that places at any new schools are reserved by prospective students prior to their opening and in most cases tuition fees are paid in advance, the construction of new schools must be completed within a designated timeframe and prior to the start of the relevant academic year. Therefore, such construction projects may require additional development efforts that may result in significant additional costs. These may in turn result in the expected return on the investment in the school not being realised. In addition, it can take a substantial amount of time before school buildings become operational and start to generate revenue. The time taken and the costs involved in completing construction can be adversely affected by many factors, which may include but are not limited to the following:

- delays or refusals in obtaining the necessary building, occupancy and other required governmental permits, licences, approvals and authorisations;

- shortages of, or defective, materials and/or equipment, labour shortages and/or disputes and disputes with subcontractors;
- increases in the cost of construction materials and/or labour; and
- adverse weather conditions, natural disasters, accidents and/or changes in governmental priorities.

In the event of a delay in the completion and delivery of certain new GEMS Schools beyond a specified contractually agreed deadline, regulators may delay the granting of school licences and instruct delayed school opening. A delay in opening of a new school could also lead to other adverse consequences including having to make up for teaching time resulting in increased teacher and regulatory costs and potentially having to provide refunds of any tuition fees received. The occurrence of any of the above factors could have an adverse effect on the Group's business, prospects, results of operations and financial condition.

***The Group has existing contracts with a related party construction contractor for building, developing, renovating and/or expanding schools***

The Group has existing contracts with Chicago Maintenance & Construction Co. LLC (CMC), a related party the shares of which are beneficially owned by Varkey Group Limited, a company with experience and expertise in construction and maintenance in the education industry, for the construction of new schools and extension projects at existing GEMS Schools. If CMC is unable to undertake the Group's contracts and meet its demand due to lack of capacity, this would result in the Group having to source alternative appropriately experienced and competent construction contractors. This may in turn result in higher contractual costs to the Group (such as contract extension costs or cancellation costs which are not applicable in the contracts that the Group has entered into with CMC and costs arising due to the third party contractors being unfamiliar with the Group's business) and have an adverse impact on the timeframe for completion of new school projects and extensions at existing GEMS Schools which could adversely affect the Group's business, prospects, results of operations and financial condition.

***The Group may need additional capital in the future to fund growth initiatives or to operate its existing business***

The Group operates in a potentially capital intensive industry and as such significant investment is required to maintain existing GEMS Schools and build new schools. The Group expects the majority of future schools to be built by landowners, property funds or developers and to be leased to it over long lease periods. The Group may seek to access the capital markets, property funds and/or development finance to raise funds required to finance working capital requirements, expand its operations, invest in new business initiatives or make strategic acquisitions. See "*Financial Review—Up-streaming of Mudaraba Assets and other funding by GEMS*" for further details in respect of the funding options which are currently under consideration by GEMS and TopCo, which may also include an equity issuance by GEMS. If adequate funds are not available or are not available on acceptable terms, the Group, landowners, property funds or developers may have to limit growth initiatives, alter strategic plans or take other actions, which may adversely affect the Group's business, prospects, financial condition, results of operations and cash flows.

***The Group may suffer reputational damage due to various circumstances***

The Group's reputation could be adversely affected under many circumstances, including the following:

- members of staff behaving or being perceived to behave inappropriately or illegally;
- the other business dealings of the effective owners of the Group;
- members of staff failing to appropriately supervise students under their care;
- failure to conduct proper checks on staff who come into contact with children or vulnerable adults;
- accidents or other events occurring at GEMS Schools that adversely affect students and other individuals;
- loss of a licence, permit, accreditation or other authorisation to operate any of the GEMS Schools or provide services under an educational consulting contract;
- inability to maintain consistent levels of: (i) quality teaching; (ii) service under an EdSol contract; or (iii) services provided through GEMS Integrated Services;
- curricula are not perceived as being of sufficiently high quality;

- school facilities not meeting the standards expected by parents and students of a schools operator;
- closure of one or more GEMS Schools; and
- any inability of EdSol to produce the educational outcomes required under any contractual arrangements that it enters into.

The occurrence of one or more of these events could result in an adverse effect on the Group's business. In addition, the occurrence of any of these events could be more broadly associated with the Group's brand and influence the way the business is viewed not only by customers, but also by other constituencies in the education sector and the general public. Under certain circumstances any damage to the reputation of one of the Group's business divisions could also have an adverse effect on the reputation and operations of the other businesses. Any adverse effect on the Group's reputation may have an adverse effect on the Group's overall business, prospects, results of operations and financial condition.

***The Group's debt agreements contain restrictions that may limit its flexibility in operating its business***

The Group's debt agreements contain certain covenants that limit its ability to engage in certain types of transactions, as specified in these agreements. These include covenants requiring the Group to maintain certain ratios relating to interest coverage, its cash flows and EBITDA to net debt. In addition, certain of the Group's debt agreements contain restrictive covenants limiting the Group's ability to, among other things:

- incur or guarantee additional financial indebtedness;
- grant security or create security interests; and
- sell, lease, transfer or otherwise dispose of any of its assets without the consent of the relevant lender, unless the disposal is made in the ordinary course of business or to a related party,

subject in each case to any negotiated exemptions set out in such agreements.

In addition, the outstanding debt agreements contain, and any future debt agreements may contain, cross default clauses whereby a default under one debt obligation may constitute an event of default under other outstanding debt obligations. Any of these covenants could prevent the Group from engaging in certain transactions that it may view as desirable without the consent of the lenders.

Furthermore, a breach of any of these covenants may result in a default under the Group's debt obligations in which the relevant covenant is included, which may result in all amounts outstanding thereunder to become immediately due and payable and the termination of all commitments to extend further credit to the Group. Any of these occurrences could have a material adverse effect on the Group's business, prospects, results of operations and financial condition.

As at 31 March 2013, the Group had U.S.\$415.7 million in outstanding borrowings (excluding bank overdrafts). As this outstanding debt has the benefit of security (see "*Financial Review – Liquidity and Capital Resources – Borrowings*"), the claims of Certificateholders, as unsecured and subordinated creditors, will rank behind the claims of the Group's secured creditors to the extent of the security granted, as well as behind the claims of senior-ranking unsecured creditors in the manner described in the conditions and the Mudaraba Agreement (see Condition 4).

***The Group's business may be affected by the occurrence of epidemics or other adverse public health developments, natural disasters or unanticipated catastrophic events***

If an epidemic or other outbreak of disease occurs, parents may withdraw their children from school to protect them from the possibility of infection, faculty and staff may become ill or avoid coming to work in order to protect themselves from the outbreak or the government may order schools to close in order to contain the epidemic or outbreak. An outbreak of any such disease in any region in which the Group operates could have an adverse effect on its business operations, including temporary closures of GEMS Schools. Similarly, the occurrence of natural disasters or unanticipated catastrophic events could result in material disruptions to the Group's business. To the extent that any such interruption is not covered by the Group's existing insurance it may take a significant amount of time for its business to recover its prior levels of student enrolment and revenues and its business, prospects, results of operations and financial condition could be adversely affected as a result.

## **Risk factors relating to the corporate structure of the Group**

*The Group's ownership structure is subject to risks associated with foreign ownership restrictions in the United Arab Emirates*

The laws of the United Arab Emirates (UAE) contain local ownership requirements which provide that a UAE company must be majority (i.e. 51 per cent. or greater) owned by nationals of the UAE. The Group includes a number of UAE companies and, in particular, 84.4 per cent. of the Group's revenues in FY13 and 70.4 per cent. of the Group's EBITDA in FY13, were attributable to the operations of Premier Schools International (L.L.C.) (PSI), a UAE incorporated subsidiary (see "*Description of the Group – Overview – Corporate Structure of the Group*" for a description of the operations carried out by PSI and its subsidiaries).

Consistent with the approach taken by many foreign-owned companies operating in the UAE, GEMS has addressed the local ownership requirement in respect of PSI by implementing a commonly used corporate structure pursuant to which 49 per cent. of the outstanding share capital of PSI is owned by GEMS and 51 per cent. of the outstanding share capital of PSI is owned by a third party company registered in the Emirate of Dubai which acts as a sponsor and provider of corporate services to companies and individuals seeking to establish a presence in the UAE (the **Sponsor**).

GEMS has put in place customary contractual arrangements (the **PSI Ownership Arrangement**) in order to ensure that the Group has the full economic benefit of the operating businesses of PSI. It is possible that the PSI Ownership Arrangement could be challenged before a UAE court on the basis of UAE Federal Law no. 17 of 2004 in respect of Commercial Concealment (the **Concealment Law**) or other general public policy related provisions under other UAE legislation, and that a UAE court could decide that the PSI Ownership Arrangement is in breach of the Concealment Law or otherwise in violation of public policy, morals or other UAE law. Such a challenge may be brought by the relevant authorities, the Sponsor, the Sponsor's shareholders or any other interested parties.

The Concealment Law provides that it is not permissible to allow a non-UAE national, whether by using the name of another individual or through any other method, to practice any economic or professional activity that is not permissible for him to practice in accordance with the law and decrees of the UAE, which could prohibit foreign ownership of a UAE company through arrangements such as those described above. The Concealment Law was scheduled to come into effect in November 2007. However, by way of a cabinet resolution, the UAE Federal Government suspended the application of the Concealment Law until November 2009 and it was further suspended until September 2011. The Concealment Law is now in force, however GEMS is not aware of the provisions of the Concealment Law having been enforced against any UAE company. However, as the Concealment Law is in force, the UAE Federal Government has the ability to enforce the Concealment Law at any time in the future.

There could be a number of adverse implications for the Group if any aspect of the PSI Ownership Arrangement were to be successfully challenged, including amongst others:

- the loss of the right to claim the full economic benefit of the operating businesses of PSI;
- the loss of the right to acquire the shares held by the Sponsor in PSI or to require the shares held by the Sponsor in PSI to be transferred to a third party;
- the loss of the right to prevent the Sponsor from selling or transferring their shares in PSI;
- having to adopt an alternative ownership or operating structure that could be disadvantageous to PSI's business, prospects, results of operations and financial condition; or
- the imposition of material fines.

The occurrence of one or more such events could have a material adverse effect on GEMS business, prospects, results of operations and financial condition.

In addition, the relevant education regulatory authorities in the UAE, including KHDA, ADEC and SEZ, each have wide discretion in relation to the operating licences of the schools operated under PSI. A successful challenge against the PSI Ownership Arrangement might lead the relevant regulatory authority to exercise its discretion to suspend the operating licences of the relevant schools under its jurisdiction, which would require PSI to suspend the operations of the schools and related activities carried out by it. Whilst GEMS believes the possibility of any regulatory authority suspending PSI's operating licences to be



unlikely, should this risk materialise, it could have a material adverse effect on GEMS' business, prospects, results of operations and financial condition.

GEMS has in place arrangements similar to the PSI Ownership Arrangement with respect to other Group companies incorporated in the UAE. Foreign companies in the UAE commonly employ corporate structures such as the PSI Ownership Arrangement and GEMS is not aware of such arrangements having been challenged by any public authority in the UAE. If such a challenge is made, there is no certainty as to the approach that the UAE courts would take in relation to the application of the Concealment Law or any other laws or policies to the PSI Ownership Arrangement or such other arrangements as GEMS has with other companies in the Group incorporated in the UAE.

***GEMS relies principally on dividends and other distributions on equity paid by its wholly owned subsidiaries to fund any cash financing requirements***

As a holding company, GEMS relies on the ability of the members of the Group to generate profits and pay it dividends and other distributions on equity. Any decline in profits in the members of the Group or their inability to pay dividends and other distributions on equity for any other reason could materially and adversely affect the Group's earnings and operational flexibility. If the profits of the members of the Group were to fall below expectations or were not to be distributed in a timely manner, GEMS' consolidated profits and cash flows could be materially and adversely affected.

GEMS cannot be certain that the operations of its subsidiaries will generate sufficient profits and cash flows to pay dividends, or will otherwise be allowed under local company laws, exchange controls and other regulations to distribute sufficient funds to enable GEMS to pay the expenses of the Group and to meet its obligations in relation to the Certificates.

Furthermore, claims of Certificateholders will be structurally subordinated to the claims of creditors of the Group's subsidiaries. In the event of the insolvency of any of the Group's subsidiary companies, claims of secured and unsecured creditors of such entity, including trade creditors, banks and other lenders, will have priority with respect to the assets of such entity over any claims that GEMS or GEMS' creditors, as applicable, may have with respect to such assets. Accordingly, if GEMS became insolvent at the same time, claims of the Certificateholders against GEMS in respect of any Certificates would be structurally subordinated to the claims of all such creditors of GEMS' subsidiary companies.

***The interests of GEMS' controlling shareholders and other related parties may, in certain circumstances, be different from the interests of the Certificateholders***

The shares in Varkey Group Limited, the ultimate parent company of GEMS, are held on trust by a private trust company for the benefit of the members of the Varkey family. As a result, the Varkey family is in a position to control the outcome of actions requiring shareholders' approval and also has the ability to approve the election of all the members of the board of directors (the **Board**) of the Group and thus influences the Board's decisions.

The Group has also entered into certain related party transactions with Varkey Group Limited, its ultimate parent company (see "*Financial Review – Related Party Transactions*"). These transactions include the transfer of the Group's investments, which were held by certain of its subsidiaries, in GEMS India and Everonn Education Limited to Varkey Group Limited the consideration for which remains a receivable and is due and payable on demand (see "*– The Group's balance sheet includes a significant proportion of amounts due from related parties*" and "*Financial Review – Analysis of certain statement of financial position items – Current assets*") and existing construction contracts with CMC, the shares of which are beneficially owned by Varkey Group Limited (see "*The Group has existing contracts with a related party construction contractor for building, developing, renovating and/or expanding schools*").

In addition, because the Group has its origins as a family business, in relation to 20 of the existing GEMS Schools, the lease of the relevant land has been entered into between the relevant landlord and a member of the Varkey family (**Individual Leases**). Although most of the Individual Leases have been assigned and subleased to the relevant entities within the Group operating such schools, four of the Individual Leases on which GEMS Schools are operating and which represented 6.4 per cent. of the Group's EBITDA for FY13, have not yet been assigned or subleased to entities within the Group. Accordingly, in respect of these four leases, the continued use of the relevant land by GEMS is subject to the relevant landlord continuing to allow the Group (rather than the relevant member of the Varkey family) to use such land.

The Group has also entered into certain related party transactions with TopCo (GEMS' direct parent company) (see "*Financial Review – Related Party Transactions*"). These transactions include financial and operational support provided by GEMS to TopCo, entities under the control of TopCo and other related parties relating to school projects and operations outside the MEA region the consideration for which remains a receivable and is due and payable on demand (see "*– The Group's balance sheet includes a significant proportion of amounts due from related parties*").

Furthermore, up to 70 per cent. of the Mudaraba Assets may be advanced, subject to and in accordance with the Mudaraba Business Plan, to Varkey Group Limited or any of its subsidiaries) (see "*Financial Review – Up-streaming of Mudaraba Assets and other funding by GEMS*"). As a result, the Mudaraba Assets may not be fully available to GEMS or the Group for the purposes of its business.

The interests of the members of the Varkey family, Varkey Group Limited, CMC and TopCo may be different from those of the Group and hence the Group's creditors (including the Certificateholders).

***The Group's balance sheet includes a significant proportion of amounts due from related parties***

As at 31 March 2013, amounts due to the Group from related parties amounted to U.S.\$161.4 million (or 77.7 per cent. of the Group's total equity as at such date), as compared to U.S.\$50.3 million as at 31 March 2012 (or 31.0 per cent. of the Group's total equity as at such date) and U.S.\$1.7 million as at 31 March 2011 (or 1.5 per cent. of the Group's total equity as at such date). Substantially all of such amounts are due to the Group from Varkey Group Limited (GEMS' ultimate parent company), TopCo (GEMS' direct parent company) or entities under their control as further described below.

- The increase in the amounts due from Varkey Group Limited and entities under the control of Varkey Group Limited of U.S.\$139.5 million between FY11 and FY13 principally reflects (i) the transfer of the Group's investment in GEMS India (being investments in subsidiary entities registered in India, as listed in Note 10(a) of the FY13 Financial Statements) and (ii) the sale by GEMS of its interest in GEMS Education (Asia) 1 Limited and Concorde Residential Schools (Kerala) Private Limited (which have a combined interest in Everonn Education Limited of 25.6 per cent.), in each case to Varkey Group Limited with effect from 1 April 2012, as further described in Notes 8 and 10 to the FY13 Financial Statements. The Group had acquired a 25.6 per cent. interest in Everonn Education Limited, an education and training company based in Chennai, India, in FY12 for a total consideration of U.S.\$52.8 million.
- The increase in the amounts due from TopCo, entities under the control of TopCo and other related parties of U.S.\$20.2 million between FY11 and FY13 principally reflects the financial and operational support provided by GEMS to TopCo, entities under the control of TopCo and other related parties relating to school projects and operations outside the MEA region.

The consideration payable to the Group by Varkey Group Limited in respect of the transfer and sale, and by TopCo in respect of the financial and operational support provided to it and its related parties by GEMS, each as described above, is due and repayable on demand. However, there can be no assurance that all or any part of such amounts will in fact be received by the Group.

Furthermore, the amounts due from related parties to the Group may increase in the future, if and to the extent that a proportion of the Mudaraba Assets is to be up-streamed to one or more related parties in accordance with the Mudaraba Business Plan.

In the light of the common ownership of the Group and Varkey Group Limited, any decision by GEMS to require Varkey Group Limited to repay all or some of the amounts owing by it to GEMS will effectively require the consent of Varkey Group Limited.

See "*– The interests of GEMS' controlling shareholders and other related parties may, in certain circumstances, be different from the interests of the Certificateholders*", "*Financial Review – Related Party Transactions*", "*Financial Review – Up-streaming of Mudaraba Assets and other funding by GEMS*", "*Financial Review – Analysis of certain statement of financial position items – Current assets*" and the FY13 Financial Statements for further information.

## **Geographic, political and economic risk factors affecting the Group**

*Governments in the MEA region have exercised and continue to exercise significant influence over their respective economies; the legal and regulatory systems in the MEA region may create an uncertain environment to investment and business activities*

The governments of the MEA region, like those of many emerging markets, have frequently intervened in the economic policy of their respective countries. This intervention has included, but not been limited to, regulation of market conditions including foreign investment, foreign trade and financial services.

Any unexpected changes in the political, social, economic or other conditions in the MEA region or neighbouring countries may have an adverse effect on the business, prospects, results of operations and financial condition of the Group. These changes in conditions include, but are not limited to:

- an increase in inflation and government measures to curb such inflation;
- political, social and economic instability including a lack of infrastructure for developing schools;
- external acts of warfare, civil clashes and terrorist activities;
- governments' actions or interventions, including tariffs, protectionism, nationalisation and subsidies for certain students or schools;
- regulatory, taxation (including the introduction of VAT payable on tuition fees) and legal structure changes including cancellation of contractual rights, expropriation of assets and potential lack of certainty as to title to real estate property in certain jurisdictions where the Group operates;
- policies of nationalisation of assets and requirements to employ local national employees;
- difficulties and delays in obtaining new permits and consents for new operations or renewing existing permits; and
- inability to repatriate profits and/or dividends.

In addition, many countries in the MEA region are in the process of developing institutions and legal and regulatory systems which are not yet as firmly established as they are in other parts of the world. Some countries (such as those countries comprising the GCC) are also in the process of transitioning to a market economy and, as a result, may experience changes in their economies and government policies (including, without limitation, policies relating to foreign ownership, repatriation of profits, property and contractual rights and planning and permit-granting regimes) that may affect the Group's business.

It is not possible to predict the occurrence of events or circumstances such as or similar to those outlined above or the impact of such occurrences. No assurance can be given that the Group would be able to sustain its current profit levels if such events or circumstances were to occur and if it were unable to sustain its current profit levels this may have an adverse effect on the business, prospects, results of operations and financial condition of the Group.

### ***The Group is subject to currency-related risks***

Although its reporting currency is the U.S. Dollar, the functional currency of the Group is primarily the UAE Dirham. The Group is subject to exchange rate risk to the extent it incurs operating expenses, obtains financing or makes sales of services in a currency other than the UAE Dirham. Members of the Group that are incorporated and/or operating in various jurisdictions outside the UAE conduct operations and have earnings primarily in currencies other than the UAE Dirham. The results of these operations are reported in the relevant local currencies and converted into U.S. Dollars at applicable exchange rates for inclusion in the Group's Consolidated Financial Statements. As at the date of this Prospectus, the Group does not, but may in the future, invest in derivatives or other financial instruments in an attempt to hedge foreign currency exchange risk. However, there can be no assurance that the Group will be able to enter into such hedging arrangements. Accordingly, the Group may be required to enter into spot rate foreign exchange transactions, and fluctuations in such exchange rates could have an adverse effect on the Group's business, prospects, results of operations and financial condition.

As at the date of this Prospectus, the UAE Dirham remains pegged to the U.S. Dollar. However, there can be no assurance that the UAE government will not de-peg the UAE Dirham from the U.S. Dollar, or alter the fixed exchange rate between the two currencies, in the future, which may have an adverse effect on the business, prospects, results of operations and financial condition of the Group.

***The Group is subject to interest-related risks***

Interest rates are highly sensitive to many factors beyond the Group's control, including the interest rate and other monetary policies of governments and central banks in the jurisdictions in which it operates. The Group invests in derivatives or other financial instruments in an attempt to hedge interest rate risk. However, any increase in such reference rates would result in an increase in the Group's interest rate expenses and could have an adverse effect on its business, prospects, results of operation and financial condition.

**Risk factors relating to the Certificates**

***The payment obligations of GEMS under the Mudaraba Agreement are subordinated and unsecured obligations***

The payment obligations of GEMS under the Mudaraba Agreement (the **Relevant Obligations**), upon which all payments in respect of the Certificates depend, rank junior to its Senior Obligations, as more particularly described in Condition 4.2. Accordingly, in the event of a winding-up or administration of GEMS, or an analogous process under the laws of the Cayman Islands, the rights and claims of the Trustee will be contractually subordinated to the Senior Creditors of GEMS, and the relevant liquidator, applying the contractual terms, would first apply assets of GEMS to satisfy claims of all Senior Creditors.

The Relevant Obligations will share equally in payment with the Pari Passu Obligations if GEMS does not have sufficient funds to make full payment on the Relevant Obligations and the Pari Passu Obligations in their entirety.

In either such a situation as described above, the Certificateholders could lose all or some of their investment.

***The Certificates are perpetual but may be redeemed at the option of the Issuer***

The Issuer is under no obligation to redeem the Certificates at any time and the Certificateholders have no right to call for their redemption unless a Dissolution Event occurs. Therefore, prospective investors should be aware that they may be required to bear the financial risks of an investment in the Certificates indefinitely.

The Issuer may redeem all outstanding Certificates at any time in the event of a Tax Event, an Accounting Event, or a Change of Control Event or if GEMS or any Subsidiary of GEMS has purchased more than 80 per cent. of the initial aggregate face amount of the Certificates, in each case in accordance with the Conditions.

In addition, the Certificates are redeemable at the Issuer's option: (a) on 21 November 2016 or at any time thereafter up to, but excluding, the First Call Date if an Initial Equity Offering Call Event occurs; or (b) on the First Call Date or on any Periodic Distribution Date thereafter. In the case of a redemption of the Certificates by the Issuer, an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective profit rate as high as the profit payable on the Certificates being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

***Periodic Distribution Amounts under the Certificates may be deferred***

GEMS may elect in its sole and absolute discretion and by instructing the Issuer to such effect, to defer all or some of the Periodic Distribution Amounts which would otherwise be payable on the Certificates on any Periodic Distribution Date provided that no such deferral may be made (i) on the Periodic Distribution Date immediately following the occurrence of a Restricted Event; or (ii) in respect of the Periodic Distribution Amount payable on the Dissolution Date. While the deferral of payment of Periodic Distribution Amounts continues, GEMS is not prohibited from making payments in respect of its Senior Obligations and, in such event, the Certificateholders are not entitled to claim immediate payment of Periodic Distribution Amounts so deferred.

However, pursuant to the terms of the Mudaraba Agreement, if a Deferral Election has previously occurred GEMS has undertaken that it will not take any action that would amount to a Restricted Event unless on or before the date on which such Restricted Event occurs (i) all amounts comprising the Additional Mudaraba Capital have been paid to the Trustee in full; and (ii) sufficient Mudaraba Profit has been set aside in the Mudaraba Reserve to allow for payment of the Rab-al-Maal Mudaraba Profit due on



the Mudaraba Profit Distribution Date immediately following the date on which the Restricted Event occurs. See “*Summary of the Principal Transaction Documents – The Mudaraba Agreement*”.

Any deferral of Periodic Distribution Amounts will likely have an adverse effect on the market price of the Certificates. In addition, as a result of the option to defer payment of any Periodic Distribution Amounts under the Certificates, the market price of the Certificates may be more volatile than the market prices of other similar instruments on which Periodic Distribution Amounts (or equivalent amounts) are payable that are not subject to such deferral and may be more sensitive generally to adverse changes in GEMS’s financial condition.

***Due to the deeply subordinated nature of the obligations arising under the Certificates, the Conditions of the Certificates contain limited Dissolution Events and remedies***

The Certificates are perpetual instruments with no fixed redemption date and there is no obligation on the Issuer to repay the face amount of the Certificates other than in accordance with the exercise of a call option in accordance with Condition 9.2 to Condition 9.7 or following the occurrence of a Dissolution Event in accordance with Condition 13. In addition, payments of Periodic Distribution Amounts on the Certificates may be deferred in accordance with Condition 7.5 and Periodic Distribution Amounts will not therefore be due other than in the limited circumstances described in the Conditions.

The Dissolution Events in the Conditions are limited to: (a) GEMS Events (being (i) a default by the Mudareb for a period of seven Business Days or more in the payment of any principal amount due under the Mudaraba Agreement or 14 Business Days or more in the payment of any profit due under the Mudaraba Agreement; (ii) an order being made or a resolution being passed for the winding-up of GEMS; or (iii) GEMS initiating or consenting to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws); and (b) Trustee Events (being similar in nature to GEMS Events in respect of the Trustee), all as more fully described in the Conditions.

Moreover, pursuant to Condition 13, upon the occurrence of any such Dissolution Event, the Mudaraba will be liquidated in accordance with the provisions of the Mudaraba Agreement and the remedies available to the Trustee, the Delegate and/or the Certificateholders (as applicable) are limited to giving notice to the Issuer and GEMS that the Certificates are, and shall immediately become, due and payable at the applicable Dissolution Distribution Amount together with any Outstanding Payments and thereafter: (a) instituting proceedings for the winding-up of GEMS; and/or (b) prove in the winding-up of GEMS; and/or (c) instituting proceedings for the bankruptcy of GEMS; and/or (d) claim in the liquidation of GEMS for the payment due under the Mudaraba Agreement. Therefore, it will only be possible for the Certificateholders to enforce claims for payment of the applicable Dissolution Distribution Amount and/or Periodic Distribution Amounts in respect of the Certificates when the same have become due pursuant to the Mudaraba Agreement and the Conditions.

Furthermore, the claims of Senior Creditors of GEMS will first have to be satisfied in any winding-up, liquidation or analogous proceedings before the Certificateholders may expect to obtain any amounts in respect of their Certificates and prior thereto Certificateholders will have only limited (if any) ability to influence the conduct of such winding-up, liquidation or analogous proceedings.

***There is no limitation on issuing senior or pari passu securities***

There is no restriction in the terms and conditions of the Certificates nor in the terms of the Transaction Documents on the amount of securities or other liabilities or other obligations which GEMS (in its capacity as Mudareb or otherwise) may issue or incur and which rank senior to, or *pari passu* with, the Relevant Obligations. The issue of any such securities or the incurrence of any such other liabilities or other obligations may reduce the amount (if any) recoverable by Certificateholders on a winding-up of GEMS and/or may increase the likelihood of a deferral of Periodic Distribution Amounts payable under the Certificates.

***Resettable fixed rate instruments have a market risk***

A holder of an instrument with a fixed profit (or equivalent) rate that will be reset during the term of the instrument (as will be the case for the Certificates with effect from each Reset Date if not previously redeemed and/or purchased and cancelled) is exposed to the risk of fluctuating profit rate levels and uncertain profit rate income. While the expected profit rate on the Certificates is fixed until the First Call Date (with a reset of the initial profit rate on the First Call Date as set out in the Conditions and every five

years thereafter), the current investment return rate in the capital markets (the **market return rate**) typically changes on a daily basis. As the market return rate changes, the market value of the Certificates may also change, but in the opposite direction. If the market return rate increases, the market value of the Certificates would typically decrease. If the market return rate falls, the market value of the Certificates would typically increase. Certificateholders should be aware that movements in these market return rates can adversely affect the market value of the Certificates and can lead to losses for the Certificateholders if they sell the Certificates.

#### *Variation upon the occurrence of an Accounting Event or a Tax Event*

Upon the occurrence of an Accounting Event or a Tax Event, GEMS may elect, in its sole and absolute discretion and by instructing the Issuer to such effect, subject as provided in Condition 9.8 and without the need for any consent of the Certificateholders, vary the terms of the Certificates such that they become or remain (as appropriate) Qualifying Certificates.

The tax and stamp duty consequences of holding the Certificates following variation as contemplated in Condition 9.8 could be different for certain Certificateholders from the tax and stamp duty consequences for them of holding the Certificates prior to such variation and none of the Issuer, the Trustee, the Delegate or GEMS shall be responsible to any Certificateholder for any such consequences in connection therewith. Further, while the Conditions stipulate that the variation (as contemplated by the Conditions) must not be materially less favourable to the Certificateholders, no assurance can be given as to whether any of these changes will negatively affect any particular Certificateholder.

#### *The Certificates are limited recourse obligations*

The Certificates are not debt obligations of the Trustee. Instead, the Certificates represent an undivided ownership interest solely in the Trust Assets. Recourse to the Issuer or the Trustee in respect of the Certificates is limited to the Trust Assets and the proceeds of such Trust Assets are the sole source of payments on the Certificates. Upon notice to the Trustee of a Dissolution Request in accordance with the terms of Condition 13.1, the sole rights of each of the Trustee and/or the Delegate (acting on behalf of the Certificateholders), will be (subject to Condition 13.2) against GEMS to perform its obligations under the Transaction Documents. Certificateholders will have no recourse to any assets of the Issuer or the Trustee (other than the Trust Assets), the Delegate or GEMS (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is party) in respect of any shortfall in the expected amounts due on the Certificates. GEMS is obliged to make certain payments under the Transaction Documents directly to the Trustee, and the Trustee and/or the Delegate will have direct recourse against GEMS to recover such payments due to the Trustee pursuant to the Transaction Documents. In the absence of default by GEMS, investors have no direct recourse to GEMS and there is no assurance that the net proceeds of any enforcement action in accordance with Condition 13 will be sufficient to make all payments due in respect of the Certificates.

After enforcing or realising the rights in respect of the Trust Assets and distributing the net proceeds of such Trust Assets in accordance with Clause 12.2 of the Declaration of Trust, the obligations of the Issuer, the Trustee and/or the Delegate in respect of the Certificates shall be satisfied and neither the Trustee, nor the Delegate nor any Certificateholder may take any further steps against the Issuer, the Trustee, their directors, officers or corporate administrator or GEMS to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets as contemplated in the Transaction Documents. The sole right of the Trustee, the Delegate and the Certificateholders against GEMS shall be (in accordance with Condition 13) to enforce the obligation of GEMS to perform its obligations under the Transaction Documents.

#### *Absence of secondary market/limited liquidity*

There is no assurance that a secondary market for the Certificates will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that a secondary market will continue for the life of the Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. The Certificates generally may have a more limited

secondary market liquidity and may be subject to greater price volatility than conventional debt securities as they are perpetual securities (see “– *The Certificates are perpetual but may be redeemed at the option of the Issuer*”), are subordinated (see “– *The payment obligations of GEMS under the Mudaraba Agreement are subordinated and unsecured obligations*”) and payments of Periodic Distribution Amounts may be restricted in certain circumstances (see “– *Periodic Distribution Amounts under the Certificates may be deferred*”).

Application has been made for the listing of the Certificates on the Main Securities Market and the official list of securities maintained by the DFSA but there can be no assurance that any such listing will occur on or prior to the Issue Date or at all or, if it does occur, that it will enhance the liquidity of the Certificates.

Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates. An investor in the Certificates must be prepared to hold the Certificates for an indefinite period of time.

***Certificates which have a denomination that is not an integral multiple of U.S.\$150,000 may be illiquid and difficult to trade***

The denomination of the Certificates is U.S.\$150,000 and integral multiple amounts of U.S.\$1,000 in excess thereof. It is therefore possible that the Certificates may be traded in amounts that are not integral multiples of U.S.\$150,000. In such a case a holder who, as a result of trading such amounts, holds a face amount which is less than U.S.\$150,000 in his account with the relevant clearing system at the relevant time may not be able to trade such Certificates and may not receive a definitive Certificate in respect of such holding (should definitive Certificates be printed), and would need to purchase a face amount of Certificates such that its holding amounts to U.S.\$150,000 to do so.

If definitive Certificates are issued, holders should be aware that definitive Certificates which have a denomination that is not an integral multiple of U.S.\$150,000 may be illiquid and difficult to trade.

***No third party guarantees***

Investors should be aware that no guarantee is or will be given in relation to the Certificates by the shareholders of GEMS or any other person.

**Risk factors relating to the Trust Assets**

***Investment in the Mudaraba Assets***

Pursuant to the Mudaraba Agreement, the proceeds of the issuance of the Certificates will be contributed by the Trustee (as Rab-al-Maal) and shall, as a result, form the Mudaraba Capital. The Mudaraba Capital and the Additional Mudaraba Capital (if any) will be invested by GEMS in accordance with the Mudaraba Business Plan and the assets in which the Mudaraba Capital and the Additional Mudaraba Capital (if any) is invested will constitute the Mudaraba Assets with a view to earning profit therefrom, which will in turn be applied towards payments due to Certificateholders in respect of the Certificates.

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Mudaraba Assets. The investment activities of the Mudaraba will be carried out by GEMS, and the Certificateholders shall have no ability to influence such activities.

If any of the risks relating to the business of GEMS mentioned above (see “– *Risk factors relating to the Group and its business*”) materialise or otherwise impact GEMS’s business, the value of and profit earned from the investment in such Mudaraba Assets may decrease which may, in turn, have a material adverse effect on GEMS’s ability to fulfil its payment obligations under the Mudaraba Agreement and consequently, the Trustee’s ability to make payments in respect of the Certificates.

Furthermore, whilst the Mudareb has agreed in the Mudaraba Agreement to ensure that the Mudaraba Capital and the Additional Mudaraba Capital is invested in accordance with the Mudaraba Business Plan (and with the degree of skill and care that it would exercise in respect of its own assets), the Mudaraba Agreement also provides that there is no guarantee of any return from the Mudaraba Assets. In addition, the Trustee and the Mudareb have agreed in the Mudaraba Agreement that the Mudareb shall be responsible for all losses to the Mudaraba Capital and the Additional Mudaraba Capital suffered by the Trustee except to the extent that such losses were not caused by: (i) the Mudareb’s breach of the Mudaraba Agreement; or (ii) the Mudareb’s negligence, wilful misconduct or fraud.

Accordingly, potential investors are advised that any claim by or on behalf of the Trustee for the Mudaraba Capital and/or the Additional Mudaraba Capital following any Dissolution Event may be reduced if and to the extent that the Mudareb is able to prove that any losses to the Mudaraba Capital and/or the Additional Mudaraba Capital were not caused by: (i) the Mudareb's breach of the Mudaraba Agreement; or (ii) the Mudareb's negligence, wilful misconduct or fraud. If the Mudareb is able to do so, Certificateholders may lose all or some of their investment. It is not possible to state with certainty what approach any court with jurisdiction will take in such circumstances.

## **Risk factors relating to taxation**

### ***Taxation risks on payments***

Payments made by GEMS to the Trustee under the Transaction Documents or by the Issuer in respect of the Certificates could become subject to taxation. The Mudaraba Agreement requires the Mudareb to pay additional amounts to the Issuer in the event that any withholding or deduction is required to be made in respect of payments made by it to the Issuer. Condition 11 provides that the Issuer is required to pay additional amounts in respect of any such withholding or deduction imposed by or on behalf of any Relevant Jurisdiction in certain circumstances. In the event that the Issuer fails to pay any such additional amounts in respect of any such withholding or deduction on payments due in respect of the Certificates to Certificateholders, GEMS has pursuant to the Declaration of Trust unconditionally and irrevocably undertaken (irrespective of the payment of any fee), as a continuing obligation, to pay to the Issuer (for the benefit of the Certificateholders) an amount equal to the liabilities of the Issuer in respect of any and all additional amounts required to be paid in respect of the Certificates pursuant to Condition 11 in respect of any withholding or deduction in respect of any tax as set out in that Condition.

The circumstances described above may entitle the Trustee (acting on the instructions of GEMS) to redeem the Certificates pursuant to Condition 9.4 or vary the terms of the Certificates pursuant to Condition 9.8. See further “ – *Risk Factors relating to the Certificates – Variation upon the occurrence of an Accounting Event or a Tax Event*”.

### ***EU Savings Directive***

Under EC Council Directive 2003/48/EC on the taxation of savings income (the **Directive**), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Austria and Luxembourg are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015. A number of non-EU countries and territories (including Switzerland) have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Certificate as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

### ***Foreign Account Tax Compliance Act withholding may affect payments on the Certificates***

Sections 1471 to 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) impose a new reporting regime and, potentially, a 30 per cent. withholding tax with respect to: (a) certain payments from sources within the United States; (b) “foreign passthru payments” made to certain non-U.S. financial institutions that do not comply with this new reporting regime; and (c) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. Whilst the Certificates are in global form and held within the Euroclear and Clearstream, Luxembourg, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any



payment received by Euroclear and Clearstream, Luxembourg. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Certificates are discharged once it has paid the Common Depositary for Euroclear and Clearstream, Luxembourg, and the Issuer has therefore no responsibility for any amount thereafter transmitted through Euroclear and Clearstream, Luxembourg and custodians or intermediaries. Prospective investors should refer to the section "*Taxation – Foreign Account Tax Compliance Act*".

## **Risk factors relating to enforcement**

### ***Enforcement of foreign judgments and arbitral awards***

GEMS and the Issuer are incorporated in the Cayman Islands. The Transaction Documents are governed by English law and the parties thereto have agreed that any dispute arising from such Transaction Documents will, unless the option to litigate is exercised, be referred to arbitration in London under the LCIA Arbitration Rules. Under the Transaction Documents, if the option to litigate is exercised, the parties thereto have submitted to the exclusive jurisdiction of the English courts. Although there is no statutory enforcement in the Cayman Islands of judgments obtained in the courts of England and Wales, a judgment obtained in such jurisdiction will be recognised and enforced in the courts of the Cayman Islands at common law, without any re-examination of the merits of the underlying dispute, by an action commenced on the foreign judgment debt in the Grand Court of the Cayman Islands, provided such judgment: (a) is given by a foreign court of competent jurisdiction; (b) imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given; (c) is final; (d) is not in respect of taxes, a fine or a penalty; and (e) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands.

Furthermore, as the substantial majority of GEMS' assets is located in the UAE (principally being shares it owns in its Subsidiaries), if a foreign judgment or arbitral award is obtained against GEMS, enforcement of that foreign judgment or arbitral award against the assets of GEMS would likely require enforcement proceedings to be brought in the UAE. Under current UAE federal law, the courts in the UAE are unlikely to enforce a foreign judgment without re-examining the merits of the claim and may not observe the choice by the parties of English or Cayman Islands law (as applicable) as the governing law of the Transaction Documents or the Certificates. In addition, whilst the UAE courts should recognise and enforce a foreign arbitral award under the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the **Convention**) in accordance with the terms of the Convention, enforcement may be refused by the UAE courts if the party opposing enforcement can prove one of the grounds under the Convention to refuse enforcement, or the UAE courts find that the subject matter of the dispute is not capable of settlement by arbitration or enforcement would be contrary to the public policy of the UAE. The enforcement of a foreign judgment or arbitral award may be a lengthy process in the UAE, and there can be no assurance that a foreign judgment or arbitral award would be recognised and enforced in accordance with its terms.

### ***Change of law***

The structure for the issue of the Certificates is based on English and Cayman Islands law and administrative practices in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to English or Cayman Islands law or administrative practices in each such jurisdiction after the date of this Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Certificates or of the Issuer or GEMS to comply with its obligations under the Transaction Documents.



### ***Claims for specific enforcement***

If GEMS fails to perform its obligations under any Transaction Document, the potential remedies available to the Trustee and the Delegate include obtaining an order for specific enforcement of the relevant obligations or a claim for damages. There is no assurance that any court would order specific enforcement of a contractual obligation, as this is generally a matter for the discretion of the relevant court.

The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors including an obligation on the Trustee and the Delegate to mitigate any loss arising as a result of the breach. No assurance is provided on the level of damages which a court may award in the event of a failure by GEMS to perform its obligations as set out in the Transaction Documents.

### **Additional risk factors**

#### ***Emerging markets***

All of the Group's operations are in emerging markets in the MEA region. Investors in emerging markets should be aware that these markets are subject to greater risks than more developed markets, including, in some cases, significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

#### ***Consents to variation of Transaction Documents and other matters***

The Declaration of Trust contains provisions permitting the Delegate at any time without any consent or sanction of the Certificateholders to make any modification of, or to, the waiver or authorisation of any breach or proposed breach of, the Conditions or any provisions of the Declaration of Trust or any other Transaction Document, or to any amendment to the Issuer's memorandum of association and by-laws, or determine that any Dissolution Event or Potential Dissolution Event (as defined in the Declaration of Trust) shall not be treated as such in relation to the Declaration of Trust if, subject to the detailed provisions of the Declaration of Trust, in the opinion of the Delegate, such modification: (a) is of a formal, minor or technical nature; or (b) is made to correct a manifest error; or (c) is not materially prejudicial to the interest of Certificateholders. Unless the Delegate otherwise decides, any such modification, waiver, authorisation or determination may be made on such terms and subject to such conditions (if any) as the Delegate may determine and shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

The Conditions provide that the Delegate may, without the consent or approval of the Certificateholders, agree to the variation of the terms and conditions of the Certificates so that they become or, as appropriate, remain, Qualifying Certificates, as provided in Condition 9.8.

#### ***Reliance on Euroclear and Clearstream, Luxembourg procedures***

The Certificates will be represented on issue by a Global Certificate that will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive Certificates in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in the Global Certificate. While the Certificates are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Certificates are represented by the Global Certificate, the Issuer will discharge its payment obligation under the Certificates by making payments to the Common Depository for Euroclear and Clearstream, Luxembourg. A holder of a beneficial interest in the Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the relevant Certificates. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

### *Exchange rate risks and exchange controls*

The Issuer will pay Periodic Distribution Amounts and Dissolution Distribution Amounts on the Certificates in United States dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than United States dollars.

These include the risk that exchange rates may significantly change (including changes due to devaluation of the United States dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls.

An appreciation in the value of the Investor's Currency relative to the United States dollar would decrease: (a) the Investor's Currency equivalent yield on the Certificates; (b) the Investor's Currency equivalent value of any amount payable on the Certificates; and (c) the Investor's Currency equivalent market value of the Certificates.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate as well as the availability of a specified foreign currency at the time of any payments. As a result, investors may receive a lower amount than the amount due under the Certificates, or no amount at all. Even if there are no actual exchange controls, it is possible that United States dollars may not be available at the date of redemption of the Certificates.

### *Shari'a rules*

The Executive Committee of the Fatwa & *Shari'a* Supervisory Committee of Abu Dhabi Islamic Bank PJSC and the *Shari'a* Supervisory Board of Morgan Stanley & Co. International plc have each reviewed the Transaction Documents. However, there can be no assurance that the Transaction Documents or the issue and trading of the Certificates will be deemed to be *Shari'a* compliant by any other *Shari'a* board or *Shari'a* scholars. None of the Issuer, the Trustee, the Delegate, GEMS or the Joint Lead Managers makes any representation as to the *Shari'a* compliance of the Certificates and/or any trading thereof and potential investors are reminded that, as with any *Shari'a* views, differences in opinion are possible. Potential investors should obtain their own independent *Shari'a* advice as to the compliance of the Transaction Documents and the issue and trading of the Certificates with *Shari'a* principles.

GEMS has engaged the services of a *Shari'a* adviser and will provide the *Shari'a* adviser with an annual certificate in respect of GEMS' compliance with the Mudaraba Business Plan and its business, and the *Shari'a* adviser may notify the Delegate of the non-compliance of any such certificate (see "*General Information – Shari'a adviser in relation to the Mudaraba Business Plan*"). However, investors should note that any such non-compliance of any such certificate shall not constitute a Dissolution Event and shall not entitle Certificateholders to redeem their Certificates.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties in the transaction would be, if in dispute, the subject of court proceedings under the laws of England. In such circumstances, the arbitrator or judge, as the case may be, will likely first apply the relevant law of the Transaction Document rather than *Shari'a* principles in determining the obligations of the parties.

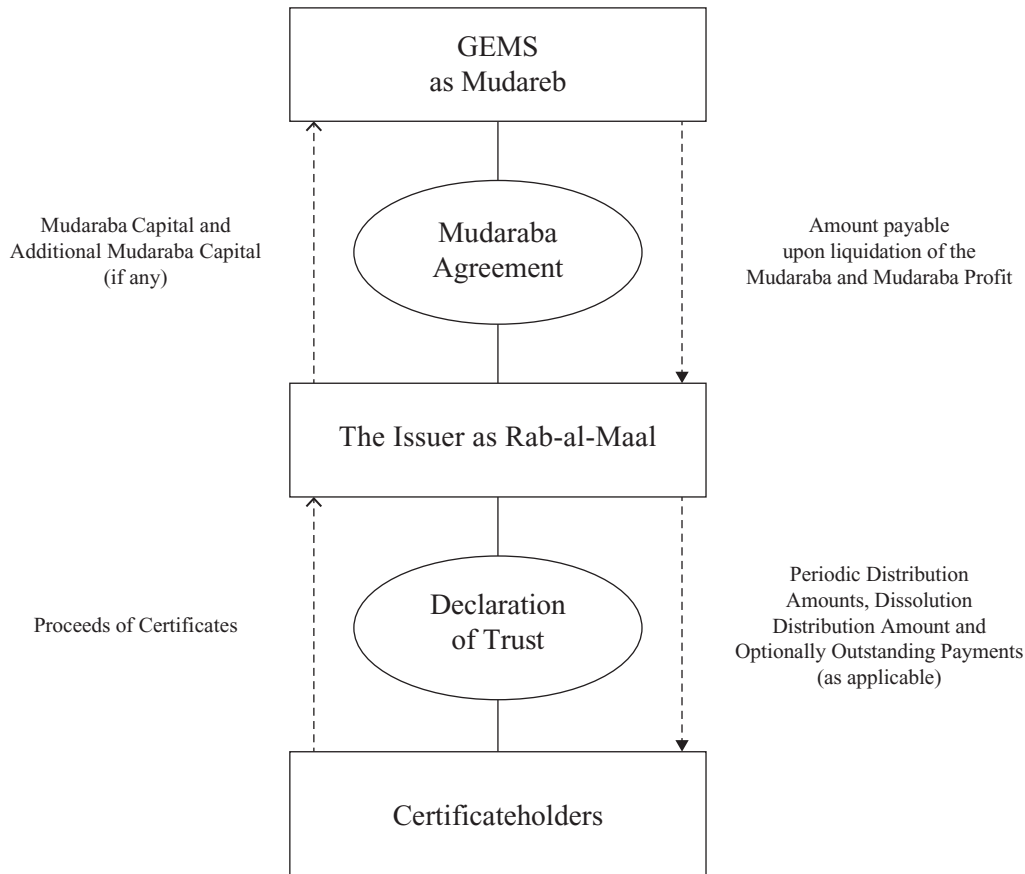
### *Shari'a requirements in relation to interest awarded by a court*

In accordance with applicable *Shari'a* principles, each of the Issuer, the Trustee and the Delegate will waive all and any entitlement it may have to interest awarded in its favour by an arbitrator as a result of any arbitration and/or by a court in connection with any dispute under any of the Transaction Documents. Should there be any delay in the enforcement of a judgment given against GEMS, judgment interest may accrue in respect of that delay and, as a result of the waiver referred to above, Certificateholders will not be entitled to receive any part of such interest.

## STRUCTURE DIAGRAM AND CASH FLOWS

Set out below is a simplified structure diagram and description of the principal cash flows relating to the Certificates. This does not purport to be complete and is qualified in its entirety by reference to, and must be read in conjunction with, the more detailed information appearing elsewhere in this Prospectus. Potential investors are referred to the Conditions and the detailed descriptions of the relevant Transaction Documents set out elsewhere in this Prospectus for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below. Potential investors should read this entire Prospectus carefully, especially the risks of investing in the Certificates discussed under “Risk Factors”.

### Structure Diagram



### Principal Cash Flows

#### Payments by the Certificateholders and the Issuer

On the Issue Date, the Certificateholders will pay the issue price in respect of the Certificates to the Issuer. Pursuant to the Declaration of Trust, the Issuer, in its capacity as Trustee, will declare a trust, in favour of the Certificateholders, over the proceeds of the issuance of the Certificates, any and all of its rights, title interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by GEMS (acting in any capacity) pursuant to any of the Transaction Documents) and any and all amounts standing to the credit of the Transaction Account from time to time. The proceeds of the issuance of the Certificates will be contributed by the Trustee as Rab-al-Maal and shall as a result form the Mudaraba Capital pursuant to the Mudaraba Agreement. The Mudaraba Capital and the Additional Mudaraba Capital (if any) will be invested by GEMS as Mudareb in accordance with the Mudaraba Business Plan and the assets in which the Mudaraba Capital and the Additional Mudaraba Capital (if any) is invested will constitute the Mudaraba Assets.

#### Periodic payments by the Issuer

Unless a Deferral Election has occurred, prior to each Periodic Distribution Date, the Mudareb shall distribute the profit generated by the Mudaraba to both the Issuer and the Mudareb in accordance with an

agreed profit sharing ratio (99 per cent. to the Rab-al-Maal and 1 per cent. to the Mudareb). The Issuer shall apply its share of the profit (if any) generated by the Mudaraba on each Periodic Distribution Date to pay the Periodic Distribution Amount due to the Certificateholders on such date.

If, pursuant to a Deferral Election, all or any part of the Rab-al-Maal Mudaraba Profit is not paid to the Rab-al-Maal, such deferred amount shall be reinvested in the Mudaraba and therefore shall form part of the Mudaraba Assets. Accordingly, such deferred amount (if any) shall accrue further profit thereon. Moreover, pursuant to the terms of the Mudaraba Agreement, if a Deferral Election has previously occurred, GEMS has undertaken that it will not take any action that would amount to a Restricted Event unless on or before the date on which such Restricted Event occurs (i) all amounts comprising the Additional Mudaraba Capital have been paid to the Trustee in full; and (ii) sufficient Mudaraba Profit has been set aside in the Mudaraba Reserve to allow for payment of the Rab-al-Maal Mudaraba Profit due on the Mudaraba Profit Distribution Date immediately following the date on which the Restricted Event occurs. See “*Summary of the Principal Transaction Documents – The Mudaraba Agreement*”. For the avoidance of doubt, any non-payment of any Rab-al-Maal Mudaraba Profit on the Mudaraba Profit Distribution Date immediately following the date on which a Restricted Event occurs shall constitute a Dissolution Event.

#### **Dissolution payments, redemption and variation by the Issuer and the Mudareb**

The Mudaraba is a perpetual arrangement with no fixed end date. Accordingly, the Certificates are perpetual securities in respect of which there is no fixed redemption date.

Subject to certain conditions set out in clause 6 of the Mudaraba Agreement, the Mudareb may at its option liquidate the Mudaraba in whole, but not in part, on the basis of a constructive liquidation of the Mudaraba in the following circumstances:

- (a) on any date on or after 21 November 2016 up to (but excluding) the First Call Date (whether or not a Periodic Distribution Date), by giving not less than 45 nor more than 75 days’ prior notice to the Trustee upon the occurrence of an Initial Equity Offering Call Event;
- (b) on the First Call Date or any Periodic Distribution Date thereafter, by giving not less than 45 nor more than 75 days’ prior notice to the Trustee; or
- (c) on any date on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 45 nor more than 75 days’ prior notice to the Trustee:
  - (i) upon the occurrence of a Tax Event;
  - (ii) upon the occurrence of an Accounting Event;
  - (iii) upon the occurrence of a Change of Control Event; or
  - (iv) if GEMS or any Subsidiary of GEMS has, severally or jointly, purchased and cancelled more than 80 per cent. of the initial aggregate face amount of the Certificates.

The Trustee shall (acting only upon the instructions of GEMS in its sole and absolute discretion), upon receipt of notice in connection with paragraphs (c)(i) or (c)(ii) above redeem all of, but not only some of, the Certificates, or vary the terms of such Certificates (as applicable), and upon receipt of notice in connection with paragraphs (a), (b), (c)(iii) or (c)(iv) above redeem all of, but not only some of, the Certificates, in each case by giving not less than 30 nor more than 60 days’ prior notice to the Certificateholders, all as more particularly described in the Conditions, and in each case of redemption of the Certificates following constructive liquidation of the Mudaraba, as described above.

The Mudareb and the Rab-al-Maal undertake in the Mudaraba Agreement, in circumstances where the Certificates are required by GEMS to be varied upon the occurrence of a Tax Event or an Accounting Event, to make such variations to the Mudaraba Agreement as are necessary to ensure that the Certificates become or, as appropriate, remain Qualifying Certificates and further agree that any such variation of the Mudaraba Agreement will be subject to all amounts comprising the Additional Mudaraba Capital having been generated and paid to the Trustee in full.

## OVERVIEW OF THE OFFERING

*The following overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus. This overview does not contain all of the information that prospective investors should consider before deciding to invest in the Certificates. Accordingly, any decision by a prospective investor to invest in the Certificates should be based on a consideration of this Prospectus as a whole.*

*Words and expressions defined in “Terms and Conditions of the Certificates” and “Summary of the Principal Transaction Documents” shall have the same meanings in this overview. Each reference to a “Condition” is to a numbered condition of the Conditions.*

### Parties

Issuer and Trustee	<p>GEMS MEA Sukuk Limited, an exempted company with limited liability incorporated in accordance with the laws of, and formed and registered in, the Cayman Islands with company registration number 279703. GEMS MEA Sukuk Limited has been incorporated solely for the purpose of participating in the transactions contemplated by the Transaction Documents to which it is a party.</p> <p>In accordance with the Declaration of Trust, the Trustee shall act as trustee in respect of the Trust Assets for the benefit of the Certificateholders.</p>
Ownership of the Trustee	<p>The authorised share capital of the Trustee is U.S.\$50,000 consisting of 50,000 shares of U.S.\$1.00 nominal or par value each, of which 250 shares are fully paid up and issued. The Trustee’s entire issued share capital is held by MaplesFS Limited, with its registered office at P.O. Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands on trust for charitable purposes.</p>
Administration of the Trustee	<p>The affairs of the Trustee are managed by MaplesFS Limited (the <b>Corporate Administrator</b>), who will provide, amongst other things, certain administrative services for and on behalf of the Trustee pursuant to the Corporate Services Agreement dated 26 September 2013 between, <i>inter alios</i>, the Trustee and the Corporate Administrator (the <b>Corporate Services Agreement</b>).</p>
Mudareb	<p>GEMS MENASA (Cayman) Limited.</p>
Rab-al-Maal	<p>GEMS MEA Sukuk Limited.</p>
Joint Lead Managers and Joint Bookrunners	<p>Abu Dhabi Islamic Bank P.J.S.C. Credit Suisse Securities (Europe) Limited. Mashreqbank psc Morgan Stanley &amp; Co. International plc.</p>
Delegate	<p>Deutsche Trustee Company Limited. In accordance with the Declaration of Trust, the Trustee will unconditionally and irrevocably delegate to the Delegate certain present and future duties, powers, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust. The appointment of such Delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee’s continuing role and obligations as trustee.</p>
Principal Paying Agent	<p>Deutsche Bank AG, London Branch.</p>
Registrar and Transfer Agent	<p>Deutsche Bank Luxembourg S.A.</p>



<b>Risk Factors</b>	Certain factors may affect the Issuer's ability to fulfil its obligations under the Certificates and GEMS' ability to fulfil its obligations under the Transaction Documents. In addition, certain factors are material for the purpose of assessing the market risks associated with the Certificates. See " <i>Risk Factors</i> ".
<b>Summary of the Transaction Structure and Principal Transaction Documents</b>	An overview of the structure of the transaction and the principal cash flows is set out under " <i>Structure Diagram and Cash Flows</i> " and a description of the principal Transaction Documents is set out under " <i>Summary of the Principal Transaction Documents</i> ".
<b>Summary of the Certificates</b>	
Certificates	U.S.\$200,000,000 Subordinated Perpetual Certificates.
Trust Assets	Each Certificate evidences an undivided ownership interest in the Trust Assets, subject to the terms of the Transaction Documents and the Conditions, and is a limited recourse obligation of the Issuer. The Trust Assets are all of the Trustee's rights, title, benefits, entitlements and interests, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets and the Transaction Documents (excluding the representations given by GEMS (acting in any capacity) pursuant to any of the Transaction Documents), together with all monies standing to the credit of the Transaction Account (as defined below) and all proceeds of the foregoing (together, the <b>Trust Assets</b> ).
Issue Date	21 November 2013.
Issue Price	100 per cent. of the aggregate face amount of the Certificates.
Periodic Distribution Dates	21 May and 21 November in each year commencing on 21 May 2014.
First Call Date	21 November 2018.
Periodic Distribution Amounts	<p>Subject to Condition 7.5, each Periodic Distribution Amount shall be payable in arrear on each Periodic Distribution Date as follows (if the Certificates are not previously redeemed and/or purchased and cancelled):</p> <p>(a) up to, but excluding, the First Call Date, at a rate of 12.00 per cent. per annum; and</p> <p>(b) thereafter at a fixed rate per annum, to be reset on the First Call Date and every five years thereafter equal to the Relevant Five Year Reset Rate plus the Initial Margin and the Step-up Margin,</p> <p>provided that, in the case of both (a) and (b), if a Change of Control Event occurs the Profit Rate shall increase by an amount equal to the Change of Control Margin (being 5 per cent. per annum) and which shall be payable from and including the expiry of the Change of Control Redemption Period in accordance with Condition 7.3 if, following the occurrence of a Change of Control Event, the Mudareb has not elected to instruct the Issuer to redeem the Certificates in accordance with the Conditions.</p>
Relevant Five Year Reset Rate	The mid-swap rate for U.S. dollar swap transactions with a maturity of five years displayed on Reuters page "ISDAFIX1" (or such other page as may replace that page on Reuters, or such other service as may be nominated by the person providing or sponsoring the information appearing there for the purposes of displaying comparable rates) at or around 11.00 a.m. (New York time) on the relevant Determination Date.

## Deferral of Periodic Distribution Amounts

Pursuant to Condition 7.5, the Issuer shall, acting only upon the instructions of GEMS in its sole and absolute discretion, not pay all or any part of the Periodic Distribution Amount payable on the relevant Periodic Distribution Date (other than (i) on the Periodic Distribution Date immediately following the occurrence of a Restricted Event (as defined in the Conditions); or (ii) in respect of the Periodic Distribution Amount payable on the Dissolution Date). Any such election not to pay Periodic Distribution Amounts shall not constitute a default of the Issuer or any other breach of obligations under the Certificates.

Any Periodic Distribution Amount not paid due to such an instruction by GEMS to the Issuer shall constitute Optionally Deferred Profit Distributions and will themselves accrue profit as if they constituted the principal of the Certificates at the applicable Profit Rate and the amount of such profit (the **Additional Profit Amount**) shall be calculated by the Principal Paying Agent by applying the applicable Profit Rate to the amount of the Optionally Deferred Profit Distributions.

The Additional Profit Amount accrued up to any Periodic Distribution Date, if not paid, shall be added for the purpose of calculating the Additional Profit Amount accruing after such Periodic Distribution Date to the amount of Optionally Deferred Profit Distributions remaining unpaid on such Periodic Distribution Date so that it will itself constitute Optionally Deferred Profit Distributions.

The aggregate amount of any unpaid Optionally Deferred Profit Distributions together with any Additional Profit Amount shall constitute **Optionally Outstanding Payments**. The Issuer may pay unpaid **Optionally Outstanding Payments** (in whole or in part) at any time in accordance with the Conditions.

## Restricted Events

The Mudareb has undertaken in the Mudaraba Agreement that if any amount of Rab-al-Maal Mudaraba Profit is not paid as a consequence of a Deferral Election then, from the date of such non-payment (the **Deferral Date**), the Mudareb will not, so long as any of the Certificates are outstanding, take any action that constitutes a Restricted Event unless, on or before the date on which such Restricted Event occurs:

- (a) all amounts comprising the Additional Mudaraba Capital have been generated in accordance with the Mudaraba Business Plan and have been paid to the Trustee in full; and
- (b) sufficient Mudaraba Profit has been earned, generated and set aside in the Mudaraba Reserve so as to allow the Mudareb to pay the Rab-al-Maal Mudaraba Profit due on the Mudaraba Profit Distribution Date immediately following the date on which the Restricted Event occurs.

## Redemption or Variation of the Certificates

The Certificates are perpetual securities and accordingly do not have a final redemption date.

The Issuer shall, acting only upon the instructions of GEMS in its sole and absolute discretion, redeem the Certificates (in whole but not in part) on the First Call Date or on any Periodic Distribution Date thereafter upon giving not less than 30 and not more than 60 days' irrevocable notice of redemption to the Delegate, the Agents and the Certificateholders in accordance with Condition 15. Such notices of redemption shall oblige the Issuer to redeem the Certificates at the relevant Dissolution Distribution Amount on the date specified in such notice.

Further, if an Initial Equity Offering Call Event occurs, the Issuer shall, acting only upon the instructions of GEMS in its sole and absolute discretion, redeem the Certificates on 21 November 2016 or at any time thereafter up to, but excluding, the First Call Date upon giving not less than 30 and not more than 60 days' irrevocable notice prior to the date fixed for redemption to the Delegate, the Agents and the Certificateholders in accordance with Condition 15. Such notices of redemption shall oblige the Issuer to redeem the Certificates at the Initial Equity Offering Redemption Amount due and unpaid up to but excluding the relevant redemption date on the date specified in such notice.

The Conditions provide for the following circumstances in which the Trustee shall, acting only upon the instructions of GEMS in its sole and absolute discretion, redeem or vary the terms of the Certificates at any time as follows:

- (i) redeem the Certificates upon the occurrence of a Change of Control Event as described in Condition 9.7;
- (ii) redeem the Certificates where GEMS or any Subsidiary of GEMS has, severally or jointly, purchased and cancelled more than 80 per cent. of the initial aggregate face amount of the Certificates as described in Condition 9.6; and
- (iii) redeem the Certificates or vary their terms upon the occurrence of a Tax Event or an Accounting Event as described in Conditions 9.4, 9.5 and 9.8.

#### Dissolution Events

Subject to Condition 13, upon the occurrence of a Dissolution Event and upon the receipt of a Dissolution Request or being directed by an Extraordinary Resolution of the Certificateholders in accordance with Condition 13.1, the Trustee and/or the Delegate shall, subject to Condition 13.2, take the actions referred to in Condition 13.2.

#### Withholding Tax

Subject to Condition 8.2 and Condition 11, all payments in respect of the Certificates shall be made without withholding or deduction for, or on account of, any Taxes (as defined in Condition 11), unless the withholding or deduction of Taxes is required by law. In such event, the Trustee will pay the additional amounts referred to in Condition 11 so that the full amount which otherwise would have been due and payable under the Certificates is received by the parties entitled thereto.

The Mudaraba Agreement provides that payments thereunder by the Mudareb to the Trustee shall be made without withholding or deduction of Taxes except where required by law and, in such case, provide for the payment by the Mudareb of additional amounts so that the full amount which would otherwise have been due and payable is received by the Trustee.

#### Role of Delegate

Pursuant to the Declaration of Trust, the Trustee shall delegate to the Delegate certain of the present and future duties, powers, trusts, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust. In particular, the Delegate shall be entitled to (and, in certain circumstances, shall, subject to being indemnified and/or secured and/or pre-funded to its satisfaction, be obliged to), following a Dissolution Event, take the actions referred to in Condition 13.

#### Appointment and Role of *Shari'a* Adviser

See "*General Information—Shari'a Adviser in relation to the Mudaraba Business Plan*" for a description of the appointment and role of the *Shari'a* Adviser.

Form and Delivery of the Certificates	<p>The Certificates will be issued in registered global form only.</p> <p>The Certificates will be represented on issue by beneficial interests in the Global Certificate which will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg. Definitive Certificates evidencing holdings of Certificates will be issued in exchange for interests in the Global Certificate only in the limited circumstances described under “<i>Global Certificate</i>”.</p>
Clearance and Settlement	<p>Holders of the Certificates must hold their interest in the Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg, as the case may be. Transfers within and between Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearance systems.</p>
Denomination	<p>The Certificates will be issued in minimum face amounts of U.S.\$150,000 and integral multiples of U.S.\$1,000 in excess thereof.</p>
Status of the Certificates	<p>Each Certificate represents an undivided ownership interest in the Trust Assets (subject to the terms of the Transaction Documents and the Conditions), will be a limited recourse obligation of the Trustee and will rank <i>pari passu</i>, without any preference, with the other Certificates.</p>
Subordination in respect of the payment obligations of GEMS under the Mudaraba Agreement	<p>The payment obligations of GEMS under the Mudaraba Agreement will: (a) constitute direct, unsecured and subordinated obligations of GEMS; (b) rank subordinate and junior to all Senior Obligations; (c) rank <i>pari passu</i> with all other Pari Passu Obligations; and (d) rank in priority only to all Junior Obligations, as described in Condition 4.2.</p>
Transaction Account	<p>The Principal Paying Agent will maintain and operate a U.S. dollar account opened in the name of the Issuer (the <b>Transaction Account</b>). Payments to the Trustee by the Mudareb under the Mudaraba Agreement will be credited to the Transaction Account. Periodic Distribution Amounts, Optionally Outstanding Payments and the Dissolution Distribution Amount (as applicable) will be paid to holders of the Certificates from funds standing to the credit of the Transaction Account in accordance with the order of priority described under Condition 7.</p>
Limited Recourse	<p>Each Certificate represents solely an undivided ownership interest in the Trust Assets. No payment of any amount whatsoever shall be made in respect of the Certificates except to the extent that funds for that purpose are available from the Trust Assets.</p> <p>Certificateholders shall have no recourse to the Mudaraba Assets, the Issuer, the Trustee (other than the Trust Assets), the Delegate or GEMS (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party) in respect of any shortfall in the expected amounts from the Trust Assets to the extent the Trust Assets have been exhausted, following which all obligations of the Issuer and the Trustee and their directors, officers and corporate administrator shall be extinguished.</p>
Use of Proceeds	<p>The net proceeds of the Certificates will be paid by the Rab-al-Maal to the Mudareb as contribution of the Mudaraba Capital pursuant to the terms of the Mudaraba Agreement.</p>

Listing and admission to trading	<p>Application has been made to the Irish Stock Exchange for the Certificates to be admitted to listing on the Official List and for such Certificates to be admitted to trading on the Main Securities Market.</p> <p>Application has also been made to the DFSA for the Certificates to be admitted to the official list of securities maintained by the DFSA and to NASDAQ Dubai for such Certificates to be admitted to trading on NASDAQ Dubai.</p>
Ratings	The Certificates will not be rated by any rating organisation upon their issue.
Certificateholder Meetings	A summary of the provisions for convening meetings of Certificateholders to consider matters relating to their interests as such is set out in Condition 17.
Tax Considerations	See “ <i>Taxation</i> ” for a description of certain tax considerations applicable to the Certificates.
Governing Law	<p>The Declaration of Trust, the Agency Agreement and the Mudaraba Agreement will be governed by English law, save that Clause 2.4 (a), (b) and (d) (<i>Status</i>) of the Mudaraba Agreement, relating to the subordinated status of the obligations under the Mudaraba Agreement and Condition 4.2, shall be governed and construed in accordance with the laws of the Cayman Islands.</p> <p>The Corporate Services Agreement will be governed by Cayman Islands law.</p>
Selling Restrictions	There are restrictions on the distribution of this Prospectus and the offer or sale of Certificates in the United States, the United Kingdom, the Cayman Islands, the Kingdom of Saudi Arabia, the State of Qatar, the Kingdom of Bahrain, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, Malaysia, Singapore, Hong Kong and such other restrictions as may be required in connection with the offering and sale of the Certificates. See “ <i>Subscription and Sale</i> ”.



## TERMS AND CONDITIONS OF THE CERTIFICATES

*The following is the text of the Terms and Conditions of the Certificates which (subject to modification and except for the text in italics) will be endorsed on each Certificate in definitive form (if issued) and will, save as provided in “Global Certificate”, apply to the Global Certificate.*

Each of the U.S.\$200,000,000 Subordinated Perpetual Certificates (the **Certificates**, which expression shall include any further certificates issued pursuant to Condition 16) is issued by GEMS MEA Sukuk Limited (in its capacity as issuer, the **Issuer**) and represents an undivided ownership interest in the Trust Assets (as defined in Condition 5) held on trust (the **Trust**) for the holders of such Certificates pursuant to a declaration of trust (the **Declaration of Trust**) dated 21 November 2013 (the **Issue Date**) made between GEMS MEA Sukuk Limited (in its capacity as Issuer and in its capacity as trustee for and on behalf of the Certificateholders (as defined in Condition 1), the **Trustee**), GEMS MENASA (Cayman) Limited (**GEMS**) and Deutsche Trustee Company Limited as the delegate of the Trustee (the **Delegate**).

Payments relating to the Certificates will be made pursuant to an agency agreement dated the Issue Date (the **Agency Agreement**) made between the Issuer, GEMS, the Delegate, Deutsche Bank AG, London Branch as principal paying agent (in such capacity, the **Principal Paying Agent**, and together with any further or other paying agents appointed from time to time in respect of the Certificates, the **Paying Agents**) and Deutsche Bank Luxembourg S.A. as registrar (in such capacity, the **Registrar**) and as transfer agent (in such capacity, the **Transfer Agent** and, together with the Registrar and any further or other transfer agents appointed from time to time in respect of the Certificates, the **Transfer Agents**). The Paying Agents and the Transfer Agents are together referred to in these Conditions as the **Agents**. References to the Agents or any of them shall include their successors.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Transaction Documents (as defined in Condition 1). Physical copies of the Transaction Documents are available for inspection and collection during normal business hours at the specified offices of the Paying Agents. The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Issuer (acting as Trustee on behalf of the Certificateholders): (a) to contribute the sums paid by it in respect of its Certificate(s) to the Mudareb in accordance with the Mudaraba Agreement (each as defined in Condition 5); (b) to act as Rab-al-Maal (as defined in Condition 5) pursuant to the Mudaraba Agreement on its behalf (which authorisation and direction shall also apply to its successors in title); and (c) to enter into each Transaction Document, subject to the provisions of the Declaration of Trust and these Conditions.

### 1. DEFINITIONS AND INTERPRETATION

In these Conditions, words and expressions defined and rules of construction and interpretation set out in the Declaration of Trust shall, unless defined herein or the context otherwise requires, have the same meanings and application herein and, in the event of any inconsistency between the Declaration of Trust and these Conditions, these Conditions will prevail. In addition, in these Conditions the following expressions have the following meanings:

An **Accounting Event** shall occur if a recognised independent accountancy firm of international standing, acting upon instructions of GEMS, has delivered a letter or report addressed to GEMS, to the effect that, as a result of a change in accounting principles (or the application thereof) since 19 November 2013, the obligations of GEMS in respect of the Mudaraba Agreement may not or may no longer be recorded as “equity” in its Consolidated Financial Statements pursuant to IFRS or any other accounting standards that may replace IFRS for the purposes of preparing its Consolidated Financial Statements and such event cannot be avoided by GEMS taking reasonable measures available to it;

**Accounting Event Profit Amount** in relation to a Certificate, means an amount equal to one per cent. of the outstanding face amount of such Certificate on such date;

**Accounting Event Redemption Amount** in relation to a Certificate, means its outstanding face amount together with the Accounting Event Profit Amount and any Outstanding Payments;

**Additional Mudaraba Capital** has the meaning given to it in the Mudaraba Agreement;

**Additional Profit Amount** has the meaning given to it in Condition 7.5;

**Authorised Denomination** has the meaning given to it in Condition 2.1;

**Authorised Signatory** means any person who: (a) is an Initial Authorised Person; or (b) has been notified by GEMS in writing to the Trustee and the Delegate as being duly authorised to sign documents and to do other acts and things on behalf of GEMS for the purposes of these Conditions and the Declaration of Trust;

**Business Day** means a day, other than a Saturday, Sunday or public holiday, on which registered banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in New York City and London;

**Calculation Agent** means the calculation agent appointed by the Issuer in accordance with the terms of the Agency Agreement in relation to an Initial Equity Offering Call Event where redemption of the Certificates is to occur under Condition 9.3;

**Calculation Date** means, for the purposes of calculating the Initial Equity Offering Profit Amount and relevant Treasury Rate (if applicable), the second New York Business Day prior to the applicable date fixed for redemption under Condition 9.3;

**Certificateholder** means a person in whose name a Certificate is registered in the Register (or in the case of joint Certificateholders, the first named thereof) and the expressions **holder** and **holder of Certificates** and related expressions shall (where appropriate) be construed accordingly;

A **Change of Control Event** shall occur if members of the Varkey Family (taken together) cease to control in a direct or indirect capacity (i) more than 50 per cent. of the issued share capital of GEMS or (ii) such number of shares of GEMS carrying more than 50 per cent. of the voting rights normally exercisable at general meetings of its shareholders;

**Change of Control Margin** means 5.0 per cent. per annum;

**Change of Control Redemption Period** has the meaning given to it in Condition 9.7;

**Change of Control Redemption Amount** in relation to a Certificate, means its outstanding face amount together with any Outstanding Payments;

**Clean-up Call Redemption Amount** in relation to a Certificate, means its outstanding face amount together with any Outstanding Payments;

**Comparable Treasury Issue** means, in relation to calculating the Initial Equity Offering Profit Amount and relevant Treasury Rate (if applicable), the U.S. Treasury security selected by the Calculation Agent as having a maturity comparable to the Remaining Life that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a maturity most closely corresponding to the Remaining Life;

**Comparable Treasury Price** means, with respect to a Calculation Date, the average of five Reference Treasury Dealer Quotations for such date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations or, if fewer than five such Reference Treasury Dealer Quotations are available, the average of all such quotations;

**Consolidated Financial Statements** means the most recently published audited annual consolidated financial statements of GEMS prepared in accordance with IFRS, as approved by its shareholders and audited by an independent auditor;

**Day-count Fraction** means the number of days in the Relevant Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months and, in the case of an incomplete month, the number of days elapsed of the Periodic Distribution Period in which the Relevant Period falls (including the first such day but excluding the last));

**Deferral Election** has the meaning given to it in Condition 7.5;

**Determination Date** means, in respect of a Reset Period, the second U.S. Government Securities Business Day prior to the commencement of such Reset Period;

**Dissolution Date** means the due date (if any) for payment of the applicable Dissolution Distribution Amount;

**Dissolution Distribution Amount** means the applicable Trustee Call Redemption Amount, Accounting Event Redemption Amount, Tax Redemption Amount, Clean-up Call Redemption Amount, Change of Control Redemption Amount or Initial Equity Offering Redemption Amount (as the case may be) or such other amount in the nature of a redemption amount as may be determined in accordance with these Conditions;

**Dissolution Event** means a GEMS Event and/or a Trustee Event;

**Dissolution Notice** has the meaning given to it in Condition 13.1;

**Dissolution Request** has the meaning given to it in Condition 13.1;

**Extraordinary Resolution** has the meaning given to it in the Declaration of Trust;

**First Call Date** means 21 November 2018;

**First Mudaraba Profit Distribution Date** means 21 May 2014;

A **GEMS Event** shall mean the occurrence of one or more of the following events:

- (a) **Non-Payment:** the Mudareb fails to pay an amount in the nature of profit (including in respect of any Additional Mudaraba Capital) or principal in each case due and payable by it pursuant to the Mudaraba Agreement, and in each case such non-payment has not been remedied within a period of seven days (in the case of amounts in the nature of principal) or 14 days (in the case of amounts in the nature of profit) of the due date thereof provided that such a failure to pay shall occur only in the event of non-payment of an amount which is due for payment. For the avoidance of doubt (i) non-payment of any amount as a result of a Deferral Election shall not constitute a GEMS Event, as any such deferred amounts shall not be considered due and payable for the purposes of the Mudaraba Agreement and (ii) non-payment of any Rab-al-Maal Mudaraba Profit on the Mudaraba Profit Distribution Date immediately following the date on which a Restricted Event occurs shall constitute a GEMS Event;
- (b) **Insolvency:** GEMS is (or is deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, or stops, suspends or threatens to stop or suspend payment of all or (in the opinion of the Delegate) a material part of its debts, makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of the debts of GEMS, except, in each case: (i) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders; or (ii) for any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority;
- (c) **Winding-up:** an administrator is appointed, an order is made (other than an order that is being appealed in good faith, or has been permanently stayed, within 30 days) or an effective resolution is passed for the winding-up or dissolution or administration of GEMS, or GEMS applies or petitions for a winding-up or administration order in respect of itself or ceases or through an official action of its board of directors threatens to cease to carry on all or substantially all of its business or operations, except, in each case: (i) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders or (ii) for any step or procedure which is part of a solvent reconstruction or amalgamation; approved by any court of competent jurisdiction or other competent authority; or
- (d) **Analogous Events:** any event occurs that under the laws of the Cayman Islands has an analogous effect to any of the events referred to in paragraphs (b) or (c) above;

**Group Member** means any entity that is a direct or indirect Subsidiary of any direct or indirect shareholder of GEMS (excluding, for the avoidance of doubt, any Subsidiary of GEMS);

**IFRS** means the International Financial Reporting Standards;

**Indemnity Payment** has the meaning given to it in the Mudaraba Agreement;

**Initial Authorised Person** means any of Sunny Varkey, Sherly Varkey, Jay Varkey, Dino Varkey and Cherusseril Narayanan Nair Radhakrishnan;

**Initial Equity Offering Call Event** means the completion, during the period from and including the third anniversary of the Issue Date to but excluding the date falling 45 days prior to the First Call Date, of an equity offering by GEMS (or any direct or indirect shareholder of GEMS who holds, directly or indirectly, more than 50 per cent. of the Ordinary Shares immediately prior to completion of the offering) by means of the issuance or sale of ordinary shares, the gross proceeds of which are at least equal to U.S.\$500 million (or its equivalent in any other currency) in cash;

**Initial Equity Offering Profit Amount** means in relation to a Certificate to be redeemed following an Initial Equity Offering Call Event, the amount calculated by the Calculation Agent equal to the sum of the net present value of the then remaining scheduled payments of Periodic Distribution Amounts due on the Certificates to and including the First Call Date (excluding Periodic Distribution Amounts accrued to the day on which the Certificates are to be redeemed), discounted on a semi annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 4.00 per cent. per annum. In performing such calculation it shall be assumed that the remaining scheduled payments of Periodic Distribution Amounts will not be deferred in accordance with Condition 7.5;

**Initial Equity Offering Redemption Amount** in relation to a Certificate, means its outstanding face amount together with the Initial Equity Offering Profit Amount and any Outstanding Payments;

**Initial Margin** means 10.535 per cent. per annum;

**Junior Obligations** means (i) the obligations of GEMS to the holders of Ordinary Shares and any other shares of any class of GEMS (if any) ranking *pari passu* among themselves and *pari passu* with Ordinary Shares and (ii) any subordinated payment obligations of GEMS which rank or are expressed to rank junior to the Relevant Obligations;

**Mudaraba** has the meaning given to it in Condition 5;

**Mudaraba Agreement** has the meaning given to it in Condition 5;

**Mudaraba Assets** has the meaning given to it in Condition 5;

**Mudaraba Business Plan** means the business plan prepared by the Mudareb and scheduled to the Mudaraba Agreement in accordance with which the Mudareb shall invest the Mudaraba Capital and the Additional Mudaraba Capital (if any);

**Mudaraba Capital** has the meaning given to it in Condition 5;

**Mudaraba End Date** means the date on which the Mudaraba ends, being the date on which the Certificates are redeemed in whole but not in part in accordance with these Conditions;

**Mudaraba Profit** has the meaning given to it in the Mudaraba Agreement;

**Mudaraba Profit Distribution Date** means 21 May and 21 November in each year, starting on the First Mudaraba Profit Distribution Date;

**Mudaraba Reserve** has the meaning given to it in the Mudaraba Agreement;

**Mudareb** has the meaning given to it in Condition 5;

**New York Business Day** means any day, excluding a Saturday and a Sunday, on which banks are open for general business (including dealings in foreign currencies) in New York City;

**Optionally Deferred Profit Distributions** has the meaning given to it in Condition 7.5;

**Optionally Outstanding Payments** has the meaning given to it in Condition 7.5;

**Ordinary Shares** means ordinary shares of GEMS, having on the Issue Date a par value of U.S.\$1 each;

**Outstanding Payments** means, in relation to any amounts payable on redemption of the Certificates, an amount representing the aggregate of: (a) all accrued and unpaid Periodic Distribution Amounts for the Periodic Distribution Period during which redemption occurs to the date of redemption; and (b) all due and unpaid Optionally Outstanding Payments;

**Pari Passu Obligations** means all subordinated payment obligations (if any) of GEMS which rank, or are expressed to rank, *pari passu* with the Relevant Obligations;

**Payment Business Day** has the meaning given to it in Condition 8.3;

**Periodic Distribution Amount** has the meaning given to it in Condition 7.1;

**Periodic Distribution Date** means 21 May and 21 November in each year, commencing on (and including) 21 May 2014;

**Periodic Distribution Period** means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Periodic Distribution Date and each successive period beginning on (and including) a Periodic Distribution Date and ending on (but excluding) the next succeeding Periodic Distribution Date;

**Profit Rate** means:

- (a) from (and including) the Issue Date to (but excluding) the First Call Date, 12.00 per cent. per annum; and
- (b) in respect of each Reset Period, the aggregate of (i) the Relevant Five Year Reset Rate; (ii) the Initial Margin; and (iii) the Step-up Margin,

and, in each case, if a Change of Control Event has occurred and the Certificates are not redeemed in full in accordance with these Conditions, the Profit Rate shall increase by the Change of Control Margin from (and including) the expiry of the Change of Control Redemption Period;

**Qualifying Certificates** means trust certificates, issued directly or indirectly by GEMS that:

- (a) have terms and conditions not materially less favourable to a Certificateholder than the Certificates as reasonably determined by GEMS (provided that in making this determination GEMS is not required to take into account the tax treatment of the new instrument in the hands of all or any Certificateholders, or any transfer or similar taxes that may apply on the acquisition of the new instrument) provided that a certification to such effect of two Authorised Signatories shall have been delivered to the Trustee prior to the variation of the terms of the instruments;
- (b) continue to be obligations of GEMS, directly or indirectly or by a guarantee or equivalent support undertaking by GEMS;
- (c) rank on a winding-up at least *pari passu* with the Relevant Obligations;
- (d) have at least the same face value amount and profit distribution dates as the Certificates and at least equal profit or distribution rate or rate of return as the Certificates;
- (e) (where the instruments are varied prior to the First Call Date) have the same first call date as the Certificates; and
- (f) have the same optional redemption dates as the Certificates;

**Rab-al-Maal** has the meaning given to it in Condition 5;

**Rab-al-Maal Final Mudaraba Profit** has the meaning given to it in the Mudaraba Agreement;

**Rab-al-Maal Mudaraba Profit** has the meaning given to it in the Mudaraba Agreement;

**record date** has the meaning given to it Condition 8.1;

**Reference Banks** means four major banks in the U.S. dollar swap market, such banks to be notified to the Principal Paying Agent pursuant to the terms of the Agency Agreement;

**Reference Treasury Dealer** means five internationally recognised investment banking firms selected by the Issuer, or failing whom, GEMS (and notified in writing to the Calculation Agent) that are primary U.S. Government securities dealers;

**Reference Treasury Dealer Quotations** means, with respect to each Reference Treasury Dealer and any Calculation Date, the average, as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its face amount, quoted in writing to the Calculation Agent by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the second New York Business Day immediately preceding the applicable redemption date of Certificates to be redeemed following an Initial Equity Offering Call Event;

**Register** has the meaning given to it in Condition 2.1;

**registered account** has the meaning given to it in Condition 8.1;

**Relevant Date** has the meaning given to it in Condition 11;



**Relevant Five Year Reset Rate** means, in respect of each Reset Period, the mid-swap rate for U.S. dollar swap transactions with a maturity of five years displayed on Reuters 3000 page “ISDAFIX1” (or such other page as may replace that page on Reuters, or such other service as may be nominated by the person providing or sponsoring the information appearing there for the purposes of displaying comparable rates) at or around 11.00 a.m. (New York time) on the Determination Date. If the correct mid-swap rate does not appear on that page, the five-year U.S. dollar mid-swap rate shall instead be determined by the Issuer (or an agent on its behalf) on the basis of the arithmetic mean of quotations provided by the Reference Banks of the rates at which swaps in U.S. dollars are offered by it at approximately 11.00 a.m. (New York time) on the Determination Date to participants in the U.S. dollar swap market for a five-year period, expressed as a percentage and rounded, if necessary, to the nearest 0.0001 per cent. (0.00005 per cent. being rounded upwards);

**Relevant Jurisdiction** has the meaning given to it in Condition 11;

**Relevant Obligations** has the meaning given to it in Condition 4.2;

**Relevant Period** has the meaning given to it in Condition 7.2;

**Remaining Life** means the period from the applicable redemption date of Certificates to be redeemed following an Initial Equity Offering Call Event to the First Call Date;

**Reserved Matter** has the meaning given to it in the Declaration of Trust;

**Reset Date** means the First Call Date and each fifth anniversary thereof;

**Reset Period** means the period from (and including) the First Call Date to (but excluding) the earlier of (a) the Mudaraba End Date and (b) the next Reset Date, and (if applicable) each successive period thereafter from (and including) such Reset Date to (but excluding) the earlier of (x) the Mudaraba End Date and (y) the next Reset Date;

A **Restricted Event** shall occur if GEMS or any Subsidiary of GEMS:

- (i) declares or pays a discretionary dividend, interest or profit distribution in respect of its Junior Obligations and/or its Pari Passu Obligations;
- (ii) carries out repurchases or redemption of Junior Obligations and/or Pari Passu Obligations;
- (iii) extends any financings (whether senior or subordinated) or other financial support to any direct or indirect shareholder of GEMS or to any Group Member save for financings in existence as at 19 November 2013 (or any refinancing of such financings where the original financing amount does not thereby increase);
- (iv) pays management or other fees to the direct or indirect shareholders of GEMS or to any Group Member except for any such fees paid on an arm’s length basis; or
- (v) undertakes any asset sales to the direct or indirect shareholders of GEMS or to any Group Member except for transactions executed on an arm’s length basis;

**Senior Creditors** means the creditors in respect of any Senior Obligations;

**Senior Obligations** means all payment obligations (including subordinated payment obligations (if any)) of GEMS other than Pari Passu Obligations and Junior Obligations;

**Step-up Margin** means 5.0 per cent. per annum;

**Subsidiary** has the meaning given to it in Condition 10;

A **Tax Event** shall occur if GEMS or the Trustee (as the case may be) would, as a result of a Tax Law Change, in making any payments under the Mudaraba Agreement (in the case of GEMS) on the next due date for a payment of Mudaraba Profit or under the Certificates (in the case of the Trustee) on the next due date for payment of a Periodic Distribution Amount (as the case may be) (whether or not a Deferral Election has been made), be required to pay additional amounts pursuant to the terms of the Mudaraba Agreement (in the case of GEMS) or Condition 11 (in the case of the Trustee) (and such requirement cannot be avoided by GEMS or the Trustee (as the case may be) taking reasonable measures available to it);

**Tax Law Change** means any change in, or amendment to, the laws affecting taxation (or regulations or rulings promulgated thereunder) of the Relevant Jurisdiction, or any change in the official application of such laws, regulations or rulings, which change or amendment becomes effective after 19 November 2013;

**Tax Redemption Amount** in relation to a Certificate, means its outstanding face amount together with any Outstanding Payments;

**Taxes** has the meaning given to it in Condition 11;

**Transaction Account** has the meaning given to it in Condition 5;

**Transaction Documents** means each of the Declaration of Trust, the Agency Agreement, the Mudaraba Agreement and any other agreements, deeds, undertakings or other documents designated as such by the parties thereto;

**Treasury Rate** means the rate notified by the Calculation Agent to the Issuer, GEMS and the Certificateholders (in accordance with Condition 15) in per cent. per annum equal to the yield, under the heading that represents the average for the week immediately prior to the second New York Business Day preceding the relevant Calculation Date, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption “Treasury constant maturities” for the maturity corresponding to the Comparable Treasury Issue (if there is no Comparable Treasury Issue with a maturity within three months before or after the First Call Date, yields for the two published maturities most closely corresponding to the First Call Date will be determined and the Treasury Rate will be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month). If such release (or any successor release) is not published during the week preceding the Calculation Date or does not contain such yields, **Treasury Rate** means the rate in per cent. per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the Calculation Date. The Treasury Rate will be calculated by the Calculation Agent on the New York Business Day preceding the relevant Calculation Date;

**Trust Assets** has the meaning given to it in Condition 5;

**Trustee Call Redemption Amount** in relation to a Certificate, means its outstanding face amount together with any Outstanding Payments;

A **Trustee Event** shall mean the occurrence of one or more of the following events:

- (a) **Non-Payment:** default is made in the payment of the Dissolution Distribution Amount on the date fixed for payment thereof or default is made in the payment of any Periodic Distribution Amount on the due date for payment thereof and, in the case of any Periodic Distribution Amount, such default continues for a period of 14 days and in the case of the Dissolution Distribution Amount, such default continues for a period of seven days;
- (b) **Insolvency:** the Trustee is (or is deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, or stops, suspends or threatens to stop or suspend payment of all or (in the opinion of the Delegate) a material part of its debts, makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of the debts of the Trustee, except, in each case: (i) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders; or (ii) for any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority;
- (c) **Winding-up:** an administrator is appointed, an order is made (other than an order that is being appealed in good faith, or has been permanently stayed, within 30 days) or an effective resolution is passed for the winding-up or dissolution or administration of the Trustee, or the Trustee applies or petitions for a winding-up or administration order in respect of itself or ceases or through an official action of its board of directors threatens to cease to carry on all or substantially all of its business or operations, except, in each case: (i) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders; or (ii) for any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority; or
- (d) **Analogous Events:** any event occurs that under the laws of the Cayman Islands has an analogous effect to any of the events referred to in paragraphs (b) or (c) above.

For the purpose of paragraph (a) above, all amounts payable in respect of the Certificates shall be considered due and payable notwithstanding that the Trustee has at the relevant time insufficient funds or relevant Trust Assets to pay such amounts including, without limitation, as a result of the matters described in Condition 4.4(d) (save in each case where such insufficient funds arise solely as a result of a Deferral Election having been made);

**U.S. Government Securities Business Day** means any day except for a Saturday, Sunday or a day on which the U.S. Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities; and

**Varkey Family** means each of Sunny Varkey, Sherly Varkey, Dino Varkey, Jay Varkey, and each of Dino Varkey and Jay Varkey's respective spouses and children (both present and future).

## 2. FORM, DENOMINATION AND TITLE

### 2.1 Form and Denomination

The Certificates are issued in registered form in face amounts of U.S.\$150,000 and integral multiples of U.S.\$1,000 in excess thereof (each an **Authorised Denomination**). A single definitive Certificate will be issued to each Certificateholder in respect of its registered holding of Certificates. Each definitive Certificate will be numbered serially with an identifying number which will be recorded on the relevant definitive Certificate and in the register of Certificateholders (the **Register**).

*The Certificates will be issued in the form of a Global Certificate. The Conditions are modified by certain provisions contained in the Global Certificate. Except in certain limited circumstances, owners of interests in the Global Certificate will not be entitled to receive definitive Certificates representing their holdings of Certificates. See "Global Certificate".*

### 2.2 Title

The Issuer will cause the Registrar to maintain the Register in respect of the Certificates outside the United Kingdom in accordance with the provisions of the Agency Agreement. Title to the Certificates passes only by registration in the Register. The registered holder of any definitive Certificate will (except as otherwise required by law) be treated as the absolute owner of the Certificates represented by the definitive Certificate for all purposes (whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the definitive Certificate) and no person will be liable for so treating the holder of any definitive Certificate. The registered holder of a definitive Certificate will be recognised by the Issuer as entitled to its definitive Certificate free from any equity, set-off or counterclaim on the part of the Issuer against the original or any intermediate holder of such definitive Certificate.

## 3. TRANSFERS OF CERTIFICATES

### 3.1 Transfers

Subject to Conditions 3.4 and 3.5 and the provisions of the Agency Agreement, a Certificate may be transferred in an Authorised Denomination only by depositing the definitive Certificate by which it is represented, with the form of transfer on the back duly completed and signed, at the specified office of any of the Transfer Agents.

*Transfers of interests in the Global Certificate will be effected in accordance with the rules of the relevant clearing system through which the interest is held.*

### 3.2 Delivery of New Definitive Certificates

Each new definitive Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant definitive Certificate (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), be delivered at the specified office of the relevant Transfer Agent or mailed by uninsured mail at the risk of the holder entitled to the definitive Certificate to the address specified in the form of transfer. For the purposes of this Condition 3, **business day** shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a definitive Certificate is deposited in connection with a transfer is located.

Where some but not all of the Certificates in respect of which a definitive Certificate is issued are to be transferred, a new definitive Certificate in respect of the Certificates not so transferred will, within

five business days of receipt by the relevant Transfer Agent of the original definitive Certificate, be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

### **3.3 Formalities Free of Charge**

Registration of any transfer of Certificates will be effected without charge by or on behalf of the Issuer or any Transfer Agent but upon payment (or the giving of such indemnity as the Issuer or any Transfer Agent may reasonably require) by the transferee in respect of any stamp duty, tax or other governmental charges which may be imposed in relation to such transfer.

### **3.4 Closed Periods**

No Certificateholder may require the transfer of a Certificate to be registered during the period of seven days ending on (and including) the due date for any payment of any applicable Dissolution Distribution Amount or any Periodic Distribution Amount.

### **3.5 Regulations**

All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning transfer of Certificates scheduled to the Declaration of Trust. The Regulations may be changed by the Issuer from time to time with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Certificateholder who requests in writing a copy of such regulations.

The holder of Certificates shall be entitled to receive, in accordance with Condition 3.2, only one definitive Certificate in respect of its entire holding of Certificates. In the case of a transfer of a portion of the face amount of a definitive Certificate, a new definitive Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 3.2.

## **4. STATUS, SUBORDINATION AND LIMITED RECOURSE**

### **4.1 Status**

Each Certificate evidences an undivided ownership interest in the Trust Assets, subject to the terms of the Declaration of Trust, the Mudaraba Agreement and these Conditions, and is a direct, unsecured and limited recourse obligation of the Issuer. Each Certificate ranks *pari passu*, without any preference or priority, with the other Certificates. The rights and claims of the Trustee and the Certificateholders against GEMS in respect of the Relevant Obligations are subordinated as described in Condition 4.2.

### **4.2 Subordination**

- (a) The payment obligations of GEMS under the Mudaraba Agreement (the **Relevant Obligations**) will: (i) constitute direct, unsecured and subordinated obligations of GEMS; (ii) rank subordinate and junior to all Senior Obligations but not further or otherwise; (iii) rank *pari passu* with all other *Pari Passu* Obligations; and (iv) rank in priority only to all Junior Obligations.
- (b) The Trustee may only exercise its enforcement rights in relation to any Relevant Obligation or in relation to any of its other rights under the Mudaraba Agreement or any other Transaction Document in the manner provided in Condition 13.
- (c) The Trustee shall not be permitted to exercise, claim or plead any right of set-off, counterclaim, abatement or other similar remedy in respect of any amount owed to it under or in connection with the Transaction Documents and the Trustee will, in each relevant Transaction Document, unconditionally and irrevocably waive all such rights of set-off, counterclaim, abatement or other similar remedy which it might otherwise have to the fullest extent permitted under the laws of any jurisdiction, in respect of the Relevant Obligations. No collateral is or will be given by GEMS for the Relevant Obligations and any collateral that may have been or may in the future be given in connection with other obligations of GEMS shall not secure the Relevant Obligations.

### **4.3 Limited Recourse**

The proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as provided in this Condition 4.3, the Certificates do not represent an interest in or obligation of any of the Issuer, the Trustee, the Delegate or GEMS or any of their respective affiliates. Accordingly,

Certificateholders, by subscribing for or acquiring the Certificates, acknowledge that they will have no recourse to any of the assets of the Issuer, the Trustee (other than the Trust Assets), the Delegate or GEMS (to the extent that it fulfils all of its obligations under the Transaction Documents) or any of their respective affiliates or any director or officer or corporate services provider of the Trustee or the Issuer in respect of any shortfall in the expected amounts from the Trust Assets when the Trust Assets have been exhausted, following which all obligations of the Issuer and the Trustee shall be extinguished.

However, GEMS is obliged to make certain payments under the Transaction Documents directly to the Trustee, and the Trustee and/or the Delegate will (subject to Conditions 4.2 and 13.2) have direct recourse against GEMS to recover such payments pursuant to such Transaction Documents.

The net proceeds of the realisation of, or enforcement with respect to, the Trust Assets may not be sufficient to make all payments due in respect of the Certificates. If, following the distribution of such proceeds, there remains a shortfall in payments due under the Certificates, no holder of Certificates will have any claim against the Issuer, the Trustee (to the extent the Trust Assets have been exhausted), the Delegate or GEMS (to the extent that it fulfils all of its obligations under the Transaction Documents) or any of their respective affiliates or any director, officer or corporate services provider of the Trustee or the Issuer or against any assets (other than the Trust Assets to the extent not exhausted) in respect of such shortfall and any unsatisfied claims of Certificateholders shall be extinguished. In particular, no holder of Certificates will be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding-up or receivership of the Issuer or the Trustee or their respective affiliates as a consequence of such shortfall or otherwise.

#### **4.4 Agreement of Certificateholders**

By purchasing Certificates, each Certificateholder is deemed to have agreed that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

- (a) no payment of any amount whatsoever shall be made by the Issuer or the Trustee or any of its agents on its behalf except to the extent funds are available therefor from the Trust Assets and further agrees that no recourse shall be had for the payment of any amount owing hereunder or under any Transaction Document, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Issuer or the Trustee to the extent the Trust Assets have been exhausted, following which all obligations of the Issuer and the Trustee shall be extinguished;
- (b) it will not institute against, or join with any other person in instituting against, the Issuer or the Trustee any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law;
- (c) no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Issuer or the Trustee arising under or in connection with these Conditions by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer, director or corporate services provider of the Issuer or the Trustee in their capacity as such and any and all personal liability of every such shareholder, officer, director or corporate services provider in their capacity as such for any breaches by the Issuer or the Trustee of any such duty, obligation or undertaking is hereby expressly waived and excluded to the extent permitted by law;
- (d) (i) the proceeds of the Trust Assets are the sole source of payments on the Certificates; (ii) each of the Issuer's and the Trustee's ability to comply with its obligations under the Certificates will therefore depend on receipt by them of payments expected from the Trust Assets, and will in particular depend on payments by GEMS under the Mudaraba Agreement; (iii) the Mudaraba Agreement provides that there is no guarantee of any return from the Mudaraba Assets and GEMS's obligations to pay amounts thereunder are subject to the more detailed provisions set out therein; and (iv) references in these Conditions to "Periodic Distribution Amount, "profit" and "Profit Rate" should be considered accordingly; and
- (e) the Trustee and Mudareb have agreed in the Mudaraba Agreement that the Mudareb shall be responsible for all losses to the Mudaraba Capital and the Additional Mudaraba Capital suffered by the Trustee except to the extent that such losses were not caused by: (i) the Mudareb's breach of the Mudaraba Agreement; or (ii) the Mudareb's negligence, wilful misconduct or fraud.



## 5. THE TRUST

GEMS MEA Sukuk Limited (in its capacity as Trustee and as the **Rab-al-Maal**) will enter into a mudaraba agreement (the **Mudaraba Agreement**) to be dated the Issue Date with GEMS (in such capacity, the **Mudareb**). Pursuant to the Mudaraba Agreement, the Rab-al-Maal will contribute the proceeds of the issue of the Certificates to the Mudareb, which proceeds will form the initial capital of the Mudaraba (as defined below) (the **Mudaraba Capital**). The Mudareb will invest the Mudaraba Capital and the Additional Mudaraba Capital (if any) in accordance with the Mudaraba Business Plan prepared by the Mudareb and the assets in which the Mudaraba Capital is invested (together with any proceeds thereof, whether in cash or otherwise, and including without limitation all Additional Mudaraba Capital, if any) will constitute the assets of the Mudaraba (the **Mudaraba Assets**) in accordance with the Mudaraba Agreement, which shall constitute a mudaraba (the **Mudaraba**).

The Trustee has opened a transaction account (the **Transaction Account**) in the name of the Trustee with the Principal Paying Agent into which the Mudareb and GEMS will pay all amounts due to the Trustee under the Mudaraba Agreement respectively.

Pursuant to the Declaration of Trust, the Trustee will declare that it will hold:

- (a) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;
- (b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by GEMS (acting in any capacity) pursuant to any of the Transaction Documents); and
- (c) all monies standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing (together, the **Trust Assets**) upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each such holder in accordance with the Declaration of Trust and these Conditions.

## 6. COVENANTS

### 6.1 Trustee Covenants

The Trustee covenants that, for so long as any Certificate is outstanding, it will not (without the prior written consent of the Delegate):

- (a) incur any indebtedness in respect of borrowed money whatsoever (whether structured in accordance with the principles of the *Shari'a* or otherwise), or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) or any other certificates except, in all cases, as contemplated in the Transaction Documents;
- (b) grant or permit to be outstanding any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law);
- (c) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist) any part of its interest in any of the Trust Assets except pursuant to the Transaction Documents (other than those arising by operation of law);
- (d) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;
- (e) except as provided in Condition 17, amend or agree to any amendment to any Transaction Document to which it is a party (other than in accordance with the terms thereof) or amend its memorandum and articles of association, save that it shall be permitted to make such variations to the Transaction Documents and the Conditions as required pursuant to Condition 9.8;
- (f) act as trustee in respect of any trust other than the Trust or in respect of any parties other than the Certificateholders;
- (g) have any subsidiaries or employees;

- (h) redeem or purchase any of its shares or pay any dividend or make any other distribution to its shareholders;
- (i) prior to the date which is one year and one day after the date on which all amounts owing by the Issuer under the Transaction Documents to which it is a party have been paid in full, put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding-up or any resolution for the commencement of any other bankruptcy or insolvency proceedings with respect to it; or
- (j) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party or any permitted amendment or supplement thereto or as expressly permitted or required thereunder or engage in any business or activity other than:
  - (i) as provided for or permitted in the Transaction Documents;
  - (ii) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and
  - (iii) such other matters which are incidental thereto.

## 6.2 GEMS Covenant

GEMS covenants that, for so long as any Certificate remains outstanding: (i) it will prepare consolidated audited financial statements in accordance with IFRS on an annual basis; (ii) it will prepare on a semi-annual basis a trading update report that shall include (as at the relevant date or for the relevant period, as the case may be) its total consolidated revenues for the relevant six month period, the capital expenditure incurred by GEMS and each of its Subsidiaries, the progress of any projects being undertaken by GEMS or any of its Subsidiaries, enrolment numbers for schools operated by GEMS and its Subsidiaries and a description of any material contracts entered into by GEMS or any of its Subsidiaries and matters affecting the capital structure of GEMS since the date of the last trading update report (or, in the case of the first trading update report, the Issue Date); and (iii) it will furnish the Issuer and the Principal Paying Agent with sufficient copies of its most recently prepared annual financial statements and its most recently prepared trading update report for inspection by Certificateholders at the specified offices of each of the Issuer and the Principal Paying Agent during normal business hours on any day (excluding Saturdays, Sundays and public holidays).

## 7. PERIODIC DISTRIBUTIONS

### 7.1 Periodic Distribution Amounts

A profit distribution shall be payable (except where a Deferral Election has been made in compliance with Condition 7.5) in arrear in respect of the Certificates on each Periodic Distribution Date, in respect of the Periodic Distribution Period ending on such date, and shall accrue at the applicable Profit Rate and the amount of which shall be calculated as provided in this Condition 7.1 and Condition 7.2 (each such distribution being referred to in these Conditions as a **Periodic Distribution Amount**). Periodic Distribution Amounts shall be distributed to Certificateholders by the Principal Paying Agent on behalf of the Trustee, *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account and subject to Conditions 4.4(d) and 8.

The Periodic Distribution Amount payable as aforesaid on each Periodic Distribution Date: (i) up to and including the First Call Date shall be U.S.\$60.00 per U.S.\$1,000 in face amount of the Certificates (assuming Condition 7.3 does not apply); or (ii) (if the Certificates are not redeemed in full on the First Call Date) falling after the First Call Date shall be the relevant amount calculated pursuant to Condition 7.2 below.

### 7.2 Profit Rate

If a Periodic Distribution Amount is required to be calculated in respect of a period of less than a full Periodic Distribution Period (the **Relevant Period**), it shall be calculated as an amount equal to the product of: (a) the applicable Profit Rate; (b) the face amount of the relevant Certificate; and (c) the applicable Day-count Fraction for the Relevant Period, rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

The Profit Rate will be reset on each Reset Date on the basis of the aggregate of the Initial Margin, the Step-up Margin and the Relevant Five Year Reset Rate on the relevant Determination Date and

shall also increase if the circumstances specified in Condition 7.3 apply, as determined by the Principal Paying Agent.

The Principal Paying Agent will, as soon as practicable upon: (i) determination of the Profit Rate which shall apply to the Reset Period commencing on the relevant Reset Date; or (ii) any Change of Control Margin becoming payable pursuant to Condition 7.3, cause the applicable Profit Rate and the corresponding Periodic Distribution Amount to be notified to each of the Paying Agents and the Irish Stock Exchange, NASDAQ Dubai or any other stock exchange on which the Certificates are for the time being listed and to be notified to Certificateholders in accordance with Condition 15 as soon as possible after their determination but in no event later than the second Business Day thereafter.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7, whether by the Principal Paying Agent or the Trustee (or its agent), shall (in the absence of manifest error) be binding on the Trustee, GEMS, the Paying Agents, the Delegate and all Certificateholders and (in the absence of manifest error) no liability to the Certificateholders or the Trustee shall attach to the Principal Paying Agent, the Trustee or the Delegate in connection with the exercise or non-exercise by them of any of their powers, duties and discretions.

### **7.3 Profit Payments following the occurrence of a Change of Control Event**

If a Change of Control Event occurs, unless the Issuer redeems the Certificates (in whole but not in part) in accordance with these Conditions (including Condition 9.7), the Profit Rate payable on the Certificates will increase by the Change of Control Margin from (and including) the expiry of the Change of Control Redemption Period.

### **7.4 Profit Payments following the occurrence of an Accounting Event or an Initial Equity Offering Call Event**

Notwithstanding any other provision of this Condition 7, if the Certificates are to be redeemed: (a) following the occurrence of an Initial Equity Offering Call Event in accordance with Condition 9.3; or (b) following the occurrence of an Accounting Event in accordance with Condition 9.5, the Initial Equity Offering Redemption Amount or Accounting Event Redemption Amount, respectively, shall include a further profit amount in an amount equal to the Initial Equity Offering Profit Amount or the Accounting Event Profit Amount (as the case may be).

### **7.5 Deferral of Periodic Distribution Amounts**

Notwithstanding the foregoing provisions of this Condition 7, the Mudareb may in its sole and absolute discretion elect pursuant to the provisions of the Mudaraba Agreement that Rab-al-Maal Mudaraba Profit will not be paid in full (or at all) to the Rab-al-Maal on any Mudaraba Profit Distribution Date (each a **Deferral Election**), provided that no such Deferral Election may be made: (a) on the Mudaraba Profit Distribution Date immediately following the date on which a Restricted Event occurs; or (b) in respect of Rab-al-Maal Final Mudaraba Profit payable on any Mudaraba End Date. As a result of such Deferral Election in accordance with this Condition 7.5, the Issuer will not make payment of the Periodic Distribution Amount in full (or at all) to Certificateholders on the corresponding Periodic Distribution Date, and any such non-payment of the relevant Periodic Distribution Amount shall not constitute a default of the Issuer or any other breach under these Conditions. In such case, the Issuer shall notify the Delegate, the Agents and the Certificateholders in accordance with Condition 15 of such election not less than ten and not more than 15 Business Days prior to the relevant Periodic Distribution Date.

Any Periodic Distribution Amounts not paid due to such Deferral Election shall constitute **Optionally Deferred Profit Distributions**. Optionally Deferred Profit Distributions shall themselves bear profit distributions as if they constituted the face amount of the Certificates at the applicable Profit Rate and the amount of such distributions (the **Additional Profit Amount**) shall be calculated by the Principal Paying Agent by applying the applicable Profit Rate to the amount of the Optionally Deferred Profit Distribution and otherwise the provisions of this Condition 7 in relation to the calculation and payment of Periodic Distribution Amounts shall apply to such Optionally Deferred Profit Distributions *mutatis mutandis*.

The Additional Profit Amount payable in respect of each Periodic Distribution Date, if not paid, shall be added (for the purpose of calculating the Additional Profit Amount accruing after such Periodic Distribution Date) to the amount of Optionally Deferred Profit Distributions remaining unpaid on such Periodic Distribution Date so that such Additional Profit Amount will itself constitute an Optionally Deferred Profit Distribution for such purposes.

The aggregate amount of any unpaid Optionally Deferred Profit Distributions together with any Additional Profit Amount shall constitute **Optionally Outstanding Payments**.

#### **7.6 Payment of Optionally Outstanding Payments**

- (a) Under the Mudaraba Agreement, the Mudareb may at any time in its sole and absolute discretion elect that all or part of the unpaid Additional Mudaraba Capital will, on the basis of a constructive liquidation, be paid to the Rab-al-Maal. In such case, the Issuer will pay all or (as the case may be) the corresponding proportion of such unpaid Optionally Outstanding Payments to the Certificateholders, upon giving not less than ten and not more than 15 Business Days' notice to the Delegate, the Agents and the Certificateholders in accordance with Condition 15, which notice shall be irrevocable and will oblige the Issuer to pay the relevant Optionally Outstanding Payments on the payment date specified in such notice.
- (b) If amounts in respect of Optionally Deferred Profit Distributions and Additional Profit Amounts are paid in part:
  - (i) all unpaid amounts of Optionally Deferred Profit Distributions shall be paid before any Additional Profit Amounts;
  - (ii) Optionally Deferred Profit Distributions in respect of any Periodic Distribution Period shall not be payable until full payment has been made of all Optionally Deferred Profit Distributions in respect of any earlier Periodic Distribution Period and the order of payment of Additional Profit Amounts shall follow that of the Optionally Deferred Profit Distributions to which they relate; and
  - (iii) the amount of Optionally Deferred Profit Distributions or Additional Profit Amounts payable in respect of the Certificates in respect of any Periodic Distribution Period shall be *pro rata* to the total amount of all unpaid Optionally Deferred Profit Distributions or, as the case may be, Additional Profit Amounts payable in respect of that period to the date of payment.

#### **7.7 Restricted Events**

The Mudareb has undertaken in the Mudaraba Agreement that, if any amount of Rab-al-Maal Mudaraba Profit is not paid as a consequence of a Deferral Election, pursuant to the terms of the Mudaraba Agreement then, from the date of such non-payment, the Mudareb will not, so long as any of the Certificates are outstanding, take any action that constitutes a Restricted Event unless, on or before the date on which such Restricted Event occurs:

- (a) all amounts comprising the Additional Mudaraba Capital have been generated in accordance with the Mudaraba Business Plan and have been paid to the Trustee in full; and
- (b) sufficient Mudaraba Profit has been earned, generated and set aside in the Mudaraba Reserve so as to allow the Mudareb to pay the Rab-al-Maal Mudaraba Profit due on the Mudaraba Profit Distribution Date immediately following the date on which the Restricted Event occurs.

#### **7.8 Cessation of accrual**

Each Certificate will cease to accrue Periodic Distribution Amounts from the due date for payment of any applicable Dissolution Distribution Amount unless, upon due presentation, payment of the relevant Dissolution Distribution Amount is improperly withheld or refused or default is otherwise made in the payment thereof, in which case it will continue to accrue Periodic Distribution Amounts in accordance with this Condition 7 (as well after as before judgment) until whichever is the earlier of: (a) the day on which all sums due in respect of such Certificate up to that day are received by or on behalf of the relevant Certificateholder; and (b) the day which is seven days after the Principal Paying Agent has notified the Certificateholders in accordance with Condition 15 that it has received all sums due in respect of the Certificates up to such seventh day (except to the extent that there is any subsequent default in payment).

### **8. PAYMENTS**

#### **8.1 Payments in respect of the Certificates**

Subject to Condition 8.2, payment of the Dissolution Distribution Amount, any Periodic Distribution Amount and any Optionally Outstanding Payments will be made by the Principal Paying Agent in U.S. dollars by wire transfer in same-day funds to the registered account of the Certificateholder or by U.S.

dollar cheque drawn on a bank that processes payments in U.S. dollars mailed to the registered address of the Certificateholder if it does not have a registered account. Payments of the Dissolution Distribution Amount will only be made against presentation and surrender of the relevant Certificate at the specified office of any of the Paying Agents. The Dissolution Distribution Amount and each Periodic Distribution Amount and, if applicable, Optionally Outstanding Payment will be paid to the holder shown on the Register at the close of business on the date (the **record date**) being the seventh day before the date on which the Dissolution Distribution Amount or the relevant Periodic Distribution Amount or Optionally Outstanding Payment, as the case may be, is or are paid.

For the purposes of this Condition 8, a Certificateholder's **registered account** means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the relevant record date, and a Certificateholder's **registered address** means its address appearing on the Register at that time.

*Distributions of amounts in respect of book-entry interests in the Certificates held through Euroclear or Clearstream, Luxembourg will be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system's rules and procedures.*

## **8.2 Payments subject to Applicable Laws**

Payments in respect of Certificates are subject in all cases to: (a) any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 11; and (b) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 11) any law implementing an intergovernmental approach thereto.

## **8.3 Payment only on a Payment Business Day**

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, in each case by the Principal Paying Agent, on the due date for payment or, in the case of a payment of the Dissolution Distribution Amount, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent for value as soon as practicable thereafter.

Certificateholders will not be entitled to any additional payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the relevant Certificateholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition 8 arrives after the due date for payment.

If the amount of the Dissolution Distribution Amount, any Periodic Distribution Amount or any Optionally Outstanding Payment is not paid in full when due, the Registrar will annotate the Register with a record of the amount in fact paid.

**Payment Business Day** means a day on which commercial banks and foreign exchange markets in London and New York City is open for general business and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

## **8.4 Agents**

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that: (a) it will at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity); and (b) there will at all times be a Paying Agent (which may be the Principal Paying Agent) located in an EU Member State that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, any such Directive. Notice of any termination or appointment and of any changes in specified offices will be given to Certificateholders promptly by the Issuer in accordance with Condition 15.



## **9. CAPITAL DISTRIBUTIONS OF THE TRUST**

### **9.1 No fixed Redemption Date**

The Certificates are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Condition 4.2 and Condition 13.2 and without prejudice to the provisions of Condition 13) only have the right to redeem the Certificates or vary the terms thereof in accordance with the following provisions of this Condition 9.

### **9.2 Trustee's Call Option**

The Trustee shall, acting only upon the instructions of GEMS in its sole and absolute discretion, redeem the Certificates (in whole but not in part) on the First Call Date or on any Periodic Distribution Date thereafter upon giving not less than 30 and not more than 60 days' irrevocable notice of redemption to the Delegate, the Agents and the Certificateholders in accordance with Condition 15. Such notice of redemption shall oblige the Trustee to redeem the Certificates at the Trustee Call Redemption Amount on the First Call Date or (as the case may be) the Periodic Distribution Date specified in such notice.

### **9.3 Trustee's Call Option following an Initial Equity Offering Call Event**

- (a) If an Initial Equity Offering Call Event occurs, the Trustee shall, acting only upon the instructions of GEMS in its sole and absolute discretion, redeem the Certificates (in whole but not in part) at any time from (and including) the third anniversary of the Issue Date to (but excluding) the First Call Date upon giving not less than 30 and not more than 60 days' irrevocable notice prior to the date fixed for redemption to the Delegate, the Agents and the Certificateholders in accordance with Condition 15. Such notice of redemption shall oblige the Trustee to redeem the Certificates at the Initial Equity Offering Redemption Amount on the redemption date specified in such notice.
- (b) Prior to the giving of any notice of redemption pursuant to this Condition 9.3, the Trustee shall procure that GEMS shall have delivered to the Trustee and the Delegate a certificate signed by two Authorised Signatories (for inspection by the Certificateholders) (upon which the Delegate may rely without liability to any person) stating that the Trustee is entitled to effect such redemption and setting out a statement of facts showing that the conditions to the exercise of the right of the Trustee to redeem have been satisfied.

Such certificate and opinion shall be conclusive and binding evidence of an Initial Equity Offering Call Event having occurred.

### **9.4 Trustee's Call Option due to Taxation**

- (a) If a Tax Event occurs, the Trustee shall, acting only upon the instructions of GEMS in its sole and absolute discretion, redeem the Certificates (in whole but not in part) at any time upon giving not less than 30 and not more than 60 days' irrevocable notice of redemption to the Delegate, the Agents and the Certificateholders in accordance with Condition 15. Such notice of redemption shall oblige the Trustee to redeem the Certificates at the Tax Redemption Amount on the redemption date specified in such notice.
- (b) Prior to the giving of any notice of redemption pursuant to this Condition 9.4, the Trustee shall procure that GEMS shall have delivered to the Trustee and the Delegate:
  - (i) a certificate signed by any two Authorised Signatories (for inspection by the Certificateholders) (upon which the Delegate may rely without liability to any person) stating that the Trustee is entitled to effect such redemption and setting out a statement of facts showing that the conditions to the exercise of the right of the Trustee to redeem have been satisfied and that the obligation to pay additional amounts pursuant to the Mudaraba Agreement (in the case of GEMS) or Condition 11 (in the case of the Trustee) cannot be avoided by the GEMS or, as the case may be, the Trustee taking reasonable measures available to it; and
  - (ii) an opinion of a recognised independent legal or tax adviser of international standing to the effect that the Trustee or, as the case may be, GEMS have or will become obliged to pay the additional amounts pursuant to Condition 11 as a result of a Tax Event.

Such certificate and opinion shall be conclusive and binding evidence of a Tax Event having occurred.

### **9.5 Trustee's Call Option due to an Accounting Event**

- (a) If an Accounting Event occurs, the Trustee shall, acting only upon the instructions of GEMS in its sole and absolute discretion, redeem the Certificates (in whole but not in part) at any time upon giving not less than 30 and not more than 60 days' irrevocable notice of redemption to the Delegate, the Agents and the Certificateholders in accordance with Condition 15. Such notice of redemption shall oblige the Trustee to redeem the Certificates at the Accounting Event Redemption Amount on the redemption date specified in such notice.
- (b) Prior to the giving of any notice of redemption pursuant to this Condition 9.5, the Trustee shall procure that GEMS shall have delivered to the Trustee and the Delegate:
  - (i) a certificate signed by two Authorised Signatories (for inspection by the Certificateholders) (upon which the Delegate may rely without liability to any person) stating that the Trustee is entitled to effect such redemption and setting out a statement of facts showing that the conditions precedent to the exercise of the right of the Trustee to redeem have been satisfied; and
  - (ii) a copy of the letter or report referred to in the definition of Accounting Event.

Such certificate and opinion shall be conclusive and binding evidence of an Accounting Event having occurred.

### **9.6 Trustee's Call Option (Clean-up Call)**

If GEMS or any Subsidiary of GEMS has, severally or jointly, purchased and cancelled more than 80 per cent. of the initial aggregate face amount of the Certificates in accordance with Condition 10, the Trustee shall, acting only upon the instructions of GEMS in its sole and absolute discretion, redeem the remaining Certificates (in whole but not in part) at any time upon giving not less than 30 and not more than 60 days' irrevocable notice of redemption to the Delegate, the Agents and the Certificateholders in accordance with Condition 15. Such notice of redemption shall oblige the Trustee to redeem the Certificates at the Clean-up Call Redemption Amount on the redemption date specified in such notice.

### **9.7 Trustee's Call Option following a Change of Control Event**

If a Change of Control Event occurs, the Trustee shall, acting only upon the instructions of GEMS in its sole and absolute discretion, during the period commencing 90 days after the occurrence of a Change of Control Event and ending 60 days thereafter (the **Change of Control Redemption Period**), redeem the Certificates (in whole but not in part) at any time during the Change of Control Redemption Period upon giving not less than 30 and not more than 60 days' irrevocable notice to the Delegate, the Agents and the Certificateholders in accordance with Condition 15. Such notice of redemption shall oblige the Trustee to redeem the Certificates at the Change of Control Redemption Amount on the redemption date specified in such notice.

### **9.8 Variation to remedy a Tax Event or an Accounting Event**

- (a) If the Trustee determines, acting only upon the instructions of GEMS, that a Tax Event or an Accounting Event has occurred and is continuing and having given not less than 30 nor more than 45 days' irrevocable notice to the Delegate, the Agents and the Certificateholders in accordance with Condition 15, as an alternative to exercising the call options described in Condition 9.4 and/or Condition 9.5 (as applicable) the Trustee shall, acting only upon the instructions of GEMS in its sole and absolute discretion, and subject to the Issuer's agreement, acting in its personal capacity and not as Trustee, to the terms so varied, vary the terms of the Mudaraba Agreement and the Certificates such that the Certificates remain or become, as the case may be, Qualifying Certificates. The consent of the Certificateholders to such variation shall not be required and the Delegate shall consent to such variation subject to the provisions of this Condition 9.8 and the receipt by it of:
  - (i) a certificate of two Authorised Signatories (upon which the Delegate may rely, without liability to any person) stating that: (x) the relevant requirement or circumstance giving rise to the right to vary is satisfied or has occurred and, where applicable, cannot be avoided by the Trustee or GEMS taking reasonable measures available to them; and (y) the terms of the Mudaraba Agreement and the Qualifying Certificates as so varied

are not materially less favourable to Certificateholders than the terms of the Mudaraba Agreement and the Certificates prior to such variation and that a determination was reached by GEMS in consultation with an independent investment bank of international standing or legal adviser that the criteria specified in the definition of Qualifying Certificates will be satisfied upon variation; and

- (ii) legal opinions from one or more international law firms of good repute in form and content acceptable to the Delegate as to: (x) the capacity and authority of the Trustee in respect of the Mudaraba Agreement and the Qualifying Certificates; and (y) the legality, validity and enforceability of the Mudaraba Agreement and the Qualifying Certificates (as so varied) under all relevant laws.
- (b) In connection with any variation of the Mudaraba Agreement and the Certificates, the Trustee shall comply with the rules of any stock exchange on which the Certificates are at that time listed or admitted to trading.
- (c) Any variation in accordance with this Condition 9.8 is subject to: (i) any such substitution or variation not giving rise to a Tax Event or an Accounting Event with respect to the Certificates or the Qualifying Certificates; and (ii) all amounts comprising the Optionally Outstanding Payments (if any) having been generated and paid to the Trustee in full.
- (d) The Delegate will not be obliged to participate in, agree to, consent to or assist with any variation of the Certificates under this Condition 9.8, if the participation in or assistance with such variation would impose, in the Delegate's opinion, additional or more onerous obligations upon it or reduce any of its protections under the Transaction Documents or require the Delegate to incur any liability for which it is not indemnified and/or secured and/or prefunded to its satisfaction.

## 10. PURCHASE AND CANCELLATION OF CERTIFICATES

GEMS and/or any Subsidiary of GEMS may at any time purchase Certificates at any price in the open market or otherwise. Upon any such purchase, GEMS may (in its sole discretion) deliver such Certificates to the Trustee for cancellation and upon such cancellation, the Mudaraba Capital shall be reduced by the face amount of the Certificates so cancelled.

Following any purchase of Certificates by GEMS or any Subsidiary of GEMS pursuant to this Condition 10 and which GEMS elects to deliver for cancellation, such Certificates shall be delivered by GEMS or such Subsidiary to the Principal Paying Agent for cancellation on the immediately following Periodic Distribution Date and accordingly may not be held, reissued or resold. In addition, any Certificates redeemed in accordance with Condition 9 shall be cancelled.

In these Conditions, **Subsidiary** means any person (which shall include, without limitation, firms and corporations and *vice versa*): (a) in which another person (the **parent**) holds a majority of the voting rights; or (b) of which the parent has the right to appoint or remove a majority of the board of directors (or equivalent); or (c) of which the parent controls a majority of the voting rights, and includes any person which is a subsidiary of a Subsidiary of the parent.

## 11. TAXATION

All payments in respect of the Certificates shall be made without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of the Relevant Jurisdiction (**Taxes**), unless the withholding or deduction of Taxes is required by law. In such event, the Trustee will pay additional amounts so that the full amount which otherwise would have been due and payable under the Certificates is received by the parties entitled thereto, except that no such additional amount shall be payable in relation to any payment in respect of any Certificate:

- (a) presented for payment (where presentation is required) in the Relevant Jurisdiction; or
- (b) presented for payment (where presentation is required) by or on behalf of a holder who is liable for such Taxes in respect of such Certificate by reason of having some connection with the Relevant Jurisdiction other than the mere holding of such Certificate or an interest therein; or
- (c) presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to

additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day; or

- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment (where presentation is required) by or on behalf of a Certificateholder who would be able to avoid such withholding or deduction by presenting the relevant Certificate to another Paying Agent in a different Member State of the European Union.

In these Conditions, references to the **Dissolution Distribution Amount**, any **Periodic Distribution Amount** or any **Optionally Outstanding Payments** payable in respect of a Certificate shall be deemed to include any additional amounts payable under this Condition 11. In addition, in these Conditions **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Delegate on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to Certificateholders by the Issuer in accordance with Condition 15.

**Relevant Jurisdiction** means the Cayman Islands or any political sub-division or authority thereof or therein having power to tax.

*The Mudaraba Agreement therein provides that payments thereunder by the Mudareb to the Trustee shall be made without withholding or deduction for, or on account of, any present or future Taxes, unless the withholding or deduction of the taxes is required by law and, in such case, provide for the payment by GEMS of additional amounts so that the full amount which would otherwise have been due and payable is received by the Trustee.*

*Further, GEMS has undertaken in the Declaration of Trust to pay such additional amounts as may be necessary pursuant to Condition 11 so that the full amount due and payable by the Trustee in respect of the Certificates to the Certificateholders is received by the Trustee for the purposes of payment to the Certificateholders in accordance with and subject to the provisions of this Condition 11.*

## 12. PRESCRIPTION

The right to receive distributions in respect of the Certificates will be forfeited unless claimed within periods of ten years (in the case of the Dissolution Distribution Amount) and five years (in the case of Periodic Distribution Amounts or Optionally Outstanding Payments which are due and payable in accordance with Condition 7.6) from the Relevant Date in respect thereof, subject to the provisions of Condition 8.

## 13. DISSOLUTION EVENTS AND WINDING-UP

### 13.1 Dissolution Events

Upon the occurrence of a Dissolution Event, the Delegate (provided it shall have been given notice thereof by the Trustee or GEMS or otherwise has actual knowledge of the relevant Dissolution Event) shall give notice of the occurrence of such event to the Certificateholders in accordance with Condition 15 with a request to such Certificateholders to instruct the Delegate to give notice to the Trustee that the Certificates are, and shall immediately become, due and payable at the aggregate face amount of the outstanding Certificates together with any Outstanding Payments (a **Dissolution Request**). If so requested in writing by the Certificateholders of at least one-fifth of the then aggregate face amount of the Certificates outstanding, or if so directed by an Extraordinary Resolution of Certificateholders, the Delegate shall (but in each case subject to Condition 13.2(c)), give notice (a **Dissolution Notice**) to the Trustee of the Dissolution Request whereupon the aggregate face amount of the outstanding Certificates together with any Outstanding Payments shall become immediately due and payable and, upon receipt of such notice, the Trustee and/or the Delegate shall, subject to Condition 13.2, take the actions referred to in Condition 13.2.

## **13.2 Winding-up, dissolution or liquidation**

### **(a) Proceedings for Winding up**

If a Dissolution Event occurs and a Dissolution Notice is delivered pursuant to Condition 13.1, the Mudaraba will be liquidated in accordance with the provisions of the Mudaraba Agreement, and either the Trustee or the Delegate may at its discretion, and the Delegate shall if so requested in writing by the Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding (in each case subject to Condition 13.2(c)): (i) institute any steps, actions or proceedings for the winding-up, bankruptcy, dissolution or liquidation (or analogous event) of GEMS; (ii) prove or claim in the winding-up, bankruptcy, dissolution or liquidation (or analogous event) of GEMS (in each case for, subject as set out below, all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit, Additional Mudaraba Capital, Indemnity Payments and/or other amounts due to the Trustee on termination of the Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents); and/or (iii) take such other steps, actions or proceedings which, under the laws of the Cayman Islands, have an analogous effect to the actions referred to in (i) or (ii) above, provided, however, that the Trustee or the Delegate may only take any such steps, actions or proceedings as described in this Condition 13.2(a), but may take no further or other steps, actions or proceedings to enforce, prove or claim for any payment and provided further that neither the Trustee nor the Delegate may take any steps, actions or proceedings against GEMS with respect to any sum that GEMS has paid into the Transaction Account in accordance with the Transaction Documents in circumstances where the Trustee has failed to pay that amount to Certificateholders in accordance with these Conditions.

### **(b) Enforcement**

Without prejudice to Condition 13.1 and the remaining provisions of this Condition 13.2, the Trustee (or the Delegate) may at its discretion and the Delegate shall if so requested in writing by the Certificateholders holding at least one fifth of the then aggregate face amount of the Certificates outstanding and without further notice (subject in each case to Condition 13.2(c)) institute such steps, actions or proceedings against GEMS or against the Trustee as it may think fit to enforce any term or condition binding on GEMS or the Trustee (as the case may be) under the Transaction Documents (other than for the payment of Mudaraba Capital, Additional Mudaraba Capital or an Indemnity Payment, or satisfaction of any Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit in respect of the Certificates). However, in no event shall GEMS, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it. Nothing in this Condition 13.2 shall, however, prevent the Trustee (or the Delegate) (i) instituting any steps, actions or proceedings for the winding-up, bankruptcy, dissolution or liquidation (or analogous event) of GEMS; (ii) proving or claiming in the winding-up, bankruptcy, dissolution or liquidation (or analogous event) of GEMS; and/or (iii) taking such other steps, actions or proceedings which, under the laws of the Cayman Islands, have an analogous effect to the actions referred to in (i) or (ii) above in respect of any payment obligations of GEMS arising from the Mudaraba Agreement or any other Transaction Document (including any damages awarded for breach of any obligations).

### **(c) Entitlement of Trustee or Delegate**

Neither the Trustee nor the Delegate shall be bound to take any steps, actions or proceedings to enforce or to realise the relevant Trust Assets or any of the actions referred to in these Conditions in respect of GEMS or, in the case of the Delegate only, the Trustee to enforce the terms of the Transaction Documents or give a Dissolution Notice (including without limitation, pursuant to this Condition 13) unless: (i) it shall have been so requested by an Extraordinary Resolution of the Certificateholders or in writing by the Certificateholders of at least one-fifth of the then aggregate face amount of the Certificates outstanding; and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction, provided that the Delegate shall not be liable for the consequences of exercising or not exercising its discretion or taking or not taking such steps, actions or proceedings and may do so without having regard to the effect of such action on individual Certificateholders.

### **(d) Rights of Certificateholders**

No Certificateholder shall be entitled to proceed directly against the Trustee or GEMS or to take the actions referred to in Condition 13.2(a) and (b) unless: (i) the Trustee or the Delegate, having become



so bound to proceed or to prove in such winding-up or claim in such liquidation (or analogous event), fails to do so within a reasonable period and such failure shall be continuing; and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against either the Trustee or GEMS, as the case may be) holds at least one-fifth of the then outstanding aggregate face amount of the Certificates, in which case the Certificateholders shall have only such rights against GEMS as those which the Trustee or the Delegate is entitled to exercise as set out in Condition 13.1 and this Condition 13.2.

**(e) Extent of Certificateholder remedy**

No remedy against GEMS, other than as referred to in this Condition 13, shall be available to the Delegate, the Trustee or the Certificateholders, whether for the recovery of amounts owing in respect of the Transaction Documents or in respect of any breach by GEMS of any of its other obligations under or in respect of the Transaction Documents.

**(f) Realisation of Trust Assets**

(i) Following the enforcement, realisation and ultimate distribution of the net proceeds of the relevant Trust Assets in respect of the Certificates to the Certificateholders in accordance with these Conditions and Declaration of Trust, the obligations of the Issuer and the Trustee in respect of the Certificates shall be satisfied and neither the Issuer nor the Trustee shall be liable for any further sums and, accordingly, Certificateholders may not take any action against the Issuer, the Trustee, the Delegate or any other person (including GEMS) to recover any such sum in respect of the Certificates or the relevant Trust Assets.

(ii) Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the relevant Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Issuer, the Trustee and GEMS shall be to enforce their respective obligations under the Transaction Documents.

(iii) The foregoing paragraphs in this Condition 13.2(f) are subject to this paragraph. After enforcing or realising the relevant Trust Assets and distributing the net proceeds of the relevant Trust Assets in accordance with the Declaration of Trust, the obligations of the Issuer and the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Issuer or the Trustee (or any steps against the Delegate) to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Issuer or the Trustee.

**14. REPLACEMENT OF CERTIFICATES**

Should any Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer or GEMS may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

**15. NOTICES**

All notices to Certificateholders will be valid if mailed to them by first class pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective registered addresses. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system (if any) by which the Certificates have then been admitted to listing, trading and/or quotation. Any notice shall be deemed to have been given on the day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

**16. FURTHER ISSUES**

The Issuer may from time to time and only in accordance with the Mudaraba Agreement, without the consent of the Certificateholders, create and issue further instruments ranking *pari passu* in all respects (or in all respects save for the date from which profit thereon accrues and the amount of the

first periodic distribution amount (or such other equivalent amount) on such further instrument) and so that such further issue shall be consolidated and form a single series with the outstanding Certificates. References in these Conditions to the “Certificates” include (unless the context requires otherwise) any other securities issued pursuant to this Condition 16 and forming a single series with the Certificates.

## **17. MEETINGS OF CERTIFICATEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION**

- 17.1 The Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of these Conditions or the provisions of the Declaration of Trust. The quorum at any meeting for passing an Extraordinary Resolution will be one or more Eligible Persons (as defined in the Declaration of Trust) present holding or representing more than 50 per cent. of the outstanding face amount of the Certificates, or at any adjourned such meeting one or more Eligible Persons present whatever the outstanding face amount of the Certificates held or represented by it, except that any meeting the business of which includes the modification of certain provisions of the Certificates (including reducing or cancelling any amount payable in respect of the Certificates or altering the currency of payment of the Certificates, amending certain covenants given by the Issuer, the Trustee and GEMS in the Transaction Documents and sanctioning any scheme or proposal for the exchange or sale of the Certificates for or the conversion of the Certificates into or the cancellation of the Certificates in consideration of shares, stock, sukuk and/or other obligations and/or securities), the quorum shall be one or more persons present holding or representing not less than 75 per cent. of the outstanding face amount of the Certificates, or at any adjourned such meeting one or more persons present holding or representing not less than 25 per cent. of the outstanding face amount of the Certificates. To be passed, an Extraordinary Resolution requires: (a) a resolution passed at a meeting duly convened and held by a majority consisting of not less than 75 per cent. of the votes cast; (b) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates then outstanding; or (c) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Delegate) by or on behalf of not less than 75 per cent. in face amount of the Certificates for the time being outstanding.
- 17.2 The Declaration of Trust and any other Transaction Document may only be amended by the Trustee with the consent of the Delegate. The Delegate may agree, without the consent or sanction of the Certificateholders, to any modification (other than a Reserved Matter (as defined in the Declaration of Trust)) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Declaration of Trust or any other Transaction Document, or to any amendment to the Trustee’s memorandum and articles of association, or determine, without any such consent or sanction as aforesaid, that any Dissolution Event or Potential Dissolution Event (as defined in the Declaration of Trust) shall not be treated as such, which in any such case is not, in the opinion of the Delegate, materially prejudicial to the interests of Certificateholders or may agree, without any such consent or sanction as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error.
- 17.3 In connection with the exercise by it of any of its powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Delegate shall have regard to the general interests of the Certificateholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof) and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Delegate or, without prejudice to Condition 11, any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders.
- 17.4 Any modification, abrogation, waiver, authorisation or determination shall be binding on all of the Certificateholders and shall be notified by the Issuer to the Certificateholders as soon as practicable thereafter in accordance with Condition 15.

## **18. INDEMNIFICATION AND LIABILITY OF THE DELEGATE AND THE TRUSTEE**

- 18.1 The Declaration of Trust contains provisions for the indemnification of each of the Delegate and the Trustee in certain circumstances and for their relief from responsibility, including provisions relieving them from taking any action steps or proceedings unless indemnified and/or secured and/or pre-funded to their satisfaction.
- 18.2 The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of GEMS under the Transaction Documents, and shall not under any circumstances have any liability or be obliged to account to the Certificateholders in respect of any payments which should have been paid by GEMS but are not so paid and shall not in any circumstances have any liability arising from the Trust Assets other than as expressly provided in the Conditions or in the Declaration of Trust.
- 18.3 Each of the Trustee and the Delegate is exempted from: (a) any liability in respect of any loss or theft of the Trust Assets or any cash; (b) any obligation to insure the Trust Assets or any cash and; (c) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depositary or clearing system or are registered in the name of the Trustee or its nominee, unless such loss or theft arises as a result of wilful default, fraud or gross negligence by the Trustee or the Delegate, as the case may be.

## **19. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## **20. GOVERNING LAW AND DISPUTE RESOLUTION**

### **20.1 Governing Law**

The Declaration of Trust, the Certificates and these Conditions (including the remaining provisions of this Condition 20) and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law, save that Condition 4.2 shall be governed by, and construed in accordance with, the laws of the Cayman Islands.

### **20.2 Arbitration**

Subject to Condition 20.3, any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Declaration of Trust, the Certificates and these Conditions, (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity of any of them or a dispute relating to any non-contractual obligations arising out of or in connection with them) (a **Dispute**) shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules (the **Rules**) of the London Court of International Arbitration (**LCIA**), which Rules (as amended from time to time) are deemed to be incorporated by reference into this Condition 20.2. For these purposes:

- (a) the seat of arbitration shall be London;
- (b) there shall be three arbitrators, each of whom shall be disinterested in the arbitration, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions. The parties to the Dispute shall each nominate one arbitrator and both arbitrators in turn shall appoint a further arbitrator who shall be the chairman of the tribunal. In cases where there are multiple claimants and/or multiple respondents, the class of claimants jointly, and the class of respondents jointly, shall each nominate one arbitrator. If one party or both fails to nominate an arbitrator in accordance with the Rules such arbitrator(s) shall be appointed by the LCIA within 15 days of such failure. If the party nominated arbitrators fail to nominate the third arbitrator within 15 days of the appointment of the second arbitrator, such arbitrator shall be appointed by the LCIA within 15 days of such failure; and
- (c) the language of the arbitration shall be English.

### 20.3 Court of law

Notwithstanding Condition 20.2 above, the Delegate or (only where permitted to take action in accordance with the terms of the Declaration of Trust) any Certificateholder may, in the alternative, and at its sole discretion, by notice in writing to the Trustee and GEMS (as applicable):

- (a) within 28 days of service of a Request for Arbitration (as defined in the Rules); or
- (b) if no arbitration is commenced,

require that a Dispute be heard by a court of law. If such notice is given, the Dispute to which such notice refers shall be determined in accordance with Condition 20.4 and any arbitration commenced under Condition 20.2 in respect of that Dispute will be terminated. With the exception of the Delegate (whose costs will be borne by the Trustee, failing which GEMS), each of the parties to the terminated arbitration will bear its own costs in relation thereto.

If any notice to terminate is given after service of any Request for Arbitration in respect of any Dispute, the Delegate or (but only where it is permitted to take action in accordance with the terms of the Declaration of Trust) any Certificateholder must also within 28 days of service of a Request for Arbitration give notice to the LCIA Court and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA Court, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

- (a) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;
- (b) his entitlement to be paid his proper fees and disbursements; and
- (c) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.

### 20.4 Submission to jurisdiction

If a notice is issued pursuant to Condition 20.3, the following provisions shall apply:

- (a) subject to paragraph (c) below, the courts of England shall have exclusive jurisdiction to settle any Dispute and each of the Trustee and GEMS submits to the exclusive jurisdiction of such courts;
- (b) each of the Trustee, the Delegate and GEMS agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and
- (c) this Condition 20.4 is for the benefit of the Delegate and the Certificateholders only. As a result, and notwithstanding paragraph (a) above, the Delegate and the Certificateholders may take proceedings relating to a Dispute (the **Proceedings**) in any other courts with jurisdiction. To the extent allowed by law, the Delegate and the Certificateholders may take concurrent Proceedings in any number of jurisdictions.

### 20.5 Appointment of Process Agent

Each of the Issuer, the Trustee and GEMS has, in the Declaration of Trust, appointed GEMS Education Management Systems Limited at its registered office at 3rd Floor, the Tower Building, 11 York Road, Waterloo, London SE1 7NX as its agent for service of process and has undertaken that, in the event of GEMS Education Management Systems Limited ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings or Disputes. Nothing herein shall affect the right to serve proceedings in any matter permitted by law.

### 20.6 Waiver of Interest

Each of the Issuer, the Trustee, GEMS and the Delegate have agreed in the Declaration of Trust that, if any arbitration is commenced in relation to a Dispute and/or any Proceedings are brought by or on behalf of a party under the Declaration of Trust, it will:

- (a) not claim interest under, or in connection with, such arbitration and/or Proceedings; and

- (b) to the fullest extent permitted by law, waive all and any entitlement it may have to interest awarded in its favour by an arbitrator as a result of such arbitration and/or by a court as a result of such Proceedings.

For the avoidance of doubt, nothing in this Condition 20.6 shall be construed as a waiver of rights by the Issuer, the Trustee, GEMS or the Delegate in respect of Mudaraba Profit, Final Mudaraba Profit, Additional Mudaraba Capital, Periodic Distribution Amounts, Optionally Outstanding Payments or profit of any kind howsoever described payable pursuant to the Transaction Documents and/or these Conditions, howsoever such amounts may be described or recharacterised by any court or arbitral tribunal.



## GLOBAL CERTIFICATE

*The Global Certificate contains the following provisions which apply to the Certificates in respect of which it is issued whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Unless otherwise defined, terms defined in the Conditions have the same meaning in paragraphs 1 to 7 below.*

### 1. CERTIFICATEHOLDERS

For so long as all of the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, the registered holder of the Global Certificate shall, except as ordered by a court of competent jurisdiction or as required by law, be treated as the owner thereof and the expression **Certificateholder** shall be construed accordingly. Each of the persons (other than another clearing system) who is for the time being shown in the records of either such clearing system as the holder of a particular aggregate face amount of such Certificates (the **Accountholders**) (in which regard any certificate or other document issued by a clearing system as to the aggregate face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Certificateholder. In addition, holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

### 2. CANCELLATION

Cancellation of any Certificate represented by the Global Certificate will be effected by reduction in the aggregate face amount of the Certificates in the Register.

### 3. PAYMENTS

Payments of the Dissolution Distribution Amount in respect of Certificates represented by the Global Certificate will be made upon presentation and surrender of the Global Certificate to or to the order of the Registrar or such other Agent as shall have been notified to the Certificateholder for such purpose. Distributions of amounts with respect to book-entry interests in the Certificates held through Euroclear or Clearstream, Luxembourg will be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system's rules and procedures. A record of each payment made in respect of the Certificates will be entered into the Register by or on behalf of the Registrar and shall be *prima facie* evidence that payment has been made.

### 4. NOTICES

So long as all the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices may be given by delivery of the relevant notice to those clearing systems for communication to their Accountholders in substitution for notification as required by the Conditions except that, so long as the Certificates are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given on the day after the day on which such notice is delivered to the relevant clearing systems.

Whilst any of the Certificates held by a Certificateholder are represented by the Global Certificate, notices to be given by such Certificateholder may be given (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Registrar and Euroclear and Clearstream, Luxembourg may approve for this purpose.

### 5. REGISTRATION OF TITLE

The Registrar will not register title to the Certificates in a name other than that of a nominee for the Common Depositary for a period of seven calendar days preceding the due date for any payment of any Periodic Distribution Amount or the Dissolution Distribution Amount in respect of the Certificates.

Record dates will be determined in accordance with the standard practices of Euroclear and Clearstream, Luxembourg.

## 6. TRANSFERS

Transfers of book-entry interests in the Certificates will be effected through the records of Euroclear or Clearstream, Luxembourg and their respective direct and indirect participants in accordance with their respective rules and procedures.

## 7. EXCHANGE FOR DEFINITIVE CERTIFICATES

Interests in the Global Certificate will be exchanged (free of charge) for Certificates in definitive form upon the occurrence of an Exchange Event.

For these purposes, **Exchange Event** means that: (a) the Delegate has given notice in accordance with Condition 13 that a Dissolution Event has occurred and is continuing; or (b) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor or alternative clearing system satisfactory to the Trustee is available. Upon the occurrence of an Exchange Event, the Issuer will issue definitive Certificates in exchange for the whole of the Global Certificate within 30 days of the occurrence of the relevant Exchange Event upon presentation of the Global Certificate by the person in whose name it is registered in the Register on any day (other than a Saturday or Sunday) on which banks are open for business in the city in which the Registrar has its specified office.

### **USE OF PROCEEDS**

The net proceeds of the Certificates will be paid by the Rab-al-Maal to the Mudareb to be invested by the Mudareb in accordance with the terms of the Mudaraba Agreement.

## DESCRIPTION OF THE ISSUER

### General

GEMS MEA Sukuk Limited, a Cayman Islands exempted company with limited liability, was incorporated on 22 July 2013 under the Companies Law (2012 Revision) of the Cayman Islands with company registration number 279703. The Issuer has been established as a company for the sole purpose of issuing the Certificates and entering into the transactions contemplated by the Transaction Documents. The registered office of the Issuer is at P.O. Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands, and its telephone number is +1 345 945 7099.

The authorised share capital of the Issuer is 50,000 ordinary shares of U.S.\$1.00 each, 250 of which have been issued. All of the issued shares (the **Shares**) are fully paid and are held by MaplesFS Limited as share trustee (the **Share Trustee**) under the terms of a declaration of trust (the **Share Declaration of Trust**) under which the Share Trustee holds the Shares in trust until the Termination Date (as defined in the Share Declaration of Trust) and may only dispose or otherwise deal with the Shares with the approval of the Delegate for so long as there are Certificates outstanding. Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has the power, with the consent of the Delegate, to benefit the Qualified Charities (as defined in the Share Declaration of Trust). It is not anticipated that any distribution will be made whilst any Certificate is outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from, its holding of the Shares.

### Business of the Issuer

The Issuer will not have any substantial liabilities other than in connection with the Certificates. The Certificates are the obligations of the Issuer alone and not the Share Trustee.

The objects for which the Issuer is established are set out in clause 3 of its Memorandum of Association as registered or adopted on 22 July 2013.

### Financial Statements

Since the date of incorporation, no financial statements of the Issuer have been prepared. The Issuer is not required by Cayman Islands law, and does not intend, to publish audited financial statements.

### Directors of the Issuer

The Directors of the Issuer are as follows:

<u>Name</u>	<u>Principal Occupation</u>
Andrew Millar	Senior Vice President of Maples Fund Services (Middle East) Limited
Cleveland Stewart	Vice President of MaplesFS Limited

The business address of Andrew Millar is c/o Maples Fund Services (Middle East) Limited, Liberty House, 6th Floor, Office 616, PO Box 506734, Dubai, United Arab Emirates.

The business address of Cleveland Stewart is c/o MaplesFS Limited, P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands.

There are no potential conflicts of interest between the private interests or other duties of the Directors listed above and their duties to the Issuer.

### The Administrator

MaplesFS Limited also acts as the corporate administrator of the Issuer (in such capacity, the **Corporate Administrator**). The office of the Corporate Administrator serves as the general business office of the Issuer. Through the office, and pursuant to the terms of a corporate services agreement entered into between the Issuer and the Corporate Administrator (the **Corporate Services Agreement**), the Corporate Administrator has agreed to perform in the Cayman Islands, the United Arab Emirates and/or such other jurisdiction as may be agreed by the parties from time to time various management functions on behalf of the Issuer and to provide certain clerical, administrative and other services until termination of the Corporate Services Agreement. The Issuer and the Corporate Administrator have also entered into a registered office agreement (the **Registered Office Agreement**) for the provision of registered office

facilities to the Issuer. In consideration of the foregoing, the Corporate Administrator will receive various fees payable by the Issuer at rates agreed upon from time to time, plus expenses.

The terms of the Corporate Services Agreement and Registered Office Agreement provide that either the Issuer or the Corporate Administrator may terminate such agreements upon the occurrence of certain stated events, including any breach by the other party of its obligations under such agreements. In addition, the Corporate Services Agreement and the Registered Office Agreement provide that either party shall be entitled to terminate such agreements by giving at least three months' notice in writing to the other party with a copy to any applicable rating agency.

The Corporate Administrator will be subject to the overview of the Issuer's Board of Directors. The Corporate Administrator's principal office is P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands.

The Directors of the Issuer are all employees or officers of the Corporate Administrator or an affiliate thereof. The Issuer has no employees and is not expected to have any employees in the future.



## SELECTED FINANCIAL INFORMATION

The following information has been extracted from, and should be read in conjunction with, and is qualified in its entirety by reference to, the financial statements, which are set out in full under “Index to Financial Statements” appearing elsewhere in this Prospectus.

References to FY13, FY12 and FY11 refer to the financial years ended 31 March 2013, 2012 and 2011 respectively.

The table below shows certain consolidated statement of financial position information for the Group as at 31 March in each of 2013, 2012 and 2011.

	As at 31 March		
	2013	2012	2011
	(U.S.\$ million)		
<b>Assets</b>			
<i>Non-current assets</i>			
Property and equipment . . . . .	508.3	437.0	283.3
Investment in an associate . . . . .	—	50.6	—
Other non-current assets . . . . .	3.8	3.4	2.7
<b>Total non-current assets</b> . . . . .	<b>512.1</b>	<b>491.0</b>	<b>286.0</b>
<i>Current assets</i>			
Accounts receivable and prepayments . . . . .	246.9	104.1	49.4
Bank balances and cash . . . . .	54.4	27.2	25.9
Inventories . . . . .	1.0	0.9	1.0
<b>Total current assets</b> . . . . .	<b>302.3</b>	<b>132.2</b>	<b>76.3</b>
<b>Total assets</b> . . . . .	<b>814.4</b>	<b>623.3</b>	<b>362.3</b>
<b>Equity</b>			
Share capital <sup>(1)</sup> . . . . .	—	—	—
Share premium . . . . .	—	42.0	42.0
Reserves . . . . .	0.5	(2.8)	(0.4)
Non-controlling interest . . . . .	1.1	1.0	0.9
Retained earnings . . . . .	206.2	122.2	70.9
<b>Total equity</b> . . . . .	<b>207.8</b>	<b>162.5</b>	<b>113.4</b>
<b>Liabilities</b>			
<i>Non-current liabilities</i>			
Term loans . . . . .	384.6	244.4	126.1
Employee’s end of service benefits . . . . .	28.3	24.0	20.6
<b>Total non-current liabilities</b> . . . . .	<b>412.9</b>	<b>268.4</b>	<b>146.8</b>
<i>Current liabilities</i>			
Accounts payable and accruals . . . . .	162.1	113.8	78.9
Term loans . . . . .	31.1	71.9	21.9
Other current liabilities . . . . .	0.5	6.7	1.4
<b>Total current liabilities</b> . . . . .	<b>193.7</b>	<b>192.4</b>	<b>102.2</b>
<b>Total liabilities</b> . . . . .	<b>606.6</b>	<b>460.8</b>	<b>249.0</b>
<b>Total liabilities and equity</b> . . . . .	<b>814.4</b>	<b>623.3</b>	<b>362.3</b>

Note:

(1) GEMS’ issued share capital as at 31 March 2013 comprised 340 shares of U.S.\$1.00 par value each.

The table below shows the consolidated statement of income of the Group for each of FY13, FY12 and FY11.

	<b>Year ended 31 March</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<i>(U.S.\$ million)</i>		
<b>Income</b>			
Fee income . . . . .	437.4	365.7	334.1
Other income . . . . .	18.2	12.7	9.8
Share of profit of a joint venture . . . . .	0.3	0.4	—
<b>Total income</b> . . . . .	<b>455.9</b>	<b>378.7</b>	<b>343.9</b>
<b>Expenses</b>			
Selling and administrative expenses . . . . .	189.2	169.7	152.4
Direct education costs . . . . .	144.1	114.7	100.8
Depreciation . . . . .	41.1	30.1	32.3
Finance costs . . . . .	36.0	8.6	11.4
Capital work in progress written off . . . . .	—	—	6.7
Pre-operative expenses . . . . .	1.9	0.9	—
Amortisation of intangible assets . . . . .	0.9	0.7	0.3
Share of loss in an associate . . . . .	—	2.2	—
<b>Total expenses</b> . . . . .	<b>413.2</b>	<b>326.9</b>	<b>303.9</b>
<b>Profit for the year</b> . . . . .	<b>42.7</b>	<b>51.9</b>	<b>40.0</b>

The table below shows the consolidated statement of comprehensive income of the Group for each of FY13, FY12 and FY11.

	<b>Year ended 31 March</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<i>(U.S.\$ million)</i>		
<b>Profit for the year</b> . . . . .	<b>42.7</b>	<b>51.9</b>	<b>40.0</b>
Exchange difference on translation of foreign operations . . .	0.3	(0.9)	(0.3)
Change in fair value of cash flow hedge . . . . .	2.9	(1.5)	(1.4)
<b>Total other comprehensive income/(loss) for the year</b> . . . . .	<b>3.2</b>	<b>(2.4)</b>	<b>(1.7)</b>
<b>Total comprehensive income for the year</b> . . . . .	<b>45.9</b>	<b>49.5</b>	<b>38.2</b>

The table below shows selected information from the consolidated statement of cash flow of the Group for each of FY13, FY12 and FY11.

	<b>Year ended 31 March</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<i>(U.S.\$ million)</i>		
Net cash from operating activities . . . . .	82.1	67.8	66.8
Net cash used in investing activities . . . . .	(140.4)	(239.2)	(81.8)
Net cash from financing activities . . . . .	98.8	167.9	27.0
Net foreign exchange difference . . . . .	0.3	(0.9)	(0.3)
Cash arising on (transfer)/acquisition of subsidiaries . . . . .	(5.9)	0.3	—
Cash and cash equivalents at start of the year . . . . .	16.7	20.8	9.1
Cash and cash equivalents at end of the year . . . . .	51.6	16.7	20.8

The table below shows the reconciliation of EBITDA and adjusted EBITDA to net profit for the Group for each of FY13, FY12 and FY11.

	<b>Year ended 31 March</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<i>(U.S.\$ million)</i>		
Profit for the year . . . . .	42.7	51.9	40.0
<i>Add:</i>			
Finance costs . . . . .	36.0	8.6	11.4
Depreciation . . . . .	41.1	30.1	32.3
Amortisation of intangible assets . . . . .	0.9	0.7	0.3
<b>EBITDA</b> . . . . .	<b>120.7</b>	<b>91.3</b>	<b>84.0</b>
<i>Add:</i>			
Pre-operative expenses . . . . .	1.9	0.9	—
Capital work in progress written off . . . . .	—	—	6.7
Share of loss in an associate . . . . .	—	2.2	—
Other costs* . . . . .	5.7	2.2	2.2
<i>Deduct:</i>			
Income on closure of interest rate swap . . . . .	(2.4)	—	—
Income on closure of interest rate collar agreement . . . . .	—	—	(2.3)
<b>Adjusted EBITDA</b> . . . . .	<b>125.9</b>	<b>96.6</b>	<b>90.6</b>

Note:

See “*Presentation of Financial and Other Information – Non-IFRS Financial Measures*” for the definition of EBITDA and adjusted EBITDA.

\* These other costs are not part of the normal operating costs of the Group and comprise the following:

- (a) Corporate restructuring costs of U.S.\$2.5 million in FY13, U.S.\$0.7 million in FY12 and U.S.\$0.4 million in FY11 relating to the alignment in compensation and benefit of staff with market rates and ex-gratia and recruitment costs of key management executives.
- (b) Costs of U.S.\$1.8 million in FY13 which relate to organising the Global Education and Skills Forum event.
- (c) Research costs of U.S.\$1.1 million in FY13, U.S.\$1.0 million in FY12 and U.S.\$0.6 million in FY11 in respect of the utilisation of the services of various consultants.
- (d) Donations of U.S.\$0.2 million in FY13, U.S.\$0.5 million in FY12 and U.S.\$1.2 million in FY11 relating to discretionary donations to various institutions.

## FINANCIAL REVIEW

*The following discussion and analysis should be read in conjunction with the information set out in “Presentation of Financial and Other Information”, “Selected Financial Information” and the financial statements.*

*The discussion of the Group’s financial condition and results of operations is based upon the financial statements of the Group which have been prepared in accordance with IFRS. This discussion contains forward-looking statements that involve risks and uncertainties. The Group’s actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Prospectus, particularly under the headings “Cautionary Statement Regarding Forward-Looking Statements” and “Risk Factors”.*

*See “Presentation of Financial and Other Information” for a discussion of the source of the numbers presented in this section and certain other relevant information.*

*References to FY13, FY12 and FY11 refer to the financial years ended 31 March 2013, 2012 and 2011 respectively.*

### OVERVIEW

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. The Group currently owns and manages 37 K-12 schools in the UAE, one K-12 school, which opened in September 2012, in Kenya and one K-12 school, which opened in September 2013, in Uganda. As at 31 March 2013, it employed 9,595 education professionals, specialists and staff and provided education to 79,489 students.

The Group’s revenues are mainly derived from fee income from students enrolling in its schools. This income is driven by the number of students who enrol each year and the fees charged, which depend on the segment in which each school operates and the curriculum offered by each school. See “*Key operating metrics – Enrolment, capacity and utilisation*”.

Management of the Group is currently focusing on maintaining high utilisation rates at existing schools, opening new schools across the MEA region, further developing the EdSol brand and exploring opportunities to expand the GEMS Integrated Services business. See “*Description of the Group – Strategy*”.

In FY13, the Group’s total income amounted to U.S.\$455.9 million and its profit for the year was U.S.\$42.7 million compared to total income of U.S.\$378.7 million and profit for the year of U.S.\$51.9 million in FY12. See “*Results of operations – Comparison of FY13, FY12 and FY11*”.

### KEY OPERATING METRICS

In addition to financial performance, the Group uses the following key operating metrics to evaluate performance:

- enrolment, capacity and utilisation;
- average annual revenue per student; and
- pupil:teacher ratios.

These operating metrics are monitored on an on-going basis as indicators for measuring and predicting the current and future profitability of the Group’s business.

#### **Enrolment, capacity and utilisation**

The total number of students at the Group’s schools is continuously monitored, although actual enrolment is usually fixed at the start of the academic year and tends to remain relatively constant throughout each academic year. The Group also monitors the number of enquiries and registrations at its schools. The number of new registrations that result in enrolments are also monitored and are referred to as the “conversion rate” (being the number of new enrolments divided by the number of new registrations). In

the GEMS Schools offering Indian curricula the conversion rates were 98 per cent. in FY13, 89 per cent. in FY12 and 89 per cent. in FY11 as illustrated in the table below:

	<b>FY13</b>	<b>FY12</b>	<b>FY11</b>
Enquiries . . . . .	32,615	27,766	23,440
Registrations . . . . .	12,071	13,658	10,750
New enrolments . . . . .	11,773	12,162	9,539
Conversion rate (new enrolments/registrations) . . . . .	98%	89%	89%

In the GEMS Schools offering curricula other than the Indian curricula the conversion rates were 64 per cent. in FY13, 64 per cent. in FY12 and 60 per cent. in FY11 as illustrated in the table below:

	<b>FY13</b>	<b>FY12</b>	<b>FY11</b>
Enquiries . . . . .	39,927	30,987	18,863
Registrations . . . . .	19,920	16,584	11,575
New enrolments . . . . .	12,698	10,662	6,978
Conversion rate (new enrolments/registrations) . . . . .	64%	64%	60%

Conversion rates may vary from school to school due to the number of places available for new enrolments. When registrations for school places for a particular academic year significantly exceed the available places, a waiting list is established. Once the number of people on a waiting list becomes significant, registrations for that school for that academic year are closed and therefore waiting lists may not fully represent the demand for a particular school. In order to maintain conversion rates, the Group has at least one dedicated admissions officer at each school. This officer works closely with the school's principal during the student recruitment process and is primarily responsible for converting enquiries to enrolments. The marketing and enrolment strategy aims to promote awareness with a view to generating enquiries and improving enrolments. See *“Description of the Group – The Group’s Business Structure – GEMS Schools – Enrolment approach at GEMS Schools”*.

Over the last three financial years, student enrolment has increased by 25.0 per cent. from 63,592 students at 1 April 2010 to 79,489 students at 31 March 2013, principally as a result of expanded capacity as discussed below.

The total capacity at the Group’s schools increased by 24,314 places between 1 April 2010 and 31 March 2013, as a result of the establishment of seven new schools, the extension of six existing schools and the relocation of two schools, driven by increasing demand for private education in the UAE and Kenya, as applicable. In FY11, the Group commenced operations in one new school and extended two existing schools, increasing total capacity to 70,248 students at 31 March 2011 from 65,160 students at 1 April 2010. In FY12, the Group commenced operations in three new schools, relocated two schools to new sites to cater for increased capacity and extended one existing school, increasing total capacity to 81,320 students at 31 March 2012. In FY13, the Group commenced operations in three new schools and extended three existing schools, increasing total capacity to 89,474 students at 31 March 2013.

The Group’s average utilisation rates (being the number of enrolled students divided by the number of student places available) were 88.8 per cent. in FY13, 86.2 per cent. in FY12 and 94.3 per cent. in FY11. The Group aims to increase the capacity of its schools on an on-going basis and to achieve a utilisation rate in excess of 90 per cent. for each Mature School. See *“Description of the Group – The Group’s Business Structure – GEMS Schools – Summary of existing GEMS Schools and committed projects”* for a breakdown of the enrolment and capacity of the existing GEMS Schools.

**Average annual revenue per student**

The Group’s schools charge different fees reflecting the facilities offered, the curriculum and the year group. School fees per student range from approximately U.S.\$1,000 to U.S.\$25,000 per year. The Group’s average annual revenue per student from school fees was U.S.\$4,800 in FY13, U.S.\$4,400 in FY12 and U.S.\$4,100 in FY11. The increase in the average annual revenue per student in FY13 and FY12 was principally due to increased tuition fees and the opening of new schools which charge higher tuition fees than the historical average.



### **Pupil:teacher ratios**

The Group's schools have varying class sizes depending on the fees per student, the curriculum and the infrastructure of the school. The pupil:teacher ratios range from approximately 10:1 in the highest fee point schools to 21:1 in the lowest fee point schools. The Group's average pupil:teacher ratio was 18.7 in FY13, 18.3 in FY12 and 18.1 in FY11.

## **PRINCIPAL COMPONENTS OF THE GROUP'S RESULTS OF OPERATIONS**

### **Income**

The fees that the Group is able to charge, which are dependent both on the factors affecting fee-levels at each of the GEMS Schools set out under "*Key Operating Metrics – Average annual revenue per student*" and the curriculum that it offers, are, along with student numbers, a key driver of the Group's revenues.

Income is recognised net of any discounts, rebates and taxes. The Group's principal source of income is fee income, which includes tuition, transport, registration, admission, computer, management and operational fees. The majority of these fees are recognised at the time or over the period during which the services are provided although both registration and admission fees are recognised at the time of enrolment. Together tuition, registration and admission fees account for approximately 82.0 per cent. of the Group's total fee income in each year.

The majority of the Group's fee income is recognised over the ten months of the academic year, which:

- in the case of the International Baccalaureate (**IB**), American and British curricula, runs from September to June; and
- in the case of the Indian curricula, runs from April to March,

in each case with July and August being holiday months.

In 2007, the Knowledge and Human Development Authority (the **KHDA**) was formed in Dubai and in 2005, the Abu Dhabi Education Council (**ADEC**) was formed in Abu Dhabi; private education regulation in those two emirates was transferred from the UAE Ministry of Education to the KHDA and ADEC, respectively, in the same year. In FY11, the KHDA implemented new inspection and fee increase regimes under which tuition fee increases (including the extent thereof) are based primarily on the results of inspections undertaken by the KHDA (which, to qualify for a fee increase, must be Outstanding, Good or Acceptable, with higher fee increases being permitted to schools with the best results) and an educational cost index. See "*Regulation – United Arab Emirates – Dubai – Fee framework*".

In both FY11 and FY12, the KHDA froze fee increases for all private schools in Dubai due to the economic downturn. This initially applied to all 20 of the Group's schools in Dubai, although an exemption was granted by the KHDA to seven of the Group's schools which offered the Asian curriculum and fee increases at these schools ranged from 9.0 to 15.0 per cent. annually in both FY11 and FY12. Although there was no formal tuition fee freeze in Abu Dhabi in those years, almost all of the Group's applications for fee increases at its Abu Dhabi schools were not approved in those years, again reflecting the economic downturn. In FY13, the Group implemented fee increases ranging from 3.0 per cent. to 10.0 per cent. in almost all of its schools in the UAE.

The Group relocated two schools to new locations in FY12 to expand capacity in order to meet growing demand and to improve their facilities. As a result, a significant investment was made in these schools and the Group was permitted a special fee increase in one of the schools, effective from FY12.

### **Direct costs**

The Group's direct costs principally consist of salaries and benefits for its employees, the costs of teaching materials, the provision of bus services and certain after-school activities, costs of leasing land and school buildings, the costs of repairs to, and maintenance of, school buildings, utilities and other general administrative costs. These costs comprise in aggregate the selling and administrative expenses and direct education costs shown on the Group's income statement.

### **Other operating expenses**

The Group's other operating expenses consist principally of depreciation and finance costs. Finance costs represent interest on borrowings and finance leases, loan facility arrangement fees and early loan repayment charges.

For a description of the accounting policies applied by the Group, see Note 2.3 to the FY13 Financial Statements.

### **CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In preparing the Group's financial statements, management is required to make certain estimates, judgments and assumptions. These affect the reported amounts of the Group's assets and liabilities, including disclosure of contingent assets and liabilities, at the date of the financial statements as well as the reported amounts of its revenues and expenses during the periods presented. Management bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an on-going basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgment. Actual outcomes may differ from any estimates or assumptions made and such differences may be material to the financial statements. For a description of the most significant accounting estimates, judgments and assumptions made in the preparation of the Group's financial statements, which are judgments relating to the determination of impairments and the useful lives of property, equipment and intangible assets, see Note 2.4 to the FY13 Financial Statements.

### **DIVIDEND POLICY**

The board of directors of GEMS intends to follow a dividend and upstream loan policy with the following conditions:

- (a) GEMS intends to distribute or upstream approximately 10 per cent. of its annual consolidated net income to its shareholders (the **Distribution**), which Distribution shall be made no later than six months after the end of the financial year to which the Distribution relates or at such other intervals as the board of directors may determine from time to time;
- (b) the terms of any Distribution (including the final amount and timing of such Distribution) will at all times remain at the sole and absolute discretion of the board of directors, who will be required to approve every Distribution by separate resolution in advance of declaring such Distribution. Payment of any declared Distribution will be subject to the final approval by GEMS' shareholders;
- (c) the board of directors shall take into consideration a number of factors before declaring or making such Distribution, including (without limitation):
  - (i) general economic and business conditions, the strategic plans of Varkey Group Limited and its subsidiaries, GEMS' financial results and conditions, the Group's cash requirements and the benefits of investing any future earnings in the development and growth of GEMS' and TopCo's business;
  - (ii) any legal requirements and any contractual obligations or limitations, whether currently applicable or which may become relevant in the future, which affect, or may affect, GEMS' ability to approve or make such Distribution;
  - (iii) the requirements of any future financing agreements to which GEMS may be a party; and
  - (iv) any other factors which GEMS' board of directors may deem relevant in respect of the Distribution in question.

### **RECENT DEVELOPMENTS**

*Enrolments at GEMS Schools as at 30 September 2013*

As at 30 September 2013 the network of GEMS Schools had total enrolments of 90,449 students.

### *Committed projects expected to be completed by 31 March 2015*

On 24 April 2013, the Group opened the GEMS New Millennium School on Al Khail Road in Dubai offering Indian curricula. The Group also opened five new schools during September 2013. These schools are the GEMS Wellington Academy and the GEMS International School, both on Al Khail Road in Dubai, the GEMS Cambridge International School in Abu Dhabi, the GEMS Westminster School in Ras Al Khaimah and the GEMS Cambridge International School in Kampala, Uganda. In addition, the Group has two further schools under construction in Doha, Qatar and a further school under construction in Dubai, each of which are expected to open in the financial year ending 31 March 2015. These schools are the GEMS Westminster School and Our Own English High School, both in Doha, and the GEMS Winchester School, in Motor City in Dubai.

### *New GEMS Schools expected to be completed using the 'asset-light' model*

The Group has entered into leases of buildings for a further school in Dubai, one school in Doha and one school in Muscat and has identified and is in the negotiation stage in respect of the leases of two further schools in Dubai. These five new GEMS Schools are expected to be constructed under the 'asset-light' model (see "*Description of the Group – The Group's Business Structure*" for a description of the 'asset-light' model).

### *Recent Acquisitions*

The Group has acquired the Bradenton Preparatory Academy, an existing American curriculum school in Dubai. The Group commenced the operation of this school in September 2013 under the Bradenton Preparatory Academy brand.

### *Lease, land and licences granted by the ADEC*

The ADEC has granted the Group a three year lease on an existing government school building in Abu Dhabi and the Group opened a new GEMS Winchester School in this building in September 2013. The Group will operate the GEMS Winchester School from the existing government school building for three years while it develops and constructs a new school building on a plot of land that it has been granted by the ADEC. The Group will relocate the GEMS Winchester School to this new location once the new school is complete. In addition, the Group has been awarded a new school licence by the ADEC to operate a new GEMS Wellington School. This school is to be constructed under the 'asset-light' model and appropriate land and property partners are being sought for this school. This school is expected to be completed and commence operation during the financial year ending 31 March 2015 or 31 March 2016 depending on the construction progress and obtaining the relevant regulatory approvals and licences to offer the desired curriculum.

### *Pre-schools*

The Group will open a new LGI pre-school in Al Barsha, Dubai in January 2014 with capacity for 378 students.

### *Sale and leaseback transactions*

During October 2013, the Group entered into sale and leaseback transactions relating to two schools in Dubai for an aggregate consideration of approximately U.S.\$123 million. See "*Liquidity and Capital Resources – Borrowings*" for a description of certain restrictions on GEMS' ability to enter into sale and leaseback transactions.

### *Security over Shares in GEMS*

In October 2013, TopCo obtained financing to repay a lender under a vendor loan note instrument and in connection with such financing, TopCo has granted an equitable mortgage over 30 per cent. of the shares of GEMS. See "*Up-streaming of Mudaraba Assets and other funding by GEMS*" for a description of the intended use of part of the proceeds from the issue of the Certificates.

## RESULTS OF OPERATIONS

### Comparison of FY13, FY12 and FY11

#### *Income*

The table below shows the breakdown of the Group's income for each of FY13, FY12 and FY11.

	Year ended 31 March					
	2013		2012		2011	
	<i>(U.S.\$ million)</i>	<i>(% of total)</i>	<i>(U.S.\$ million)</i>	<i>(% of total)</i>	<i>(U.S.\$ million)</i>	<i>(% of total)</i>
Fee income . . . . .	437.4	95.9	365.7	96.5	334.1	97.2
Other income . . . . .	18.2	4.0	12.7	3.4	9.8	2.8
Share of profit of a joint venture . . . . .	0.3	0.1	0.4	0.1	—	—
<b>Total income . . . . .</b>	<b>455.9</b>	<b>100.0</b>	<b>378.7</b>	<b>100.0</b>	<b>343.9</b>	<b>100.0</b>

The Group's revenues are mainly derived from fee income from students enrolling in its schools, see "Principal components of the Group's results of operations – Income" above.

#### *FY13 and FY12*

The increase in total income by U.S.\$77.2 million, or 20.4 per cent., in FY13 compared to FY12 principally reflected an increase of U.S.\$71.7 million in fee income and an increase of U.S.\$5.5 million in other income. The increase in fee income reflected increased tuition and related fees as a result of: (a) an increase in the number of student enrolments driven by increased capacity due to the commencement of operations at three new GEMS Schools and extension of three existing GEMS Schools; and (b) increased annual average revenue per student driven by fee increases and an increase in the number of schools charging higher than the average GEMS Schools fees. The increase in other income reflected: (i) income on closure of certain interest rate swaps of U.S.\$2.4 million in FY13; and (ii) an increase in income from extra-curricular activities by U.S.\$1.7 million driven by an increase in the number of schools and students.

#### *FY12 and FY11*

The increase in total income by U.S.\$34.8 million, or 10.1 per cent., in FY12 compared to FY11 principally reflected an increase of U.S.\$31.6 million in fee income and an increase of U.S.\$2.9 million in other income. The increase in fee income reflected increased tuition and related fees as a result of: (a) an increase in the number of student enrolments driven by increased capacity due to the commencement of operations at three new GEMS Schools, relocation of two GEMS Schools to new sites with increased capacity and the extension of one existing GEMS School; and (b) increased annual average revenue per student driven by fee increases and an increase in the number of schools charging higher than average fees. The increase in other income reflected an increase in income from extra-curricular activities by U.S.\$2.1 million driven by an increase in the number of schools and students.

### Direct costs

The table below shows the breakdown of the Group's direct costs for each of FY13, FY12 and FY11.

	Year ended 31 March		
	2013	2012	2011
	(U.S.\$ million)		
Staff cost under direct education costs . . . . .	144.1	114.7	100.8
Staff cost under selling and administrative expenses <sup>(1)</sup> . . . . .	82.2	82.1	80.4
Rent – operating leases . . . . .	24.4	21.0	18.7
Repairs and maintenance . . . . .	15.6	13.7	10.2
Electricity and water charges . . . . .	10.2	8.9	7.1
Fuel expenses . . . . .	8.7	7.4	5.2
Other selling and administrative expenses <sup>(2)</sup> . . . . .	48.1	36.6	30.8
<b>Total direct costs . . . . .</b>	<b>333.3</b>	<b>284.4</b>	<b>253.2</b>

Note:

- (1) Staff costs under selling and administrative expenses are expressed net of staff costs capitalised under capital work in progress and intangible assets and preoperative expenses. See Note 4 and Note 5 to the FY13 and FY12 Financial Statements respectively.
- (2) Other selling and administrative expenses comprise other selling and administrative expenses as set out in Note 4 to the FY13 Financial Statements and other administrative expenses as set out in Note 5 to the FY12 Financial Statements.

The increase in the Group's direct costs reflected an increase in expenses that were driven by the opening of new GEMS Schools, relocation of existing GEMS Schools and the expansion of existing GEMS Schools, see "Key operating metrics – Enrolment, capacity and utilisation" above. As a percentage of total income, the Group's total direct costs were 73.1 per cent. in FY13, 75.1 per cent. in FY12 and 73.6 per cent. in FY11.

### FY13 and FY12

The increase in direct costs of U.S.\$48.9 million, or 17.2 per cent., in FY13 compared to FY12 principally reflected an increase of U.S.\$29.4 million in staff costs under direct education costs and an increase of U.S.\$19.5 million in all other selling and administrative expenses. The increase in staff costs under direct education costs reflected an increase in staff numbers from 8,587 in FY12 to 9,595 in FY13 due to an increase in capacity resulting from an increase in the number of GEMS Schools and the extension of existing GEMS Schools. The increase in other selling and administrative expenses reflected: (a) an increase in rent costs, repairs and maintenance costs and utilities (electricity, water and fuel) costs by U.S.\$3.4 million, U.S.\$1.9 million and U.S.\$2.6 million respectively due to the opening of three new GEMS Schools and the extension of certain GEMS Schools during the year; and (b) an increase in other administrative expenses by U.S.\$11.5 million driven by an increase in the number of schools and students.

### FY12 and FY11

The increase in direct costs of U.S.\$31.2 million, or 12.3 per cent., in FY12 compared to FY11 principally reflected an increase of U.S.\$13.9 million in staff costs under direct education costs and an increase of U.S.\$17.3 million in all other selling and administrative expenses. The increase in staff costs under direct education costs reflected an increase in staff numbers from 7,740 in FY11 to 8,587 in FY12 due to an increase in capacity resulting from an increase in the number of GEMS Schools, relocation of existing GEMS Schools to new sites with increased capacity and extension of existing GEMS Schools. The increase in other selling and administrative expenses reflected (a) an increase in rent costs, repairs and maintenance costs and utilities (electricity, water and fuel) costs by U.S.\$2.3 million, U.S.\$3.5 million and U.S.\$4.0 million respectively due to the opening of three new GEMS Schools and the extension of certain GEMS Schools during the year; and (b) an increase in other administrative expenses by U.S.\$5.8 million driven by an increase in the number of schools and students.



### *Other operating expenses*

The table below shows the breakdown of the Group's other operating expenses for each of FY13, FY12 and FY11.

	Year ended 31 March		
	2013	2012	2011
	<i>(U.S.\$ million)</i>		
Depreciation . . . . .	41.1	30.1	32.3
Finance costs . . . . .	36.0	8.6	11.4
Pre-operative expenses . . . . .	1.9	0.9	—
Amortisation of intangible assets . . . . .	0.9	0.6	0.3
Capital work in progress written off . . . . .	—	—	6.7
Share of loss in an associate . . . . .	—	2.2	—
<b>Total other operating expenses . . . . .</b>	<b>79.9</b>	<b>42.4</b>	<b>50.7</b>

The Group's other operating expenses principally comprise depreciation of its property and equipment and its finance costs. Together, these costs amounted to 96.5 per cent. of the Group's total other operating expenses in FY13, 91.3 per cent. in FY12 and 86.2 per cent. in FY11. In FY11, the Group also wrote off U.S.\$6.7 million in capital work in progress relating to preliminary stage school projects that were terminated as a result of the economic downturn.

The Group's other operating expenses (calculated as per the table above) for FY13 amounted to U.S.\$79.9 million compared to U.S.\$42.4 million for FY12 and U.S.\$50.7 million for FY11.

#### *FY13 and FY12*

The increase in other operating expenses of U.S.\$37.5 million, or 88.4 per cent., in FY13 compared to FY12 principally reflected an increase of U.S.\$27.4 million in finance costs and an increase of U.S.\$11.0 million in depreciation.

The increase in finance costs reflected: (a) increased interest costs and loan arrangement fees as a result of an increase in borrowings in both FY12 (on which a full year's interest accrued in FY13) and in FY13; and (b) U.S.\$10.5 million in fees incurred in FY13 as a result of the early repayment of its outstanding syndicated loan which was repaid with the proceeds of a new senior facility entered into in FY13, see "*Liquidity and capital resources – Borrowings*" below. The Group's average borrowings (based on balances at the start and end of each year) were U.S.\$366.0 million in FY13 and U.S.\$232.1 million in FY12, with the increase resulting from new term loans to fund capital expenditure.

The increase in depreciation in FY13 compared to FY12 principally reflected an increase in the Group's depreciable asset base as a result of opening three new schools and extending three existing schools during FY13. The Group depreciates its property and equipment on a straight line basis over the estimated useful life of each depreciable asset (which is set out in Note 2.3 to the FY13 Financial Statements) and the changes in its depreciation charge principally reflect changes in the depreciable asset base.

#### *FY12 and FY11*

The decrease in other operating expenses of U.S.\$8.3 million, or 16.4 per cent., in FY12 compared to FY11 principally reflected the writing off of U.S.\$6.7 million in capital work in progress in FY11 referred to above. The Group's depreciation and finance costs both fell in FY12 although these falls were partially offset by the Group's share of a loss incurred by an associate which it acquired during FY12 and transferred in FY13 as further described in Note 9 to the FY12 Financial Statements and Note 8 to the FY13 Financial Statements. See "*Related party transactions*".

In FY12, the Group extended the estimated useful life of leasehold improvements from 10 to 20 years to better reflect their estimated minimum useful life, in relation to which see Note 7(e) to the FY12 Financial Statements. This resulted in a reduced depreciation charge for leasehold property and improvements than would otherwise have been the case in FY12 (by U.S.\$10 million), and which increased the Group's profit for the year by the same amount.

The Group's finance costs were lower in FY12 than in FY11 because a greater proportion of its interest costs were capitalised in FY12. Interest is capitalised where it is directly attributable to the acquisition or construction of qualifying assets, such as new schools or school extension projects.

***Profit for the financial year***

The Group recorded a profit of U.S.\$42.7 million in FY13 compared to U.S.\$51.9 million in FY12 and U.S.\$40.0 million in FY11, a decrease of U.S.\$9.2 million, or 17.7 per cent., in FY13 and an increase of U.S.\$11.9 million, or 29.8 per cent., in FY12.

In FY13, total expenses increased by 26.4 per cent. whereas total income increased by 20.4 per cent. and in FY12, total expenses increased by 7.5 per cent. whereas total income increased by 10.1 per cent.

***Total comprehensive income for the year***

The table below shows the breakdown of the Group's total comprehensive income for each of FY13, FY12 and FY11.

	<b>Year ended 31 March</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<i>(U.S.\$ million)</i>		
<b>Profit for the year</b> . . . . .	<b>42.7</b>	<b>51.9</b>	<b>40.0</b>
Exchange difference on translation of foreign operations . . . . .	0.3	(0.9)	(0.3)
Change in fair value of cash flow hedge . . . . .	2.9	(1.5)	(1.4)
<b>Total comprehensive income for the year</b> . . . . .	<b>45.9</b>	<b>49.5</b>	<b>38.2</b>

The Group's other comprehensive income and expenses comprise exchange rate differences of translation of the financial statements of subsidiaries and associates whose functional currency is not the UAE Dirham and changes in the fair value of interest rate swaps which it has entered into to convert certain floating rate borrowings into fixed rate obligations.

Where the Group applies hedge accounting to these swaps the changes in the fair value of the swaps are recorded in other comprehensive income. The Group's other comprehensive income was U.S.\$3.2 million in FY13 compared to other comprehensive loss of U.S.\$2.4 million in FY12 and U.S.\$1.7 million in FY11.

Reflecting the Group's profit and its other comprehensive income or expense for each financial year, the Group's total comprehensive income was U.S.\$45.9 million in FY13 compared to U.S.\$49.5 million in FY12 and U.S.\$38.2 million in FY11, a decrease of U.S.\$3.6 million, or 7.3 per cent., in FY13 and an increase of U.S.\$11.3 million, or 29.6 per cent., in FY12.

**LIQUIDITY AND CAPITAL RESOURCES**

**Overview**

The Group's cash needs have historically related to costs associated with the construction and capacity expansion of schools, the acquisition of schools, subsidiaries and associates, maintenance capital expenditure and debt service requirements. The Group's principal sources of liquidity include its operating cash flow and secured bank loans.

As part of its growth strategy, the Group intends to continue expanding existing schools, opening new schools and acquiring individual schools and/or education companies. The Group plans to fund these business development initiatives through a mixture of operating cash flow, property funding (including by way of sale and leaseback of one or more GEMS Schools, see "*Recent developments – Sale and leaseback transactions*"), equity and debt funding.

## Cash flow

The table below summarises the Group's cash flow from operating activities, investing activities and financing activities for each of FY13, FY12 and FY11.

	Year ended 31 March		
	2013	2012	2011
	(U.S.\$ million)		
Net cash from operating activities . . . . .	82.1	67.8	66.8
Net cash used in investing activities . . . . .	(140.4)	(239.2)	(81.8)
Net cash from financing activities . . . . .	98.8	167.9	27.0
Net foreign exchange difference . . . . .	0.3	(0.9)	(0.3)
Cash arising on (transfer)/acquisition of subsidiaries . . . . .	(5.9)	0.3	—
Cash and cash equivalents at the beginning of the year . . . . .	16.7	20.8	9.1
Cash and cash equivalents at the end of the year <sup>(1)</sup> . . . . .	51.6	16.7	20.8

Note:

(1) As at 31 March 2010 and 31 March 2009, cash and cash equivalents were U.S.\$9.1 million and U.S.\$14.9 million, respectively.

Net cash from operating activities in FY13 was U.S.\$82.1 million compared to U.S.\$67.8 million in FY12 and U.S.\$66.8 million in FY11. The Group's cash flow from operations comprises its profit for the year with the principal non-cash expenses adjustment (before working capital changes) being the add-back of depreciation.

Net cash used in investing activities in FY13 was U.S.\$140.4 million compared to U.S.\$239.2 million in FY12 and U.S.\$81.8 million in FY11. In all three years the principal investments made were investments in property and equipment driven by the Group's school expansion programme. In addition, in FY12, the Group acquired a 25.55 per cent. interest in Everonn Education Limited, an education and training company based in Chennai, India. See “– *Related party transactions*”.

Net cash from financing activities in FY13 was U.S.\$98.8 million compared to U.S.\$167.9 million in FY12 and U.S.\$27.0 million in FY11. The changes in this item principally reflect the proceeds of new borrowings raised and the repayment of existing borrowings as described in “– *Borrowings*” below.

## Borrowings

The table below shows the Group's outstanding borrowings at 31 March in each of 2013, 2012 and 2011.

	As at 31 March		
	2013	2012	2011
	(U.S.\$ million)		
Senior facilities . . . . .	400.0	—	—
Syndicated loan . . . . .	—	258.7	142.4
Bilateral loan . . . . .	—	44.0	—
Other term loans . . . . .	15.7	13.6	5.6
<b>Total loans<sup>(1)</sup> . . . . .</b>	<b>415.7</b>	<b>316.3</b>	<b>148.0</b>

Note:

(1) As at 31 March 2010 and 31 March 2009, total loans outstanding were U.S.\$118.1 million and U.S.\$110.7 million, respectively.

The Group's principal outstanding borrowings at 31 March 2013 comprised two two-tranche senior facilities as follows:

- A conventional facility in two tranches with an aggregate principal amount equivalent to U.S.\$171.4 million (AED630 million). Tranche A of the conventional facility was fully drawn in March 2013 in an amount equivalent to U.S.\$109.3 million. This facility was used to repay an outstanding syndicated loan facility advanced to the Group. It is repayable in 11 semi-annual instalments beginning on 31 March 2014 and matures on 31 March 2019. Tranche B of the conventional facility was obtained to fund future capital expenditure and acquisitions. As at 31 March 2013, an amount equivalent to U.S.\$16.7 million had been drawn under this tranche with an amount equivalent to

U.S.\$45.4 million available for drawing up to 31 March 2015. Tranche B is repayable in eight semi-annual instalments beginning on 30 September 2015 and matures on 31 March 2019.

- An Islamic facility in two tranches with an aggregate principal amount equivalent to U.S.\$372.8 million (AED1,370 million). Tranche A of the Islamic facility was fully drawn in March 2013 in an amount equivalent to U.S.\$237.7 million. This facility was also used to repay an outstanding syndicated loan facility advanced to the Group. It is repayable in 11 semi-annual instalments beginning on 31 March 2014 and matures on 31 March 2019. Tranche B of the Islamic facility was obtained to fund future capital expenditure and acquisitions. As at 31 March 2013, an amount equivalent to U.S.\$36.3 million had been drawn under this tranche with an amount equivalent to U.S.\$98.8 million available for drawing up to 31 March 2015. Tranche B is repayable in eight semi-annual instalments beginning on 30 September 2015 and matures on 31 March 2019.

The facilities carry interest/profit (as applicable) at EIBOR plus a margin which ranges between 3.5 per cent. to 4.25 per cent. per annum. The Group is periodically required to meet certain ratio tests under the financial covenants set out in the governing documents of each of the facilities, including a consolidated total net debt to consolidated adjusted EBITDA ratio (which, to 31 March 2015, must be not more than 4.5:1, and thereafter to 31 March 2016, must be not more than 4.0:1 and thereafter, must be not more than 3.5:1), an interest cover ratio (which must be not less than 2.5:1) and a cash flow cover ratio (which must be not less than 1.2:1). These ratios were first tested on 30 September 2013, and the Group was in compliance with the ratio tests on such date. Moreover, the definition of adjusted EBITDA as defined in accordance with the provisions governing these facilities when compared to the definition of adjusted EBITDA as set out under “*Presentation of Financial and Other Information*” above, includes certain items which will result in a higher adjusted EBITDA figure in respect of these facilities.

The terms of the above facilities provide for certain limitations on the ability of members of the Group to enter into sale and leaseback transactions including, in particular: (i) a requirement for GEMS to demonstrate, at the time of the relevant sale, that it will not, in the 12 months following the sale, exceed 90 per cent. of the financial covenant levels stipulated in the facility documentation, and in respect of which the sale and leaseback transactions entered into by the Group in October 2013 (see “*Recent developments – Sale and leaseback transactions*”) did not breach such levels; and (ii) a provision that requires GEMS to mandatorily prepay the facilities in an amount equal to any proceeds of a sale and lease back transaction (when aggregated with the proceeds of all previous sale and lease back transactions) in excess of U.S.\$150,000,000, after deducting relevant taxes and expenses.

Both facilities are also secured by: (a) an equitable mortgage over 70 per cent. of the shares of GEMS; (b) an equitable mortgage over 100 per cent. of the shares of School Improvement Partnership Limited, a wholly owned subsidiary of GEMS and the operating entity of EdSol in the MEA region; (c) the assignment of certain rights to receivables by GEMS and certain of its subsidiaries; (d) the assignment of credit card receivables to which PSI is entitled; (e) an assignment by GEMS of its rights in respect of up-stream loans which may be made to TopCo; and (f) an account pledge over certain of GEMS’ bank accounts. The security described above is expressed to be enforceable in the event of the occurrence of certain events of default set out under the provisions governing each of the relevant facilities.

The Group also has outstanding certain other borrowings (in the form of term loans amounting to U.S.\$15.7 million as shown in the table above) which are principally finance leases (in the amount of U.S.\$11.3 million) for the acquisition of vehicles and are secured over the vehicles concerned.

### *Maturity profile of the Group's borrowings*

Of the Group's U.S.\$415.7 million borrowings outstanding as at 31 March 2013, U.S.\$31.1 million was scheduled to mature within 12 months. The table below summarises the maturity profile of the Group's borrowings (including interest) on an undiscounted basis at 31 March 2013 based on their contractual maturities and then current market interest rates.

	<b>As at 31 March 2013</b>	
	<i>(U.S.\$ million)</i>	<i>(per cent.)</i>
Repayable within three months . . . . .	5.2	1.1
Repayable between three and 12 months . . . . .	43.8	9.0
Repayable between one and five years . . . . .	337.0	69.2
Repayable after five years . . . . .	100.7	20.7
<b>Total</b> . . . . .	<b>486.7</b>	<b>100.0</b>

### **Capital expenditure and other commitments**

As at 31 March 2013, the Group had contractually committed capital expenditure of U.S.\$162.3 million, relating to the opening of new schools and its school extension programme. These commitments reflect amounts which the Group is contractually committed to spend in future years, with a proportion of the expenditure expected to be incurred in the financial year ending 31 March 2014. GEMS expects that, going forward, the actual amount of the contractually committed capital that is used will be relatively less than in previous years as a result of the adoption by the Group of the 'asset-light' model of opening new schools. See "*Description of the Group – The Group's Business Structure*".

The table below shows the Group's capital expenditure in each of FY13, FY12 and FY11.

	<b>Year ended 31 March</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<i>(U.S.\$ million)</i>		
Leasehold buildings and improvements . . . . .	11.9	16.0	7.3
Furniture, fixtures and equipment . . . . .	17.4	19.5	6.1
Motor vehicles . . . . .	7.0	11.6	0.3
Library books . . . . .	2.5	2.6	1.0
Capital work in progress . . . . .	105.0	134.5	64.5
<b>Total capital expenditure<sup>(1)</sup></b> . . . . .	<b>143.7</b>	<b>184.1</b>	<b>79.2</b>

Note:

(1) For the financial years ended 31 March 2010 and 31 March 2009, total capital expenditure was U.S.\$68.4 million and U.S.\$114.4 million, respectively.

The timing and amount of capital expenditure is highly dependent on market conditions, the progress of projects, new opportunities that may arise and a range of other factors outside the control of the Group. See "*Risk Factors – Risks relating to the Group's expansion strategy*".

As at 31 March 2013, 2012 and 2011, the Group also had commitments under non-cancellable operating leases as shown in the table below. These commitments relate to land and equipment leases relating to the Group's schools.

	<b>As at 31 March</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<i>(U.S.\$ million)</i>		
Within one year . . . . .	31.4	18.3	16.4
Between two and five years . . . . .	98.6	72.9	66.4
Greater than five years . . . . .	417.9	199.0	234.8
<b>Total operating lease expenditure contracted for</b> . . . . .	<b>547.9</b>	<b>290.2</b>	<b>317.6</b>



The Group's operating lease commitments in FY13 were U.S.\$547.9 million compared to U.S.\$290.2 million in FY12 and U.S.\$317.6 million in FY11. The movements in these commitments principally reflect the Group's school expansion programme.

## ANALYSIS OF CERTAIN STATEMENT OF FINANCIAL POSITION ITEMS

### Non-current assets

The Group's principal non-current assets are its property and equipment. Its property and equipment principally comprises leasehold buildings and improvements, furniture, fixtures and equipment associated with its schools and its capital work in progress relating to its schools expansion programme. The Group's schools are mainly constructed on leasehold land with the leases being on terms of up to 50 years. See "Risk Factors – The interests of GEMS' controlling shareholders and other related parties may, in certain circumstances, be different from the interests of the Certificateholders" and Note 6(b) to the FY13 Financial Statements. As at 31 March 2013, the Group's property and equipment totalled U.S.\$508.3 million (99.3 per cent. of the Group's non-current assets) compared to U.S.\$437.0 million (89.0 per cent. of the Group's non-current assets) as at 31 March 2012 and U.S.\$283.3 million (99.1 per cent. of the Group's non-current assets) as at 31 March 2011.

### Current assets

The Group's principal current assets are amounts due from related parties, prepayments and advances to suppliers, its fees receivable and its bank balances. As at 31 March 2013, the Group's principal current assets totalled U.S.\$261.2 million (86.4 per cent. of its total current assets) compared to U.S.\$111.7 million (84.5 per cent. of its total current assets) as at 31 March 2012 and U.S.\$52.8 million (69.2 per cent. of its total current assets) as at 31 March 2011.

As at 31 March 2013, fees receivable with a nominal value of U.S.\$0.9 million were impaired out of a total nominal amount of fees receivable of U.S.\$7.4 million as compared to fees receivable with a nominal value of U.S.\$1.7 million having been impaired out of a total nominal amount of fees receivable of U.S.\$8.3 million as at 31 March 2012 and fees receivable with a nominal value of U.S.\$1.2 million having been impaired out of a total nominal amount of fees receivable of U.S.\$8.1 million as at 31 March 2011. In FY13, the Group wrote off U.S.\$1.3 million in fees receivable, compared to U.S.\$0.8 million in FY12 and U.S.\$1.8 million in FY11.

The table below shows the ageing of the Group's fees receivable at 31 March 2013, 2012 and 2011.

<u>At 31 March</u>	<u>Total</u>	<u>Neither past due nor impaired</u>	<u>&lt; 30 days</u>	<u>30 - 60 days</u>	<u>61 - 90 days</u>	<u>91 - 120 days</u>	<u>&gt; 120 days</u>
<i>(U.S.\$ million)</i>							
2013 . . . . .	7.4	0.1	1.5	2.0	1.8	0.4	1.6
2012 . . . . .	8.3	1.1	2.0	2.1	0.9	0.8	1.4
2011 . . . . .	8.1	1.1	3.1	0.8	1.3	0.5	1.3

The amounts due from related parties principally comprise amounts due directly from Varkey Group Limited, the ultimate parent company of GEMS, and entities controlled by Varkey Group Limited. The amount due from related parties in FY13 was U.S.\$161.4 million compared to U.S.\$50.3 million in FY12 and U.S.\$1.7 million in FY11. The movements in these balances principally reflect the transfer of the Group's investment in GEMS India (being investments in subsidiary entities registered in India as listed in Note 10(a) of the FY13 Financial Statements) and subsidiaries holding investments in Everonn Education Limited to Varkey Group Limited with effect from 1 April 2012 as further described in Notes 8 and 10 to the FY13 Financial Statements. The consideration relating to these transfers is payable on demand. See "Related party transactions".

### Liabilities

The Group's principal liabilities are its borrowings (see "Liquidity and capital resources – Borrowings" above) and its accounts payable and accruals. The Group's accounts payable and accruals principally comprise fees received in advance, accrued expenses, trade payables and amounts due to related parties. As at 31 March 2013, the Group's borrowings and its accounts payable and accruals totalled U.S.\$577.8 million (95.3 per cent. of its total liabilities) compared to U.S.\$430.1 million (93.3 per cent. of

its total liabilities) as at 31 March 2012 and U.S.\$226.9 million (91.1 per cent. of its total liabilities) as at 31 March 2011.

### **Equity**

The Group's equity principally comprises its retained earnings. GEMS' issued share capital as at 31 March 2013 comprised 340 shares of U.S.\$1 par value each.

### **RELATED PARTY TRANSACTIONS**

The Group's principal related party transactions are with Varkey Group Limited and its subsidiaries. These transactions include: (a) the sale by GEMS to Varkey Group Limited of GEMS' interest in GEMS Education (Asia) 1 Limited and Concorde Residential Schools (Kerala) Private Limited (which have a combined interest in Everonn Education Limited of 25.6 per cent.), the consideration for which is payable on demand (see "*Analysis of certain statement of financial position items – Current assets*" above)); (b) financial and operational support provided by GEMS to TopCo, entities under the control of TopCo and other related parties relating to school projects and operations outside the MEA region (see "*Risk Factors – Risk factors relating to the Group and its business – The Group's balance sheet includes a significant proportion of amounts due from related parties*"); and (c) payments to subsidiaries of Varkey Group Limited for capital expenditure and administrative expenses including existing construction contracts with CMC, the shares of which are beneficially owned by Varkey Group Limited (see "*Risk Factors – Risk factors relating to the Group and its business – The Group has existing contracts with a related party construction contractor for building, developing, renovating and/or expanding schools*"), and are expected to include the payment by GEMS of up to 70 per cent. of the Mudaraba Assets, subject to, and in accordance with, the Mudaraba Business Plan, to TopCo (see "*Up-streaming of Mudaraba Assets and other funding by GEMS*" below). Further information on the Group's related party transactions is set out in Note 21 to each of the FY13 Financial Statements and the FY12 Financial Statements.

### **UP-STREAMING OF MUDARABA ASSETS AND OTHER FUNDING BY GEMS**

TopCo and GEMS are considering pursuing the following funding options in order to allow GEMS and TopCo to: (a) invest in the further expansion of the GEMS business; (b) invest in the expansion of GEMS Education's operations outside of the MEA region; and (c) meet TopCo's obligations under certain financing arrangements:

- (i) raising finance by way of an equity issuance by TopCo and/or GEMS;
- (ii) GEMS advancing up to 70 per cent. of the Mudaraba Assets, subject to, and in accordance with, the Mudaraba Business Plan, to TopCo;
- (iii) GEMS entering into certain sale and leaseback transactions in connection with the development of new GEMS Schools. See "*– Recent Developments*"; and
- (iv) operating cash flows generated in the ordinary course of business.

GEMS intends to explore all four funding options even if any of (i) to (iii) above is successfully completed.

### **FINANCIAL RISK MANAGEMENT**

The Group is exposed to a number of financial risks, including interest rate risk, credit risk and liquidity risk. These risks and the manner in which the Group seeks to mitigate them are summarised below and described in more detail in Note 23 to the FY13 Financial Statements.

#### **Interest rate risk**

Interest rate risk is the risk that changes in interest rates will adversely impact the Group. The Group's principal exposure to interest rate movements is on its long-term borrowings (being its syndicated loan in FY12 and FY13 and its senior facilities in FY13 and future years) and the Group has entered into interest rate swaps to mitigate this exposure. Under the swaps, the Group makes fixed rate payments and receives floating rate payments which match the payments it is required to make under its senior facilities and syndicated loan (in the period before that loan was repaid). This limits the Group's exposure to a significant rise in interest rates but also limits the benefit of a drop in interest rates.

The Group repaid the syndicated loan in March 2013 and accordingly, the interest rate swap has become ineffective and the entire amount of U.S.\$2.9 million, being the negative fair value of the swap at such time, was transferred to the consolidated statement of income from the consolidated statement of comprehensive income.

In April 2013, the Group entered into new interest rate swap agreements in relation to its senior facility and the new interest rate swap provider agreed to settle the liabilities related to the previous interest rate swap.

**Credit risk**

Credit risk is the risk that the Group will suffer a loss as a result of default in payment by any of its counterparties. The Group is exposed to credit risk principally in relation to amounts owed by related parties, on its bank balances and in relation to a range of fees and other receivables due to it. The Group seeks to limit its exposures by only holding cash with banks it considers to be reputable and by closely monitoring amounts outstanding in respect of its students.

**Liquidity risk**

Liquidity risk is the risk that the Group will have insufficient cash to settle amounts due by it at any time. The Group principally manages this risk by ensuring that it has bank facilities such as the undrawn senior facilities, and related party funds available such as support from its ultimate parent, the Varkey Group Limited, as and when required.

## DESCRIPTION OF THE GROUP

### OVERVIEW

The GEMS global education business (**GEMS Education**), operating through GEMS MENASA TopCo (Cayman) Limited (**TopCo**) and its subsidiaries, is among the world's largest providers of high quality private education and related services. The GEMS Education offering ranges from schools offering classes commencing from kindergarten through to the end of secondary school (referred to as **K-12** schools).

GEMS Education was founded in 1968 and since assuming control of GEMS Education in 1980, it has been the current Chairman, Mr Sunny Varkey's vision to provide the highest quality of K-12 education to the broadest market of students across a wide range of fee levels. GEMS Education has grown, since its inception with a single school in Dubai (Our Own English High School (OOEHS)), which continues to operate today, to a network as at 30 September 2013 of 48 schools operating in eight countries around the world.

In the MEA region, GEMS Education operates through GEMS MENASA (Cayman) Limited (**GEMS**) and its subsidiaries (together with GEMS, the **Group**).

The Group is organised into three main business segments:

- **GEMS Schools:** owns and operates schools and pre-schools under the GEMS schools brand in the MEA region (**GEMS Schools**) which provide education across a range of different curricula and fee levels for children in K-12 schools. As at 30 September 2013, the network of GEMS Schools consisted of 39 K-12 schools (of which 24 were in Dubai, six were in Abu Dhabi, four were in Sharjah, one was in Al Ain, one was in Fujairah, one was in Ras Al Khaimah, one was in Kenya and one was in Uganda) with a total capacity of 108,871 places. As at 30 September 2013 the network of GEMS Schools had total enrolments of 90,449 students. In FY13, the GEMS Schools business accounted for 70.4 per cent. of the Group's EBITDA;
- **Gems Integrated Services:** provides complementary educational services (**GEMS Integrated Services**) under the GEMS Integrated Services brand, such as transportation services for students (through Bright Bus Transport (**BBT**) and School Transport Services L.L.C. (**STS**)), extra-curricular sports training, school camps, after-school music, art training, language training and teacher training. In FY13, the GEMS Integrated Services business accounted for 29.3 per cent. of the Group's EBITDA; and
- **EdSol:** provides educational consulting services to governments and the management of third party private schools (some of which may be under the GEMS Education brand) through School Improvement Partnership Limited, which is the operating entity of the GEMS Education Solutions brand (**EdSol**). EdSol currently provides management services to seven third party private schools in Egypt, Jordan, Libya, the UAE and Saudi Arabia and has entered into various contracts with the government of Abu Dhabi to provide consulting services. In FY13, the EdSol business accounted for 0.3 per cent. of the Group's EBITDA.

As at 31 March 2013, the Group employed 9,595 education professionals, specialists and staff. The Group has certain centralised support service functions including finance, legal, information technology, business development and human resources which provide support services to the network of GEMS Schools as well as the wider Group's business. School principals and senior leadership teams are responsible for managing the operations of each school including ensuring that each GEMS School delivers a high quality education and also delivers results in line with the Group's overall financial targets.

### **Key Financial Highlights**

*For the purpose of this discussion, references to **FY11**, **FY12** and **FY13** refer to the periods ended 31 March 2011, 2012 and 2013, respectively.*

In FY13, the GEMS Schools business accounted for 84.4 per cent. and 70.4 per cent. of the Group's revenues and adjusted EBITDA, respectively, the GEMS Integrated Services business accounted for 14.0 per cent. and 29.3 per cent. of the Group's revenues and adjusted EBITDA, respectively, and the EdSol business accounted for 1.5 per cent. and 0.3 per cent. of the Group's revenues and adjusted EBITDA, respectively.

In the period from 31 March 2008 to 31 March 2013, the Group recorded a compound annual growth rate (**CAGR**) in revenues of 19.5 per cent. and **CAGR** in adjusted EBITDA of 30.2 per cent. Despite the recent

economic downturn, from 31 March 2007 to 31 March 2013 total enrolment in GEMS Schools has grown from 50,125 to 79,489 (a CAGR of 8 per cent.). In particular, in the period from 2008 and 2009, during the heightened periods of economic volatility in the MEA region and the UAE in particular, total enrolment in GEMS Schools grew 10.1 per cent. and 12.0 per cent. year on year respectively.

The table below shows the Group's year on year financial growth between 31 March 2007 and 31 March 2013:

	As at 31 March							CAGR 2008 - 13
	2007	2008	2009	2010	2011	2012	2013	
	<i>(U.S.\$ million)</i>							
Revenue . . . . .	142.9	187.1	262.3	312.2	343.9	378.7	455.9	—
Adjusted EBITDA . . . . .	32.1	33.6	43.6	66.5	90.6	96.6	125.9	—
	<i>(per cent.)</i>							
Revenue Growth . . . . .	—	30.9	40.2	19.0	10.1	10.1	20.4	19.5
Adjusted EBITDA Growth . . . . .	—	4.7	29.8	52.5	36.2	6.6	30.3	30.2

Notes:

See “*Presentation of Financial and Other Information – Non-IFRS Financial Measures*” for the definition of EBITDA and adjusted EBITDA.

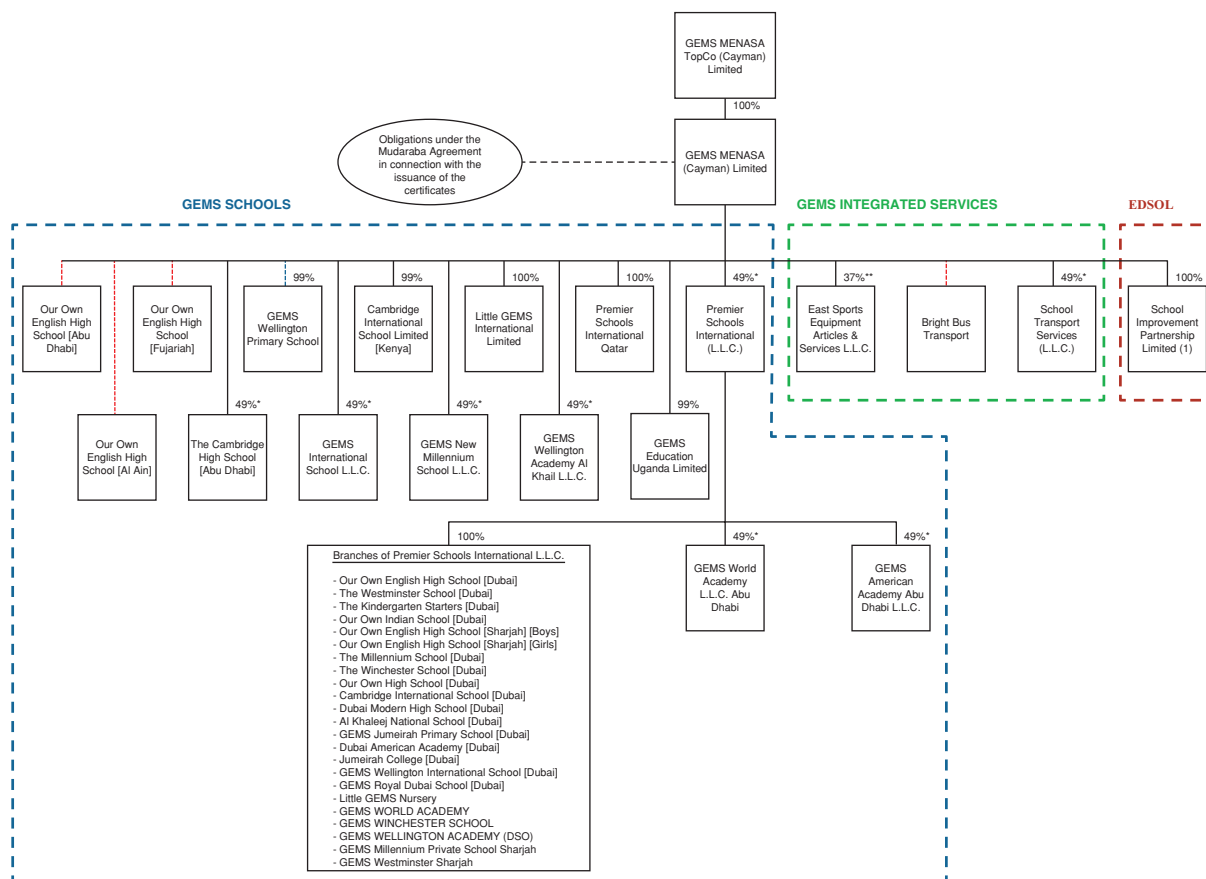
See “*Selected Financial Information*” for reconciliation of total adjusted EBITDA for FY11, FY12 and FY13.

### ***Corporate Structure of the Group***

The shares in Varkey Group Limited, the ultimate parent company of GEMS, are held on trust by a private trust company for the benefit of the members of the Varkey family. As a result, the Varkey family is in a position to control the outcome of actions requiring shareholders' approval and also has the ability to approve the election of all the members of the Board of the Group and thus influence the Board's decisions.



The following chart shows a simplified summary of the Group's corporate structure as of the date of this Prospectus. This chart omits direct and indirect subsidiaries of GEMS which are dormant.



Note: (1) School Improvement Partnership Limited is the operating entity for the EdSol business in the MEA region

\* In accordance with UAE laws, where 51% or more of the shares of limited liability companies are required to be registered in the name of a UAE national/entity, sponsorship arrangements are in place to provide GEMS with the beneficial ownership of the 51% interest. See *Risk Factors – The Group's ownership structure is subject to risks associated with foreign ownership restrictions in the United Arab Emirates*

\*\* 38% beneficial ownership by GEMS with sponsorship arrangements in place

----- 100% beneficial ownership by GEMS with sponsorship arrangements in place      ——— Percentage legal ownership indicated (see Note (\*) above)

GEMS was incorporated in the Cayman Islands under the Companies Law (as amended) of the Cayman Islands on 19 February 2007 as an exempted (non-resident private) company with limited liability with registration number MC-181964. Its registered office address is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The telephone number of GEMS is +1 345 949 8066.

### History and development

GEMS Education commenced operations with a single school in Dubai in 1968, under the name Our Own English High School, which continues to operate today as part of Premier Schools International L.L.C., a subsidiary of GEMS. Since 1980, Mr Sunny Varkey, the current Chairman of GEMS Education, has expanded GEMS Education into a global education provider. GEMS Education currently has schools in the Middle East, Africa, Asia, the United Kingdom and the United States of America, and is headquartered in Dubai with regional offices in Qatar, Saudi Arabia, India, Kenya, Singapore, Switzerland, London and New York.

In the MEA region, GEMS owns and operates schools in the UAE, Kenya and Uganda.

The table below shows the year on year growth of the GEMS Schools network between 31 March 2003 and 31 March 2013:

	As at 31 March										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Capacity . . . . .	39,885	41,959	41,959	50,164	52,416	56,670	62,340	65,160	70,248	81,320	89,474
Enrolments . . . . .	33,190	35,486	38,676	44,847	50,125	55,179	61,782	63,592	66,209	70,076	79,489
	(per cent.)										
Capacity Growth . . . . .	9.3	5.2	0	19.6	4.5	8.1	10.0	4.5	7.8	15.8	10.0
Enrolment Growth . . . . .	10.1	6.9	9.0	16.0	11.8	10.1	12.0	2.9	4.1	5.8	13.4
Capacity Utilisation . . . . .	83.2	84.6	92.2	89.4	95.6	97.4	99.1	97.6	94.3	86.2	88.8
Number of Schools . . . . .	16	17	17	20	20	24	24	24	25	28	31
Mature Schools* . . . . .	14	14	15	16	17	17	20	20	24	24	24

\* See “The Group’s Business Structure – GEMS Schools – The lifecycle of a typical GEMS School” for a definition of Mature Schools.

## STRENGTHS

### *Highly recognised brand built on demonstrated quality and favourable student outcomes*

The Group operates with an emphasis on providing the greatest value possible to its students and clients. Such emphasis has enabled the Group to attain a brand synonymous with providing excellent educational outcomes at a reasonable cost. Students at GEMS Schools have consistently outperformed their competitors in national examinations and tests (see “GEMS Schools – GEMS Schools’ accreditations, affiliations and awards – Awards”). Students from GEMS Schools have also matriculated at leading universities around the world over the last several years, including Columbia University, Harvard University, Massachusetts Institute of Technology, McGill University, Stanford University, University College London, the University of Melbourne, the University of Cambridge, the University of Oxford and Yale University, further demonstrating the quality of GEMS Schools’ educational offerings. Such outcomes provide the Group with multiple benefits including excellent standing with regulators and parents, the ability to attract some of the best teachers in the world due to competitive compensation packages and strong word-of-mouth marketing globally. Further, these outcomes have enabled the Group to maintain strong enrolment growth since 2003 despite global economic volatility. Between 31 March 2003 and 31 March 2013, the Group’s enrolments have grown at a CAGR of 9.1 per cent. In addition, the high quality of education offered at GEMS Schools has had a positive impact on inspection ratings obtained by it. Since 2003, GEMS Schools have benefited from approved regulated fee increases, resulting in an increase in average revenue per student of 146 per cent. over the same period.

### *Leading market position with significant benefits of scale and barriers to entry*

The Group has the leading position in the K-12 schools market in the MEA region, as measured by enrolments. According to the National Bureau of Statistics of the UAE, the KHDA and the ADEC, GEMS Schools’ students represent 15 per cent. of the addressable market in the UAE. Given its leading position in the UAE, it is a highly trusted provider of educational services to the local and expatriate population. This has created significant entry barriers for competitors who must not only spend significant capital to build new capacity but must also demonstrate the ability to deliver similar educational outcomes to compete in the region.

In addition, as the GEMS Schools’ network has grown in the MEA region, the Group’s market position and scale have enabled it to open new schools and capitalise on new opportunities faster than many of its competitors. This is due to its established track record, strategic local partnerships, leading academic performances exceeding national averages and credibility with educational authorities, teachers, parents, developers, landlords and potential sellers of schools. Furthermore, the Group’s scale enables implementation of best practices across its network including strong cost management, control through benchmarking and specialised training and development of principals and teachers.

### *Diversified educational offerings enabling access to large addressable market while limiting risk*

The Group is one of very few operators of schools globally that is able to deliver high quality education across different curricula and fee levels. Annual tuition fees for GEMS Schools range from approximately U.S.\$1,000 to U.S.\$25,000 per student. The Group maintains high standards of quality education across all

of its schools but differentiates across fee levels by offering a greater variety of facilities and curriculum options at its premium schools (see “*The Group’s Business Structure – GEMS Schools – K-12 Schools*”). This allows GEMS Schools to access a very large addressable market of students as opposed to being focused on a particular niche such as premium schools or expatriate-focused schools. Furthermore, the diversity of GEMS Schools’ offerings allow it to target new markets in a very flexible manner as it can tailor schools quickly and efficiently to the needs of a particular market.

The diversity of GEMS Schools’ offerings also helps to protect the Group from market disruptions tied to a specific demographic, group of students or a specific school. No single school in the GEMS Schools network accounted for more than 9 per cent. of total revenues in FY13.

#### ***Highly efficient and effective operational model***

The Group emphasises operational efficiency and utilises a rigorous ‘key performance indicator’ approach to managing its business. The management team tracks and analyses operational and financial key performance indicators for each school such as utilisation rates, financial performance, class sizes, teacher performance and student academic performance. These metrics are reviewed on a regular basis so as to refine the operating strategy. In addition, the Group has established procedures through which it performs benchmarking of the key performance indicators by comparing its actual performance against standard model assumptions, budgets and its competitors in the education industry. Furthermore, the Group focuses on the efficiency of teaching resources through continual improvement of class scheduling and minimising the amount of administrative responsibilities allocated to the teachers to ensure more time is spent on teaching. The Group aims to improve the efficiency of its operating functions further by continuing efforts to centralise certain support functions including purchasing, enrolment and marketing, and sharing best practices across schools, increasing teacher retention, in-house teacher training and increased utilisation of facilities at each school.

Through years of experience, the Group has also created a highly standardised approach to new school and new market expansion. The Group uses external and in-house market research to understand and analyse market demand and trends in the industry as well as regulatory regimes in order to enable it to plan the appropriate school offerings in the relevant markets. The Group has an in-house infrastructure and design team that advises on how to utilise space most efficiently and assists with the design, construction and fit out of schools. This facilitates the development of high quality and well-designed school facilities and capacity planning to ensure the efficient use of facilities by staff and students. In addition, the Group employs standard corporate operating procedures and competitive pricing for developing and launching new schools, including pre-operational procedures, staff recruitment and training processes, marketing initiatives, educational planning and administrative and financial processes. Furthermore, the Group has a systematic approach to student enrolment. Its marketing strategies are adapted to each specific market it enters and are executed by each of the GEMS Schools’ principal, admissions team and marketing manager.

#### ***Consistent performance in challenging economic environment***

The Group’s growth has been consistent and resilient regardless of economic cycles. Between 31 March 2003 and 31 March 2013, the Group recorded a CAGR in total enrolment of 9.1 per cent., corresponding to a CAGR in total revenues of 19.5 per cent. and a CAGR in adjusted EBITDA of 30.2 per cent. between 31 March 2008 and 31 March 2013. See “*Key Financial Highlights*” for the Group’s year on year financial growth between 31 March 2008 and 31 March 2013. In addition, during this period, the Group maintained consistently high annual utilisation rates. During the heightened periods of economic volatility in 2008 and 2009, total enrolment in GEMS Schools grew 10.1 per cent. from 31 March 2007 to 31 March 2008 and 12.0 per cent. from 31 March 2008 to 31 March 2009, respectively. See “*History and Development*” above for information relating to the growth of the GEMS Schools network between 31 March 2003 and 31 March 2013.

As an operator of private schools, the Group is not directly exposed to any government funding risk. In addition, the Group’s offering is relatively price inelastic, as self-funding expatriates and affluent local families are able to afford moderate price increases in tuition fees. The Group has also recently experienced an increase in the number of corporate reservations being made through its direct billing arrangements with employers. See “*The Group’s Business Structure – Enrolment Approach at the GEMS Schools*”. As a result, and notwithstanding the recent global economic downturn, the Group has been able to raise tuition fees across all segments at an average of 146 per cent. between 31 March 2003 and 31 March 2013, without negatively impacting enrolment growth.

### ***Strong visibility on future enrolments with predictable revenue streams***

GEMS Schools has high visibility on future enrolments because of its high student persistence rates (defined as the number of students re-enrolling in schools excluding those that leave due to expatriates relocating to a new country or graduating) and advanced enrolments for the following academic year. At 1 September 2013, approximately 99.8 per cent. of students for the following academic year were already enrolled. Approximately 79 per cent. of those students are returning from the prior year. The Group's policy of requiring a minimum of a month's notice for any potential leavers enhances this visibility. See "*History and Development*" for data relating to the growth of the GEMS Schools network between 31 March 2003 and 31 March 2013.

Some of the Group's key indicators include enquiries about, and visits to, its schools, with a strong correlation between the number of enquiries and visits to the number of applications made by potential students. Nearly all applicants enrol either in the academic year in which the application is filed or in the following academic year. Consequently, the volume of enquiries and visits, along with historical conversion rates of visits to applications and subsequent enrolment, enables an accurate projection of future enrolment numbers.

The Group's ability to measure student re-enrolment rates among existing students and to estimate new enrolments for subsequent periods provides revenue predictability and enables the Group to plan student capacity effectively. Further, the GEMS Schools receive approximately 40 to 50 per cent. of annual tuition fees in advance of the start of the relevant academic year for all schools other than Indian curricula schools, for which 10 per cent. of the annual tuition fees are received in advance of the relevant academic year. The Group received approximately 65 per cent. of total annual fees over either two or three instalments in FY13.

The factors described above combine to give the Group a highly predictable revenue stream, which has resulted in strong cash flow from operations in recent years. Net cash from operating activities was U.S.\$82.1 million in FY13, as compared to U.S.\$67.8 million in FY12 and U.S.\$66.8 million in FY11. Furthermore, these factors have also resulted in strong discretionary free cash flow conversion (defined as cash flow from operations divided by adjusted EBITDA, details of which are set out under "*Selected Financial Information*"); discretionary free cash flow conversion was 65.2 per cent., 70.2 per cent. and 73.7 per cent. for FY13, FY12 and FY11, respectively. Furthermore, the Group's position has been further strengthened by the fact that the significant majority of its capital expenditure during recent years has been discretionary.

### ***Owner-operator management team supported by world-class functional executives***

The Group's senior management team and board of directors are led by GEMS Education's Founder and Chairman, Mr Sunny Varkey. Mr Varkey has led the Group's growth over the past 30 years. Mr Varkey has been operating in his current capacity since 1980 and the shares in Varkey Group Limited, the ultimate parent company of GEMS, are held on trust by a private trust company for the benefit of the members of the Varkey family. GEMS has highly skilled senior management team members who have experience working in public companies and have had leadership roles in a variety of functions in several multinational companies. The team is also supported by leading academics in the K-12 sector which have contributed to the success of the Group by helping to design and shape the educational curricula for GEMS Schools.

## **STRATEGY**

### ***Deliver optimal capacity utilisation and tuition fee growth in existing GEMS Schools***

The Group intends to continue delivering strong educational outcomes to drive optimal capacity utilisation and tuition fee growth at existing GEMS Schools in the MEA region. The Group has already identified and begun construction of new capacity in certain existing GEMS Schools. Often this capacity is directly adjacent to an existing school on land already leased by the Group. In all cases, the Group has high visibility on a school's ability to rapidly achieve critical mass given many of its schools have extensive waiting lists for students seeking entry. See "*Industry Overview – The Group's Market*" for a description of the main drivers of the Group's business.

In addition, by continuing to recruit and retain high quality teachers, offering a broad range of quality curricula across a range of fee levels, enhancing the experience of its students by creating a conducive

learning environment, investing in its campuses and efficient facility utilisation, and providing value for money to parents, the Group believes it can continue to drive enrolment growth at existing schools.

### ***Open new schools in existing and adjacent markets using an ‘asset-light’ model***

#### *Existing markets*

The Group plans to open at least five new schools and nurseries with an estimated capacity of over 13,000 places over the next three years in existing markets. See “*Description of the Group – The Group’s Business Structure – GEMS Schools – Summary of existing GEMS Schools and committed projects*”. The Group has developed a systematic approach to new school openings in existing markets that enables quick, low-risk expansion. It is able to access its centralised administrative and other resources to open new schools in a timely fashion without sacrificing educational quality. See “*The Group’s Business Structure – GEMS Schools – Approach to Expansion of GEMS Schools*”. New school openings in existing markets have typically been profitable within three to four years. See “*– The lifecycle of a typical GEMS School*” below.

#### *New markets*

As part of the Group’s strategy to increase its overall presence in the MEA region, it intends to expand into selected new markets. The Group is committed to opening new GEMS Schools in Doha and plans to open a school in Muscat in the next year. The Group is also reviewing certain other countries in the GCC region and Africa, for development of GEMS Schools in the next three years. Given its experience with operating K-12 schools in its existing markets, the Group believes it will be able to drive enrolment growth in new schools in new markets as well.

The Group also intends to continue to use its network of GEMS Schools and its relationships with relevant governments and third party school operators to identify and secure local partnerships in target countries within the MEA region. These partnerships will help the Group gain the expertise and market knowledge it needs to ensure successful execution of new school openings in its target markets.

#### *‘Asset-light’ approach*

The past performance of the Group has been based on its focus on high capital efficiency. Historically, it has operated principally on the basis of owning and building its GEMS Schools on long-term leasehold land. This approach enabled the Group to establish a strong brand in the MEA region as parents and regulators recognised its investments in building communities through expansion of educational access. In light of its brand and track record, property developers have increasingly and proactively approached the Group to work with them in establishing new schools. This will enable the Group to employ a more ‘asset-light’ model in existing and new markets going forward by working with property partners in the construction of new schools. The cost of construction and ownership of the school buildings will be taken by these property partners and will be leased on a long-term operating lease to the Group. This should allow the Group to limit the initial capital investment required by it whilst allowing it to open new schools at a faster rate but still retain management control over operational and branding matters in order to maintain the quality of the Group’s offerings (see “*The Group’s Business Structure*”).

### ***Continued development of EdSol and GEMS Integrated Services***

The Group intends to grow its EdSol business by developing and actively marketing its educational consulting services to governments, potential partners and third party school operators. The EdSol business is complementary to the GEMS Schools business and supports the Group’s overall strategy to be the MEA region’s leading provider of quality education. In order to develop its EdSol brand, the Group intends to continue to invest in the development of additional educational services such as teacher training, leadership development, continuous professional development and assessment and student performance tracking. Through GEMS Integrated Services, the Group will continue to leverage its student base to pursue further business opportunities linked to education, such as transportation and extra-curricular after-school activities.

## **THE GROUP’S BUSINESS STRUCTURE**

The Group’s business structure is broadly divided into three segments:

- ***GEMS Schools***: this segment represents K-12 and pre-schools owned and operated by the Group. The Group currently operates the majority of GEMS Schools using the “owner/operator model” and aims



to implement the “partnership/‘asset-light’ model”, each as described below, for the opening of new schools in the future;

- **GEMS Integrated Services:** this segment includes other complementary business services in areas such as transport, extra-curricular sports and camps, music, art and languages academies and teacher training; and
- **GEMS Education Solutions:** EdSol is the Group’s consulting business which is an advisory and solution provider to governments and third party private schools, in the areas of education policy reform, education consulting, school improvement and skills development. EdSol manages third party private schools (some of which may be under the GEMS Education brand) using the “management model”, as described below.

The Group operates GEMS Schools using the following two different business models:

- **Owner/operator model:** this model is used by the Group for the vast majority of its current network of GEMS Schools. It involves the Group taking a long-term lease of land, building the school facilities (and thereby owning the school buildings) and operating the school. Under this model, revenues generated from the operation of the school are solely for the benefit of the Group, as sole owner/operator; and
- **Partnership/‘asset-light’ model:** the Group’s strategy includes making greater use of this model for the opening of new schools in existing and new markets in the future. See “*Strategy – Open new schools in existing and adjacent markets using an ‘asset-light’ model*”. The ‘asset-light’ model involves partnering with a property developer who will purchase land and pay for the development and construction, on such land, of a new school’s buildings (the Group will not make any investment at the development/construction stage) which will be leased on a long-term operating lease to the Group. Accordingly, the Group’s sole involvement will be the operation of the school and, in certain cases, the Group may also seek a silent equity investor in the operation of the school whilst retaining sole management control over operational and branding matters in order to maintain the quality of the Group’s offering. Under this model, where there is a silent equity investor, revenues generated by the Group from the operation of the school will be shared with any such investors.

Through EdSol, the Group manages third party private schools using the “management model”. It involves the Group providing management services to a third party school, where the land and buildings are owned (or leased) by a third party and the school operations are managed by the Group. Under this model, revenues are generated by the payment of a management fee to the Group for the management services it provides.

## **GEMS SCHOOLS**

### *Overview*

As at 30 September 2013, the Group owned and operated 39 K-12 schools with a total capacity of 108,871 places. The total capacity at the Group’s schools increased by 43,711 places between 1 April 2010 and 30 September 2013, reflecting the establishment of 15 new schools, the expansion of seven existing schools and the relocation of two schools to new sites to cater for increased capacity, in all cases driven by increasing demand for private education in the UAE.

The Group’s current approach to the ownership of GEMS Schools is to own the majority of the school buildings on the school’s grounds and to lease all of the land comprising the school’s grounds under long-term leases. See “*Risk Factors – The interests of GEMS’ controlling shareholders and other related parties may, in certain circumstances, be different from the interests of the Certificateholders*” for a further description on leases. At present, the outstanding tenure of operating leases for seven existing GEMS Schools fall within one to five years, for five GEMS Schools fall within five to ten years and for nineteen schools are greater than ten years. The Group has an excellent track record of lease renewal and expects all leases to be renewed on commercially acceptable terms.

GEMS Schools offer education across a range of curricula and a range of fee points. This broad base approach allows the Group to capture the widest possible demographic segment in the markets in which it operates.

### *K-12 Schools*

The Group offers Indian, British, American, IB and UAE curricula schools in K-12 schools, see “*Summary of existing GEMS Schools and committed projects*”. Below is a summary of the GEMS Schools brands operating within these curricula:

- **Indian Curricula:** GEMS Schools operating within these curricula include, among others, GEMS Modern Academy, The Millennium School, Our Own English High Schools and Our Own Indian School;
- **British Curriculum:** GEMS Schools operating within this curriculum include, among others, Wellington International School, Cambridge International School, Jumeirah Primary School, Jumeirah College, Westminster School and Winchester School;
- **American Curriculum:** GEMS Schools operating within this curriculum include, among others, GEMS Dubai Academy and GEMS American Academy;
- **IB Curriculum:** GEMS Schools operating within this curriculum include, among others, GEMS World Academy. IB diplomas are also offered at the GEMS Wellington International School and at the GEMS Dubai Modern Academy; and
- **UAE Curriculum:** GEMS Schools operating within this curriculum include, among others, Al Khaleej National School.

Each of these school brands operates at different fee points. Across all brands, these range from approximately U.S.\$1,000 per student per annum to U.S.\$25,000 per student per annum. The Group maintains high standards of quality education at all its schools but differentiates across fee points by offering a greater variety of facilities at its high-end schools. At the high-end schools, facilities may include indoor swimming pools, observatories and planetariums. The Group continuously reviews and upgrades, as necessary, the facilities at the GEMS Schools to ensure the delivery of the highest standards of quality education.

### *Pre-schools*

In order to enhance the Group’s presence in the early years education market, as well as to cater for growing demand for pre-schools in the markets in which the Group operates, the Group commenced a new business line of stand-alone pre-schools under the “Little GEMS International” (LGI) brand in 2012.

It is envisaged that by setting up stand-alone LGI pre-schools, additional capacity will be freed up within the existing GEMS Schools through the transfer of students in lower grades. LGI pre-schools will also work as feeders to existing GEMS Schools by capturing the students below kindergarten grades which will help the Group to anticipate and manage future demand for K-12 schools efficiently.

The Group opened one new LGI pre-school (with a total capacity of 126 places) in Dubai in September 2012 and plans to open a further LGI pre-school (with a total capacity of 378 places) in Dubai in January 2014. The Group plans to open further LGI pre-schools in the MEA region subject to further feasibility studies and research.

### *Approach to academic quality at GEMS Schools*

The Group strives to maintain the highest standards of quality education across all curricula and fee points at GEMS Schools. The Group considers that the key factors for parents when deciding which school to send their children to are the following:

- the quality of teachers and curriculum;
- the school’s reputation;
- the environment that the school creates for children and preservation of culture;
- academic records, campus and overall facilities; and
- value for money.

The Group believes that focusing on these factors drives the reputation of its schools.

The key elements that the Group focuses on to promote a high standard of quality education, addressing the key factors for parents set out above, are the following:

#### *An academically rigorous educational programme*

The Group strives to meet the individual needs of each of its students. Each curriculum meets the relevant internationally recognised requirements (or local requirements in the case of the UAE curriculum) and is adapted to meet local regulatory requirements, culture and customs.

The Group utilises a highly customised IT platform designed around each student. It enables the relevant GEMS School to track the performance of its students on an individual basis as well as benchmark within the school and across its schools network. The Group believes that this maximises student learning and performance by giving the teachers and students an accurate gauge of individual progress. In addition, this platform allows the development of clear learning objectives to be set at a classroom, class year or school level. Further, the IT platform creates accountability among faculty members and drives consistency in instruction by applying comparable metrics across the GEMS Schools network.

In addition to the rigorous approach to classroom-based learning, the Group operates after-school activities across its schools that provide a supplementary informal learning environment as well as additional revenues for the Group.

#### *Highly qualified principals, teachers and administrative staff*

The Group demonstrates its commitment to premium quality education by hiring and retaining highly qualified principals, teachers and administrative staff. All teachers are required to be fully qualified and have significant teaching experience in national or international schools. See “*Management and Employees – Employees*”.

The principals and teachers also benefit from various continuing professional development initiatives which are designed for career progression and to improve the quality of its teaching staff. The Group regularly and rigorously reviews the performance of its principals and teaching staff to ensure that their performance meets the highest standards.

Each of the GEMS Schools has clear policies for professional development that set out the main responsibilities and entitlements of staff at all levels. In each of the GEMS Schools a member of the senior leadership team is responsible for strategy, planning, implementation and evaluation of professional development of its staff. To maintain consistency in most cases, the same member of the senior leadership team typically oversees staff performance management and appraisal processes, through which individual objectives and development plans are framed and monitored. See “*Management and Employees – Employee Development and Performance Management Programmes*”.

#### *High quality school facilities*

The Group’s school facilities, such as its science laboratories, swimming pools and other high quality sports facilities, as well as music and theatre resources, enhance the educational experience of its students. In addition, the majority of classrooms utilise interactive computerised white boards that facilitate students’ participation in learning. The Group uses internationally recognised architectural consultants specialised in school design to direct the development of new facilities and the expansion or refurbishment of existing schools in order to promote the efficient use of facilities by staff and students.

#### *Quality Assurance*

The Group operates a quality assurance programme that includes regular school reviews by the Group’s corporate education team. The reviews are conducted on selected schools annually and supported by standardised review reports the outcomes of which determine the school’s on-going and future development. In-depth school reviews and audits are conducted each time a school enters a new phase of development (for example the introduction of a new principal, or other significant changes that may have a considerable impact on the school). The reviews are undertaken internally by the education standards division. The key areas for development and improvement are identified, monitored and supported by the corporate education team in conjunction with the relevant school’s senior leadership team. The quality assurance programme also includes regular classroom observation and a review of teaching and learning which is conducted by school principals and their leadership teams.

All school principals and leadership teams are trained in school self-evaluation, which is undertaken on a continuing basis, and thereby continuously seek to improve the standards of quality of learning and teaching in the GEMS Schools.

### ***Enrolment approach at GEMS Schools***

The Group's marketing strategy is designed to develop brand awareness among prospective parents and students along with teachers, regulators and other stakeholders. The Group's marketing function is centrally controlled but is executed locally at each school by principals, admissions managers and marketing staff. Its marketing strategy is based upon reputation, referrals and word-of-mouth rather than media campaigns, thereby minimising the Group's annual marketing spend.

### ***Student Recruitment***

The student recruitment process is defined by the following stages:

- ***Enquiries:*** parents considering enrolling their child at a GEMS School register their child's details (online or in person) and request further information;
- ***Visits:*** parents are encouraged to visit the school campus accompanied by the relevant child;
- ***Registration:*** parents register their child with the school, specify a start date and pay a non-refundable application fee;
- ***Enrolments:*** the Group aims to place registrations either within the academic year in which they applied or in the subsequent academic year.

The Group's marketing strategy has been successful in generating an increasing number of enquiries, visits and conversion to registrations. See "*Financial Review – Key Operating Metrics – Enrolments, capacity and utilisation*" for a table setting out the enquiries, registrations, enrolments and conversion to enrolment rates for the last three financial years in respect of both Indian curricula and non-Indian curricula schools.

### ***Generation of enquiries***

The majority of the Group's enquiries are generated through the internet. The Group's websites seek to deliver the required information to prospective parents in a concise and user-friendly manner.

### ***Parent Referrals***

Parent referrals are important for generating enquiries and the Group offers a "*refer a friend*" scheme whereby if a referral leads to a place being taken at a GEMS School then the referring parent will receive a monetary benefit either in the form of a one-off tuition fee discount (if the parent has a child enrolled at a GEMS School) or a cash reward. From a survey report of parents of students attending certain GEMS Schools dated 14 March 2012, over 90 per cent. of parents said that they would be happy to recommend GEMS Schools.

### ***Relocation Agents***

Relocation agents who settle expatriate families in cities in which the Group's schools are located are an important source of enquiries and the Group has close relationships with such companies.

### ***Employers***

In addition, the Group has established relationships with key human resources personnel of major employers and provides information packs, employee handbooks and marketing material to help employees understand the education systems and choices available.

The Group works with corporates on specific placement programmes, which allows corporates to reserve places in GEMS Schools for their employees.

### ***Other Marketing Activities***

The Group supplements its marketing strategy with other targeted activities to further enhance its schools' reputation, promote awareness and generate enquiries, including promotional materials such as school brochures and educational magazines, public relations exercises internally and externally, and conferences.

For example, GEMS Education, in association with the Varkey GEMS Foundation, the philanthropic division of GEMS Education, organised the Global Education and Skills Forum which was held in Dubai in March 2013 and was attended by 500 delegates from 50 countries, to discuss the global demand for better education.

#### *Converting enquiries*

Each of the GEMS Schools has at least one dedicated admissions officer who works closely with principals during the student recruitment process and is primarily responsible for converting enquiries to enrolments.

#### *The life cycle of a typical GEMS School*

##### *Phases in the life cycle of a typical GEMS School*

A typical GEMS School is constructed in two phases. The first phase involves the construction of kindergarten and primary schools (**Elementary Schools**) and also includes the development of specialist facilities for Elementary School students (such as designated play areas, learning and discovery areas and reading rooms) (the **Elementary Phase**). Once the Elementary School approaches capacity the second phase of construction is initiated. The second phase involves the construction of a secondary school and typically comprises the development of classrooms as well as any specialist facilities for secondary school students (such as computer labs, libraries, sports halls and fitness suites) (the **Secondary Phase**).

The benefits of this two-phased approach include the following:

- minimising the initial set-up costs of construction by benefitting from the high levels of demand at Elementary Schools and commencing only the Elementary Phase first (as described further under “*Waiting lists and capacity of GEMS Schools*” below);
- GEMS Schools constructed in the Elementary Phase being able to become self-sufficient and financially viable, and the construction of the secondary school in the Secondary Phase being conditional upon the Elementary School approaching capacity at the point when the GEMS School begins to generate profits; and
- accommodating high levels of capacity in the Elementary Phase by adopting the dynamic enrolment model thereby providing a source of students for the secondary school constructed in the Secondary Phase.

Moreover, the Group’s approach is to build Elementary Schools and secondary schools on the same premises and by doing so benefitting from economies of scale and cost savings while offering a high quality of education to its students. Economies of scale and cost savings are realised by incorporating specialist facilities such as play areas, drama facilities, art rooms and music facilities in one location for the benefit of both Elementary School and secondary school students and at the same time giving students access to a greater variety of facilities thereby enhancing their educational experience.

#### *Waiting lists and capacity of GEMS Schools*

Whilst the Group has extensive enquiries and registrations at many of its Elementary Schools, unutilised capacity may exist at secondary schools. This is because the typical entry point for students into any new school is at the Elementary School level and also because of natural attrition resulting in reduced demand for places at secondary schools. This is particularly the case in the emerging markets and in particular the MEA region (where the Group operates) which are markets characterised by higher demand for places at Elementary Schools.

The Group adopts a dynamic enrolment model which allows it to benefit from the high levels of demand at the Elementary Schools level. The adoption of the dynamic enrolment model is intended to address the high levels of demand at Elementary Schools by offering more classes and increasing capacity at lower year grades. Typically the number of classes offered at the later grades in secondary schools decreases due to student turnover and fewer new entrants at the secondary school level. This approach differentiates the GEMS Schools from other schools that would typically offer the same number of classes at each year group across the K-12 range.



### *Financial performance through the lifecycle of a GEMS School*

A new GEMS School typically experiences losses during the early years of the Elementary Phase due to significant set-up costs which are largely fixed in nature. Such costs include the recruitment of teaching staff, an administrative team and senior leadership team and costs related to obtaining regulatory approvals and applying for licences as well as any capital expenditure incurred in developing the new school. Typically, between the third and fourth year of operation, GEMS Schools reach the cash breakeven point due to the year on year enrolment growth at Elementary Schools described above. From as early as year three, GEMS Schools can start to generate profits at which point the Secondary Phase of construction is initiated.

The Group considers any GEMS School that has been in operation for more than three years or that is operating at greater than 85 per cent. capacity to be a mature school (**Mature School**). Historical data shows that increases in the number of Mature Schools in the GEMS Schools network causes the Group's revenues and EBITDA to increase at a higher than proportionate rate. See “– Overview – Key Financial Highlights” and “– Overview – History and Development” for data showing these trends.

The above is a generic description of the life cycle of a typical GEMS School, however the actual performance of any particular GEMS School may vary as a result of a number of factors including, but not limited to, the location of the school, specific country dynamics and the regulatory environment in which the school operates.

### *Approach to expansion of GEMS Schools*

When determining whether to enter new markets or expand in its existing markets, the Group adopts a two phase approach in assessing the viability of making an investment. The two phases involve: (i) an initial information gathering process; and (ii) if, based on the outcome of the first phase, the Group decides to further consider the opportunity, then it undertakes a thorough research and evaluation process of the investment opportunity.

In order to decide whether or not to make an investment, as part of the information gathering phase, the Group seeks to identify certain key factors in the target market. These include, among other things, positive K-12 student demographics that drive demand for education, low political risk in the target markets, favourable regulations and financial conditions, the availability of appropriate local partners, the ability to replicate the ‘asset-light’ model, the competitive advantage of being able to offer the benefits of a global network of established schools, potential growth of the EdSol business, opportunities for providing GEMS Integrated Services and availability of high quality staff at the appropriate remuneration levels.

The research and evaluation involved in the second phase includes:

**Desktop market research:** to understand the macroeconomic environment of the target market, competitor profiles, regulatory environment, tax issues, payroll costs, growth in private schools market share and the land and facilities requirements for opening schools and is typically carried out internally by the Group team.

**Third party market research:** this is conducted by professional third parties, employed by the Group based on their local market expertise and standing to undertake research of, among other things, relevant government policies and regulations, potential tax issues, the economic environment of the target market, availability of land and facilities infrastructure and competitor profiles.

**Financial feasibility:** a financial feasibility study is prepared using industry standard financial models based on existing schools. Changes would then be made to the standard financial models in order to reflect the information gathered during the desktop and third party market research stages.

**Facilities, cost and design study:** the Group uses its expertise from existing GEMS Schools to determine which facilities to offer in any new school. Further market research and competitor analysis is carried out to determine whether new teaching methodologies, innovative education delivering techniques and facilities should be included in the new school. Independent cost and design consultants are then employed to validate the proposed new school plan and make any suggested amendments if necessary.

As at the date of this Prospectus, the Group is committed to completing the following projects:

- increasing the capacity of certain of its schools in the UAE;

- opening five new schools in Dubai, two new schools in Abu Dhabi, one new school in Ras Al Khaimah and one new school in Uganda by 31 March 2014; and
- opening three new schools in Dubai, one new school in Abu Dhabi and two new schools in Qatar by 31 March 2015.

### ***GEMS Schools' accreditations, affiliations and awards***

#### *Accreditations*

GEMS Schools are accredited by a variety of international educational organisations including the International Baccalaureate Organisation (**IBO**), the New England Association of Schools and Colleges (**NEASC**), the Commission on American / International Schools Abroad (**CAISA**), the Council of International Schools (**CIS**) and AdvanceED (previously known as the Commission on International and Trans-regional Accreditation (**CITA**)).

Several of the GEMS Schools have also been certified as examination centres by international boards of education, including Edexcel, Cambridge International Examinations (**CIE**), University of Cambridge, United Kingdom and Assessment and Qualifications Alliance (**AQA**).

#### *Affiliation*

In addition to the above accreditations, certain GEMS Schools are affiliated with the following international educational organisations:

- British Schools of the Middle East (**BSME**);
- Cambridge International Examinations (**CIE**);
- Council for Indian School Certificate Examinations (**CISCE**); and
- Central Board of Secondary Education (**CBSE**).

#### *Awards*

By providing the highest standards of quality education, the Group has enjoyed continuously increasing enrolments across the existing GEMS Schools network. The high standards of quality education provided at the GEMS Schools have also resulted in strong academic performances achieved by GEMS Schools' students and high ratings given by the Dubai Schools Inspection Bureau in its latest inspection of certain GEMS Schools in Dubai and the ADEC in its recent inspection report of GEMS Schools in Abu Dhabi. See "*Summary of existing GEMS Schools and committed projects*" for the ratings of the relevant inspected schools.

Students at the GEMS Schools consistently outperform their peers in standardised examinations. In the five academic years between 2007 and 2012, average International General Certificate of Secondary Education examination results of students at GEMS Schools were significantly higher than the average across private and state-run schools in the United Kingdom. In the summer examinations of 2012, the average 16-year-old in GEMS Schools in Dubai achieved results that were 28 per cent. better than the average student in the United Kingdom. Similarly, students at the GEMS Schools studying under the IB curriculum performed on average 12 per cent. higher than those worldwide in the 2012 examinations. GEMS students studying under the Indian curricula have achieved a 99 per cent. pass rate compared to the global average of 81 per cent.

GEMS Schools in Dubai are subject to inspection and rating by the DSIB on an annual basis and GEMS Schools in Abu Dhabi are subject to inspection by the ADEC approximately once every two years, although it is the ADEC's intention that the most successful schools will be inspected less frequently. As at the date of this Prospectus, the GEMS Schools in Sharjah, Al Ain, Fujairah and Kenya are not rated by their governing bodies. See "*Regulation – United Arab Emirates*" in respect of each of the Emirates within the UAE.

The Dubai Schools Inspection Bureau last inspected 11 of the Group's international curriculum schools and six Asian curriculum schools between September 2012 and March 2013 and the ratings given were as follows:

- of the 11 international curriculum schools, four were rated 'Outstanding', five rated 'Good' and two rated 'Acceptable'; and

- of the six Asian curriculum schools operated by the Group, one was rated ‘Outstanding’, four rated ‘Good’ and one rated ‘Acceptable’.

None of the GEMS Schools had an ‘Unsatisfactory’ inspection rating.

The ADEC released its ratings of the GEMS Schools in Abu Dhabi on 31 July 2013. The ratings given by the ADEC were as follows:

- each of the GEMS American Academy, the Cambridge High School, the GEMS World Academy and the Sheikh Zayed Academy for girls (a school managed by EdSol) all received a ‘Band A – High performing school’ rating; and
- in Al-Ain the Our Own English High School received a ‘Band C – Need of significant improvement’ rating.

In addition, the ADEC also conducted a parent survey for each of the schools in Abu Dhabi and Al-Ain across four different criteria, namely parent-school partnership, school safety, teaching effectiveness and physical environment. The GEMS Schools in Abu Dhabi ranked above all other schools in Abu Dhabi in all of the above criteria of the parent survey. The GEMS School in Al-Ain ranked above all other private schools in Al-Ain in three of four of the above criteria of the parent survey.

These ratings are made public and have a significant impact on waiting lists, demand and the Group’s brand recognition. High ratings may give the Group the ability to implement fee increases (subject to approval of the relevant regulator) and high waiting list demand gives the Group the ability to plan for expanding the GEMS Schools network.

#### *Summary of existing GEMS Schools and committed projects*

The table below highlights selected information relating to existing GEMS Schools as at 31 March 2013:

<u>School</u>	<u>Established</u>	<u>Location</u>	<u>Curriculum</u>	<u>Rating</u>	<u>Enrolments</u>	<u>Capacity</u>
					<i>As at 31 March 2013</i>	
GEMS Our Own English High School	1968	Dubai	Indian	Good	9,274	9,900
Our Own English High School – (Girls)	1982	Sharjah	Indian	N/A	7,587	7,619
Our Own English High School	1982	Fujairah	British/ Indian	N/A	3,402	3,485
The Cambridge International School	1983	Dubai	British	Good	2,483	2,490
GEMS Modern Academy	1986	Dubai	Indian	Outstanding	2,856	3,743
The Cambridge High School	1988	Abu Dhabi	British	Band A – High performing school	1,699	1,715
The Westminster School	1989	Dubai	British	Acceptable	4,869	5,131
Our Own English High School	1990	Abu Dhabi	Indian	N/A	1,467	1,700
The Kindergarten Starters	1990	Dubai	Indian	Acceptable	4,896	4,904
GEMS Our Own Indian School	1991	Dubai	Indian	Good	3,640	3,650
Our Own English High School	1992	Al Ain	British/ Indian	Band C – Need of significant improvement	1,732	1,840

<u>School</u>	<u>Established</u>	<u>Location</u>	<u>Curriculum</u>	<u>Rating</u>	<u>Enrolments</u>	<u>Capacity</u>
					<i>As at 31 March 2013</i>	
Al Khaleej National School	1992	Dubai	UAE/ American	Acceptable	1,990	1,996
GEMS Jumeirah Primary School	1996	Dubai	British	Outstanding	1,367	1,388
GEMS Dubai American Academy	1998	Dubai	American/ IB	Outstanding	2,288	2,302
Jumeirah College	2000	Dubai	British	Outstanding	1,071	1,072
The Millennium School	2002	Dubai	Indian	Good	2,816	2,816
The Winchester School	2003	Dubai	British	Good	3,493	3,493
Our Own High School	2005	Dubai	Indian	Good	4,712	4,714
GEMS Wellington International School	2005	Dubai	British/IB	Outstanding	2,305	2,364
GEMS Royal Dubai School	2005	Dubai	British	Good	930	1,244
Our Own English High School (Boys)	2007	Sharjah	Indian	N/A	3,416	3,416
GEMS Wellington Primary School	2007	Dubai	British	Good	1,065	1,128
GEMS American Academy	2007	Abu Dhabi	American	Band A – High performing school	784	2,190
GEMS World Academy	2007	Dubai	IB	Good	1,474	2,070
GEMS Millennium School	2010	Sharjah	Indian	N/A	2,314	2,560
GEMS Winchester School	2011	Dubai	British	Acceptable	2,123	2,485
GEMS Wellington Academy	2011	Dubai	British	Good	2,289	2,866
GEMS World Academy	2011	Abu Dhabi	IB	Band A – High performing school	343	481
Little GEMS International Nursery	2012	Dubai	Pre-school	N/A	67	126
GEMS Westminster School	2012	Sharjah	British	N/A	659	3,600
GEMS Cambridge International School	2012	Nairobi	British	N/A	78	986
<b>TOTAL</b>					<u>79,489</u>	<u>89,474</u>

The table below highlights the GEMS Schools opened since 31 March 2013 and the committed projects that the Group intends to complete between 1 April 2013 and 30 September 2015:

<u>School</u>	<u>Established</u>	<u>Location</u>	<u>Curriculum</u>	<u>Rating</u>	<u>Capacity</u>
GEMS New Millennium School . . . . .	April 2013	Dubai	Indian	NA	3,380
GEMS Wellington Academy . . . . .	Sept 2013	Dubai	British	NA	2,190
GEMS International School . . . . .	Sept 2013	Dubai	IB	NA	2,900
GEMS Cambridge International School .	Sept 2013	Abu Dhabi	British	NA	3,400
GEMS Westminster School . . . . .	Sept 2013	Ras al Khaimah	British	NA	4,260
GEMS Cambridge International School .	Sept 2013	Kampala	British	NA	1,228
Bradenton Preparatory Academy . . . . .	Sept 2013	Dubai	American	NA	1,139
GEMS Winchester School . . . . .	Sept 2013	Abu Dhabi	British	NA	900
Little GEMS International . . . . .	Jan 2014	Dubai	Pre-school	NA	378
Our Own English High School . . . . .	April 2014	Doha	Indian	NA	4,290
GEMS Westminster School . . . . .	Sept 2014	Doha	British	NA	4,160
GEMS Winchester School . . . . .	Sept 2014	Dubai	British	NA	4,260
GEMS Lincoln Academy, Al Barsha . . .	Sept 2014	Dubai	American	NA	2,624
GEMS Cambridge International School, The Villa . . . . .	Sept 2014	Dubai	British	NA	3,620
GEMS Wellington School . . . . .	Sept 2015	Abu Dhabi	British	NA	2,190
<b>TOTAL</b> . . . . .					<u>40,919</u>

### ***GEMS INTEGRATED SERVICES***

The Group undertakes certain services that are complementary to the GEMS Schools business and that generate further revenues for the Group through fees charged to its students. The vast majority of the GEMS Integrated Services business is generated through the GEMS Schools network. However, the services are also offered to non-GEMS Schools and as such the GEMS Integrated Services are not branded or associated directly with the Group. The GEMS Integrated Services business mainly comprises transport services to students, extra-curricular sports training, school camps, after-school music, art and language training and teacher training.

In FY13, GEMS Integrated Services generated revenues of U.S.\$63.8 million of which transport services contributed U.S.\$59.5 million. In FY12, GEMS Integrated Services generated revenues of U.S.\$53.9 million, of which transport services contributed U.S.\$51.2 million.

A summary of GEMS Integrated Services' main business is set out below:

#### *Transport*

Two subsidiaries of the Group currently provide transportation services for students to and from school:

- Bright Bus Transport (**BBT**), which was formed in Dubai in June 2008. BBT is an entity that owns a fleet of school buses and other vehicles; and
- School Transport Services LLC (**STS**), which was formed in Dubai in August 2008. STS is a bus and car rental company which has an exclusive contract to operate the vehicle fleet owned by BBT and to provide transport services to students in the GEMS Schools network as well as to students in other non-GEMS Schools.

As at 31 March 2013, BBT and STS together employed over 1,800 staff and operated over 100 cars and over 1,350 buses on 1,100 routes carrying in excess of 56,000 students covering approximately 130,000 kilometres a day. The principal source of revenue for BBT and STS are the transport fees collected from parents. Additional revenue is generated from STS' car rental business and after-school transport services provided to the Group and third party private school operators. The principal costs of BBT and STS are driver salaries, fuel, vehicle maintenance, vehicle depreciation, vehicle insurance and vehicle financing costs.

#### *Other Activities*

The Group also generates income from various other complementary services provided by GEMS Integrated Services, which include extra-curricular sports activities, facility rental, school holiday camps, art



and language training, music academies, commission income from uniform sales and catering services to both GEMS Schools and non-GEMS Schools.

## ***GEMS EDUCATIONAL SOLUTIONS (EDSOL)***

### ***Overview***

EdSol was formed in July 2011 by combining two parts of the Group: the School Improvement Partnership Limited (established in 2007), which worked with governments and ministries of education to support all aspects of educational reform, and the GEMS Managed Schools business, which provided third party private school owners with management solutions and support. EdSol has built upon the existing client base of the School Improvement Partnership and managed schools businesses in the MEA region, targeting government contracts in the UAE, Saudi Arabia, Kuwait, and Bahrain, as well as school management contracts across the MEA region.

EdSol's strategy is to enter into consulting contracts that enhance the Group's relationship with government regulators, teachers, parents, relocation agents, employers and owners of private schools which in turn should help promote the GEMS Schools brand. The EdSol business seeks to continue to build recognition of the Group's brand by maintaining its reputation for excellence in the design and delivery of education and training. EdSol delivers its services to its clients under extended term contracts, commonly of a duration of two to three years, but with some contracts of up to five years.

Having become the only foreign-owned education group to be granted an education consultancy licence allowing it to operate in Saudi Arabia, the Group has entered into a management agreement through a 50:50 joint venture with a Saudi national under which it operates and manages a premium American curriculum school in Jeddah with a capacity of 1,600 places.

### ***Services provided by EdSol***

The EdSol business comprises the following four business lines:

#### ***Education Strategy***

EdSol advises governments and ministries of education in the MEA region by providing technical assistance, strategic reviews and policy development services focused on defining and meeting a country's educational improvement goals. As one of the largest operators of schools in the MEA region, the Group is able to demonstrate the necessary expertise and has significant experience to advise on strategy, design and implementation in areas such as teacher training, curriculum development, support services, school inspections and school improvement.

#### ***School Improvement***

EdSol's business is to provide support services to governments to enable them to achieve improved educational outcomes. School improvement programmes target education systems as a whole, or work with groups of schools. Typically the programmes focus on school turnaround, parental engagement, curriculum reform, professional development for teachers and school leaders, and establishing leadership, quality assurance and governance systems.

EdSol currently has a continuing professional development contract with the ADEC for the development of 68 schools in Abu Dhabi with a total contract value in excess of U.S.\$10 million. This contract commenced in February 2012 and it is expected that this contract would be concluded by August 2014.

#### ***Managed Schools***

EdSol provides management services to third party operators of government schools and privately owned schools to improve the performance of and thereafter to manage existing schools and to establish new schools. In the case of existing schools, once a management contract has been entered into with the relevant school, a team specialised in the management of schools from EdSol undertakes the process of imposing its standard operating procedures (tailored to the specific school) to improve the educational performance of the relevant school and its financial results.

EdSol is currently providing school improvement and management services to seven schools in Egypt, Jordan, Libya, the UAE and Saudi Arabia. The principal source of revenue for these contracts is consultancy fees during the pre-operational phase, followed by a management fee (typically calculated as a

percentage of gross revenues plus a percentage of net profit or EBITDA). In FY13, EdSol generated revenues of U.S.\$7.0 million from these managed schools contracts compared to revenues of U.S.\$13.1 million in FY12.

### *GEMS Skills*

EdSol currently intends to provide a range of skills-based courses to both public and private industry sector businesses, under the GEMS Skills brand. The courses will either be delivered through in-house facilities or through specific technical and vocational training colleges and will be accredited by either a national or international body depending on the type of course being provided. EdSol is actively pursuing opportunities with both private and public sector businesses through the GEMS Skills brand, however no formal arrangements have been concluded as at the date of this Prospectus.

## **INFORMATION TECHNOLOGY SYSTEMS**

The Group has comprehensive information technology infrastructure and systems that support its data driven approach to the management of its business. These systems enable its executive team, regional management, school principals and teachers to monitor and analyse data relating to key operating metrics. The Group's information technology platform allows for a centralised monitoring system for all GEMS Schools on a comparative and standalone basis. This enables it to ensure that the highest standards of quality education are offered across its network and to identify any GEMS Schools that are not meeting the required standards or are experiencing particular issues in their operation. With the benefit of the centralised monitoring system, the Group is able to deploy a specialised team to the affected school to take the relevant action required to resolve these issues in a targeted and effective manner. The Group uses a project management system to support its approach to high quality and timely delivery of services. The Group's information technology platform and systems are scalable so as to support the growth of the Group's business. The Group's information technology platforms are managed internally by dedicated IT professionals. The Group manages the availability of its networks through the use of well-resourced and modern technology. The Group monitors its systems on a real-time basis to verify the robustness and availability of its servers, network and data storage. The Group's server infrastructure uses resilient data storage technology and is located in GEMS' data centre hosted at Etisalat's High Availability Infrastructure in Hor Al Anz, Dubai.

In recent years, techniques within the education industry have increasingly focused on the effective use of information technology and the Group has embraced the use of this technology in its schools. See *"Approach to academic quality at the GEMS Schools – An academically rigorous educational programme"*.

All of the GEMS Schools have wireless network coverage, either in all areas or in common areas. The Group believes that it is at the cutting-edge of implementing the most advanced teaching solutions at its schools. Examples of this include the installation of wireless touchscreens in classrooms and allowing students to bring their own handheld devices to classes to benefit from interactive teaching methods. In certain GEMS Schools the Group also intends to install touchscreen walls to further enhance the learning experience of its students.

## **INTELLECTUAL PROPERTY**

The Group is the applicant or registrant of over 40 trademarks relating primarily to the Group's logos and the name "GEMS Education" throughout the regions in which the Group operates. The Group has also registered around approximately 70 domain names, including [www.gemseducation.com](http://www.gemseducation.com). The Group seeks to manage and protect such intellectual property for itself and GEMS Ex-Menasa Limited, which is the entity under which GEMS Education operates outside of the MEA region.

## **INTERNAL AUDIT**

The internal audit function is an independent function reporting directly to the Audit Committee and is governed by Board-approved terms of reference. The Audit Committee is chaired by Mr Saeed Al Muntafiq, the Head of Internal Audit, who has a direct reporting line to the Audit Committee and attends all of its meetings.

The Audit Committee's terms of reference require it to:

- select the Group's independent auditors and pre-approve all auditing and non-auditing services permitted to be performed by the independent auditors;

- review any audit problems or difficulties and management's response thereto with the independent auditors;
- ensure the accuracy and reliability of financial, regulatory and management reporting;
- ensure the independence and effectiveness of the Group's internal audit function; and
- annually review and reassess the adequacy of the Group's audit committee charter.

The Audit Committee's terms of reference are complemented by the Internal Audit Charter, which defines the purpose, authority, responsibilities and other aspects of the internal audit activities. In addition, the Group's internal audit framework includes:

- an internal audit policy and instructions manual;
- various internal policies and instructions as provided by the Board;
- external laws and regulations; and
- standards set by The Institute of Internal Auditors.

The internal audit process begins with determination of an audit strategy and an annual audit plan that are approved by the Audit Committee. The strategy and plan are based on an assessment of the inherent risks faced by the Group, estimated timelines and available resourcing. The approved strategy and plan forms the basis for performing audits on an annual basis.

## **INSURANCE**

The Group maintains insurance cover in respect of various insurable risks under a range of insurance policies. These include property, fire and consequential loss, public liability, money insurance, fidelity guarantee, personal injury and medical malpractice. Assets are covered on a replacement cost basis. The Group also has in place insurance cover for its teachers and staff such as credit life insurance, credit card insurance, travel insurance, mortgage property insurance and mortgage life insurance.

## **HEALTH, SAFETY AND ENVIRONMENT**

The Group is required to comply with a number of health, safety and environmental requirements. In order to comply with these requirements, management believes that it has adopted sufficient policies and procedures for student safety, mainly relating to building and transportation, which are implemented in all the regions in which it operates.

In relation to building safety policies, the Group has adopted procedures to comply with the guidelines and recommendations as prescribed by the relevant regulatory authorities in each of the regions in which the GEMS Schools operate. Such procedures include, but are not limited to, building design, fire risk assessment and emergency procedures.

The Group's transport business is regulated by the Roads & Transport Authority in Dubai and by the Department of Transport in Abu Dhabi. The Group has developed procedures to comply with the prescribed safety guidelines in respect of the transportation services that it provides. Such procedures include maintaining safety features such as emergency exits, seating capacity specifications and prescribed seat sizes and the implementation of detailed safety checks on all vehicles on a daily basis to ensure compliance with the above safety measures. In addition, the Group ensures that all drivers have the required licences, qualifications and authorisations to transport children.

In addition, the internal audit team undertakes a regular review of the health, safety and environmental standards across the Group's operations to ensure that the applicable policies are being adhered to. The internal audit team's findings are reviewed by the Chief Operating Officer and the Director of School Administration.

## MANAGEMENT AND EMPLOYEES

### Chairman of the Group

- Sunny Varkey** . . . . .  
*Chairman*
- Mr Sunny Varkey became Chairman of GEMS Education in 1980 and has been the Chairman of GEMS since its incorporation. He developed GEMS Education from a single school in Dubai into one of the world's largest providers of high quality private education and related services. He remains active and involved in the day-to-day running of the GEMS Education business.
  - He is also a trustee of the Varkey GEMS Foundation which is the philanthropic arm of GEMS Education. The Varkey GEMS Foundation aims to utilise the resources of GEMS Education to improve children's education globally.
  - In 2012, he was named a UNESCO Goodwill Ambassador in recognition of his contribution to forging innovative public and private partnerships to ensure that underprivileged children across the world receive a good quality education.

### Board of Directors of the Group

The Board of Directors of the Group (the **Board**) is responsible for the overall direction, supervision and control of the Group and the Group Chief Operating Officer conducts the day-to-day management of the Group.

The Board's duties and responsibilities include:

- leading and guiding the execution of the Group's business strategies;
- overseeing management the Group;
- managing, monitoring and overseeing the business and the corporate governance framework of the Group;
- approving strategic and financial plans, annual budgets, major funding proposals, investment and divestment proposals;
- monitoring and assessing the Group's internal controls and compliance with applicable laws and regulations; and
- approving compensation, establishing a performance review process and adopting a succession plan for senior management.

The Board meets periodically and decisions of the Board are made by majority votes of those present (in person or by proxy) at the meeting. The Board and senior management have delegated certain powers to the Audit Committee, the Executive Committee and the Investment Committee, as described below.

## Board of Directors of the Group

Title	Experience
<b>C.N. Radhakrishnan</b> . . . . . <i>Director</i>	<ul style="list-style-type: none"> <li>• Mr C.N. Radhakrishnan is currently a director of the Group.</li> <li>• He joined Varkey Group Limited, the ultimate parent company of the Group, in 1998 as Vice President (Finance and Planning). Since then he has served Varkey Group Limited in various senior executive and finance roles.</li> <li>• Prior to joining the Varkey Group Limited in 1998, he was the Chief Operating Officer of a manufacturing group based in India.</li> </ul>
<b>Dino Varkey</b> . . . . . <i>Director and Group Chief Operating Officer</i>	<ul style="list-style-type: none"> <li>• Mr Dino Varkey joined GEMS Education in 2003 and is currently the Group Chief Operating Officer (the <b>COO</b>) of the Group.</li> <li>• He leads the operations and strategic global business development of the Group. He oversees the day-to-day operations of the Group and the efficient implementation of policies and processes.</li> </ul>
<b>Jay Varkey</b> . . . . . <i>Director – Business Development &amp; Commercial</i>	<ul style="list-style-type: none"> <li>• Mr Jay Varkey joined the Group in 2008 and has expertise in business development, with a focus on the MEA region.</li> <li>• He actively develops professional and beneficial relationships with the Group’s clients and partners both globally and regionally.</li> </ul>
<b>Sherly Varkey</b> . . . . . <i>Director</i>	<ul style="list-style-type: none"> <li>• Ms Sherly Varkey has been a director of the Group since 2007.</li> <li>• She provides oversight and guidance on strategic employee and human resource issues.</li> </ul>

The business address of each member of the Board is GEMS Education Offices, Interchange 4, Sheikh Zayed Road, P.O. Box 8607, Dubai, United Arab Emirates. No member of the Board has any actual or potential conflict of interest between his or her duties to the Group and his or her private interests and/or other duties.

## Audit Committee of the Group

The primary responsibilities of the Audit Committee are to: (a) select the Group’s independent auditors; (b) review and supervise the Group’s financial reporting processes and internal control systems; and (c) annually review and reassess the adequacy of the Group’s Audit Committee Charter. The Audit Committee is comprised of two members and is chaired by Mr Saeed Al Muntafiq. The other member of the Audit Committee is Mr C. N. Radhakrishnan. The Director of Internal Audit, the Chief Financial Officer and the COO are also invited to attend Audit Committee meetings.



## Senior Management of the Group

The COO is responsible for executing the Group’s strategy and overseeing its business on a day-to-day basis. The COO reports directly to the Board and keeps the Board fully informed of all important aspects of business performance. The COO is supported by the senior management team which comprises the following:

Title	Experience
<b>Nick Guest</b> ..... <i>Chief Financial Officer</i>	<ul style="list-style-type: none"> <li>• Mr Nick Guest joined the Group in 2011 as Chief Financial Officer and is responsible for the overall financial policy, control and management of the Group.</li> <li>• He is a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the Association of Corporate Treasurers.</li> <li>• He was previously Group Treasurer and Director of Corporate Finance of Stagecoach Group plc, a listed global public transportation company.</li> <li>• He has significant international debt and equity capital raising experience and has worked on flotation processes involving the Main Market of the London Stock Exchange (LSE), the Alternative Investment Market of the LSE and the Irish Stock Exchange.</li> </ul>
<b>Vikas Pota</b> ..... <i>Global Head of Corporate Affairs and Chief Executive of the Varkey GEMS Foundation</i>	<ul style="list-style-type: none"> <li>• Mr Vikas Pota joined the Group in 2010 and is responsible for the Group’s external engagements globally. He also provides leadership to the Varkey GEMS Foundation.</li> <li>• Previously, he ran his London-based corporate affairs and strategic communications business, which he founded in 2003. In that business, he provided advisory services to leading businesses and Chief Executive Officers (CEO) wanting to engage with emerging economies.</li> <li>• Prior to this, he led an independent parliamentary group in the British Houses of Parliament, where he advised leading government ministers, civil servants and stakeholders on various strategic issues.</li> </ul>
<b>Margaret Atack</b> ..... <i>Group Senior Director, Education</i>	<ul style="list-style-type: none"> <li>• Ms Margaret Atack joined GEMS in 2005 and was appointed as Group Senior Director of Education in January 2012.</li> <li>• Her focus is the strategic development of effective school leadership, quality learning and teaching techniques and ensuring that students’ needs are addressed to deliver outcomes in excess of expectations.</li> <li>• She is an education professional with over 35 years of experience in both the public and private sectors.</li> </ul>

Title	Experience
<b>Chris Kirk</b> . . . . . <i>Chief Executive Officer – GEMS Education Solutions</i>	<ul style="list-style-type: none"> <li>• Mr Chris Kirk joined the Group in 2011 as CEO of GEMS Education Solutions.</li> <li>• He specialises in Education policy development and delivery, education organisational improvement and education research and evaluation.</li> <li>• He has 17 years of experience in the education industry, in both the public and private sectors. He was an employee of PricewaterhouseCoopers (PwC) for 11 years, where he led its UK education practice and was also Chair of the PwC Global Education Network.</li> </ul>
<b>Fara Sidiqqi</b> . . . . . <i>Director – Human Resources</i>	<ul style="list-style-type: none"> <li>• Ms Fara Sidiqqi joined the Group in 2009 as Director – Human Resources.</li> <li>• She has over 18 years of experience working with multi-national organisations in strategic human resources, recruitment and retention, employee engagement, compensation and benefits, employee relations and development and performance management of staff.</li> <li>• Prior to joining the Group, she held an executive human resources position at Bank of America.</li> </ul>
<b>Noel Motha</b> . . . . . <i>Group General Counsel</i>	<ul style="list-style-type: none"> <li>• Mr Noel Motha joined the Group in 2013 as the Group General Counsel and oversees all legal, regulatory, compliance and corporate governance work for the Group.</li> <li>• He is an English qualified Solicitor with over 15 years of international projects experience. Previously, he worked in private practice at the law firm Allen &amp; Overy LLP. He has also worked in senior in-house roles at Hitachi and most recently as General Counsel at a subsidiary of Dubai World.</li> </ul>
<b>Mark Ryder</b> . . . . . <i>Group Head of Real Estate</i>	<ul style="list-style-type: none"> <li>• Mr Mark Ryder joined the Group in 2011 as Global Head of Real Estate.</li> <li>• He has over 20 years of experience within the property industry, working as a planner, solicitor and developer in senior roles.</li> </ul>
<b>Graeme Fisher</b> . . . . . <i>Director – Design and Infrastructure</i>	<ul style="list-style-type: none"> <li>• Mr Graeme Fisher joined the Group in 2012 as Director – Design and Infrastructure.</li> <li>• He is a British-qualified architect.</li> <li>• Prior to joining the Group, he was a Partner at Godwin Austen Johnson, a Dubai-based British architectural practice.</li> <li>• He has 17 years of school building design experience. He was head of the education sector at Godwin Austen Johnson, where he led a team of 20 architects and interior designers dedicated to primary, secondary and tertiary education projects in the Middle East region.</li> </ul>

Title	Experience
<b>Servee Palmans</b> . . . . . <i>Director – School Administration and Business Operations</i>	<ul style="list-style-type: none"> <li>• Mr Servee Palmans joined the Group in 2009 as Director of School Administration and Business Operations.</li> <li>• He has over 18 years of experience working in the hospitality industry, including working with Hilton International and Starwood Hotels and Resorts in the United Kingdom, Germany, Bahrain, Egypt and the UAE.</li> <li>• He has extensive experience in business operations, client satisfaction, brand assurance, change management, innovation and corporate responsibility. He has previously held senior operational management positions, including Regional Director of Six Sigma and Operational Innovation for Starwood Hotels and Resorts.</li> </ul>
<b>Elmarie Venter</b> . . . . . <i>Director – School Enrolments and Customer Care</i>	<ul style="list-style-type: none"> <li>• Ms Elmarie Venter joined the Group in 2007 as Director of School Enrolments and Customer Care and is responsible for student enrolments and developing admission strategies in all GEMS Schools.</li> <li>• She has previously worked for Emirates airlines with the Business Development team where she was responsible for establishing communications and building relationships with external business. She has over 15 years of multinational experience in quality assurance, customer care and business development.</li> </ul>
<b>Alison Arnold</b> . . . . . <i>Director of Marketing</i>	<ul style="list-style-type: none"> <li>• Ms Alison Arnold joined the Group in 2012 as Group Director of Marketing.</li> <li>• She has previously worked in a number of senior marketing positions including, most recently, at PepsiCo International as Vice President of Marketing – Indo-China.</li> </ul>
<b>Hervé Marchet</b> . . . . . <i>Group Chief Technology Officer</i>	<ul style="list-style-type: none"> <li>• Mr Hervé Marchet joined the Group in 2012 as Group Chief Technology Officer.</li> <li>• He has previously held an executive leadership position at Apple Computers Inc. for 12 years where he led sales, marketing activities and business development for the Europe, Middle East, India and Africa education markets.</li> </ul>
<b>Vinay Gupta</b> . . . . . <i>Director – Internal Audit</i>	<ul style="list-style-type: none"> <li>• Mr Vinay Gupta joined GEMS Education in 2006 and is currently Director-Internal Audit for the Group. In his current role, he reports directly to the Chairman through a formally established Audit Committee.</li> <li>• He has previously held a senior management position in the Assurance division of PwC, Dubai.</li> <li>• He is a Fellow Chartered Accountant from the Institute of Chartered Accountants of India and has over 23 years' post-qualification experience in audit and business advisory services having worked in India, Fiji and the United Arab Emirates.</li> </ul>

Title	Experience
<b>Ravi Ramani</b> . . . . . <i>Director – Operational Finance</i>	<ul style="list-style-type: none"> <li>• Mr Ravi Ramani joined GEMS Education in 2005 and is currently heading the Operational Finance team for the Group.</li> <li>• He is an Associate of the Institute of Chartered Accountants of India and is an alumnus of the London Business School.</li> <li>• He is responsible for evaluating business models of all new schools and existing school expansions in line with broad investment thresholds.</li> <li>• He previously worked at the Executive Office of His Highness in Dubai and Reliance Industries in India, and has experience in financial planning and analysis.</li> </ul>

### Management Committees

The Board has delegated powers to the Group’s management committees, which comprise the:

- **Executive Committee (Excom):** Excom supports the COO and the senior management in decision making, reviewing developments within the businesses, managing the day-to-day operations of the Group, discussing strategic matters and formulating recommendations for the Board and the Audit Committee. Excom is led by Mr Dino Varkey. The other members of Excom from the Board are Mr Jay Varkey, Mr C.N. Radhakrishnan and the senior management team together with selected departmental staff, as appropriate; and
- **Investment Committee (IC):** IC determines and sets the parameters for risk and approves investment decision making in accordance with the approval authorities delegated by the Board or the Audit Committee. The members of the IC are Mr Dino Varkey, Mr Nick Guest, Mr Jay Varkey, Mr C.N. Radhakrishnan, Mr Ravi Ramani, Ms Margaret Atack and Ms Alison Arnold.

### EMPLOYEES

As at 31 March 2013, the Group had 9,595 staff, of whom 5,232 were teaching staff, 4,108 were school administration and support staff, 210 were group head office support staff and 45 were education professionals in the EdSol business unit.

The table below shows the number of employees employed in certain units of the Group as at 31 March 2013:

Unit	Employees
GEMS Schools . . . . .	7,887
GEMS Integrated Services . . . . .	1,453
EdSol . . . . .	45
Corporate . . . . .	210
<b>Total</b> . . . . .	<b>9,595</b>

The success of the Group depends upon its ability to attract, develop and retain skilled education professionals and managerial staff. The Group uses a range of strategies to identify, select and employ its staff and to facilitate its international growth. The Group has a dedicated recruitment team, utilises leading social media networks and receives a substantial number of applications (over 50,000 applications in the 12 months to 31 March 2013) from potential employees enquiring about job opportunities. In March 2013, GEMS Education, in association with The Varkey GEMS foundation, the philanthropic division of GEMS Education, organised the Global Education and Skills Forum which was attended by 500 delegates from 50 countries to discuss the global demand for better education. The Group has successfully recruited skilled specialised education professionals from different parts of the world through a rigorous selection procedure.

The Group is the employer of the largest number of British and Indian teachers outside of their respective home countries. Education professionals are attracted to the Group due to its high quality schools and the

provision of superior professional development, career progression and job security compared to 'stand-alone' schools.

The human resources (**HR**) function is centralised at the Group and HR policies are uniform across all schools. HR policies are developed through the identification of needs and based on feedback from different stakeholders across the business. Before being implemented, any new employment policies are reviewed by the Group Human Resources Director and the compensation and benefits team for suitability, legal compliance and relevance to the business.

#### ***Employee Development and Performance Management Programmes***

The Group's performance management and employee development programmes provide a foundation for all employees to discuss and align their objectives to the Group's goals, develop individual development plans and seek on-going training and feedback. The Group provides a comprehensive range of development programmes, led by its in-house professional development department.

All employees participate in a performance management process with their immediate line manager, including a mid-year and end-of-year review.

#### ***Employee Compensation and Reward Scheme***

The Group provides competitive compensation packages to its employees with salary reviews conducted annually to ensure alignment with market trends and practices. In addition, the Group offers attractive packages to expatriate employees, including accommodation and various other benefits which compare favourably with teacher salaries in their home countries. The success of GEMS Schools is dependent on the calibre of the Group's teachers. In order to reward high performing teachers, the Group has several reward schemes in place for all employees.

Each employee, depending on his or her position, is eligible for a combination of fixed and variable benefits relevant to their position. The fixed elements include items such as housing allowance, private medical coverage, flight allowances, subsidised school placements for dependants and end of service benefits. Certain of these benefits are prescribed by the relevant laws of the countries in which the GEMS Schools are located and others are reviewed in line with the advice of internal and external compensation and benefits experts.

#### ***Employee Retention***

Employee morale and engagement is an integral part of the Group's culture and value system which supports the retention of its employees. The Group's engagement with its employees is gauged through feedback which frequently results in actions for improvement. Currently, the annual teacher turnover rate for teachers that teach all curricula other than Indian curricula at GEMS Schools is approximately 20 per cent. and for teachers teaching Indian curricula is approximately 15 per cent.



## REGULATION

The regulatory frameworks that apply in each of the markets within which the Group currently operates, and each of its target markets, differ in both scope and approach. In certain markets, regulators are authorised to influence and/or determine key inputs of GEMS Schools (such as school fees). GEMS Schools are subject to regular inspections and in some cases inspection reports are published on the relevant regulator's website.

Below is a summary of the regulatory regimes prevailing in the key markets in which the Group operates or which it has identified as key target markets for growth.

### UNITED ARAB EMIRATES

The UAE Federal Ministry of Education (the **UAE Ministry of Education**) was established in 1971 and is responsible for all aspects of education in the UAE. It is also responsible for planning, implementing, supervising and harmonising the education system. The education sector is regulated separately in each of the seven Emirates of the UAE, namely: Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al Quwain, Ras Al Khaimah and Fujairah.

#### *DUBAI*

##### *Regulator and Laws*

The principal regulator of education in Dubai is the Knowledge and Human Development Authority (the **KHDA**) of the government of Dubai. The KHDA was established to develop all knowledge and human resource sectors and align them with international standards and best practices. The KHDA's aims and objectives are to ensure the continuous development of the education sector and to improve the quality and outcomes of education at all stages.

##### *Quality Assurance and Inspection*

The Dubai School Inspections Bureau (the **DSIB**) was established by the Executive Council of the Government of Dubai in 2007 to produce a comprehensive assessment of educational standards and school performance for both public and private sector schools in Dubai. The DSIB's mandate includes:

- setting educational quality standards, helping schools develop such standards and setting performance indicators to evaluate these standards;
- publishing separate reports about each school in Dubai to achieve transparency and access to high quality education;
- monitoring the schools that do not meet the standards for quality education; and
- suggesting agreements with international educational authorities and organisations to facilitate inspection and monitoring processes.

The inspection of every school is based on certain key criteria that are used to judge the overall performance of a school. Such criteria include, but are not limited to, how well the students are progressing in key subjects, how well the students are developing on a personal and social level, the standard of teaching, learning and assessment at the relevant school, how closely the curriculum meets the educational needs of the student, the views of parents, teachers and students and the standard of leadership and management of the school.

In order to provide a rating for each school, inspectors use the following four-point scale to express judgements on the overall performance of a school:

- **Outstanding:** exceptionally high quality of performance or practice;
- **Good:** the expected level for every school in Dubai;
- **Acceptable:** the minimum level of acceptability required for Dubai. All key aspects of performance and practice that each school in Dubai is expected to meet or exceed; and
- **Unsatisfactory:** quality not yet at the level acceptable for schools in Dubai. Schools are expected to take urgent measures to improve the quality of any aspect of their performance or practice that is judged at this level.

In the academic year 2011-2012, 52 schools in Dubai operated a British curriculum. In order to identify schools that are also 'British' in character amongst those that offer a British or international curriculum, the KHDA and the Department for Education of England and Wales (**DfE**) have agreed to provide combined DSIB and BSO inspections. These will be carried out concurrently by DSIB and CfBT Education Trust (the DfE's approved provider of BSO inspections), which will consequently minimise disruptions to teachers Education Trust and classes.

The combined inspections are available to all schools in Dubai that consider themselves to be British in character. Schools that wish to be licensed as 'British' schools with the KHDA are required to apply for combined DSIB and BSO inspection. Successful schools will be accredited as British Schools Overseas for a period of three years. Where appropriate, schools within the network of GEMS Schools intend to apply for the British Schools Overseas (**BSO**) status.

#### ***Fee Framework***

In March 2012, the KHDA announced the "School Fees Framework" which applies to all private schools that have been operating in Dubai for more than three years. The framework applies to all tuition fees and to any fees or costs related to services that are provided directly by the schools. New private schools are not allowed to increase their tuition fees in the three years following the date of commencement of their educational activity.

Ordinarily, private schools that are eligible to increase fees can only do so at a rate based on: (a) a multiple of between one and two times the annual Education Cost Index (**ECI**) published by the Dubai Statistics Centre (**DSC**); and (b) the individual school inspection ratings awarded by the DSIB. For the academic year 2013-2014, the ECI has been announced by the KHDA as being - 1 per cent. and no fee increases have been permitted. By comparison, for the academic year 2012-2013, the ECI was fixed at 3 per cent. and fee increases were applied accordingly. The KHDA will consider applications for exceptions to the general framework for fee increases (subject to certain conditions laid out in the framework). See "*Financial Review – Principal components of the Group's results of Operations – Income*".

#### ***ABU DHABI (INCLUDING AL AIN)***

##### ***Regulator and Laws***

The principal regulator of education in Abu Dhabi is the Abu Dhabi Education Council (**ADEC**) of the Government of Abu Dhabi. The ADEC seeks to: (a) develop education and educational institutions in Abu Dhabi; (b) implement innovative educational policies, plans and programmes that aim to improve education; and (c) support educational institutions and staff to achieve the objectives of national development in accordance with the highest international standards.

Private schools in Abu Dhabi are governed by the ADEC under the following three parameters:

- quality assurance and inspections;
- licence applications; and
- the villa schools initiative.

The Group currently operates one school in a villa in Abu Dhabi under the 'Our Own English High School' brand. As part of the ADEC villa schools initiative the Group has been allocated land to relocate its villa school students to a purpose built facility by April 2014.

Operators wishing to open a new school must apply to the ADEC for a provisional licence. New schools are inspected after they have obtained their provisional licences and have started operation. If the inspection confirms that the school is operating at least satisfactorily in relation to the ADEC's inspection standards, the ADEC will issue the school with a full licence. In addition, the ADEC has laid out specific guidelines for the opening of new schools and evaluates all new school applications based on this set of guidelines.

##### ***Quality Assurance and Inspection***

In August 2010, the ADEC released a framework for the inspection of private schools in Abu Dhabi. All private schools are required by law to register with the ADEC and be inspected. Currently, schools are inspected approximately once every two years but it is the ADEC's stated intention that the most successful schools will be inspected less frequently.

The ADEC oversees an inspection and school improvement programme that ensures that all schools are meeting safety, well-being, and educational quality standards. The inspection process involves a self-evaluation process completed by the schools, followed by a review of the schools by an independent and experienced inspection team. The inspection teams spend approximately one week in each school under review, measuring the school's performance against its self-evaluation and the ADEC's standard framework. All schools are expected to have school improvement plans in place, regardless of their initial evaluation results.

The inspection framework is based on nine standards: overall school effectiveness; student achievement and progress; personal development of students; teaching quality; curriculum; the protection, care, guidance, and support of students; quality of facilities; school resources; and leadership and management. Each standard is judged against detailed criteria by the ADEC inspectors on an eight-point scale ranging from "Outstanding" to "Poor".

#### ***Fee Framework***

The ADEC has also implemented procedures for schools to follow when applying for fee increases. These procedures include the provision of financial statements (covering the last two years) audited by external auditors, the financial plan for the new academic year and subsequent years and a form provided by the ADEC supported with the required financial documents.

The schools are also required to present their plan for educational development for the next two years along with the associated estimated costs, the date of the last approved increase for the school's fees and the extent of balance between: (a) the current or projected fee level with the capacity of parents to afford the tuition fees; and (b) the assessment of the school's performance level. The ADEC then studies the applications and appoints two committees to consider the financial and educational situation of the school prior to issuing a decision with regards to the increase, taking into account a reasonable profit level to be made by the school, as measured against the investment made by the owners of the school.

While examining applications for fee increases, the ADEC also compares the fee level of the school applying for the increase with the fee levels in similar schools providing an equivalent educational service. This comparison uses a checklist of global standards prepared by a panel of experts from the ADEC.

### ***SHARJAH***

#### ***Regulator and Laws***

Education in Sharjah is regulated by the Sharjah Education Zone (**SEZ**) which is an administrative body under the UAE Ministry of Education. The SEZ aims to establish national minimum standards for the quality of private school education, promote the effective operation of private schools and attain stated objectives which include:

- advancing the national educational objectives and participating in the development of a national educational system for the benefit of the whole society;
- providing appropriate educational opportunities for the children of non-citizens who live in the UAE;
- providing a quality alternative to the public school system; and
- encouraging competition among private schools that will lead to improved educational quality.

#### ***Quality Assurance and Inspection***

Private schools are required to obtain the UAE Ministry of Education's approval of their curriculum, through the SEZ, and to file annual comprehensive reports with the SEZ. The SEZ conducts periodic reviews and inspections of all licensed private schools to ensure compliance with the UAE Ministry of Education's by-laws and rules.

#### ***Fee Framework***

Private schools are required to submit details of their tuition fees, as well as any proposed fee increases, to the UAE Ministry of Education, for approval. Fee increases are subject to the operational rules of the UAE Ministry of Education which allow a maximum increase of 10 per cent. one year after the last increase, 20 per cent. two years after the last increase and 30 per cent. three-years after the last increase. In 2010, the UAE Ministry of Education approved a three-year fee increase plan for the GEMS Schools

operating the Indian curricula. As a result two GEMS Schools in Sharjah received a 10 per cent. annual fee increase for three years from April 2010.

### ***FUJAIRAH AND RAS AL KHAIMAH***

Education in Fujairah is regulated by the Fujairah Education Zone and in Ras Al Khaimah by the Ras Al Khaimah Education Zone which are administrative bodies of the UAE Ministry of Education. The quality assurance and inspection and fee framework regimes in Fujairah and Ras Al Khaimah follow the guidelines set by the UAE Ministry of Education as described above in relation to the rules and regulations in operation in Sharjah.

### ***UAE REGULATIONS ON TRANSFERS OF FOREIGN EXCHANGE***

Neither the federal government of the UAE nor the individual Emirates impose foreign exchange controls.

### **SAUDI ARABIA**

#### ***Regulator and Laws***

The Ministry of Education in Saudi Arabia (the **Saudi Arabian Ministry of Education**) regulates the country's education sector under the supervision of the Supreme Committee for Educational Policy. The Saudi Arabian Ministry of Education aims to:

- provide opportunities for education to all citizens of learning age, according to their abilities and inclinations, and to facilitate these opportunities by providing the appropriate infrastructure and services; and
- improve the curriculum and constantly upgrade the general education system so that it is in accordance with contemporary societal and industry requirements.

Saudi nationals, Saudi entities, and GCC entities can obtain licences from the Saudi Arabian Ministry of Education to establish private schools. This complicates the direct entry of any non-GCC company into the Saudi Arabian private education sector, requiring convoluted legal structures to be put in place. See "*Description of the Group – The Group's Business Structure – GEMS Educational Solutions (EDSOL)*".

At present, the Group only operates managed schools through EdSol in Saudi Arabia and the school owner is therefore responsible for obtaining the required licensing, fee and other operational approvals.

#### ***Quality Assurance and Inspection***

Although the large majority of schooling in Saudi Arabia is provided by the public sector, private education is considered one of the key elements in supporting the government's education initiatives. For example, the Saudi Arabian Ministry of Education has proposed an 'education voucher' system pursuant to which the Saudi Arabian Ministry of Education will issue education vouchers to students which will entitle Saudi students at public schools to transfer to private schools. The transfer process will be undertaken in phases so as to ensure that the transfer of students from public schools to private schools does not adversely affect the operation of the relevant public schools. The education voucher system is intended to drive the gradual transition in Saudi Arabia towards the privatisation of the education system. The regulation governing the education voucher system is expected to be implemented once the inspection regime for the assessment of private schools has been finalised.

Currently, the General Department for Private and International Education at the Saudi Arabian Ministry of Education is mandated to "*support, assist, supervise and guide private education in order to achieve the pursued goals*". The government provides private schools with free textbooks and annual financial aid and also appoints and pays for a qualified director in every school. However, schools that do not deliver Saudi curricula receive less support from the government.

The new Accreditation Commission aims to improve the outcomes of the general education system, and raise its efficiency. Amongst its duties, it shall set the standards for curricula, teachers and the school environment. The Accreditation Commission will assess the general performance of schools and prepare and implement national tests.

### *Fee Framework*

Private schools in Saudi Arabia are subject to fee regulation and all schools planning to raise their fees must submit their fee increase plans to the General Department for Private and International Education at the Saudi Arabian Ministry of Education before the end of December in each year to get the approval for the next school year.

### *Regulations on Transfers of Foreign Exchange*

Saudi Arabia does not impose foreign exchange controls.

## **QATAR**

### *Regulator and Laws*

The education sector in Qatar is controlled jointly by the Ministry of Education (the **Qatari Ministry of Education**) and the Supreme Education Council (**SEC**). The SEC directs Qatar's education policy and plays an integral role in the development and implementation of education reform, including the work of the institutes described below:

- the Education Institute, which oversees the registration of new schools and supports independent schools;
- the Evaluation Institute, which develops and conducts testing of students, monitors student learning, evaluates school performance and oversees the teacher accreditation board;
- the Higher Education Institute, which advises individual schools about career options and opportunities for higher education in Qatar and abroad and administers scholarships and grants; and
- the Private Schools Office (**PSO**), which is responsible for administering private school licences and approving private school fees.

### *Quality Assurance and Inspection*

Private school standards are based on Ministerial Decision No. (8) of 2009. The regulations of the SEC and the Qatari Ministry of Education on the operations of private schools govern areas such as curriculum, staffing policies, facilities, fee structure and performance standards.

### *Fee Framework*

Fees are approved and regulated by the SEC both on commencement of a school and on an on-going basis. The GEMS School in Qatar is currently still under construction and as such the Group does not have any experience with fee increases or fee setting trends.

### *Regulations on Transfers of Foreign Exchange*

Qatar does not impose foreign exchange controls. Equity capital, loan capital, interest, dividends, branch profits, royalties and management fees can be freely remitted.

## **KENYA**

### *Regulator and Laws*

The Ministry of Education in Kenya (the **Kenyan Ministry of Education**) is responsible for regulating the country's education sector. The Kenyan Ministry of Education's stated mission is:

- to provide, promote and co-ordinate lifelong education, training and research for Kenya's sustainable development; and
- to focus on priority areas within overall education goals, notably towards attaining 'universal primary education', within the context of the wider objective of 'Education for All' by 2015.

In fulfilling its mission the Kenyan Ministry of Education's overall objectives are to ensure equitable access, attendance, retention, attainment and achievement in education, science, research and technology by ensuring affordability of education for students and parents. The Kenyan Ministry of Education seeks to mobilise resources for sustainable and efficient delivery of relevant educational research, technological and other educational services. The Kenyan Ministry of Education seeks to ensure co-ordination between the



government, donors, NGOs and communities to provide sufficient financing to support the delivery of education and training and promote and popularise a science and technology culture for the current generation.

The Kenyan Ministry of Education has set frameworks and guidelines for different levels of education including: “Basic Education including Early Childhood Development”, “Secondary Education” and “Quality Assurance and Standards”.

#### ***Quality Assurance and Inspection***

The Kenyan Ministry of Education’s policy framework on early childhood development (ECD) is intended to regulate the provision of services for infants and children. The ECD policy framework is based on principles that are universally accepted as forming the cornerstone of quality early childhood development services and programmes including:

- ensuring that the holistic needs of young children are met to maximise the realisation of their full potential;
- safeguarding the rights and welfare of the child as per the Children Act of 2001;
- addressing the issues of vulnerable and marginalised children, especially children with special needs, and provide affirmative action for them; and
- ensuring non-discrimination of children and families on the basis of gender, race, colour, religion, economic status, disability and health status.

#### ***Fee Framework***

Private schools in Kenya are not subject to fee regulation and can set their own fees without restrictions from the Kenya Ministry of Education.

#### ***Regulations on Transfers of Foreign Exchange***

Companies are free to repatriate income out of Kenya, subject to the payment of any taxes applicable. At present the Proceeds of Crime and Anti-Money Laundering Act of Kenya provides that any transaction which involves the movement of U.S.\$10,000 or more from Kenya to another country must be supported by documentary proof of the reason for such a transfer.

## **UGANDA**

#### ***Regulator and Laws***

The education sector in Uganda is regulated by Ministry of Education and Sports (MoES) predominantly under the Education Act 2008. The MoES regulates all public and private schools in Uganda. The GEMS School which opened in Kampala in September 2013, will be regulated by the MoES’s Directorate of Basic and Secondary Education under the Private Secondary Schools department.

International schools, such as the GEMS School opened in Kampala, do not fall directly under MoES’s mandate and are primarily governed under municipality regulations, although as stated above the MoES has overall regulatory responsibility for such schools. In the capital, Kampala, the Kampala Capital City Authority is the main regulator for the education sector. In the medium to long-term this is expected to change as MoES is currently in the process of developing guidelines for international school operations.

Under the existing regulations, no person may teach in any public or private school unless they are either registered as a teacher with the Director of Education, after completion of a teaching course, or licensed to teach the national curriculum through a statement of eligibility made by the Director of Education. However, there are currently no licensing requirements under the Kampala Capital City Authority regulations for teachers teaching international curricula.

#### ***Quality Assurance and Inspection***

MoES has the right to review the activities of an education institution, including international schools, and produce an inspection report.

### ***Fee Framework***

Currently, no formalised fee framework exists in Uganda. Notwithstanding this, in practice proposed fee increases are usually approved following discussions with and in consultation with MoES.

### ***Regulations on Transfers of Foreign Exchange***

Ugandan law imposes no restrictions on capital transfers in and out of Uganda. Companies can obtain foreign exchange and make transfers at commercial banks without approval from the Central Bank of Uganda in order to repatriate profits, dividends, and make payments for imports and services. The Central Bank of Uganda prefers that companies make large transfers through the Central Bank of Uganda itself in order to help it monitor and maintain the stability of the Ugandan shilling, though this is not a requirement. There have been no reported problems with the ability to perform currency related transactions in Uganda.

## INDUSTRY OVERVIEW

### THE GROUP'S MARKET

The Group is among the MEA region's largest providers of high quality private education and related services to children in K-12 schools. The Group also provides educational consulting services to governments and third party private schools in the MEA region through its EdSol brand. The Group operates in high-growth markets characterised by strong wealth creation, significant foreign direct investment and economic growth. In the MEA region there has been a shift in the education industry towards parents placing a greater emphasis on providing a high standard of quality education for their children which has resulted in greater demand for private education.

The Group considers the following to be the main drivers of its business:

- ***school age population growth***: in each of the locations where the Group operates, there is a steadily increasing demand for new private schools due to the general population growth and the growth in the K-12 school age population;
- ***high per capita income in the Gulf Cooperation Council (GCC) region***: high income levels among GCC nationals and expatriates has led to an increase in living standards, an increase in disposable incomes and a growing willingness of parents to provide high quality private school education to their children;
- ***globalisation and migration of citizens***: rapid globalisation and the high number of expatriates in each of the Group's markets have led to greater demand for quality international private school education;
- ***aspirations and rapid urbanisation***: the MEA region has recently experienced a high rate of population growth in urban areas and a shift from families living in suburban areas to living in large cities, as individuals seek improved job opportunities. This has also resulted in higher aspirations for parents moving to urban areas and cities to provide high standards of quality private education to their children;
- ***better quality of education***: private schools have been proven to provide a better quality of education than public schools in most of the countries that the Group operates in. As a result, parents are increasingly willing to provide private school education for their children, despite having to pay considerable fees while having the option to send their children to public schools that either charge far lower fees (in the case of foreign nationals) or are free of any charge (in the case of nationals); and
- ***government role***: there has been an increased emphasis by governments on strengthening their education systems by allowing private schools to operate in a profitable manner, thereby improving the current quality of education.

Despite the large number of private schools in the MEA region, the market is highly fragmented, consisting primarily of standalone schools owned by individual operators. The Group believes that the vast majority of schools in the MEA region are either operated on a not-for-profit basis, are family-owned or are operated by foundations, where operating performance and increasing profitability are not emphasised. In addition, many school operators have historically been reluctant to add capacity to their schools, as a result of which they may be unable or unwilling to capitalise on economic opportunities when demand in their markets exceeds supply. New entrants to the market face considerable barriers to entry including significant time taken to build brand recognition and reputation, securing government licences and concessions, scarcity of real estate in desirable areas with landlords only offering leases to tenants with a proven track record and the tendency for students to stay enrolled at the same school until graduation.

### THE PRIVATE EDUCATION MARKET IN THE MEA REGION

A continued focus, by the educational regulators in the MEA region, on increasing the availability of high quality education by private schools and positive demographic trends are indicators of future growth opportunities for the provision of private education.

According to a report entitled "MENA: Education Sector Report" conducted by Al Masah Capital, in 2011 (the **Al Masah Report**), in recent years, regulators have implemented various initiatives aimed at improving the quality and availability of education in the Middle East and North Africa (MENA) region, as part of which public expenditure on the education sector has increased significantly. According to data from the World Bank as set out in the Al Masah Report, public expenditure on education in the MENA region stands at 18.6 per cent. of total government spending compared to the world average of 14.2 per cent.

According to the Al Masah Report, the total population in the MENA region is approximately 214 million and has been growing faster than the global average of 2 per cent. per annum from 2003 to 2013. The Population Reference Bureau has stated that it expects the MENA region's population to increase by an additional 58 million by 2025. This growth, coupled with increased rates of private school enrolment, creates a favourable demand environment for private schools.

Furthermore, the demand for private school education is enhanced in the MENA region, as many public school systems lack accountability, resulting in inefficiencies, outdated educational technology and inflated administrative bureaucracies. Therefore, the prevalence of inadequate public sector education is resulting in increased demand for private sector education providers across several income groups and across both urban and rural populations. In addition, demand for private and international schools has increased in recent years due to the higher standards of quality education offered at these schools, which is demonstrated by the academic performance of these schools as compared to government-run schools.

Focusing on the GCC region, according to a recent report by Alpen Capital dated 20 June 2012 (the **Alpen Report**), the GCC private school market is amongst the largest in the world, with annual tuition fees of approximately U.S.\$5.2 billion in 2010. However, in terms of spending, private school education represents only 14 per cent. of the U.S.\$36 billion school education market in the region.

According to the Alpen Report, the population in the GCC region was expected to increase at a CAGR of 2.5 per cent. between 2011 and 2013. The share of the expatriate population was also likely to increase from 47.8 per cent. to 48.4 per cent. during the same period. The increasing population and expanding expatriate population is expected to result in increased demand for private schools across the region.

Moreover, according to the Alpen Report, the total number of schools in the GCC region will grow at a CAGR of 1.6 per cent. between 2011 and 2016 mainly due to an increase in students in the region. Total private school enrolment in the GCC region will grow at a CAGR of 10.2 per cent. between 2011 and 2016 mainly due to favourable demographics and the desire of parents to send their children to schools with higher standards of quality education. This will result in growth in the percentage of students in private schools from 21.1 per cent. in 2011 to 30.4 per cent. in 2016.

A market study entitled "A Decade of Opportunity, The Coming Expansion of the Private School Market in the GCC" conducted by the global management consulting firm, Booz & Company, in 2011 and prepared by Chadi N. Moujaes, Leila Hoteit and Jussi Hiltunen each of Booz & Company (the **Booz & Company Study**) has forecast that in the GCC region:

- Spending in the K-12 education market (including private schools and public schools) will increase from U.S.\$36 billion to U.S.\$90 billion and enrolment will increase from 6.35 million students to 8.25 million students in the ten years between 2010 and 2020.
- Spending in the K-12 private-school market will increase to between U.S.\$11 billion and U.S.\$17 billion and enrolment will increase to 2.6 million by 2020.

As a result of a growing population, a desire for quality schools, and increased willingness to pay for education (especially among GCC nationals) the private schools' market share will increase to almost 20 per cent., or nearly U.S.\$17 billion of the overall education market. Furthermore, the Booz & Company Study has concluded that a balanced approach by providers of private school education taking into account parents' preferred school models and curricula could accelerate the migration of GCC nationals to private schools.

GEMS Schools are located in the UAE, Kenya and Uganda. In addition GEMS intends to open new schools in Saudi Arabia and Qatar. Set out below is an overview of the education industry in each of these countries.

### **UAE**

In the UAE, positive macro-economic trends (including increasing per capita income), an increase in school age population and the effects of growth in urban population, are indicators of future growth opportunities in the private education sector.

According to the IMF, growth in the gross domestic product (GDP) in the UAE was 2.4 per cent. in 2012. The IMF estimated that the UAE's per capita GDP in 2010 was U.S.\$48,157 and as at April 2012, in terms of per capita GDP, the UAE was the eighth richest country in the world.

The UAE's urban population has been growing at more than 8 per cent. per annum for the last five years. The UAE's population density doubled from 49 per sq. metre in 2005 to 90 per sq. meter in 2010. According to the World Bank, rapid urbanisation in any city leads to higher private school participation and higher aspirations among nationals for quality private school education. This is a trend that the Group has observed in its operations in the UAE.

Between 2005 and 2010, in the primary and secondary school age group there was an increase of 0.53 million students to 1.62 million students. Primary school students comprised 79 per cent. and secondary school students comprised 21 per cent. of these students. During this period, primary school student numbers were growing at a faster rate of CAGR of 10 per cent. compared with CAGR of 3.1 per cent. for secondary school students. In the last decade there has been significant growth in the private school education market in the UAE, where the Group derives a significant amount of its revenues. Between 2005 and 2010, the total number of primary school students in private schools has increased at a CAGR of 8 per cent. to 234,000 students and the total number of students in secondary education has increased at a CAGR of 9.5 per cent. to 190,000 students. However, public school enrolments have declined during the same period at a CAGR of 2 per cent. in primary and secondary schools.

### *Saudi Arabia*

Saudi Arabia is the largest market for education services in the GCC region and accounts for approximately 75 per cent. of total students in the GCC region's education system. However, Saudi Arabia is also the least developed private school market in the GCC region. According to the Booz & Company Study, in 2011 there were a total of 4.4 million students enrolled in public schools and only 0.7 million students enrolled in private schools in Saudi Arabia.

Saudi Arabia's population has grown at a CAGR of 3 per cent. between 2003 and 2010 to 27.5 million. However, the number of students grew at a lower rate of 0.5 per cent. during this period to 5.1 million students which was primarily due to the high number of local people migrating to other Arab countries and the number of new expatriates in Saudi Arabia compared to earlier levels.

As a result of the government's efforts, enrolment rates in primary and secondary education in Saudi Arabia are very high at 90 per cent. and 81 per cent., respectively, in 2010. However, current enrolment in private schools is still very low at 9.2 per cent. and 12.6 per cent. for primary and secondary education, respectively, in 2010. The government's decision in 2011 to allow Saudi children to enrol into schools offering an international curriculum has fuelled demand for private schools offering international curricula. This has resulted in private school operators entering the Saudi Arabian schools market. The number of private schools eligible to offer the international curriculum to students in Saudi Arabia increased from 12 in 2007 to 32 in 2011 and enrolment in private schools increased at a CAGR of 12 per cent. between 2008 and 2011. Approximately 75 per cent. of private school enrolment in Saudi Arabia is concentrated in the urban cities of Riyadh, Jeddah and Dammam. As at 31 March 2013, according to the Saudi Arabian Ministry of Education records, private schools constitute 11 per cent. of the total number of schools, cater for 12 per cent. of the total student population and employ 11 per cent. of the total teacher workforce.

An independent market study conducted by a leading research and consultancy firm in the UAE has predicted that the total number of students, both in public and private schools, in Saudi Arabia is estimated to reach approximately 5.9 million by 2015, of which approximately 1 million students will be new entrants into the country.

By 2015 it has been estimated that the private school sector will account for over 15 per cent. of total student enrolments across Saudi Arabia. The size of the private school market is expected to grow from U.S.\$2.2 billion in 2010 to between U.S.\$5.7 billion and U.S.\$8.8 billion in 2020 and it is estimated that private schools will add around 367,000 students to total enrolment by 2018. It is expected that growth of enrolment into private schools will be highest in the pre-school segment, with an estimated increase in CAGR of 19 per cent. The primary schools segment of private schools is estimated to grow at a CAGR of 10 per cent. and the secondary segment is estimated to grow at a CAGR of 14 per cent. from 2013 to 2018.

### *Qatar*

Qatar is among the richest countries in the world, with a per capita GDP of U.S.\$102,800 in 2013, due in part to its very high gas reserves. The country has witnessed GDP growth rates in excess of 10 per cent. per



annum over the last five years and is expected to witness similar growth rates due to significant infrastructure improvement being planned over the next 10 years.

Qatar's population has grown at a CAGR of 15 per cent. between 2003 and 2010 from 0.65 million to 1.75 million, primarily due to an increase in the expatriate population and migration of people to Qatar. However, the school age population grew only modestly by 4 per cent. during the same period, to 0.15 million students across 437 schools in 2010. According to the Booz & Company Study, in 2011, 158,000 students were enrolled in 437 schools in Qatar, of which more than 76,000 students were enrolled in 237 existing private schools.

Primary school enrolments in private schools in Qatar have increased at a CAGR of 9.2 per cent., compared to public school enrolment growth at a CAGR of 0.6 per cent. indicating a trend towards private school enrolments in Qatar. As a consequence of this, the size of the private school market in Qatar is estimated by the Booz & Company Study to increase from U.S.\$430 million in 2010 to between U.S.\$1.1 billion and U.S.\$1.5 billion in 2020.

### *Kenya*

Kenya's population grew at a CAGR of 2.6 per cent. from 35.6 million in 2005 to 40.5 million in 2010. Approximately 30 per cent. of the total population is currently enrolled in schools. The primary school student enrolment grew at CAGR of 3 per cent. to 6.5 million students between 2005 and 2010 and the secondary school population grew marginally by 1 per cent. to 5.4 million students during the same period.

Kenya is attractive to students from wealthy neighbouring countries because of the high quality education offered at its private schools. Moreover, the significant number of expatriates in Kenya send their children to Kenya's leading private schools. Therefore, the Group believes that Nairobi offers excellent opportunities for establishing private schools and estimates that there will be significant further demand for high quality private schools in Nairobi.

### *Uganda*

In recent years, there has been a significant increase in foreign and local investment into the Ugandan economy and the overall economic performance of the economy (as measured by GDP) in 2011 reflected a growth rate of 6.7 per cent. compared to 5.8 per cent. in 2010.

The government of Uganda is in the process of redesigning the current curricula and methods of training so that schools are able to offer their students programmes that focus on innovation, creativity and entrepreneurial skills. As a result, Uganda has made notable progress in increasing literacy and access to education at all levels. The success in Uganda in expanding its primary education sector by increasing enrolment from approximately 3.5 million students in 1997 to over 8 million students by the end of 2010 has created significant opportunities for opening private schools in the secondary education sector. Primary school enrolment has grown by 3.5 per cent. per annum from 2009 to 2013 with a year-on-year increase of 268,250 students per year. Secondary school enrolment has grown by 13.2 per cent. per annum with a year-on-year increase of 116,500 students per year during the same period.

There are currently approximately 3,149 secondary schools in Uganda. From 2010 to 2013, 3,551 new primary schools and 1,188 new secondary schools opened resulting in an increase of the total number of students of 38 per cent.

## SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

*The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Physical copies of the Transaction Documents will be available for inspection at the offices of the Principal Paying Agent.*

### **The Declaration of Trust**

The Declaration of Trust will be entered into on the Issue Date between GEMS, the Issuer, the Trustee and the Delegate and will be governed by English law.

The Declaration of Trust shall provide that, on or after any Dissolution Date, the rights of recourse in respect of Certificates shall be limited to the amounts from time to time available and comprising the Trust Assets, subject to the priority of payments set out in the Declaration of Trust, the Certificates and the Conditions. The Certificateholders have no claim or recourse against the Issuer, the Trustee or the Delegate in respect of any amount which is or remains unsatisfied and any such amounts will be extinguished.

Pursuant to the Declaration of Trust, the Trustee will, *inter alia*:

- (a) hold the Trust Assets on trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder; and
- (b) act as trustee in respect of the Trust Assets, distribute the income from such Trust Assets and perform its duties in accordance with the provisions of the Declaration of Trust and the Conditions.

In the Declaration of Trust, the Trustee shall irrevocably and unconditionally delegate to the Delegate the performance of certain present and future duties, powers, authorities and discretions vested in the Trustee by the relevant provisions of the Declaration of Trust (including but not limited to the authority to request instructions from any Certificateholders and the power to make any determinations to be made under the Declaration of Trust) and any of the other Transaction Documents (provided that no obligations, duties or covenants of the Trustee pursuant to the Declaration of Trust or any other Transaction Documents shall be imposed on the Delegate by virtue of such delegation) and make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Declaration of Trust. The appointment of such Delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as trustee.

Pursuant to the Declaration of Trust upon the occurrence of a Dissolution Event and the delivery of a Dissolution Notice by the Delegate to the Trustee, to the extent that the amounts payable in respect of the Certificates have not been paid in full pursuant to Condition 13.1, the Trustee or the Delegate may at its discretion and the Delegate shall if so requested in writing by Certificateholders holding at least one fifth of the then aggregate face amount of the Certificates outstanding (subject in either case to being indemnified and/or secured and/or pre-funded to its satisfaction): (i) institute any steps, actions or proceedings for the winding-up, bankruptcy, dissolution or liquidation (or analogous event) of GEMS; and/or (ii) prove or claim in the winding-up, bankruptcy, dissolution or liquidation (or analogous event) of GEMS (in each case for, subject as set out below, all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit, Additional Mudaraba Capital, Indemnity Payments and/or other amounts due to the Trustee on termination of the Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents); and/or (iii) take such other steps, actions or proceedings which, under the laws of the Cayman Islands, have an analogous effect to the actions referred to in (i) or (ii) above, provided, however, that the Trustee or the Delegate may only take any such steps, actions or proceedings as described in this paragraph, but may take no further or other steps, actions or proceedings to enforce, prove or claim for any payment.

Pursuant to the Declaration of Trust, GEMS will pay certain fees and expenses of, and indemnify against certain losses of, the Delegate.

### **The Mudaraba Agreement**

The Mudaraba Agreement will be entered into on the Issue Date between the Mudareb and the Rab-al-Maal and will be governed by English law, save that Clause 2.4(a), (b) and (d), relating to the subordinated status of the obligations under the Mudaraba Agreement, shall be governed and construed in accordance with the laws of the Cayman Islands.

The Mudaraba will commence on the date of payment of the Mudaraba Capital and will end on the date on which the Certificates are redeemed in whole but not in part in accordance with the Conditions (the **Mudaraba End Date**). Pursuant to the Mudaraba Agreement the proceeds of the issue of the Certificates will be contributed by the Rab-al-Maal, which shall as a result form the Mudaraba Capital.

The Mudaraba Capital and the Additional Mudaraba Capital (if any) shall be invested by the Mudareb in accordance with the business plan prepared by the Mudareb and scheduled to the Mudaraba Agreement (the **Mudaraba Business Plan**). The Mudareb will acknowledge and agree that the Mudaraba Business Plan was prepared by it with due skill, care and attention, and acknowledge that the Trustee has entered into the Mudaraba in reliance on the Mudaraba Business Plan.

The Mudaraba Agreement provides that the profit (if any) generated by the Mudaraba will be distributed by the Mudareb on each Mudaraba Profit Distribution Date (other than the Mudaraba End Date) on the basis of a constructive liquidation of the Mudaraba by the Mudareb in accordance with the following profit sharing ratio:

- (a) the Trustee 99 per cent.; and
- (b) the Mudareb 1 per cent.

Where (A) the Trustee's share of the Mudaraba Profit (the **Rab-al-Maal Mudaraba Profit**) or the Trustee's share of the Final Mudaraba Profit (the **Rab-al-Maal Final Mudaraba Profit**) (as applicable) payable to the Trustee on any Mudaraba Profit Distribution Date or the Mudaraba End Date, as the case may be, is greater than the corresponding Periodic Distribution Amount (together with, if applicable, any Initial Equity Offering Profit Amount or Accounting Event Profit Amount payable under the Certificates); or (B) the Additional Mudaraba Capital is greater than the then applicable Optionally Outstanding Payments, in each case, the amount of any excess shall be retained by the Mudareb and credited to a reserve account (the **Mudaraba Reserve**) and the Rab-al-Maal Mudaraba Profit, the Rab-al-Maal Final Mudaraba Profit or the Additional Mudaraba Capital (as applicable) payable to the Trustee will be reduced accordingly. The Mudareb shall be entitled to deduct amounts standing to the credit of the Mudaraba Reserve (at its sole discretion) at any time prior to the Mudaraba End Date, and to use them for its own purposes, provided that such amounts shall be repaid by it to the Mudaraba Reserve if so required to fund a shortfall.

If the Mudareb makes a Deferral Election, then the Mudareb shall give notice to the Trustee, the Delegate and the Certificateholders, in each case providing details of such Deferral Election and such Deferral Election shall not constitute a Dissolution Event. If, pursuant to a Deferral Election, all or any part of the Rab-al-Maal Mudaraba Profit is not paid to the Rab-al-Maal, such deferred amount shall be reinvested in the Mudaraba from (and including) the relevant Mudaraba Profit Distribution Date on the terms of the Mudaraba Agreement and therefore shall form part of the Mudaraba Assets. Accordingly, such deferred amount (if any) shall accrue further profit thereon.

The Mudareb has undertaken in the Mudaraba Agreement that, if any amount of Rab-al-Maal Mudaraba Profit is not paid as a consequence of a Deferral Election pursuant to the terms of the Mudaraba Agreement then, from the Deferral Date, the Mudareb will not, so long as any of the Certificates are outstanding, take any action that constitutes a Restricted Event unless, on or before the date on which such Restricted Event occurs:

- (a) all amounts comprising the Additional Mudaraba Capital have been generated in accordance with the Mudaraba Business Plan and have been paid to the Trustee in full; and
- (b) sufficient Mudaraba Profit has been earned, generated and set aside in the Mudaraba Reserve so as to allow the Mudareb to pay the Rab-al-Maal Mudaraba Profit due on the Mudaraba Profit Distribution Date immediately following the date on which the Restricted Event occurs.

Subject to certain conditions as set out in the Mudaraba Agreement, the Mudareb may (in its sole and absolute discretion) elect to liquidate the Mudaraba in whole, but not in part, on the basis of a constructive liquidation of the Mudaraba in the following circumstances:

- (a) on the First Call Date or any Periodic Distribution Date thereafter;
- (b) if a Tax Event occurs;

- (c) if GEMS or any Subsidiary of GEMS has, severally or jointly, purchased and cancelled more than 80 per cent. of the initial aggregate face amount of the Certificates;
- (d) if a Change of Control Event occurs;
- (e) if an Initial Equity Offering Call Event occurs; or
- (f) if an Accounting Event occurs.

Any liquidation pursuant to the occurrence of the circumstances described in paragraph (b), (c) or (f) above may be made on any date on or after the Issue Date (whether or not a Periodic Distribution Date).

Any liquidation pursuant to the occurrence of the circumstances described in paragraph (d) above may be made on any date on or after the Issue Date (whether or not a Periodic Distribution Date), provided that it falls within the relevant Change of Control Redemption Period.

Any liquidation pursuant to the occurrence of the circumstances described in paragraph (e) above may be made on any date from and including the third anniversary of the Issue Date to but excluding the First Call Date (whether or not a Periodic Distribution Date).

If the Mudareb proposes to exercise its right to liquidate the Mudaraba in accordance with paragraphs (a) to (b) above, then if the liquidation proceeds which would be generated on such liquidation are:

- (i) equal to or greater than the relevant Required Liquidation Amount (as defined in the Mudaraba Agreement), the Mudareb shall liquidate the Mudaraba and pay the relevant Required Liquidation Amount to the Trustee on the Mudaraba End Date and any liquidation proceeds remaining after such payment shall be paid to the Mudareb; or
- (ii) less than the relevant Required Liquidation Amount, the Mudareb shall acknowledge that the Trustee will have suffered a loss in an amount equal to the difference between the liquidation proceeds and the Required Liquidation Amount (the **Shortfall**) and either (i) continue investing the Mudaraba Capital and the Additional Mudaraba Capital (if any) in the Mudaraba, and accordingly shall not proceed with the final liquidation of the Mudaraba; or (ii) proceed with the final liquidation of the Mudaraba and indemnify the Trustee in respect of the Shortfall and accordingly transfer funds into the Transaction Account in an amount sufficient to ensure the liquidation proceeds, together with the amount so transferred, are equal to the relevant Required Liquidation Amount.

Any final liquidation of the Mudaraba is subject to the Mudareb giving not less than 45 nor more than 75 days' prior notice to the Trustee and the liquidation proceeds being at least equal to the Required Liquidation Amount.

Under the terms of the Mudaraba Agreement, the Mudaraba will automatically be liquidated in whole but not in part if a Dissolution Event occurs and a Dissolution Notice is delivered pursuant to Condition 13. The Mudareb acknowledges under the Mudaraba Agreement that the Trustee shall in such case be entitled to claim for all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit, Additional Mudaraba Capital, Indemnity Payments (as defined in the Mudaraba Agreement) and any other payments due in accordance with the terms of the Mudaraba Agreement in a winding-up, bankruptcy, dissolution or liquidation (or analogous event) of the Mudareb.

The Mudareb and the Trustee will undertake in the Mudaraba Agreement, in circumstances where the Certificates are required by GEMS to be varied upon the occurrence of a Tax Event or an Accounting Event, to make such variations as are necessary to ensure that the Certificates become or, as appropriate, remain Qualifying Certificates, subject to, and in accordance with, the terms of the Mudaraba Agreement including that any such variation will be subject to all amounts comprising the Additional Mudaraba Capital (if any) having been generated and paid to the Trustee in full.

The Mudareb shall be responsible for all losses to the Mudaraba Capital and the Additional Mudaraba Capital suffered by the Trustee except to the extent that such losses were not caused by (i) the Mudareb's breach of the Mudaraba Agreement or (ii) the Mudareb's negligence, wilful misconduct or fraud.

The Mudareb shall exercise its rights, powers and discretions under the Mudaraba Agreement and shall take such action as it deems appropriate in accordance with material applicable laws, with the degree of skill and care that it would exercise in respect of its own assets and in a manner that is not repugnant to *Shari'a*.

Other than its share of profit from the Mudaraba and any incentive fee payable in accordance with the Mudaraba Agreement, the Mudareb shall not be entitled to receive any remuneration from the Mudaraba.

The Mudareb will agree in the Mudaraba Agreement that all payments by it under the Mudaraba Agreement will be made without withholding or deduction for, or on account of Taxes, unless the withholding or deduction of the Taxes is required by law. In such event, GEMS will pay such additional amounts so that the full amount which otherwise would have been due and payable to the Trustee is received by the Trustee. Any taxes incurred in connection with the operation of the Mudaraba (including in connection with any transfer, sale or disposal of any Mudaraba Asset) will be borne by the Mudaraba itself.



## TAXATION

*The following is a general description of certain tax considerations relating to the Certificates. It does not purport to be a complete analysis of all tax considerations relating to the Certificates. Prospective purchasers of Certificates should consult their tax advisers as to the consequences under the tax laws of the countries of their respective citizenship, residence or domicile of acquiring, holding and disposing of Certificates and receiving payments of profit, principal and/or other amounts under the Certificates. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.*

### **Cayman Islands**

Under existing Cayman Islands laws, payments by the Issuer on the Certificates and payments by GEMS under the Transactions Documents will not be subject to taxation in the Cayman Islands and no withholding will be required on the payments to any holder of the Certificates, nor will gains derived from the disposal of the Certificates be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance or gift tax.

The Issuer and GEMS have each obtained an undertaking dated 1 October 2013 from the Governor-in-Cabinet of the Cayman Islands, pursuant to the Tax Concessions Law (as amended) of the Cayman Islands, that for a period of 20 years from the grant of that undertaking no law which is enacted in the Cayman Islands imposing any tax to be levied on profit, income, gains or appreciation shall apply to the Issuer, GEMS or their operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable on or in respect of the shares, debentures or other obligations (which would include the Certificates) of the Issuer or GEMS or by way of the withholding in whole or part of any relevant payment (as defined in the Tax Concessions Law (as amended)). No capital or stamp duties are levied in the Cayman Islands on the issue or redemption of Certificates. An instrument of transfer in respect of a Certificate will be stampable if executed in or brought to the Cayman Islands. An annual registration fee is payable by the Issuer to the Cayman Islands Registry of Companies which is calculated by reference to the nominal amount of its authorised capital. At current rates, this annual registration fee is approximately U.S.\$854. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income, which may include Periodic Distribution Amounts) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Austria and Luxembourg are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015. A number of non-EU countries and territories (including Switzerland) have agreed to adopt similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may if implemented amend or broaden the scope of the requirements described above.

### **The Proposed Financial Transactions Tax**

The European Commission has published a proposal for a Directive for a common financial transaction tax (FTT) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**).

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in Certificates (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are exempt.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Certificates where at

least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Certificates are advised to seek their own professional advice in relation to the FTT.

### **Foreign Account Tax Compliance Act**

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a **foreign financial institution**, or **FFI** (as defined by FATCA)) that does not become a **Participating FFI** by entering into an agreement with the U.S. Internal Revenue Service (the **IRS**) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a “United States account” of the Issuer (a **Recalcitrant Holder**). The Issuer may be classified as an FFI.

The new withholding regime will be phased in, beginning 1 July 2014 for payments from sources within the United States and will apply to “foreign passthru payments” (a term not yet defined) no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of (i) any Certificates characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or after the “grandfathering date”, which is the later of (a) 1 July 2014 and (b) the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified on or after the grandfathering date and (ii) any Certificates characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an **IGA**). Pursuant to FATCA and the “Model 1” and “Model 2” IGAs released by the United States, an FFI in an IGA signatory country could be treated as a “Reporting FI” not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction generally would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being a **FATCA Withholding**) from payments it makes. The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments and payments that it makes to Recalcitrant Holders. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS.

The United States has recently concluded several intergovernmental agreements (“**IGAs**”) with jurisdictions in respect of FATCA. The Cayman Islands Government has agreed a Model 1 IGA with the United States. The terms of such IGA have not yet been published, but are expected to be broadly similar to those agreed with the United Kingdom and the Republic of Ireland, taking into account the nature of the Cayman Islands’ financial services. Under such IGA (which has yet to be formally signed by both parties), the Issuer will not be required to enter an agreement with the IRS, but may instead be required to register with the IRS to obtain a Global Intermediary Identification Number and then comply with Cayman Islands legislation that would be implemented to give effect to such IGA. The terms of such legislation are at this stage still uncertain and it is not yet clear whether the Issuer will be a certified deemed compliant entity with no reporting required or a registered deemed compliant entity which would require the Issuer to report to the Cayman Islands Tax Information Authority, which will exchange such information with the IRS under the terms of the IGA. It is also anticipated that, under the terms of the IGA, withholding will not be imposed on payments made to the Issuer, or on payments made by the Issuer to the Certificateholders, unless the IRS has specifically listed the Issuer as a non-participating financial institution, or the Issuer has otherwise assumed responsibility for withholding under United States tax law. The Issuer and financial institutions through which payments on the Certificates are made may be required

to withhold FATCA Withholding if (i) any FFI through or to which payment on such Certificates is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

Whilst the Certificates are in global form and held within Euroclear or Clearstream, Luxembourg (together, the ICSDs), it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Certificates by the Issuer, any paying agent and the Common Depositary, given that each of the entities in the payment chain between the Issuer and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Certificates. The documentation expressly contemplates the possibility that the Certificates may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive Certificates will only be printed in remote circumstances.

**FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and Model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Certificates.**

**TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.**

## SUBSCRIPTION AND SALE

Under the terms and conditions contained in a Subscription Agreement (the **Subscription Agreement**) dated 19 November 2013 between the Issuer, GEMS, Abu Dhabi Islamic Bank P.J.S.C., Credit Suisse Securities (Europe) Limited, Mashreqbank psc and Morgan Stanley & Co. International plc (together, the **Joint Lead Managers**), the Issuer has agreed to issue U.S.\$200,000,000 in aggregate face amount of the Certificates and, subject to certain conditions, the Joint Lead Managers have agreed to subscribe or procure subscribers for the Certificates. The Subscription Agreement provides that the obligations of the Joint Lead Managers to pay for and accept delivery of the Certificates are subject to certain conditions. Pursuant to the Subscription Agreement, the Joint Lead Managers will be paid certain commissions in respect of their services for managing the issue and sale of the Certificates. The Joint Lead Managers will also be reimbursed in respect of certain of their expenses, and each of the Issuer and GEMS has agreed to indemnify the Joint Lead Managers against certain liabilities incurred in connection with the issue and offering of the Certificates. To the extent permitted by local law, the Issuer, GEMS and the Joint Lead Managers have agreed that commissions may be offered to certain brokers, financial advisers and other intermediaries based upon the amount of investment in the Certificates purchased by such intermediary and/or its customers. Each such intermediary is required by law to comply with any disclosure and other obligations related thereto, and each customer of any such intermediary is responsible for determining for itself whether an investment in the Certificates is consistent with its investment objectives.

### **Selling Restrictions**

#### *United States*

The Certificates have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in accordance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act.

Each Joint Lead Manager has represented and agreed that it has not offered and sold any Certificates, and will not offer or sell any Certificates as part of its distribution at any time except in accordance with Rule 903 of Regulation S.

The foregoing restrictions apply to holders of beneficial interests in the Certificates, as well as holders of the Certificates.

Each Joint Lead Manager has represented and agreed that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Certificates.

Until 40 days after the commencement of the offering of the Certificates, an offer or sale of the Certificates within the United States by any dealer/manager (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

#### *United Kingdom*

Each Joint Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (**FSMA**)) received by it in connection with the issue or sale of any Certificate in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or GEMS; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Certificates in, from or otherwise involving the United Kingdom.

#### *Cayman Islands*

Each Joint Lead Manager has represented and agreed that it has not made and will not make any offer or invitation (whether directly or indirectly) to any member of the public in the Cayman Islands to subscribe for the Certificates.

### ***Kingdom of Bahrain***

Each Joint Lead Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Certificates except on a private placement basis to persons in the Kingdom of Bahrain who are “accredited investors”.

For this purpose, an “accredited investor” means:

- (a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more;
- (b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$1,000,000; or
- (c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

### ***Kingdom of Saudi Arabia***

Each Joint Lead Manager has represented and agreed that any offer of Certificates to an investor in the Kingdom of Saudi Arabia or who is a Saudi person will comply with Article 10 of the “Offer of Securities Regulations” as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the KSA Regulations) through a person authorised by the Capital Market Authority to carry on the activity of arranging (as specified in Article 12 of the KSA Regulations) and following a notification to the Capital Market Authority under and in accordance with the KSA Regulations.

Investors are informed that Article 17 of the KSA Regulations place restrictions on secondary market activity with respect to the Certificates, including as follows:

- (a) a Saudi Investor (referred to as a “transferor”) who has acquired Certificates pursuant to a private placement may not offer or sell Certificates to any person (referred to as a “transferee”) unless the offer or sale is made through an authorised person where one of the following requirements is met:
  - (i) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyals one million or an equivalent amount;
  - (ii) the Certificates are offered or sold to a sophisticated investor; or
  - (iii) the Certificates are being offered or sold in such other circumstances as the CMA may prescribe for these purposes;
- (b) if the requirement of paragraph (a)(i) above cannot be fulfilled because the price of the Certificates being offered or sold to the transferee has declined since the date of the original private placement, the transferor may offer or sell the Certificates to the transferee if their purchase price during the period of the original private placement was equal to or exceeded Saudi Riyals 1 million or an equivalent amount;
- (c) if the requirement in paragraph (b) above cannot be fulfilled, the transferor may offer or sell Certificates if he/she sells his/her entire holding of Certificates to one transferee; and
- (d) the provisions of paragraphs (a), (b) and (c) (inclusive) above shall apply to all subsequent transferees of the Certificates.

### ***State of Qatar***

Each Joint Lead Manager has represented and agreed that it has not offered or sold, and will not offer or sell or deliver, directly or indirectly, any Certificates in the State of Qatar including the Qatar Financial Centre, except: (i) in compliance with all applicable laws and regulations of the State of Qatar including the Qatar Financial Centre; and (ii) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar.



***United Arab Emirates (excluding the Dubai International Financial Centre)***

Each Joint Lead Manager has represented and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

***Dubai International Financial Centre***

Each Joint Lead Manager has represented and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

- (a) an “Exempt Offer” in accordance with the Markets Rules (MKT module) of the DFSA; and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

***Hong Kong***

Each Joint Lead Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong by means of any document, any Certificates other than: (i) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the SFO) and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to any Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

***Malaysia***

Each Joint Lead Manager has represented and agreed that:

- (a) this Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia (the CMSA); and
- (b) accordingly, the Certificates have not been and will not be offered or sold, and no invitation to subscribe for or purchase the Certificates has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under Schedule 6 or Section 229(1)(b) and Schedule 7 or Section 230(1)(b) read together with Schedule 9 or Section 257(3) of the CMSA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Joint Lead Managers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

***Singapore***

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the SFA). Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold and will not offer or sell any Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, nor will it circulate or distribute this Prospectus or any other document or material in connection with the

offer or sale or invitation for subscription or purchase of the Certificates, whether directly or indirectly, to any person in Singapore other than: (a) to an institutional investor pursuant to Section 274 of the SFA, (b) to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law; or
- (iv) as specified in Section 276(7) of the SFA.

#### ***General***

Each Joint Lead Manager has agreed that it will comply to the best of its knowledge and belief with all applicable laws and regulations in force in any jurisdiction in which it acquires, offers, sells or delivers Certificates or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Certificates and will obtain any consent, approval or permission required by it for the acquisition, offer, sale or delivery by it of any Certificates under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes such acquisition, offer, sale or delivery and none of the Issuer, the Trustee, the Delegate or any of the other Joint Lead Managers shall have any responsibility therefor.

None of the Issuer, the Trustee, GEMS or any Joint Lead Manager has made any representation that any action will be taken in any jurisdiction by the Joint Lead Managers or the Issuer, the Trustee or GEMS that would permit a public offering of the Certificates, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Certificates, in any country or jurisdiction where action for that purpose is required.

## GENERAL INFORMATION

### Authorisation

The issue of the Certificates has been duly authorised by a resolution of the Board of Directors of the Issuer dated 26 September 2013. The Issuer has obtained all necessary consents, approvals and authorisations in the Cayman Islands in connection with the issue and performance of the Certificates and the execution and performance of the Transaction Documents. The entry into the Transaction Documents has been duly authorised by a resolution of the Board of Directors of GEMS on 30 September 2013.

### Approval of the Prospectus, Admission to Trading and Listing of Certificates

Application has been made to the Irish Stock Exchange for the Certificates to be admitted to the Official List and to trading on the Main Securities Market.

The Main Securities Market is a regulated market for the purposes of MiFID. It is expected that the listing of the Certificates on the Official List and admission of the Certificates to trading on the Main Securities Market will be granted on or around 22 November 2013. The total expenses relating to the admission to trading of the Certificates on the Main Securities Market are estimated to be €5,000.

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Certificates and is not itself seeking admission of the Certificates to the Official List or to trading on the Main Securities Market.

Application has also been made to the DFSA for the Certificates to be admitted to the official list of securities maintained by the DFSA and to NASDAQ Dubai for such Certificates to be admitted to trading on NASDAQ Dubai. The total expenses relating to the admission to trading of the Certificates on NASDAQ Dubai are estimated to be U.S.\$4,500.

### Documents Available

For so long as any Certificates remain outstanding, physical copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection and collection at the registered office of the Issuer and the offices of the Paying Agent in London:

- (a) the Transaction Documents;
- (b) the Memorandum and Articles of Association of the Issuer;
- (c) the Memorandum and Articles of Association of GEMS;
- (d) the audited consolidated financial statements of GEMS in respect of the financial years ended 31 March 2013 and 31 March 2012, in each case together with the audit reports prepared in connection therewith;
- (e) the most recently published audited annual consolidated financial statements of GEMS, together with the audit reports prepared in connection therewith; and
- (f) a copy of this Prospectus.

### Clearing Systems

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The ISIN for the Certificates is XS0995041539. The Common Code for the Certificates is 099504153.

The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

### Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer and no material adverse change in the prospects of the Issuer, in each case, since the date of its incorporation.

There has been no significant change in the financial or trading position of GEMS or of the Group since 31 March 2013 and there has been no material adverse change in the prospects of GEMS or of the Group since 31 March 2013.

### **Litigation**

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) since the date of its incorporation which may have or, in such period, have had a significant effect on the financial position or profitability of the Issuer.

GEMS is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which GEMS is aware) in the 12 months preceding the date of this document which may have or, in such period, have had a significant effect on the financial position or profitability of GEMS.

### **Auditors**

Since the date of its incorporation, no financial statements of the Issuer have been prepared. The Issuer has no subsidiaries. The Issuer is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint any auditors.

The auditors of GEMS are Ernst & Young and their business address is 28th Floor, Al Attar Business Tower, Sheikh Zayed Road, P.O. Box 9267, Dubai, United Arab Emirates. Ernst & Young is regulated as an auditor in the UAE by the UAE Ministry of Economy. There is no professional institute of auditors in the UAE and, accordingly, Ernst & Young is not a member of a professional body in the UAE. All of Ernst & Young's audit partners are members of the institutes from where they received their professional qualification.

The consolidated financial statements of the Group for each of the financial years ended 31 March 2013 and 31 March 2012 have been audited in accordance with International Standards on Auditing by Ernst & Young, independent auditors, as stated in their reports appearing herein.

GEMS does not, and is not required under Cayman Islands law to, prepare interim financial statements.

### **Joint Lead Managers Transacting with GEMS**

Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, GEMS and its affiliates in the ordinary course of business for which they have received, and for which they may in the future receive, fees.

### **Shari'a Approvals**

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the Executive Committee of the Fatwa & Shari'a Supervisory Committee of Abu Dhabi Islamic Bank PJSC and the Shari'a Supervisory Board of Morgan Stanley & Co. International plc. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with *Shari'a* principles.

### **Description of the members of the Executive Committee of the Fatwa & Shari'a Supervisory Committee of Abu Dhabi Islamic Bank PJSC and the Shari'a Supervisory Board of Morgan Stanley & Co. International plc**

#### ***The Executive Committee of the Fatwa & Shari'a Supervisory Committee of Abu Dhabi Islamic Bank PJSC***

##### **Dr Abdul Sattar Abu Ghuddah**

Dr Abdul Sattar Abu Ghuddah holds a PhD in Islamic Law from Al Azhar University Cairo, Egypt. He is a professor of Fiqh, Islamic studies and Arabic in Riyadh and an active member of the Jeddah-based Islamic Fiqh Academy and the Accounting & Auditing Standards Board of Islamic Financial Institutions. He also served in the Ministry of Awqaf, Kuwait. Dr Abu Ghuddah has written several books on Islamic finance. He is a *Shari'a* Advisor to several international and local financial institutions worldwide.

### **Professor Jassim Ali Al Shamsi**

Dr Jassim holds a PhD in Civil Law from Cairo University as well as a *Shari'a* diploma from College of Law, Ain Shams University. He also holds a Licentiate in *Shari'a* & Law from UAE University. He is currently the Dean of Faculty of Law in UAE University. In addition to his extensive knowledge of *Shari'a* law, he is a member on the board of AAOIFI, and Ajman Islamic bank and other regional Islamic Banks. He has been instructing in UAE University for more than 20 years and has extensive knowledge of structuring Islamic finance transactions and development of products that adhere to *Shari'a*.

### **Sheikh Nizam Yaquby**

Sheikh Nizam Yaquby studied traditional Islamic studies under the guidance of eminent Islamic scholars from different parts of the world. He has a BA in Economics & Comparative Religions from McGill University, Canada. He has served in Bahrain Mosques from 1981 to 1990 where he taught Tafsir, Hadith and Fiqh in Bahrain since 1976. In addition to advising Citi Islamic Investment Bank E.C. and other Islamic finance institutions and funds, Sheikh Nizam Yaquby is a member of the Islamic Fiqh Academy and Auditing and Accounting Organisation for Islamic Financial Institutions. He has published several articles and books on various Islamic subjects including banking and finance.

### ***The Shari'a Supervisory Board of Morgan Stanley & Co. International plc***

#### **Sheikh Nizam Yaquby**

Please see the description of Sheikh Nizam Yaquby set out above.

### **Dr Mohd Daud Bakar**

Dr Mohd Daud Bakar received his first degree in *Shari'a* from University of Kuwait and PhD from University of St. Andrews. In 2002, he completed his external Bachelor of Jurisprudence at the University of Malaya. He is currently Group Chairman of Amanie Advisors, a global Islamic finance consulting firm. He is also currently the Chairman of the *Shari'a* Advisory Council at the Central Bank of Malaysia, and the Securities Commission of Malaysia and the Labuan Financial Services Authorities. He is also a member of the Shariah board of many Islamic financial institutions around the world. He was previously Deputy Vice-Chancellor at the International Islamic University Malaysia.

### **Dr Mohammed Ali Elgari**

Dr Mohammed Ali Elgari holds a PhD from the University of California. Dr Mohamed Ali Elgari is a former director of the Center for Research in Islamic Economics at King Abdulaziz University in Saudi Arabia, where he also served as a Professor of Islamic Economics. He is an Expert at the Islamic Jurisprudence Academy of the OIC and the Islamic Jurisprudence Academy of the Islamic World League. He has published numerous articles and books on Islamic banking and finance and is the editor of the Review of Islamic Economics and a member of the Academic Committee of Islamic Development Bank.

### ***Shari'a Adviser in relation to the Mudaraba Business Plan***

GEMS has engaged the services of a *Shari'a* adviser pursuant to an agreement dated 19 November 2013, who will advise GEMS on matters relating to compliance with the Mudaraba Business Plan, including ensuring that the documentation relating to the investment of the Mudaraba Capital in accordance with the Mudaraba Business Plan is entered into on a *Shari'a*-compliant basis initially and on an ongoing basis. Under the terms of such agreement with the *Shari'a* adviser, GEMS will provide the *Shari'a* adviser with an annual certificate certifying GEMS' compliance with the Mudaraba Business Plan in all material respects, together with certain pre-agreed information relating to GEMS' business.

In the event that GEMS (i) does not provide the annual certificate within 90 days of the end of its financial year commencing with the financial year ending 31 March 2014, is notified in writing by the *Shari'a* adviser of such failure and thereafter does not provide such annual certificate within a further 90 days of such notification; or (ii) is deemed by the *Shari'a* adviser not in compliance with the Mudaraba Business Plan in any material respect, is notified in writing of such non-compliance by the *Shari'a* adviser, and such non-compliance has not been rectified within 90 days of such notification, then the *Shari'a* adviser may at his discretion notify the Delegate of such non-compliance. Pursuant to the terms of the Declaration of Trust, the Delegate has agreed to notify the Certificateholders in accordance with Condition 15 if it receives notice of such non-compliance from the *Shari'a* adviser.



## FINANCIAL INFORMATION

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 MARCH 2013**

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
GEMS MENASA (CAYMAN) LIMITED AND ITS SUBSIDIARIES**

We have audited the accompanying consolidated financial statements of GEMS Menasa (Cayman) Limited (the "Holding Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 March 2013 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**

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

**Auditors' responsibility**

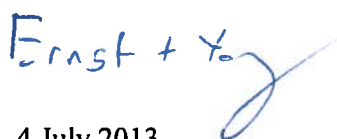
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 March 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



4 July 2013

Dubai, United Arab Emirates

GEMS Menasa (Cayman) Limited and its subsidiaries

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 March 2013

	<i>Notes</i>	<b>2013</b> <b>USD'000</b>	<b>2012</b> <b>USD'000</b>
<b>INCOME</b>			
Fee income		437,429	365,670
Other income	3	18,190	12,655
Share of profit of a joint venture	9	322	390
<b>TOTAL INCOME</b>		<b>455,941</b>	<b>378,715</b>
<b>EXPENSES</b>			
Selling and administrative expenses	4	189,184	169,682
Direct education costs		144,146	114,694
Depreciation	6	41,080	30,104
Finance costs	5	36,004	8,621
Pre-operative expenses		1,868	903
Amortisation of intangible assets	7	933	642
Share of loss in an associate	8	-	2,208
<b>TOTAL EXPENSES</b>		<b>413,215</b>	<b>326,854</b>
<b>PROFIT FOR THE YEAR</b>		<b>42,726</b>	<b>51,861</b>
Profit attributable to:			
Equity holders of the Holding Company		42,028	51,352
Non-controlling interests	16	698	509
		<b>42,726</b>	<b>51,861</b>

The attached notes 1 to 24 form part of these consolidated financial statements.

GEMS Menasa (Cayman) Limited and its subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2013

	<i>Notes</i>	<i>2013</i> <i>USD'000</i>	<i>2012</i> <i>USD'000</i>
<b>PROFIT FOR THE YEAR</b>		<b>42,726</b>	<b>51,861</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Exchange difference on translation of foreign operations		271	(898)
Change in fair value of cash flow hedge	20	2,945	(1,505)
<b>TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>3,216</b>	<b>(2,403)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>45,942</b>	<b>49,458</b>
Total comprehensive income attributable to:			
Equity holders of the Holding Company		45,244	48,949
Non-controlling interests	16	698	509
		<b>45,942</b>	<b>49,458</b>

The attached notes 1 to 24 form part of these consolidated financial statements.



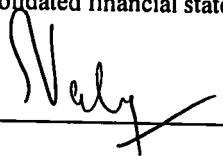
GEMS Menasa (Cayman) Limited and its subsidiaries


CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2013

	<i>Notes</i>	<i>2013 USD '000</i>	<i>2012 USD '000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	6	508,258	437,038
Intangible assets	7	3,112	3,004
Investment in an associate	8	-	50,608
Interest in joint ventures	9	448	126
Goodwill	10	272	272
		<u>512,090</u>	<u>491,048</u>
<b>Current assets</b>			
Inventories	11	968	940
Accounts receivable and prepayments	12	246,890	104,098
Bank balances and cash	13	54,441	27,174
		<u>302,299</u>	<u>132,212</u>
<b>TOTAL ASSETS</b>		<u><u>814,389</u></u>	<u><u>623,260</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	14	1	1
Share premium	15	-	41,964
Restricted reserve	15	490	467
Translation reserve	15	(22)	(293)
Cash flow hedge reserve	20	-	(2,945)
Retained earnings		206,207	122,238
		<u>206,676</u>	<u>161,432</u>
<b>Equity attributable to owners of the parent</b>		<u>206,676</u>	<u>161,432</u>
Non-controlling interests	16	1,143	1,021
<b>TOTAL EQUITY</b>		<u>207,819</u>	<u>162,453</u>
<b>Non-current liabilities</b>			
Term loans	17	384,633	244,408
Employees' end of service benefits	18	28,285	24,022
		<u>412,918</u>	<u>268,430</u>
<b>Current liabilities</b>			
Accounts payable and accruals	19	162,051	113,762
Term loans	17	31,074	71,900
Bank overdrafts	13	527	3,770
Derivative financial instruments	20	-	2,945
		<u>193,652</u>	<u>192,377</u>
<b>Total liabilities</b>		<u>606,570</u>	<u>460,807</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>814,389</u></u>	<u><u>623,260</u></u>

The consolidated financial statements were approved on 4 July 2013 by:

  
Director

  
Director

The attached notes 1 to 24 form part of these consolidated financial statements.

GEMS Menasa (Cayman) Limited and its subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 March 2013

	<i>Notes</i>	<i>2013</i> <i>USD'000</i>	<i>2012</i> <i>USD'000</i>
<b>OPERATING ACTIVITIES</b>			
Profit for the year		42,726	51,861
Adjustments for:			
Depreciation	6	41,080	30,104
Loss on disposal of property and equipment		340	374
Amortisation of intangible assets	7	933	642
Provision for employees' end of service benefits	18	7,935	6,432
Share of loss in an associate		-	2,208
Finance costs	5	24,336	14,699
Finance income		(50)	(404)
Share of profit in joint venture	9	(322)	(390)
		<u>116,978</u>	<u>105,526</u>
Working capital changes:			
Inventories		(28)	69
Accounts receivable and prepayments		(107,165)	(54,714)
Accounts payable and accruals		100,159	34,713
Cash from operations		<u>109,944</u>	<u>85,594</u>
Interest paid	5	(24,336)	(14,699)
Employees' end of service benefits paid	18	(3,524)	(3,137)
Net cash from operating activities		<u>82,084</u>	<u>67,758</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	6	(143,740)	(184,059)
Acquisition of an investment in an associate	8	-	(52,816)
Acquisition of subsidiary	10	-	(408)
Investment in a joint venture	9	-	(67)
Proceeds from disposal of property and equipment		-	19
Purchase of intangible assets	7	(1,041)	(979)
Interest received		50	404
Bank deposits	13	4,359	(1,575)
Dividend received	9	-	331
Net cash used in investing activities		<u>(140,372)</u>	<u>(239,150)</u>

The attached notes 1 to 24 form part of these consolidated financial statements.

GEMS Menasa (Cayman) Limited and its subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 March 2013

	<i>Notes</i>	<i>2013</i> <i>USD'000</i>	<i>2012</i> <i>USD'000</i>
<b>FINANCING ACTIVITIES</b>			
Proceeds from term loans	17	449,502	199,734
Repayments of term loans	17	(350,103)	(31,421)
Net movement in non-controlling interests		(576)	(400)
Net cash from financing activities		<u>98,823</u>	<u>167,913</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Net foreign exchange difference		271	(898)
Cash arising on (transfer) / acquisition of a subsidiaries	10	(5,937)	269
Cash and cash equivalents at the beginning of the year		<u>16,724</u>	<u>20,832</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	13	<u><u>51,593</u></u>	<u><u>16,724</u></u>

The attached notes 1 to 24 form part of these consolidated financial statements.

GEMS Menasa (Cayman) Limited and its subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2013

Attributable to equity holders of the Holding Company

	Share capital USD '000	Share premium USD '000	Restricted reserve USD '000	Translation reserve USD '000	Cash flow hedge reserve USD '000	Retained earnings USD '000	Total USD '000	Non-controlling interests USD '000	Total equity USD '000
Balance at 1 April 2011	1	41,964	449	605	(1,440)	70,904	112,483	867	113,350
Other comprehensive income	-	-	-	(898)	(1,505)	-	(2,403)	-	(2,403)
Profit for the year	-	-	-	-	-	51,352	51,352	509	51,861
Total comprehensive income for the year	-	-	-	(898)	(1,505)	51,352	48,949	509	49,458
Acquisition of a subsidiary	-	-	-	-	-	-	-	87	87
Transfer to restricted reserve	-	-	18	-	-	(18)	-	-	-
Amount paid during the year	-	-	-	-	-	-	-	(442)	(442)
Balance at 31 March 2012	1	41,964	467	(293)	(2,945)	122,238	161,432	1,021	162,453
Other comprehensive income	-	-	-	271	2,945	-	3,216	-	3,216
Profit for the year	-	-	-	-	-	42,028	42,028	698	42,726
Total comprehensive income for the year	-	-	-	271	2,945	42,028	45,244	698	45,942
Transfer to restricted reserve	-	-	23	-	-	(23)	-	-	-
Transfer to retained earnings	-	(41,964)	-	-	-	41,964	-	-	-
Transfer to ultimate parent company	-	-	-	-	-	-	-	(42)	(42)
Amount paid during the year	-	-	-	-	-	-	-	(534)	(534)
<b>Balance at 31 March 2013</b>	<b>1</b>	<b>-</b>	<b>490</b>	<b>(22)</b>	<b>-</b>	<b>206,207</b>	<b>206,676</b>	<b>1,143</b>	<b>207,819</b>

The attached notes 1 to 24 form part of these consolidated financial statements.

# GEMS Menasa (Cayman) Limited and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2013

### 1 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 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, manage and operate educational entities under the education management brand, GEMS Education. The registered address of the Holding Company is PO Box 309GT, Uglan House, Grand Cayman, KY1 – 1104, Cayman Island. The shareholder of the Holding Company is GEMS MENASA Topco (Cayman) Limited (the "Parent Company"). The name of the ultimate parent company is Varkey Group Limited (the "Ultimate Parent Company") incorporated and registered in the British Virgin Islands as a limited liability company.

The Group has 100% ownership interest in all subsidiaries, except, where mentioned otherwise. The companies in which the Holding Company has an interest or beneficial ownership and which are consolidated as subsidiaries are as follows:

1. Premier Schools International (LLC) (PSI LLC) – registered in the UAE (one school is 75% owned. Refer note 16)
2. Global Educational Management Systems Establishment – registered in the UAE
3. School Improvement Partnership Limited – registered in Cayman Islands
4. School Transport Services (LLC) – registered in the UAE
5. Bright Bus Transport – registered in the UAE
6. Varkey International Limited – registered in the Republic of Mauritius
7. Global Education Management Systems Limited – registered in the British Virgin Islands
8. Global Education Management Systems (South Africa) (Pty) (Ltd) – registered in the Republic of South Africa
9. Education Holdings 1 Limited – registered in the Dubai International Financial Centre
10. Education Holdings 2 Limited – registered in the Dubai International Financial Centre
11. Global Educational Management Systems Establishment – registered in the Kingdom of Saudi Arabia
12. School Improvement Partnership Limited (SPC) – registered in Bahrain
13. GEMS Manco (Egypt) Limited – registered in Egypt
14. East Sports Equipment Articles and Services LLC – registered in the UAE (75% owned – note 16)
15. GEMS MENASA OPCO (Cayman) Limited - registered in Cayman Islands

During the current year, the Group has formed the following new entities and consolidated them as subsidiaries:

1. GEMS Education (Africa) Limited – registered in Cayman Islands
2. GEMS Cambridge International School – registered in Kenya
3. GEMS Co. – registered in Kingdom of Saudi Arabia

During the year, the Group has transferred the following subsidiaries to the Ultimate Parent Company with effect from 1 April 2012:

1. Global Education Management Systems Private Limited – registered in India;
2. Zanskar Properties Private Limited – registered in India;
3. Premier Educational Establishment Private Limited – registered in India;
4. GEMS Education (Asia) 1 Limited - registered in Mauritius;
5. GEMS Education (Asia) 2 Limited - registered in Mauritius; and
6. Concorde Residential Schools (Kerala) Private Limited.

The student strength as of 31 March 2013 was 79,489 students (2012: 70,076 students). The Group had 9,595 employees as of 31 March 2013 (2012: 8,587 employees).

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

### 2.1 BASIS OF PREPARATION

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

The consolidated financial statements are prepared under the historical cost convention, modified to include the fair valuation of derivative financial instruments.

The consolidated financial statements are presented in United States Dollar (USD). However, the Group's functional currency remains as 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 Parent Company. Balances and transactions have been translated from AED to USD at the rate at which the currencies are fixed for the years ended 31 March 2013 and 31 March 2012, USD 1 being equivalent to AED 3.675. All values are rounded to the nearest thousand (USD'000), except when otherwise stated.

#### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Holding Company and its subsidiaries as at the reporting date listed in note 1. The subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the Holding Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the Parent's share of components previously recognised in other comprehensive income to profit or loss.

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

#### **New and amended standards and interpretations**

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 April 2012:

- IAS 12 *Income Taxes* (Amendment) – Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 *First-Time Adoption of International Financial Reporting Standards* (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters IFRS 7 *Financial Instruments: Disclosures* (Amendments)
- IFRS 7 *Financial Instruments: Disclosures* – Enhanced Derecognition Disclosure Requirements



**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

**New and amended standards and interpretations (continued)**

The adoption of the above standards or interpretations is described below:

*IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 April 2012 and has no effect on the Group's financial position, performance or its disclosures.

*IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact on the Group as the Group is not subject to hyperinflation.

*IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

**IASB Standards and Interpretations issued at 31 March 2013 but not effective**

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

*IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings) would be presented separately from items that will never be reclassified (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

*IAS 19 Employee Benefits (Revised)*

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The revised standard has no impact on the Group and becomes effective for annual periods beginning on or after 1 January 2013.

*IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)*

As a consequence of the new IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates*, has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard has no impact on the Group and becomes effective for annual periods beginning on or after 1 January 2013.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

**IASB Standards and Interpretations issued at 31 March 2013 but not effective (continued)**

*IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32*

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group’s financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

*IFRS 1 Government Loans – Amendments to IFRS 1*

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

*IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7*

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group’s financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

*IFRS 9 Financial Instruments: Classification and Measurement*

IFRS 9, as issued, reflects the first phase of the IASB’s work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group’s financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

*IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements*

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation — Special Purpose Entities*.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analysis performed, IFRS 10 is not expected to have any impact on the currently held investment of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

*IFRS 11 Joint Arrangements*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard has no impact on the Group and becomes effective for annual periods beginning on or after 1 January 2013.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**

**IASB Standards and Interpretations issued at 31 March 2013 but not effective (continued)**

*IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but the standard will have no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

*IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analysis, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

*IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine*

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group.

**Annual Improvements May 2012**

These improvements will not have an impact on the Group, and include:

*IFRS 1 First-time Adoption of International Financial Reporting Standards*

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

*IAS 1 Presentation of Financial Statements*

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

*IAS 16 Property, Plant and Equipment*

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

*IAS 32 Financial Instruments, Presentation*

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

*IAS 34 Interim Financial Reporting*

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES**

**Subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

**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 excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as 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 when the services are rendered.
- 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 outsourced income from sales of books uniform and canteen and recognised in the same period of sales.

**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 consolidated statement of income 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 on a straight line basis over the estimated useful lives of the other assets as follows:

Leasehold buildings and improvements	5 to 20 years or the lease period (whichever is less)
Furniture, fixtures and equipment	5 years
Motor vehicles	5 to 8 years
Library books	4 years

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 consolidated statement of income in the year the asset is derecognised.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property and equipment (continued)**

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 consolidated statement of income as the expense is incurred.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively if appropriate, at each financial year 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 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 consolidated statement of income 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 consolidated statement of income 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 consolidated statement of income 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.

Intangible assets with indefinite useful lives are tested for impairment annually as of 31 March either individually or at the cash generating unit level, as appropriate.

**Investments**

*Investment in associate*

The Group's investment in its associate is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investments (continued)**

*Investment in associate (continued)*

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in the associate. The statement of income reflects the share of the results of operations of the associate.

When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the interest in the associate.

The reporting dates of the associate and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

*Interest in joint ventures*

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control. The Group's interests in the joint ventures are accounted for under the equity method. Under the equity method, the interest in joint ventures is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the jointly controlled entity less any impairment in value. The statement of consolidated comprehensive income reflects the Group's share of the results of its interest in the joint venture. Unrealised profits or losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the Group's interest in the joint venture, 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 the 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 consolidated statement of income. Impairment is determined as follows:

- a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income;
- 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.



**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 consolidated statement of income 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 consolidated statement of income.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the 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 swap 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 swap 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 consolidated income statement, except for the effective portion of cash flow hedges, which is recognised in 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 swap is 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 swap is recognised directly in the consolidated statement of changes in equity, while any ineffective portion is recognised in the consolidated income statement. Amounts taken to the consolidated statement of changes in equity are transferred to the consolidated income statement when the forecasted interest payment, to which the hedging instrument relates, is made.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Derivative financial instruments and hedge accounting (continued)**

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 consolidated income statement 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 consolidated statement of income.

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 consolidated statement of income.

**Fair values of financial instruments**

For financial instruments traded in an active market, fair value is determined by reference to quoted market prices.

For financial instruments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially similar or is based on the discounted present value of expected cash flows. Where such reasonable estimate is impracticable, the financial instruments are carried at cost, less provision for impairment.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

**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. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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.

**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 when there is no possibility of recovery.

**Cash and cash equivalents**

For the purpose of the 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.

**Term loans**

Term loans are initially recognized at fair value plus attributable transaction costs. After initial recognition at cost less transaction costs, term loans are measured at amortised cost using the effective interest method. Installments due within one year are shown as current liabilities.

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.

**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 consolidated statement of income 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' end of service benefits**

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, wherever applicable, the Group makes contributions to a government scheme calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

**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 consolidated statement of income in the year in which they are incurred.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Leases**

Finance leases, which transfer to the Group 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 charged directly against income.

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 in the consolidated statement of income on a straight-line basis over the lease term.

**Contingencies**

Contingent liabilities are not recognised in the 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 consolidated financial statements but disclosed when an inflow of economic benefits is probable.

**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.

*Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group at their respective functional currency spot rates prevailing at the date of the transaction first qualify for recognition.

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 consolidated statement of comprehensive income 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 consolidated statement of comprehensive income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other 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. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**2.4 ESTIMATES AND ASSUMPTIONS**

The preparation of the 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.

**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 consolidated statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

***Impairment of investment in associate and joint ventures (equity accounted investments)***

At each reporting date, an assessment is made whether there is any objective evidence of impairment in the carrying values of investments in associate and joint ventures. In such instances, the investment is subject to an impairment test by comparing the carrying amount to the recoverable amount of the asset. Considering the long term nature of these investments, the recoverable amount is determined based on the value-in-use calculations. Calculating the value-in-use implies obtaining cash flow forecasts from the management of the equity accounted investments. Publicly listed companies often operate under restrictions due to the applicable listing regulations on disclosure of information to a selective group of the equity holders. Thus, for such investments the Group develops its own estimated cash flows using publicly available data or analysts forecasts, as appropriate.

***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 12 to the consolidated financial statements. Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated statement of income.

***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 provision 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 1 million (2012: USD 1.1 million) with provisions for old and obsolete inventories of USD 0.1 million (2012: USD 0.1 million). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the consolidated statement of income.

***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.

***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.



# GEMS Menasa (Cayman) Limited and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2013

### 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

#### 2.4 ESTIMATES AND ASSUMPTIONS (continued)

##### *Impairment of non-financial assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets 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.

### 3 OTHER INCOME

	2013 USD'000	2012 USD'000
Income from extracurricular activities	7,213	5,528
Sale of books and uniforms	2,775	2,688
Income on closure of interest rate swap (note 20)	2,418	-
Commission income	1,463	890
Interest income	50	404
Other income	4,271	3,145
	<u>18,190</u>	<u>12,655</u>

### 4 SELLING AND ADMINISTRATIVE EXPENSES

	2013 USD'000	2012 USD'000
Staff costs	236,175	197,930
Staff costs under direct education costs	(144,146)	(110,498)
Staff costs capitalised under capital work-in-progress (note 6)	(8,451)	(3,921)
Staff costs capitalised under intangible assets (note 7)	(1,041)	(979)
Staff costs under pre-operative expenses	(344)	(465)
	<u>82,193</u>	<u>82,067</u>
Rent – operating leases	24,441	21,042
Repairs and maintenance	15,592	13,697
Electricity and water charges	10,181	8,902
Fuel expenses	8,713	7,367
Legal and professional fees	3,271	2,680
Printing and stationery	2,690	2,742
Corporate restructuring costs (note a)	2,521	677
Telephone, fax and internet	2,075	2,068
Travelling	2,059	1,526
Teaching aid	1,860	454
GEMS Skills Forum Event (note b)	1,817	-
Municipal taxes and licence fees	1,706	1,503
Advertisement	1,796	1,255
Sponsorship fees	1,311	1,360
Research costs (note c)	1,147	994
Provision for bad debts	523	1,259
Donation (note d)	170	515
Other administrative expenses	25,118	19,574
	<u>189,184</u>	<u>169,682</u>

# GEMS Menasa (Cayman) Limited and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2013

### 4 SELLING AND ADMINISTRATIVE EXPENSES (continued)

The costs mentioned below are not part of the normal operating costs and comprises of the following:

- a) Corporate restructuring costs related to the alignment in the compensation and benefit of staff with market, ex-gratia and recruitment costs of key management executives.
- b) During the year, the Group organised the Global Education & Skills Forum event to examine ways to create real, sustainable and scalable change to education systems at global and local levels with particular focus on developing an environment that supports effective public and private partnerships, including a regulatory framework that ensures access, quality, relevance and equity in education provision.
- c) Research costs represent services utilised of various consultants which do not meet the criteria for capitalisation or deferral under IFRS.
- d) This represents one-off donations given to various institutions.

### 5 FINANCE COSTS

Finance costs comprise the following:

	<i>2013</i> <i>USD'000</i>	<i>2012</i> <i>USD'000</i>
Interest on term loans	20,167	14,524
Interest on others	4,169	175
	<hr/>	<hr/>
	24,336	14,699
Borrowing costs capitalised (note 6)	(10,019)	(11,989)
	<hr/>	<hr/>
	14,317	2,710
Bank charges	4,397	3,445
Loan arrangement fees	6,793	2,466
Loan closure expenses	10,497	-
	<hr/>	<hr/>
	36,004	8,621
	<hr/> <hr/>	<hr/> <hr/>

GEMS Menasa (Cayman) Limited and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2013

6 PROPERTY AND EQUIPMENT

	Land USD '000	Leasehold buildings and improvements USD '000	Furniture, fixtures and equipment USD '000	Motor vehicles USD '000	Library books USD '000	Capital work-in-progress USD '000	Total USD '000
<b>Cost:</b>							
At 1 April 2012	5,744	348,380	94,787	66,992	10,670	94,997	621,570
Additions	-	11,924	17,357	7,007	2,450	105,002	143,740
Transfer from capital work-in-progress	-	100,292	3,199	-	-	(103,491)	-
Transfer to other receivables (Note f)	-	-	-	-	-	(16,146)	(16,146)
Transfer to the Ultimate Parent Company	(5,744)	(785)	(110)	(65)	-	(8,375)	(15,079)
Disposals/write off	-	(3)	(2,120)	(230)	(11)	-	(2,364)
<b>At 31 March 2013</b>	<b>-</b>	<b>459,808</b>	<b>113,113</b>	<b>73,704</b>	<b>13,109</b>	<b>71,987</b>	<b>731,721</b>
<b>Depreciation:</b>							
At 1 April 2012	-	73,702	63,800	40,053	6,977	-	184,532
Charge for the year	-	19,528	13,243	6,430	1,879	-	41,080
Transfer to the Ultimate Parent Company	-	(9)	(82)	(34)	-	-	(125)
Relating to disposals/write off	-	(3)	(1,892)	(118)	(11)	-	(2,024)
<b>At 31 March 2013</b>	<b>-</b>	<b>93,218</b>	<b>75,069</b>	<b>46,331</b>	<b>8,845</b>	<b>-</b>	<b>223,463</b>
<b>Net carrying amount:</b>	<b>-</b>	<b>366,590</b>	<b>38,044</b>	<b>27,373</b>	<b>4,264</b>	<b>71,987</b>	<b>508,258</b>

GEMS Menasa (Cayman) Limited and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2013

6 PROPERTY AND EQUIPMENT (continued)

	Land USD '000	Leasehold buildings and improvements USD '000	Furniture, fixtures and equipment USD '000	Motor vehicles USD '000	Library books USD '000	Capital work-in-progress USD '000	Total USD '000
<b>Cost:</b>							
At 1 April 2011	5,744	192,336	77,606	55,472	8,120	100,710	439,988
Acquisition of a subsidiary (note 10)	-	-	8	30	-	-	38
Additions	-	15,956	19,451	11,643	2,556	134,453	184,059
Transfer from capital work-in-progress	-	140,166	-	-	-	(140,166)	-
Transfers from/(to) related parties	-	-	(13)	147	-	-	134
Disposals/write off	-	(78)	(2,265)	(300)	(6)	-	(2,649)
At 31 March 2012	5,744	348,380	94,787	66,992	10,670	94,997	621,570
<b>Depreciation:</b>							
At 1 April 2011	-	61,240	55,127	34,893	5,402	-	156,662
Charge for the year	-	12,474	10,769	5,280	1,581	-	30,104
Transfers from/(to) related parties	-	-	(10)	32	-	-	22
Relating to disposals/write off	-	(12)	(2,086)	(152)	(6)	-	(2,256)
At 31 March 2012	-	73,702	63,800	40,053	6,977	-	184,532
<b>Net carrying amount:</b>							
At 31 March 2012	5,744	274,678	30,987	26,939	3,693	94,997	437,038

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2013

**6 PROPERTY AND EQUIPMENT (continued)**

- a) The leasehold improvements represent the building costs related to the school premises, which are constructed on leasehold land.
- b) The school buildings have been constructed on leasehold land. These leases are generally renewable on an annual 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 the shareholder of the Ultimate Parent Company and assignment process was either ongoing or had not started as at the consolidated statement of financial position date. In such cases the leases are confirmed to be held beneficially for the Group.
- c) Borrowing and staff costs amounting to USD 10.0 million and USD 8.5 million (2012: USD 12.0 million and USD 3.9 million) respectively have been capitalised during the year. The rate used to determine the amount of borrowing costs eligible for capitalisation was in the range of 7% to 9% per annum, which is the effective interest rate of the specific borrowing.
- 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 on the construction of school buildings.
- f) This represents transfer of school building under construction to a third party in Qatar.

**7 INTANGIBLE ASSETS**

	<i>Software costs</i>	
	<i>2013</i>	<i>2012</i>
	<i>USD'000</i>	<i>USD'000</i>
Cost:		
At 1 April	4,176	3,197
Additions	1,041	979
At 31 March	<u>5,217</u>	<u>4,176</u>
Amortisation:		
At 1 April	1,172	530
Amortisation charge for the year	933	642
At 31 March	<u>2,105</u>	<u>1,172</u>
Net carrying amount:		
At 31 March	<u><u>3,112</u></u>	<u><u>3,004</u></u>

Software costs represent 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.

During the year ended 31 March 2013, software development includes employees and related costs amounting to USD 1.0 million (2012: USD 1.0 million), related to development of the software.

# GEMS Menasa (Cayman) Limited and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2013

### 8 INVESTMENT IN AN ASSOCIATE

During the previous year the Group had acquired a 25.55% interest in Everonn Education Limited (the "Associate"), an education and training company based in Chennai, India. The Associate's services include knowledge resources management, designing and delivering learning and training programmes, setting up infrastructure for services.

The Associate was incorporated on 19 April 2000 as a Public Limited Company under the Companies Act, 1956 of India. The Associate is quoted on the National Stock Exchange of India Limited (NSE) and the Bombay Stock Exchange Limited (BSE).

During the year, the Group sold its subsidiaries, GEMS Education (Asia) 1 Limited and Concorde Residential Schools (Kerala) Private Limited, which hold the investment in the Associate, to the Ultimate Parent Company at carrying value amounting to USD 50.6 million with effect from 1 April 2012. The amount due is repayable on demand. The following table illustrates summarised financial information of the Group's investment in an Associate as at 31 March 2012:

	<i>2012</i> <i>USD'000</i>
Share of the associate's statement of financial position:	
Current assets	33,767
Non-current assets	29,808
Current liabilities	(22,172)
Non-current liabilities	(11,278)
<b>Equity</b>	<u>30,125</u>
Share of the associate's revenue and loss:	
Revenue	3,145
Loss	(2,208)
Investment made during the year	52,816
Share of the associate's loss	(2,208)
Carrying amount of the investment	<u>50,608</u>
Market value	<u>28,058</u>

### 9 INTEREST IN JOINT VENTURES

- a) Interest in a Joint Venture represents the Group's contribution to the share capital of Global Education Management Systems Limited Saudi (the "Joint Venture"), created with a third party to manage schools in the Kingdom of Saudi Arabia. The Group contributed towards its 50% interest in the Joint Venture (2012: USD 67K).

	<i>2013</i> <i>USD'000</i>	<i>2012</i> <i>USD'000</i>
Balance at the beginning of the year	126	-
Investment made during the year	-	67
Share of joint venture profit	322	390
Dividend received	-	(331)
Balance at the end of the year	<u>448</u>	<u>126</u>



# GEMS Menasa (Cayman) Limited and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2013

### 9 INTEREST IN JOINT VENTURES (continued)

The Group's share of the assets, liabilities, revenue and expenses of the Joint Venture are as follows:

	<i>2013</i> <i>USD'000</i>	<i>2012</i> <i>USD'000</i>
Non-current assets	<u>27</u>	<u>31</u>
Current assets	<u>588</u>	<u>306</u>
Current liabilities	<u>36</u>	<u>98</u>
Revenue	<u>819</u>	<u>870</u>
Profit	<u>322</u>	<u>390</u>

There are no contingent liabilities relating to the Group's interest in the Joint Venture.

- b) During the year the Holding Company entered into a Joint Venture agreement to invest in the funding vehicle for two schools in Qatar, wherein the Holding Company has committed to invest approximately USD 5.49 million of the total share capital. The investment will represent approximately 9% equity in the funding vehicle. As at 31 March 2013, the holding company has not made any contribution.

### 10 BUSINESS COMBINATION AND ACQUISITIONS / DERECOGNITIONS

#### a) *Derecognitions*

During the year, the Group sold and transferred the following subsidiaries to the Ultimate Parent Company at carrying value of total assets amounting to USD 67.6 million and total liabilities amounting to USD 51.9 million with effect from 1 April 2012:

1. Global Education Management Systems Private Limited – registered in India;
2. Zanskar Properties Private Limited – registered in India;
3. Premier Educational Establishment Private Limited – registered in India;
4. GEMS Education (Asia) 1 Limited – registered in Mauritius;
5. GEMS Education (Asia) 2 Limited – registered in Mauritius; and
6. Concorde Residential Schools (Kerala) Private Limited – registered in India.

#### b) *Acquisitions*

During the previous year, the Group obtained control over East Sports Equipment Articles and Services L.L.C. by acquiring 75% interest for a consideration of USD 0.4 million. East Sports Equipment Articles and Services L.L.C. is a limited liability company, incorporated on 9 July 2011 in Dubai, United Arab Emirates and its principal activity is providing sports services.

GEMS Menasa (Cayman) Limited and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2013

**10 BUSINESS COMBINATION AND ACQUISITIONS / DERECOGNITIONS (continued)**

*b) Acquisitions (continued)*

The fair value of the identifiable assets and liabilities of East Sports Equipment Articles and Services L.L.C at the date of acquisition were not different from the carrying values and are as follows:

	<i>Fair value recognised on acquisition</i>
	<i>2012 USD'000</i>
Property and equipment	38
Inventories	13
Accounts receivable and prepayments	39
Bank balances and cash	269
Employees' end of service benefits	(18)
Term loans	(27)
Accounts payable and accruals	(127)
Amounts due to related parties	(6)
	<hr/>
Fair value of net assets	181
Less: Attributable to minority shareholder	(45)
	<hr/>
Fair value of net assets acquired by the Group	136
Goodwill arising on acquisition	272
	<hr/>
<b>Total acquisition cost</b>	<b>408</b>
	<hr/> <hr/>
Cash outflow on acquisition:	
Cash paid	(408)
Cash and cash equivalent acquired on business combination	269
	<hr/>
Net cash outflow	(139)
	<hr/> <hr/>

The Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable assets.

**11 INVENTORIES**

	<i>2013 USD'000</i>	<i>2012 USD'000</i>
Books, stationery, uniforms and others	878	947
Vehicle spare parts and consumables	138	126
Canteen supplies	5	6
	<hr/>	<hr/>
	1,021	1,079
Provision for old and obsolete inventories	(53)	(139)
	<hr/>	<hr/>
	<b>968</b>	<b>940</b>
	<hr/> <hr/>	<hr/> <hr/>

GEMS Menasa (Cayman) Limited and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2013

12 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<i>2013</i> <i>USD'000</i>	<i>2012</i> <i>USD'000</i>
Fees receivable	7,407	8,339
Amounts due from related parties (note 21)	161,408	50,307
Prepaid expenses	30,242	31,339
Advances to suppliers	16,461	1,704
Deposits	2,322	3,252
Other receivables	29,050	9,157
	<u>246,890</u>	<u>104,098</u>

As at 31 March 2013, fees receivable with a nominal value of USD 0.9 million (2012: USD 1.6 million) were impaired. Movements in the allowance for impairment of fees receivable were as follows:

	<i>2013</i> <i>USD'000</i>	<i>2012</i> <i>USD'000</i>
Balance at the beginning of the year	1,665	1,235
Charge for the year	506	1,259
Amounts written off	(1,299)	(777)
Unused amounts reversed	(18)	(52)
	<u>854</u>	<u>1,665</u>

As at 31 March, the ageing of unimpaired fees receivable was as follows:

	<i>Total</i> <i>USD'000</i>	<i>Neither</i> <i>past due</i> <i>nor</i> <i>impaired</i> <i>USD'000</i>	<i>Past due but not impaired</i>				
			<i>&lt;30</i> <i>days</i> <i>USD'000</i>	<i>30-60</i> <i>days</i> <i>USD'000</i>	<i>61-90</i> <i>days</i> <i>USD'000</i>	<i>91-120</i> <i>days</i> <i>USD'000</i>	<i>&gt;120</i> <i>days</i> <i>USD'000</i>
<b>2013</b>	<b>7,407</b>	<b>68</b>	<b>1,513</b>	<b>2,001</b>	<b>1,842</b>	<b>370</b>	<b>1,613</b>
2012	8,339	1,144	1,960	2,151	889	833	1,362

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 2.4 million (2012: USD 3.1 million) representing advance payment of rent for the operating lease of school buildings commencing 1 July 2007 for a period of 10 years.

# GEMS Menasa (Cayman) Limited and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2013

### 13 CASH AND CASH EQUIVALENTS

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

	<i>2013</i> <i>USD'000</i>	<i>2012</i> <i>USD'000</i>
Cash in hand	853	470
Bank balances	45,638	20,024
Short term deposits	7,950	6,680
	<u>54,441</u>	<u>27,174</u>
Less: Short term deposits (maturity over three months)	(2,321)	(6,680)
Bank overdraft	(527)	(3,770)
	<u>51,593</u>	<u>16,724</u>

Included in bank balances and cash are bank deposits amounting to USD 8.0 million (2012: USD 6.7 million) with commercial banks in the United Arab Emirates. These are denominated in UAE Dirhams with effective rates ranging from 2.50% to 3.25% per annum (2012: 2.50% to 3.25% per annum). Deposits amounting to USD 8.0 million (2012: USD 6.7 million) are held under lien by banks as security for the facilities granted.

### 14 SHARE CAPITAL

	<i>2013</i> <i>USD'000</i>	<i>2012</i> <i>USD'000</i>
<i>Authorised</i> 50,000 shares of USD 1 each	<u>50</u>	<u>50</u>
<i>Issued and fully paid</i> 340 shares of USD 1 each	<u>1</u>	<u>1</u>

### 15 RESERVES

#### *A) Share premium*

Share premium represents the amount paid by the shareholders in excess of par value of the shares issued. During the year the share premium has been transferred to retained earnings.

#### *B) 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.

#### *C) Translation reserve*

The foreign currency translation reserve is used to record exchange differences arising from the translation of the assets and liabilities of the foreign subsidiary into United States Dollar at year end exchange rates.

# GEMS Menasa (Cayman) Limited and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2013

### 16 NON-CONTROLLING INTERESTS

	<i>2013</i> <i>USD'000</i>	<i>2012</i> <i>USD'000</i>
Balance at the beginning of the year	1,021	867
Share of total comprehensive income for the year	698	509
Amounts paid during the year	(534)	(442)
Non-controlling interest arising on acquisition of a subsidiary (note 10)	-	45
Non-controlling interest arising on investment in Concorde Residential Schools (Kerala) Private Limited	-	42
Non-controlling interest transferred to Ultimate Parent Company	(42)	-
	<u>1,143</u>	<u>1,021</u>

The non-controlling interests represent 25% (2012: 25%) of the equity of one of the schools under PSI LLC (GEMS Jumeirah Primary School – note 1) and 25% (2012: 25%) of the equity in East Sports Equipment Articles and Services L.L.C. (note 1).

During the year, non-controlling interests representing 24.66% equity in Concorde Residential Schools (Kerala) Private Limited attributable to an outside investor has been transferred to the Ultimate Parent Company with effect from 1 April 2012.

### 17 TERM LOANS

<i>At 31 March 2013</i>	<i>Senior facility USD'000</i>	<i>Syndicated loans USD'000</i>	<i>Bilateral loan USD'000</i>	<i>Other term loans USD'000</i>	<i>Total USD'000</i>
Balance as at 1 April	-	258,668	44,033	13,607	316,308
Loans obtained during the year	400,000	-	-	49,502	449,502
Repayments during the year	-	(258,668)	(44,033)	(47,402)	(350,103)
Total	<u>400,000</u>	<u>-</u>	<u>-</u>	<u>15,707</u>	<u>415,707</u>

<i>At 31 March 2012</i>	<i>Syndicated loans USD'000</i>	<i>Bilateral loan USD'000</i>	<i>Other term loans USD'000</i>	<i>Total USD'000</i>
Balance as at 1 April	142,418	-	5,550	147,968
Loans obtained during the year	135,000	44,033	20,701	199,734
Acquisition of a subsidiary (note 10)	-	-	27	27
Repayments during the year	(18,750)	-	(12,671)	(31,421)
Total	<u>258,668</u>	<u>44,033</u>	<u>13,607</u>	<u>316,308</u>

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

	<i>2013</i> <i>USD'000</i>	<i>2012</i> <i>USD'000</i>
Current portion	31,074	71,900
Non-current portion	384,633	244,408
	<u>415,707</u>	<u>316,308</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2013

**17 TERM LOANS (continued)**

***Senior Facility***

During current year, the Holding Company entered into a conventional and Islamic facility (the "Senior Facility") to refinance existing loans and to fund future capital expenditure. The Senior Facility comprises conventional facilities with a consortium of banks for USD 171.4 million (AED 630 million) and Islamic facilities with a consortium of banks for USD 372.8 million (AED 1,370 million).

The conventional facility of USD 171.4 million comprises two parts as follows:

1. Facility A	USD 109.3 million
2. Facility B	USD 62.1 million

Facility A was fully drawn in March 2013 and USD 16.7 million of Facility B were drawn in March 2013. As at 31 March 2013, the undrawn balance of Facility B is USD 45.4 million. Facility A was obtained for the purpose of refinancing the existing syndicated loan facility. Facility B was obtained for the purpose of permitted acquisitions and refinancing or the acquisition of indebtedness of entities acquired pursuant to permitted acquisition and permitted capital expenditure. Facility A and Facility B are repayable in 11 and 8 half yearly installments beginning 31 March 2014 and 30 September 2015 respectively until 31 March 2019.

The Islamic facility of USD 372.8 million comprises two parts as follows:

1. Facility A	USD 237.7 million
2. Facility B	USD 135.1 million

Facility A was fully drawn in March 2013 and USD 36.3 million of Facility B were drawn in March 2013. As at 31 March 2013, the undrawn balance of Facility B is USD 98.8 million. Facility A was obtained for the purpose of refinancing the existing syndicated loan facility. Facility B was obtained for the purpose of permitted acquisitions and refinancing or the acquisition of indebtedness of entities acquired pursuant to permitted acquisition and permitted capital expenditure. Facility A and Facility B are repayable in 11 and 8 half yearly installments beginning 31 March 2014 and 30 September 2015 respectively until 31 March 2019.

The Senior Facility agreement requires meeting certain financial covenants and ratio tests.

The above facility is secured by the following:

- a) pledge over 70% of the shares of the Holding Company;
- b) pledge over 100% of the shares of School Improvement Partnership Limited;
- c) assignment of rights by the Holding Company and certain of its subsidiaries; and
- d) assignment of credit card collection of certain of its subsidiaries.

The senior facility agreement carries interest rate of EIBOR plus margin. The margin is dependent on certain standard loan conditions and ranges from 3.5% to 4.25%.

***Syndicated loans***

During the prior years, the Holding Company entered into a committed senior secured bank facility (Facility A and Facility B) with a consortium of banks for USD 200.0 million and an uncommitted senior secured bank facility (Facility C) with a consortium of banks for USD 100.0 million. The USD 300.0 million financing facility comprises three parts as follows:

1. Facility A	USD 150.0 million
2. Facility B	USD 50.0 million
3. Facility C	USD 100.0 million

Facility A was drawn in prior years for USD 150.0 million. Facility A was repayable in 10 half yearly installments. This facility was obtained for the purpose of refinancing a syndicated loan facility, other term loans and for general corporate purposes.



# GEMS Menasa (Cayman) Limited and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2013

### 17 TERM LOANS (continued)

#### *Syndicated loans (continued)*

Facility B was drawn during the previous year for USD 50.0 million. Facility B was repayable in 7 half yearly installments. This facility was obtained for the purpose of permitted acquisitions, capital expenditure and refinancing or the acquisition of indebtedness of entities acquired pursuant to permitted acquisitions, as defined in the loan agreement.

Facility C was drawn during the previous year for USD 85.0 million. Facility C was repayable in 7 half yearly installments. This facility was obtained for the purpose of permitted acquisitions, capital expenditure and refinancing or the acquisition of indebtedness of entities acquired pursuant to permitted acquisitions, as defined in the loan agreement.

All the above facilities were settled in March 2013.

#### *Bilateral loan*

During the previous year, the Holding Company entered into a bilateral agreement with a commercial bank for the bank facility of USD 65.0 million. The facility was drawn during the previous year amounting to USD 44.0 million and is repayable in 8 quarterly installments. This facility was obtained for the purpose of its operating subsidiaries capital expenditure, meeting expansion plans and for general corporate purposes. The loan was settled during the year.

#### *Other term loans*

During the year, short term loans were obtained from various commercial banks to finance the working capital requirements of the Group. As at 31 March 2013, the outstanding balance of short term loan is USD 4.4 million (2012: USD 5.4 million). As the term loans carry interest at a rate that varies with market movements the fair value approximates carrying value.

Other term loans of USD 11.3 million (2012: USD 8.2 million) represent vehicle loans. These term loans are secured over motor vehicles and carry an average interest rate of 3.6% to 5.15% per annum (2012: 3.6% to 5.15% per annum).

### 18 EMPLOYEES' END OF SERVICE BENEFITS

	<i>2013</i> <i>USD'000</i>	<i>2012</i> <i>USD'000</i>
Provision at the beginning of the year	24,022	20,645
Provided during the year	7,935	6,432
Acquisition of a subsidiary (note 10)	-	18
End of service benefits paid	(3,524)	(3,137)
End of service benefit transferred (to)/from related parties (net)	(148)	64
Provision at the end of the year	<u>28,285</u>	<u>24,022</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2013

## 19 ACCOUNTS PAYABLE AND ACCRUALS

	<i>2013</i> <i>USD'000</i>	<i>2012</i> <i>USD'000</i>
Trade payables	32,785	21,258
Fees received in advance	68,433	46,771
Accrued expenses	37,486	17,764
Amounts due to related parties (note 21)	5,479	14,937
Other payables	17,868	13,032
	<u>162,051</u>	<u>113,762</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 60 to 120 days.

## 20 DERIVATIVE FINANCIAL INSTRUMENTS

*Interest rate swap*

The Holding Company has entered into interest rate swap ("IRS") agreements to hedge its exposure against interest rate fluctuations on syndicated loans (note 17). 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 interest rate liability was capped between the range of 7% - 9% per annum. In the prior years, the Group has applied hedge accounting and treated this IRS as effective cash flow hedge (2012: USD 2.9 million) as it effectively hedges the Group's exposure to variability in cash flows attributable to future interest payments on Group borrowings. During the year, the Group has settled the syndicated loans (note 17) and accordingly, the IRS has become ineffective and the entire amount of USD 2.9 million being the negative fair value was transferred to the consolidated statement of income from consolidated statement of comprehensive income.

Subsequent to the year end, the Group entered into new IRS agreements in relation to the Senior Facility (note 17) and the new IRS provider agreed to settle the liabilities related to the previous IRS. Accordingly management has transferred the existing liabilities related to the previous IRS to other income (note 3).

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'000</i>	<i>Notional amount USD'000</i>	<i>Within 1 years USD'000</i>	<i>1 to 5 yrs USD'000</i>
31 March 2012	2,945	201,945	55,040	146,905

GEMS Menasa (Cayman) Limited and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2013

**21 RELATED PARTY TRANSACTIONS**

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

	<i>2013</i> <i>USD'000</i>	<i>2012</i> <i>USD'000</i>
Entities under control of the Ultimate Parent Company:		
<i>Income</i>		
Fee income	127	47
Other income	357	353
	<u>484</u>	<u>400</u>
<i>Expenses</i>		
Repairs and maintenance	6,072	5,118
Medical expenses	1	4
	<u>6,073</u>	<u>5,122</u>
<i>Capitalised expense</i>		
Leasehold improvements	27,422	139,978

Balances with related parties included in the consolidated statement of financial position are as follows:

	<i>2013</i> <i>USD'000</i>	<i>2012</i> <i>USD'000</i>
<i>Amounts due from related parties:</i>		
Ultimate Parent Company	92,914	42,341
Entities under control of the Ultimate Parent Company	48,281	7,595
Parent Company	555	-
Entities under control of the Parent Company	19,329	85
Other related parties	329	286
	<u>161,408</u>	<u>50,307</u>
<i>Amounts due to related parties:</i>		
Entities under control of the Ultimate Parent Company	4,521	14,689
Other related parties	958	248
	<u>5,479</u>	<u>14,937</u>

Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash.

For the year ended 31 March 2013, there was no impairment of amounts owed by related parties (2012: USD Nil). The impairment assessment is undertaken each financial year through examining the financial position of the related parties and the market in which related party operates.

As at 31 March 2012, the Ultimate Parent Company has issued a guarantee against term loans obtained for USD 65.0 million.

# GEMS Menasa (Cayman) Limited and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2013

### 21 RELATED PARTY TRANSACTIONS (continued)

#### Compensation of key management personnel

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

	<i>2013</i> <i>USD'000</i>	<i>2012</i> <i>USD'000</i>
Salary and other benefits	<u>3,345</u>	<u>2,220</u>

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

### 22 COMMITMENTS

#### A) Capital expenditure commitments

The Group has contracted, but not provided for, estimated capital expenditure of approximately USD 162.3 million (2012: USD 78.6 million) at the reporting date on account of leasehold buildings and improvements.

#### B) Operating lease commitments

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

	<i>2013</i> <i>USD'000</i>	<i>2012</i> <i>USD'000</i>
Within one year	31,376	18,252
Between two and five years	98,639	72,900
Greater than five years	417,863	199,014
Total operating lease expenditure contracted for at the reporting date	<u>547,878</u>	<u>290,166</u>

#### C) Bank and other guarantees

The Group has given financial guarantees to the Ministry of Labour and Social Affairs and banks amounting to USD 2.4 million as at 31 March 2013 (2012: USD 4.0 million) in respect of work permit and related matters and others.

### 23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise trade payables, term loans, bank overdrafts and due to related parties. The Group's financial assets are as accounts receivable, due from related parties 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 (vehicle loans and other term loans). In case of assets the interest rates are fixed and in case of liabilities the Group has entered into an Interest rate swap to overcome the fluctuation in the interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2013

**23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**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:

	<i>2013</i> <i>USD'000</i>	<i>2012</i> <i>USD'000</i>
Bank balances	45,638	20,024
Short term deposits	7,950	6,680
Fees receivable	7,407	8,339
Amounts due from related parties	161,408	50,307
Deposits	2,322	3,252
Other receivables	29,050	9,157
	<u>253,775</u>	<u>97,759</u>

The Group seeks to limit its credit risk with respect to student's fees by 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 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.

**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 31 March, based on contractual payment dates and current market interest rates.

	<i>Less than 3 months USD'000</i>	<i>3 to 12 months USD'000</i>	<i>1 to 5 years USD'000</i>	<i>&gt;5 years USD'000</i>	<i>Total USD'000</i>
<i>At 31 March 2013</i>					
Trade payables	31,118	1,667	-	-	32,785
Other payables	-	17,868	-	-	17,868
Term loans; including interest	5,190	43,763	337,046	100,732	486,731
Amounts due to related parties	-	5,479	-	-	5,479
Total	<u>36,308</u>	<u>68,777</u>	<u>337,046</u>	<u>100,732</u>	<u>542,863</u>
	<i>Less than 3 months USD'000</i>	<i>3 to 12 months USD'000</i>	<i>1 to 5 years USD'000</i>	<i>&gt;5 years USD'000</i>	<i>Total USD'000</i>
<i>At 31 March 2012</i>					
Trade payables	21,258	-	-	-	21,258
Other payables	13,032	-	-	-	13,032
Term loans; including interest	52,944	51,530	239,491	-	343,965
Amounts due to related parties	-	14,937	-	-	14,937
Derivative financial instruments	-	2,945	-	-	2,945
Total	<u>87,234</u>	<u>69,412</u>	<u>239,491</u>	<u>-</u>	<u>396,137</u>

# GEMS Menasa (Cayman) Limited and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2013

### 23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### 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 years ended 31 March 2013 and 31 March 2012. Capital comprises the share capital, share premium, restricted reserve, translation reserve, cash flow hedge reserve, retained earnings and non-controlling interests and is measured at USD 207.8 million as at 31 March 2013 (2012: USD 162.4 million).

### 24 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and bank balances and trade receivables. Financial liabilities consist of bank overdrafts and 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.

The fair values of financial instruments are not materially different from their carrying values largely due to the short-term maturities of these instruments.

#### 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:

	<i>31 March 2012</i> <i>USD'000</i>	<i>Level 1</i> <i>USD'000</i>	<i>Level 2</i> <i>USD'000</i>	<i>Level 3</i> <i>USD'000</i>
Liabilities measured at fair value:				
Interest rate swap	(2,945)	-	(2,945)	-
	<u>(2,945)</u>	<u>-</u>	<u>(2,945)</u>	<u>-</u>

During the previous year, 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.



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

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 MARCH 2012**

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
GEMS MENASA (CAYMAN) LIMITED AND ITS SUBSIDIARIES**

We have audited the accompanying consolidated financial statements of GEMS Menasa (Cayman) Limited (the "Holding Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 March 2012 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**

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

**Auditor's responsibility**

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

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 March 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



31 July 2012

Dubai, United Arab Emirates

GEMS Menasa (Cayman) Limited and its subsidiaries

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 March 2012

	<i>Notes</i>	<i>2012</i> <i>USD'000</i>	<i>2011</i> <i>USD'000</i>
<b>INCOME</b>			
Fee income		<b>365,670</b>	334,085
Other income	4	<b>12,655</b>	9,772
Share of profit of a joint venture	10	<b>390</b>	-
<b>TOTAL INCOME</b>		<b>378,715</b>	<b>343,857</b>
<b>EXPENSES</b>			
Administrative expenses	5	<b>169,682</b>	152,427
Direct education cost		<b>114,694</b>	100,816
Depreciation	7	<b>30,104</b>	32,331
Finance costs	6	<b>8,621</b>	11,357
Capital work-in-progress written-off	7	-	6,738
Pre-operative expenses		<b>903</b>	-
Amortisation of intangible assets	8	<b>642</b>	260
Share of loss in an associate	9	<b>2,208</b>	-
<b>TOTAL EXPENSES</b>		<b>326,854</b>	<b>303,929</b>
<b>PROFIT FOR THE YEAR</b>		<b>51,861</b>	<b>39,928</b>
Profit attributable to:			
Equity holders of the Holding Company		<b>51,352</b>	39,485
Non-controlling interests	16	<b>509</b>	443
		<b>51,861</b>	<b>39,928</b>

The attached notes 1 to 24 form part of these consolidated financial statements.

GEMS Menasa (Cayman) Limited and its subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2012

	<i>Notes</i>	<i>2012</i> <i>USD'000</i>	<i>2011</i> <i>USD'000</i>
<b>PROFIT FOR THE YEAR</b>		<b>51,861</b>	39,928
<b>OTHER COMPREHENSIVE INCOME</b>			
Exchange difference of translation of foreign operations		(898)	(278)
Change in fair value of cash flow hedge	20	(1,505)	(1,440)
<b>TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>(2,403)</b>	(1,718)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>49,458</b>	38,210
 Total comprehensive income attributable to:			
Equity holders of the Holding Company		48,949	37,767
Non-controlling interests	16	509	443
		<b>49,458</b>	38,210

The attached notes 1 to 24 form part of these consolidated financial statements.

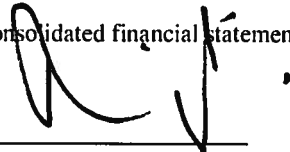
GEMS Menasa (Cayman) Limited and its subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2012

	<i>Notes</i>	<i>2012</i> <i>USD '000</i>	<i>2011</i> <i>USD '000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	7	437,038	283,326
Intangible assets	8	3,004	2,667
Investment in an associate	9	50,608	-
Interest in a joint venture	10	126	-
Goodwill	3	272	-
		<u>491,048</u>	<u>285,993</u>
<b>Current assets</b>			
Inventories	11	940	996
Accounts receivable and prepayments	12	104,098	49,393
Bank balances and cash	13	27,174	25,937
		<u>132,212</u>	<u>76,326</u>
<b>TOTAL ASSETS</b>		<u><u>623,260</u></u>	<u><u>362,319</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	14	1	1
Share premium	15	41,964	41,964
Restricted reserve	15	467	449
Translation reserve	15	(293)	605
Cash flow hedge reserve	20	(2,945)	(1,440)
Retained earnings		122,238	70,904
<b>Equity attributable to owners of the parent</b>		<u>161,432</u>	<u>112,483</u>
Non-controlling interests	16	1,021	867
<b>TOTAL EQUITY</b>		<u>162,453</u>	<u>113,350</u>
<b>Non-current liabilities</b>			
Term loans	17	244,408	126,111
Employees' end of service benefits	18	24,022	20,645
		<u>268,430</u>	<u>146,756</u>
<b>Current liabilities</b>			
Accounts payable and accruals	19	113,762	78,916
Term loans	17	71,900	21,857
Bank overdrafts	13	3,770	-
Derivative financial instruments	20	2,945	1,440
		<u>192,377</u>	<u>102,213</u>
<b>Total liabilities</b>		<u>460,807</u>	<u>248,969</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>623,260</u></u>	<u><u>362,319</u></u>

The consolidated financial statements were approved on 31 July 2012 by:

  
Sunny Varkey  
Director

The attached notes 1 to 24 form part of these consolidated financial statements.

GEMS Menasa (Cayman) Limited and its subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 March 2012

	<i>Notes</i>	<b>2012</b> <b>USD'000</b>	<b>2011</b> <b>USD'000</b>
<b>OPERATING ACTIVITIES</b>			
Profit for the year		<b>51,861</b>	39,928
Adjustments for:			
Depreciation	7	<b>30,104</b>	32,331
Loss on disposal of property and equipment		<b>374</b>	1
Capital work-in-progress written-off	7	-	6,738
Amortisation of intangibles	8	<b>642</b>	260
Provision for employees' end of service benefits	18	<b>6,432</b>	4,317
Share of loss in an associate		<b>2,208</b>	-
Finance costs	6	<b>14,699</b>	11,442
Finance income		<b>(404)</b>	(101)
Employees' end of service benefits transferred from related parties (net)	18	<b>64</b>	21
		<b>105,980</b>	94,937
Working capital changes:			
Inventories		<b>69</b>	317
Accounts receivable and prepayments		<b>(54,666)</b>	(8,047)
Accounts payable and accruals		<b>34,713</b>	(6,353)
Cash from operations		<b>86,096</b>	80,854
Interest paid	6	<b>(14,699)</b>	(11,442)
Employees' end of service benefits paid	18	<b>(3,137)</b>	(2,630)
Net cash from operating activities		<b>68,260</b>	66,782
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	7	<b>(184,059)</b>	(79,186)
Acquisition of an investment in an associate	9	<b>(52,816)</b>	-
Acquisition of subsidiary	3	<b>(408)</b>	-
Investment in a joint venture (net)	10	<b>(126)</b>	-
Proceeds from disposal of property and equipment		<b>19</b>	100
Transfer of property and equipment to related parties (net)	7	<b>(112)</b>	8
Purchase of intangible assets	8	<b>(979)</b>	(620)
Interest received		<b>404</b>	101
Bank deposits	13	<b>(1,575)</b>	(2,169)
Net cash used in investing activities		<b>(239,652)</b>	(81,766)

The attached notes 1 to 24 form part of these consolidated financial statements.



GEMS Menasa (Cayman) Limited and its subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended March 2012

	<i>Notes</i>	<i>2012</i> <i>USD'000</i>	<i>2011</i> <i>USD'000</i>
<b>FINANCING ACTIVITIES</b>			
Proceeds from term loans	17	<b>199,734</b>	150,112
Repayments of term loans	17	<b>(31,421)</b>	(120,209)
Net movement in non-controlling interests		<b>(400)</b>	(366)
Change in fair value of cash flow hedge		-	(2,523)
Net cash from financing activities		<u><b>167,913</b></u>	<u>27,014</u>
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(3,479)</b>	12,030
Net foreign exchange difference		<b>(898)</b>	(278)
Cash arising on acquisition of a subsidiary	3	<b>269</b>	-
Cash and cash equivalents at the beginning of the year		<u><b>20,832</b></u>	<u>9,080</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	13	<u><b>16,724</b></u>	<u>20,832</u>

The attached notes 1 to 24 form part of these consolidated financial statements.

GEMS Menasa (Cayman) Limited and its subsidiaries

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

Year ended 31 March 2012

	Attributable to equity holders of the Holding Company								
	Share capital USD '000	Share premium USD '000	Restricted reserve USD '000	Translation reserve USD '000	Cash flow hedge reserve USD '000	Retained earnings USD '000	Total USD '000	Non-controlling interests USD '000	Total equity USD '000
Balance at 1 April 2010	1	41,964	449	883	-	31,419	74,716	790	75,506
Other comprehensive income	-	-	-	(278)	(1,440)	-	(1,718)	-	(1,718)
Profit for the year	-	-	-	-	-	39,485	39,485	443	39,928
Total comprehensive income for the year	-	-	-	(278)	(1,440)	39,485	37,767	443	38,210
Amount paid during the year	-	-	-	-	-	-	-	(366)	(366)
Balance at 31 March 2011	1	41,964	449	605	(1,440)	70,904	112,483	867	113,350
Other comprehensive income	-	-	-	(898)	(1,505)	-	(2,403)	-	(2,403)
Profit for the year	-	-	-	-	-	51,352	51,352	509	51,861
Total comprehensive income for the year	-	-	-	(898)	(1,505)	51,352	48,949	509	49,458
Acquisition of a subsidiary	-	-	-	-	-	-	-	87	87
Transfer to restricted reserve	-	-	18	-	-	(18)	-	-	-
Amount paid during the year	-	-	-	-	-	-	-	(442)	(442)
<b>Balance at 31 March 2012</b>	<b>1</b>	<b>41,964</b>	<b>467</b>	<b>(293)</b>	<b>(2,945)</b>	<b>122,238</b>	<b>161,432</b>	<b>1,021</b>	<b>162,453</b>

The attached notes 1 to 24 form part of these consolidated financial statements.

## GEMS Menasa (Cayman) Limited and its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 1 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 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, manage and operate educational entities under the education management brand, GEMS Education. The registered address of the Holding Company is PO Box 309GT, Ugland House, Grand Cayman, KY1 – 1104, Cayman Island. The shareholders of the Holding Company were Varkey Group Limited (the "Ultimate Parent Company") (75%) and IGCF SPV 2 Limited (25%).

During the year, the Ultimate Parent Company has fully acquired the shares of IGCF SPV 2 Limited and subsequently transferred 100% shareholding of the Holding Company to GEMS MENASA Topco (Cayman) Limited (the "Parent Company").

The Group has 100% ownership interest in all subsidiaries, except, where mentioned otherwise. The companies in which the Holding Company has an interest or beneficial ownership and which are consolidated as subsidiaries are as follows:

1. Premier Schools International (LLC) (PSI LLC) – registered in the UAE (one school is 75% owned. Refer note 16)
2. Global Educational Management Systems Establishment – registered in the UAE
3. School Improvement Partnership Limited – registered in Cayman Islands
4. School Transport Services (LLC) – registered in the UAE
5. Bright Bus Transport – registered in the UAE
6. Premier Educational Establishment Private Limited – registered in India
7. Global Education Management Systems Private Limited – registered in India
8. Varkey International Limited – registered in the Republic of Mauritius
9. Zanskar Properties Private Limited – registered in India
10. Global Education Management Systems Limited – registered in the British Virgin Islands
11. Global Education Management Systems (South Africa) (Pty) (Ltd) – registered in the Republic of South Africa
12. Education Holdings 1 Limited – registered in the Dubai International Financial Centre
13. Education Holdings 2 Limited – registered in the Dubai International Financial Centre
14. Global Educational Management Systems Establishment – registered in the Kingdom of Saudi Arabia
15. School Improvement Partnership Limited (SPC) – registered in Bahrain
16. GEMS Manco (Egypt) Limited – registered in Egypt

During the current year, the Group has formed or acquired the following new entities and consolidated them as subsidiaries:

1. GEMS Education (Asia) 1 Limited - registered in Mauritius
2. GEMS Education (Asia) 2 Limited - registered in Mauritius
3. East Sports Equipment Articles and Services LLC – registered in the UAE (75% owned – note 16)
4. Concorde Residential Schools (Kerala) Private Limited (75.34% owned – note 16)

The Group has invested in Compulsorily Convertible Preference Shares (CCPS) of Concorde Residential Schools (Kerala) Private Limited ("Company"). The CCPS of the Company have voting rights equal to that of the equity shareholders. As at the year end, the group has 75.34% effective interest in the Company. By virtue of the voting rights equal to that of the equity shareholders, the interests in the company has been considered as a subsidiary and have accordingly been consolidated in the financial statement of the group. The company was incorporated on 28 May 1997 in India and is engaged in the business of construction and leasing of real estate with specific reference to educational institutions.

The student strength as of 31 March 2012 was 70,076 students (2011: 66,209 students). The Group had 8,587 employees as of 31 March 2012 (2011: 7,740 employees).

## GEMS Menasa (Cayman) Limited and its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

### 2.1 BASIS OF PREPARATION

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

The consolidated financial statements are prepared under the historical cost convention, modified to include the fair valuation of derivative financial instruments.

The consolidated financials are presented in United State dollars. Effective 1 April 2011, management changed the reporting currency of the Group to USD. However, the Group's functional currency remains the United Arab Emirates Dirham (AED). The AED is pegged to the US Dollar. The Company is using USD as its presentation currency to comply with the internal reporting requirements of the Ultimate Parent Company. Balances and transactions have been translated from AED to USD at the rate at which the currencies are fixed for the years ended 31 March 2012 and 31 March 2011, USD 1 being equivalent to AED 3.675. All values are rounded to the nearest thousand (USD'000), except when otherwise stated.

#### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Holding Company and its subsidiaries as at the reporting date listed in note 1. The subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the Holding Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the Parent's share of components previously recognised in other comprehensive income to profit or loss.

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those used in the previous year, except as follows:

#### *New and revised Accounting Standards and Interpretations*

- (a) *Standards, amendments and interpretations effective from 1 January 2011 which are adopted by the Group during 2011 are as follows:*

*IAS 24 Related Party Transactions (Amendment) (effective annual periods beginning on or after 1 January 2011);*  
The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

## GEMS Menasa (Cayman) Limited and its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

##### *New and revised Accounting Standards and Interpretations (continued)*

###### *IAS 32 Financial Instruments: Presentation (Amendment)*

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these types of instruments.

###### *IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)*

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

##### **Improvements to IFRSs**

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies or disclosures, but had no impact on the financial position or performance of the Group.

###### *IFRS 7 Financial Instruments - Disclosures:*

The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

###### *IAS 1 Presentation of Financial Statements*

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

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

*IFRS 3 Business Combinations:* The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value. The amendments to IFRS 3 are effective for annual periods beginning on or after 1 July 2011.

- IFRS 3 *Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))*
- IFRS 3 *Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 34 *Interim Financial Statements*

The following interpretations and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRIC 13 *Customer Loyalty Programmes (determining the fair value of award credits)*
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

## GEMS Menasa (Cayman) Limited and its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

*(b) Standards, amendments and interpretations effective in 2011 but not relevant to the Group's operations are as follows:*

The following interpretations of published standards are mandatory for accounting periods beginning on or after 1 January 2011 but are not relevant to the Group's operations:

IAS 32	Financial Instruments: Presentation (Amendment) (effective for annual periods beginning on or after 1 February 2010)
IFRS 1	First-time adoption of International Financial Reporting Standards – Limited exemption from comparative IFRS 7 disclosures for First-time adopters (effective 1 July 2010)
IFRIC 14	Prepayments of a Minimum Funding Requirement (amendment) (effective 1 January 2011)
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010)

*(c) Standards, amendments and Interpretations in issue but not effective*

At the date of authorisation of these consolidated financial statements, other than the Standards and Interpretations adopted by the Group (as described above) the following Standards and Interpretations were in issue but not yet effective:

IAS 1	Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012);
IAS 12	Income Taxes - Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012);
IAS 19	Employee Benefits (Amendment) (effective for annual periods beginning on or after 1 January 2013);
IAS 27	Separate Financial Statements (as revised in 2011) (effective for annual periods beginning on or after 1 January 2013);
IAS 28	Investments in Associates and Joint Ventures (as revised in 2011) (effective for annual periods beginning on or after 1 January 2013);
IAS 32	Financial Instruments: Presentation (Amendment) – Guidance on the offsetting of financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2014);
IFRS 7	Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements (effective for annual periods beginning on or after 1 July 2011);
IFRS 7	Financial Instruments: Disclosures - Enhanced Disclosure Requirements about offsetting of financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013);
IFRS 7	Financial Instruments: Disclosures - Disclosures about the initial application of IFRS 9 (effective for annual periods beginning on or after 1 January 2015 or otherwise when IFRS 9 is applied);
IFRS 9	Financial Instruments Classification and Measurement (effective for annual periods beginning on or after 1 January 2015);
IFRS 10	Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013);
IFRS 11	Joint Arrangements (effective for annual periods beginning on or after 1 January 2013);
IFRS 12	Disclosure of Involvement with Other Entities (effective for annual periods beginning on or after 1 January 2013);
IFRS 13	Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013); and
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine (effective for annual periods beginning on or after 1 January 2013)

The management anticipates that all of the above Standards and Interpretations will be adopted by the Group to the extent applicable to them from their effective dates. The adoption of these Standards, amendments and interpretations is not expected to have any material impact on the consolidated financial statements of the Group in the period of their initial application.



## GEMS Menasa (Cayman) Limited and its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 2.3 SIGNIFICANT ACCOUNTING POLICIES

##### **Subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

##### **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 excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as 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 fee are recognised at the time of enrolment.
- Transportation fees are recognised when the services are rendered.
- Management fees are recognised over the period of 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 outsourced income from sales of books uniform and canteen and recognised in the same period of sales.

##### **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 consolidated statement of income 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 on a straight line basis over the estimated useful lives of the other assets as follows:

Leasehold buildings and improvements	5 to 20 years or the lease period (whichever is less) (2011: 5 to 10 years or the lease period (whichever is less))
Furniture, fixtures and equipment	5 years
Motor vehicles	5 to 8 years
Library books	4 years

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 consolidated statement of income in the year the asset is derecognised.

## GEMS Menasa (Cayman) Limited and its subsidiaries

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Property and equipment (continued)

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 consolidated statement of income as the expense is incurred.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively if appropriate, at each financial year 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 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 consolidated statement of income 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 consolidated statement of income 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 consolidated statement of income 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.

Intangible assets with indefinite useful lives are tested for impairment annually as of 31 March either individually or at the cash generating unit level, as appropriate.

##### Investments

###### Investments in associates

The Group's investments in its associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

## GEMS Menasa (Cayman) Limited and its subsidiaries

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Investments (continued)**

##### *Investments in associates (continued)*

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in the associate. The statement of income reflects the share of the results of operations of the associate.

When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the interest in the associate.

The reporting dates of the associate and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

##### *Interest in a joint venture*

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control. The Group's interests in the joint ventures are accounted for under the equity method. Under the equity method, the interest in joint ventures is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the jointly controlled entity less any impairment in value. The statement of consolidated comprehensive income reflects the Group's share of the results of its interest in the joint venture. Unrealised profits or losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the Group's interest in the joint venture, 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 the 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 consolidated statement of income. Impairment is determined as follows:

- a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income;
- 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.

## GEMS Menasa (Cayman) Limited and its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 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.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

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 consolidated statement of income 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.

## GEMS Menasa (Cayman) Limited and its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 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 consolidated statement of income.

##### **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the 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 swap 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 swap 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 consolidated income statement, except for the effective portion of cash flow hedges, which is recognised in 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 swap is 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 swap is recognised directly in the consolidated statement of changes in equity, while any ineffective portion is recognised in the consolidated income statement. Amounts taken to the consolidated statement of changes in equity are transferred to the consolidated income statement when the forecasted interest payment, to which the hedging instrument relates, is made.

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 consolidated income statement 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 consolidated income statement.

## GEMS Menasa (Cayman) Limited and its subsidiaries

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 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 consolidated income statement.

##### **Fair values of financial instruments**

For financial instruments traded in an active market, fair value is determined by reference to quoted market prices.

For financial instruments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially similar or is based on the discounted present value of expected cash flows. Where such reasonable estimate is impracticable, the financial instruments are carried at cost, less provision for impairment.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

##### **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. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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.



## GEMS Menasa (Cayman) Limited and its subsidiaries

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 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 when there is no possibility of recovery.

##### **Cash and cash equivalents**

For the purpose of the 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.

##### **Term loans**

Term loans are initially recognized at fair value plus attributable transaction costs. After initial recognition at cost less transaction costs, term loans are measured at amortised cost using the effective interest method. Installments due within one year are shown as current liabilities.

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.

##### **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 consolidated statement of income 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' end of service benefits**

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, wherever applicable, the Group makes contributions to a government scheme calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

##### **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 consolidated statement of income in the year in which they are incurred.

## GEMS Menasa (Cayman) Limited and its subsidiaries

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **Leases**

Finance leases, which transfer to the Group 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 charged directly against income.

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 in the consolidated statement of income on a straight-line basis over the lease term.

##### **Contingencies**

Contingent liabilities are not recognised in the 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 consolidated financial statements but disclosed when an inflow of economic benefits is probable.

##### **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.

##### *Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group at their respective functional currency spot rates prevailing at the date of the transaction first qualify for recognition.

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 consolidated statement of comprehensive income 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 consolidated statement of comprehensive income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other 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. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

#### 2.4 ESTIMATES AND ASSUMPTIONS

The preparation of the 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.

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.

## GEMS Menasa (Cayman) Limited and its subsidiaries

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 2.4 ESTIMATES AND ASSUMPTIONS (continued)

##### **Estimates and assumptions**

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

##### ***Impairment of investment in associates and joint ventures (equity accounted investments)***

At each reporting date, an assessment is made whether there is any objective evidence of impairment in the carrying values of investments in associates and joint ventures. In such instances, the investment is subject to an impairment test by comparing the carrying amount to the recoverable amount of the asset. Considering the long term nature of these investments, the recoverable amount is determined based on the value-in-use calculations. Calculating the value-in-use implies obtaining cash flow forecasts from the management of the equity accounted investments. Publicly listed companies often operate under restrictions due to the applicable listing regulations on disclosure of information to a selective group of the equity holders. Thus, for such investments the Group develops its own estimated cash flows using publicly available data or analysts forecasts, as appropriate.

##### ***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 12 to the consolidated financial statements. Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated statement of income.

##### ***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 provision 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 1.1 million (2011: USD 1.3 million) with provisions for old and obsolete inventories of USD 0.1 million (2011: USD 0.3 million). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the consolidated statement of income.

##### ***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 (see note 7e).

##### ***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.

## GEMS Menasa (Cayman) Limited and its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 2.4 ESTIMATES AND ASSUMPTIONS (continued)

##### Estimates and assumptions (continued)

##### *Impairment of non-financial assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets 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.

#### 3 BUSINESS COMBINATIONS

During the current year, the Group obtained control over East Sports Equipment Articles and Services L.L.C. by acquiring a 75% interest for a consideration of USD 0.4 million. East Sports Equipment Articles and Services L.L.C. is a limited liability company, incorporated on 9 July 2011 in Dubai, United Arab Emirates and its principal activity is providing sports services.

The fair value of the identifiable assets and liabilities of East Sports Equipment Articles and Services L.L.C. at the date of acquisition were not different from the carrying values and are as follows:

	<i>Fair value recognised on acquisition USD'000</i>
Property and equipment	38
Inventories	13
Accounts receivable and prepayments	39
Bank balances and cash	269
Employees' end of service benefits	(18)
Term loans	(27)
Accounts payable and accruals	(127)
Amounts due to related parties	(6)
	<hr/>
Fair value of net assets	181
Less: Attributable to minority shareholder	(45)
	<hr/>
Fair value of net assets acquired by the Group	136
Goodwill arising on acquisition	272
	<hr/>
<b>Total acquisition cost</b>	<b>408</b>
	<hr/> <hr/>
Cash outflow on acquisition:	
Cash paid	(408)
Cash and cash equivalent acquired on business combination	269
	<hr/>
Net cash outflow	(139)
	<hr/> <hr/>

The Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable assets.

## GEMS Menasa (Cayman) Limited and its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 4 OTHER INCOME

	<i>2012</i> <i>USD'000</i>	<i>2011</i> <i>USD'000</i>
Income from extra curricular activities	5,528	3,477
Sale of books and uniforms	2,688	2,829
Commission income	890	-
Interest income	404	101
Income on closure of interest rate collar agreement	-	2,349
Other income	3,145	1,016
	<u>12,655</u>	<u>9,772</u>

#### 5 ADMINISTRATIVE EXPENSES

	<i>2012</i> <i>USD'000</i>	<i>2011</i> <i>USD'000</i>
Staff costs	198,607	179,427
Staff cost under direct education cost	(110,498)	(97,778)
Staff costs capitalised under capital work-in-progress (note 7)	(3,921)	(629)
Staff costs capitalised under intangible assets (note 8)	(979)	(620)
Staff cost under pre-operative expenses	(465)	-
	<u>82,744</u>	<u>80,400</u>
Rent – operating leases	21,042	18,728
Repairs and maintenance	13,697	10,234
Electricity and water charges	8,902	7,107
Fuel expenses	7,367	5,168
Municipal taxes and licence fees	1,503	1,353
Teaching aid	454	775
Provision for bad debts	1,259	763
Sponsorship fees	1,360	1,492
Other administrative expenses	31,354	26,407
	<u>169,682</u>	<u>152,427</u>

#### 6 FINANCE COSTS

Finance costs comprise the following:

	<i>2012</i> <i>USD'000</i>	<i>2011</i> <i>USD'000</i>
Interest on term loans	14,524	11,378
Interest on others	175	64
	<u>14,699</u>	<u>11,442</u>
Borrowing cost capitalised (note 7)	(11,989)	(5,195)
	<u>2,710</u>	<u>6,247</u>
Bank charges	3,445	2,836
Loan arrangement fees	2,466	2,274
	<u>8,621</u>	<u>11,357</u>

GEMS Menasa (Cayman) Limited and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

7 PROPERTY AND EQUIPMENT

	Land USD'000	Leasehold buildings and improvements USD'000	Furniture, fixtures and equipment USD'000	Motor vehicles USD'000	Library books USD'000	Capital work-in-progress USD'000	Total USD'000
<b>Cost:</b>							
At 1 April 2011	5,744	192,336	77,606	55,472	8,120	100,710	439,988
Acquisition of a subsidiary (note 3)	-	-	8	30	-	-	38
Additions	-	15,956	19,451	11,643	2,556	134,453	184,059
Transfer from capital work-in-progress	-	140,166	-	-	-	(140,166)	-
Transfers from/(to) related parties	-	-	(13)	147	-	-	134
Disposals/write off	-	(78)	(2,265)	(300)	(6)	-	(2,649)
<b>At 31 March 2012</b>	<b>5,744</b>	<b>348,380</b>	<b>94,787</b>	<b>66,992</b>	<b>10,670</b>	<b>94,997</b>	<b>621,570</b>
<b>Depreciation:</b>							
At 1 April 2011	-	61,240	55,127	34,893	5,402	-	156,662
Charge for the year	-	12,474	10,769	5,280	1,581	-	30,104
Transfers from/(to) related parties	-	-	(10)	32	-	-	22
Relating to disposals/write off	-	(12)	(2,086)	(152)	(6)	-	(2,256)
<b>At 31 March 2012</b>	<b>-</b>	<b>73,702</b>	<b>63,800</b>	<b>40,053</b>	<b>6,977</b>	<b>-</b>	<b>184,532</b>
<b>Net carrying amount:</b>							
<b>At 31 March 2012</b>	<b>5,744</b>	<b>274,678</b>	<b>30,987</b>	<b>26,939</b>	<b>3,693</b>	<b>94,997</b>	<b>437,038</b>

GEMS Menasa (Cayman) Limited and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

7 PROPERTY AND EQUIPMENT (continued)

	Land USD'000	Leasehold buildings and improvements USD'000	Furniture, fixtures and equipment USD'000	Motor vehicles USD'000	Library books USD'000	Capital work-in-progress USD'000	Total USD'000
Cost:							
At 1 April 2010	5,744	156,008	72,556	55,391	7,105	72,014	368,818
Additions	-	7,255	6,075	306	1,015	64,535	79,186
Transfer from capital work-in-progress	-	29,101	-	-	-	(29,101)	-
Transfers to related parties	-	-	(53)	-	-	-	(53)
Disposals/write off	-	(28)	(972)	(225)	-	(6,738)	(7,963)
At 31 March 2011	5,744	192,336	77,606	55,472	8,120	100,710	439,988
Depreciation:							
At 1 April 2011	-	45,023	45,900	30,512	4,066	-	125,501
Charge for the year	-	16,242	10,223	4,529	1,337	-	32,331
Transfers to related parties	-	-	(45)	-	-	-	(45)
Relating to disposals/write off	-	(25)	(951)	(148)	(1)	-	(1,125)
At 31 March 2011	-	61,240	55,127	34,893	5,402	-	156,662
Net carrying amount:							
At 31 March 2011	5,744	131,096	22,479	20,579	2,718	100,710	283,326



## GEMS Menasa (Cayman) Limited and its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 7 PROPERTY AND EQUIPMENT (continued)

- a) The leasehold improvements represent the building costs related to the school premises, which are constructed on leasehold land.
- b) The school buildings have been constructed on leasehold land. These leases are generally renewable on an annual 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. In certain other cases the assignment process was either ongoing or had not started as at the consolidated statement of financial position date. In such cases the leases are confirmed to be held beneficially for the Group.
- c) Borrowing and staff costs amounting to USD 12.0 million and USD 3.9 million (2011: USD 5.2 million and USD 0.6 million) respectively have been capitalised during the year. The rate used to determine the amount of borrowing costs eligible for capitalisation was in the range of 7% to 9% per annum, which is the effective interest rate of the specific borrowing.
- d) Certain motor vehicles are hypothecated against bank loans obtained by the Group to finance the purchase of these vehicles.
- e) On 1 April 2011, the estimated useful life of leasehold improvements was revised by the management, from 10 years to 20 years. As a result of this change in the estimated useful life of the above leasehold improvements, the depreciation expense for the year is lower and the net book value of leasehold improvements at 31 March 2012 is higher by USD 10.0 million. Consequently the total consolidated comprehensive income for the year is higher by USD 10.0 million.
- f) Capital work-in-progress includes capital expenditure incurred on the construction of school buildings.

#### 8 INTANGIBLE ASSETS

	<i>Software costs</i>	
	<i>2012</i> <i>USD'000</i>	<i>2011</i> <i>USD'000</i>
Cost:		
At April	3,197	2,577
Additions	979	620
At 31 March	<u>4,176</u>	<u>3,197</u>
Amortisation:		
At 1 April	530	270
Amortisation charge for the year	642	260
At 31 March	<u>1,172</u>	<u>530</u>
Net carrying amount:		
At 31 March	<u><u>3,004</u></u>	<u><u>2,667</u></u>

Software costs represent 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.

During the year ended 31 March 2012, software development includes employees and related costs amounting to 1.0 million (2011: USD 0.6 million), related to development of the software.

## GEMS Menasa (Cayman) Limited and its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 9 INVESTMENT IN AN ASSOCIATE

During the year the Group has acquired a 25.55% interest in Everonn Education Limited (the "Associate"), an education and training company based in Chennai, India. The Associate's services include knowledge resources management, designing and delivering learning and training programmes, setting up infrastructure for services.

The Associate was incorporated on 19th April 2000 as a Public Limited Company under the Companies Act, 1956 of India. The Associate is quoted on the National Stock Exchange of India Limited (NSE) and the Bombay Stock Exchange Limited (BSE). The following table illustrates summarised financial information of the Group's investment in an Associate.

	<i>2012</i> <i>USD'000</i>
Share of the associate's statement of financial position:	
Current assets	33,767
Non-current assets	29,808
Current liabilities	(22,172)
Non-current liabilities	(11,278)
<b>Equity</b>	<b>30,125</b>
Share of the associate's revenue and loss:	
Revenue	3,145
Loss	(2,208)
Investment made during the year	52,816
Share of the associate's loss	(2,208)
Carrying amount of the investment	50,608
Market value	28,058

Management have undertaken a value in use assessment based on estimates of future cash flows. This assessment has demonstrated that the value in use is in excess of the current carrying value of the investment.

#### 10 INTEREST IN A JOINT VENTURE

Interest in a Joint Venture represents the Group's contribution to the share capital of Global Education Management Systems Limited Saudi (the "Joint Venture"), created with a third party to manage schools in the Kingdom of Saudi Arabia. The Group contributed USD 67,252 towards its 50% interest in the Joint Venture.

	<i>2012</i> <i>USD'000</i>
Investment made during the year	67
Share of joint venture profit	390
Dividend received	(331)
Balance at 31 March	126

GEMS Menasa (Cayman) Limited and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

**10 INTEREST IN A JOINT VENTURE (continued)**

The Group's share of the assets, liabilities, revenue and expenses of the Joint Venture are as follows:

	<i>2012</i> <i>USD'000</i>
Non-current assets	<u>31</u>
Current assets	<u>306</u>
Current liabilities	<u>98</u>
Revenue	<u>870</u>
Profit	<u>390</u>

There are no contingent liabilities relating to the Group's interest in the Joint Venture.

**11 INVENTORIES**

	<i>2012</i> <i>USD'000</i>	<i>2011</i> <i>USD'000</i>
Books, stationery, uniforms and others	947	1,228
Vehicle spare parts and consumables	126	100
Canteen supplies	6	9
	<u>1,079</u>	<u>1,337</u>
Provision for old and obsolete inventories	(139)	(341)
	<u>940</u>	<u>996</u>

**12 ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<i>2012</i> <i>USD'000</i>	<i>2011</i> <i>USD'000</i>
Fees receivable	8,339	8,102
Amounts due from related parties (note 21)	50,307	1,657
Prepaid expenses	31,339	23,232
Deposits	3,252	3,342
Advance to suppliers	1,704	441
Other receivables	9,157	12,619
	<u>104,098</u>	<u>49,393</u>

## GEMS Menasa (Cayman) Limited and its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 12 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

As at 31 March 2012, fees receivable with a nominal value of USD 1.6 million (2011: USD 1.2 million) were impaired. Movements in the allowance for impairment of fees receivable were as follows:

	2012 USD'000	2011 USD'000
Balance at the beginning of the year	1,235	2,275
Charge for the year	1,259	763
Amounts written off	(777)	(1,763)
Unused amounts reversed	(52)	(40)
	<u>1,665</u>	<u>1,235</u>

As at 31 March, the ageing of unimpaired fees receivable was as follows:

	Total USD'000	Neither past due nor impaired USD'000	Past due but not impaired				
			<30 days USD'000	30-60 days USD'000	61-90 days USD'000	91-120 days USD'000	>120 days USD'000
2012	8,339	1,144	1,960	2,151	889	833	1,362
2011	8,102	1,123	3,062	809	1,324	503	1,281

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 3.1 million (2011: USD 3.8 million) representing advance payment of rent for the operating lease of school buildings commencing 1 July 2007 for a period of 10 years.

#### 13 CASH AND CASH EQUIVALENTS

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

	2012 USD'000	2011 USD'000
Cash in hand	470	1,437
Bank balances	20,024	19,395
Short term deposits	6,680	5,105
	<u>27,174</u>	<u>25,937</u>
Less: Short term deposits (maturity over three months)	(6,680)	(5,105)
Bank overdraft	(3,770)	-
	<u>16,724</u>	<u>20,832</u>

Included in bank balances and cash are bank deposits amounting to USD 7.0 million (2011: USD 5.0 million) with commercial banks in the United Arab Emirates. These are denominated in UAE Dirhams with effective rates ranging from 2.5% to 3.25% per annum (2011: 2.00% to 3.00% per annum). Deposits amounting to USD 6.7 million (2011: USD 5.1 million) are held under lien by banks as security for the facilities granted.

## GEMS Menasa (Cayman) Limited and its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 14 SHARE CAPITAL

	<i>2012</i> <i>USD'000</i>	<i>2011</i> <i>USD'000</i>
<i>Authorised</i>		
50,000 shares of USD 1 each	<u>50</u>	<u>50</u>
<i>Issued and fully paid</i>		
340 shares of USD 1 each	<u>1</u>	<u>1</u>

#### 15 RESERVES

##### *A) Share premium*

Share premium represents the amount paid by the shareholders in excess of the par value of the shares issued.

##### *B) 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.

##### *C) Translation reserve*

The foreign currency translation reserve is used to record exchange differences arising from the translation of the assets and liabilities of the foreign subsidiary into United States Dollar at year end exchange rates.

#### 16 NON-CONTROLLING INTERESTS

	<i>2012</i> <i>USD'000</i>	<i>2011</i> <i>USD'000</i>
Balance at the beginning of the year	867	790
Non-controlling interest arising on acquisition of a subsidiary (note 3)	45	-
Non-controlling interest arising on investment in Concorde Residential Schools (Kerala) Private Limited	42	-
Share of total comprehensive income for the year	509	443
Amounts paid during the year	(442)	(366)
Balance at the end of the year	<u>1,021</u>	<u>867</u>

The non-controlling interests represents 25% (2011: 25%) of the equity of one of the schools under PSI LLC (GEMS Jumeirah Primary School – note 1), 25% (2011: nil%) of the equity in East Sports Equipment Articles and Services L.L.C. (note 1) and 24.66% equity in Concorde Residential Schools (Kerala) Private Limited attributable to an outside investor.

GEMS Menasa (Cayman) Limited and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

17 TERM LOANS

	<i>Syndicated loans USD'000</i>	<i>Bilateral loan USD'000</i>	<i>Other term loans USD'000</i>	<i>Total USD'000</i>
<i>At 31 March 2012</i>				
Balance as at 1 April	142,418	-	5,550	147,968
Loan obtained during the year	135,000	44,033	20,701	199,734
Acquisition of a subsidiary (note 3)	-	-	27	27
Repayment during the year	(18,750)	-	(12,671)	(31,421)
<b>Total</b>	<b>258,668</b>	<b>44,033</b>	<b>13,607</b>	<b>316,308</b>
<i>At 31 March 2011</i>				
Balance as at 1 April	72,115	-	45,950	118,065
Loan obtained during the year	149,914	-	198	150,112
Repayment during the year	(79,611)	-	(40,598)	(120,209)
<b>Total</b>	<b>142,418</b>	<b>-</b>	<b>5,550</b>	<b>147,968</b>

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

	<i>2012 USD'000</i>	<i>2011 USD'000</i>
Current portion	71,900	21,857
Non-current portion	244,408	126,111
	<b>316,308</b>	<b>147,968</b>

*Syndicated loans*

During the previous year, the Holding Company entered into a committed senior secured bank facility (Facility A and Facility B) with a consortium of banks for USD 200.0 million and an uncommitted senior secured bank facility (Facility C) with a consortium of banks for USD 100.0 million. The USD 300.0 million financing facility comprises three parts as follows:

1. Facility A                      USD 150.0 million
2. Facility B                      USD 50.0 million
3. Facility C                      USD 100.0 million

Facility A was drawn in previous year for USD 150.0 million. Facility A is repayable in 10 half yearly installments beginning 31 December 2010 until 30 June 2015. This facility was obtained for the purpose of refinancing a syndicated loan facility, other term loans and for general corporate purposes.

Facility B was drawn during the year for USD 50.0 million. Facility B is repayable in 7 half yearly installments beginning 30 June 2012 until 30 June 2015. This facility was obtained for the purpose of permitted acquisitions, capital expenditure and refinancing or the acquisition of indebtedness of entities acquired pursuant to permitted acquisitions, as defined in the loan agreement.

## GEMS Menasa (Cayman) Limited and its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 17 TERM LOANS (continued)

##### *Syndicated loans (continued)*

Facility C was drawn during the year for USD 85.0 million. Facility C is repayable in 7 half yearly installments beginning 30 June 2012 until 30 June 2015. This facility was obtained for the purpose of permitted acquisitions, capital expenditure and refinancing or the acquisition of indebtedness of entities acquired pursuant to permitted acquisitions, as defined in the loan agreement. As at 31 March 2012, the undrawn balance of Facility C is USD 15.0 million.

The loan agreement contains following affirmative and restrictive covenants:

- a) periodic financial reporting;
- b) limit the incurrence of indebtedness; and
- c) meeting certain financial amounts and ratio tests.

The Group is in compliance with all the above stated covenants as at 31 March 2012.

The above facility is secured by the following:

- a) pledge of 74% of the shares of the Holding Company;
- b) pledge of 100% of the shares of School Improvement Partnership Limited;
- c) corporate guarantees from subsidiaries, and
- d) pledge of the offshore surplus cash accounts.

Interests on syndicated loans vary from 7% to 9% per annum.

As the term loans carry interest at rates that vary with market movements, their fair values approximate carrying value.

##### *Bilateral loan*

During the year, the Holding Company entered into a bilateral agreement with a commercial bank for the bank facility of USD 65.0 million. The facility was drawn during the year amounting to USD 44.0 million and is repayable in 8 quarterly installments beginning 31 March 2016 until 31 December 2017. This facility was obtained for the purpose of its operating subsidiaries capital expenditure, meeting expansion plans and for general corporate purposes. The Holding Company has not utilised the balance of the facility amounting to USD 21.0 million as at 31 March 2012.

The loan agreement contains some restrictive covenants which require meeting certain ratio tests. The Group is in compliance with above stated covenants as at 31 March 2012.

The above facility is secured by the corporate guarantee from the Ultimate Parent Company.

As the term loans carry interest at rates that vary with market movements, their fair values approximate carrying value.

##### *Other term Loans*

During the year, a short term loan of USD 5.4 million was obtained from a commercial bank to finance the working capital requirements of the Group. The term loan carries interest at a rate that varies with market movements, the fair value approximates carrying value.

Other term loans of USD 8.2 million (2011: USD 5.5 million) mainly represent vehicle loans. These term loans are secured over motor vehicles and carry an average interest rate of 3.6% to 5.15% per annum (2011: 3.6% to 5.15% per annum).



## GEMS Menasa (Cayman) Limited and its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 18 EMPLOYEES' END OF SERVICE BENEFITS

	<i>2012</i> <i>USD'000</i>	<i>2011</i> <i>USD'000</i>
Provision at the beginning of the year	20,645	18,937
Provided during the year	6,432	4,317
Acquisition of a subsidiary (note 3)	18	-
End of service benefits paid	(3,137)	(2,630)
End of service benefit transferred from related parties (net)	64	21
	<u>24,022</u>	<u>20,645</u>

There are no material unrecognised actuarial gains (losses). The benefits are unfunded.

#### 19 ACCOUNTS PAYABLE AND ACCRUALS

	<i>2012</i> <i>USD'000</i>	<i>2011</i> <i>USD'000</i>
Trade payables	21,258	12,686
Fees received in advance	46,771	37,426
Amounts due to related parties (note 21)	14,937	7,081
Accrued expenses	17,764	15,771
Other payables	13,032	5,952
	<u>113,762</u>	<u>78,916</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 60 to 120 days.

#### 20 DERIVATIVE FINANCIAL INSTRUMENTS

##### *Interest rate swap*

The Holding Company has entered into an interest rate swap ("IRS") agreement to hedge its exposure against interest rate fluctuations on term loans (note 17). 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 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.

At 31 March 2012, the Group had a IRS with a notional amount of USD 201.9 million (2011: USD 96.0 million) to protect itself from the volatility in future interest payments arising out of floating interest rates on it term loan.

The Group interest rate liability is capped between the range of 7% - 9% per annum. The Group has applied hedge accounting and treated this IRS as effective cash flow hedge as it effectively hedges the Group's exposure to variability in cash flows attributable to future interest payments on Group borrowings, so the whole amount of USD 2.9 million (2011: 1.4 million) was transferred to the consolidated statement of comprehensive income.

The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are neither indicative of the market risk nor credit risk.

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At 31 March 2012

**20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

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'000</i>	<i>Notional amount USD'000</i>	<i>Within 1 years USD'000</i>	<i>1 to 5 yrs USD'000</i>
<b>31 March 2012</b>	<b>2,945</b>	<b>201,945</b>	<b>55,040</b>	<b>146,905</b>
31 March 2011	1,440	95,989	14,998	80,991

**21 RELATED PARTY TRANSACTIONS**

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

	<i>2012 USD'000</i>	<i>2011 USD'000</i>
<i>Entities under control of the Ultimate Parent Company:</i>		
<i>Income</i>		
Fee income	47	22
Other income	353	112
	<u>400</u>	<u>134</u>
<i>Expenses</i>		
Repairs and maintenance	5,118	2,571
Medical expenses	4	83
	<u>5,122</u>	<u>2,654</u>
<i>Capitalised expense</i>		
Leasehold improvements	139,978	32,011

Balances with related parties included in the consolidated statement of financial position are as follows:

	<i>2012 USD'000</i>	<i>2011 USD'000</i>
<i>Amounts due from related parties:</i>		
Ultimate Parent Company	42,341	1,657
Entities under control of the Ultimate Parent Company	7,595	-
Other related parties	371	-
	<u>50,307</u>	<u>1,657</u>
<i>Amounts due to related parties:</i>		
Entities under control of the Ultimate Parent Company	14,689	7,051
Other related parties	248	30
	<u>14,937</u>	<u>7,081</u>

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 21 RELATED PARTY TRANSACTIONS (continued)

Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash.

For the year ended 31 March 2012, there was no impairment of amounts owed by related parties (2011: USD Nil). The impairment assessment is undertaken each financial year through examining the financial position of the related parties and the market in which related party operates.

The Ultimate Parent Company has issued a guarantee against term loans obtained for USD 65.0 million (2011: USD Nil).

#### Compensation of key management personnel

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

	<i>2012</i> <i>USD'000</i>	<i>2011</i> <i>USD'000</i>
Salary and other benefits	<u>2,220</u>	<u>1,904</u>

The amount disclosed in the table are the amounts recognized as an expense during the reporting period.

#### 22 COMMITMENTS

##### A) Capital expenditure commitments

The Group has contracted, but not provided for, estimated capital expenditure of approximately USD 78.6 million (2011: USD 59.0 million) at the reporting date on account of leasehold buildings and improvements.

##### B) Operating lease commitments

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

	<i>2012</i> <i>USD'000</i>	<i>2011</i> <i>USD'000</i>
Within one year	18,252	16,372
Between two and five years	72,900	66,374
Greater than five years	199,014	234,806
Total operating lease expenditure contracted for at the reporting date	<u>290,166</u>	<u>317,552</u>

##### C) Bank and other guarantees

The Group has given financial guarantees to the Ministry of Labour and Social Affairs and banks amounting to USD 4.0 million as at 31 March 2012 (2011: USD 3.0 million) in respect of work permit and related matters and others.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise trade payables, term loans, bank overdrafts and due to related parties. The Group financial assets are as accounts receivable, due from related parties 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 (vehicle loans and other term loans), as the loans are carried at amortised cost and the interest rate thereon is fixed and agreed with the relevant financial institutions and suppliers.

##### 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:

	<i>2012</i> <i>USD'000</i>	<i>2011</i> <i>USD'000</i>
Bank balances	20,024	19,395
Short term deposits	6,680	5,105
Fees receivable	8,339	8,102
Amounts due from related parties	50,307	1,657
Deposits	3,252	3,342
Other receivables	9,157	12,619
	<u>97,759</u>	<u>50,220</u>

The Group seeks to limit its credit risk with respect to student's fees by 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 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.

##### 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 31 March, based on contractual payment dates and current market interest rates.

<i>At 31 March 2012</i>	<i>Less than</i> <i>3 months</i> <i>USD'000</i>	<i>3 to 12</i> <i>months</i> <i>USD'000</i>	<i>1 to 5</i> <i>years</i> <i>USD'000</i>	<i>Total</i> <i>USD'000</i>
Trade payables	21,258	-	-	21,258
Other payables	13,032	-	-	13,032
Term loans; including interest	52,944	51,530	239,491	343,965
Amounts due to related parties	-	14,937	-	14,937
Derivative financial instruments	-	2,945	-	2,945
Total	<u>87,234</u>	<u>69,412</u>	<u>239,491</u>	<u>396,137</u>

## GEMS Menasa (Cayman) Limited and its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 March 2012

#### 23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### Liquidity risk (continued)

<i>At 31 March 2011</i>	<i>Less than 3 months USD'000</i>	<i>3 to 12 months USD'000</i>	<i>1 to 5 years USD'000</i>	<i>Total USD'000</i>
Trade payables	8,359	4,327	-	12,686
Other payables	5,952	-	-	5,952
Term loans; including interest	11,522	24,895	148,977	185,394
Amounts due to related parties	30	7,051	-	7,081
Derivative financial instruments	-	1,440	-	1,440
Total	<u>25,863</u>	<u>37,713</u>	<u>148,977</u>	<u>211,113</u>

##### 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 years end 31 March 2012 and 31 March 2011. Capital comprises the share capital, share premium, restricted reserve, translation reserve, retained earnings and non-controlling interests and is measured at USD 162.4 million as at 31 March 2012 (2011: USD 113.3 million).

#### 24 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets, financial liabilities and derivatives.

Financial assets consist of cash and bank balances and trade receivables. Financial liabilities consist of bank overdrafts and payables. Derivatives consist of interest rate swaps.

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

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investments grade credit ratings. The fair value of the derivative financial instruments is set out in note 20.

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.

The fair values of financial instruments are not materially different from their carrying values largely due to the short-term maturities of these instruments.

##### 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.

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24 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

**Determination of fair value hierarchy (continued)**

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

	<i>31 March 2012</i> <i>USD'000</i>	<i>Level 1</i> <i>USD'000</i>	<i>Level 2</i> <i>USD'000</i>	<i>Level 3</i> <i>USD'000</i>
Liabilities measured at fair value:				
Interest rate swap	(2,945)	-	(2,945)	-
	<u>(2,945)</u>	<u>-</u>	<u>(2,945)</u>	<u>-</u>
	<u><u>(2,945)</u></u>	<u><u>-</u></u>	<u><u>(2,945)</u></u>	<u><u>-</u></u>
	<i>31 March 2011</i> <i>USD'000</i>	<i>Level 1</i> <i>USD'000</i>	<i>Level 2</i> <i>USD'000</i>	<i>Level 3</i> <i>USD'000</i>
Liabilities measured at fair value:				
Interest rate swap	(1,440)	-	(1,440)	-
	<u>(1,440)</u>	<u>-</u>	<u>(1,440)</u>	<u>-</u>
	<u><u>(1,440)</u></u>	<u><u>-</u></u>	<u><u>(1,440)</u></u>	<u><u>-</u></u>

During the year ended 31 March 2012, 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.

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