

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

Company No 05174452

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

FINANCIAL STATEMENTS

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CHAIRMAN'S STATEMENT

Overview

The year ended 31 December 2010 was a challenging one for the Group and particularly for the UK operations which were severely affected by the uncertainty surrounding changes to regulations for student visas. In Asia, the picture was different and while there have also been major regulatory changes in the private education markets in Singapore and Malaysia, resulting in additional one-off costs in the year, these changes have presented further opportunities. We expect AEC's position to strengthen in these important markets as a result.

Underlying trading results for 2010 are in line with revised market expectations and reflect the challenges we have faced in the year, with the Group reporting an underlying loss before tax (excluding the cost of share options) of £221,583 on revenues of £18.1m. We took decisive action in the UK to reduce the cost base and to reposition the business in the light of the forthcoming changes to overseas student visas. This should see the UK deliver a significantly improved performance in 2011 although clearly some uncertainty still remains until we see the trading situation normalise. In Asia, our operations in Singapore and Malaysia should see the benefits of their new high level accreditations and we expect the private education market in both countries to consolidate as a result of government regulation. We also expect our English Language provision in our Asian markets to gain from the unrolling of the Malvern House brand and model across all our centres.

Financially, the Group position remains strong. Cash at the year end stood at £3.09m (2009: £3.22m) and this, together our enhanced banking facilities, will support our expected return to profitability in 2011.

Financial results

Revenues for the year to 31 December 2010 rose by 43% to £18.1m (2009: £12.6m). This increase largely reflects the benefits of a full year's contribution from acquisitions, principally Malvern House, which was purchased in July 2009. The underlying pre-tax loss for the year, excluding the cost of share options, was £221,583 (2009: profit of £1.08m). Including the cost of share options granted to management and staff of £217,026, the statutory loss before tax was £438,609. The loss after tax was £289,886 (2009: profit of £0.89m) and the loss per share was 0.85p (2009: earnings per share of 2.5p).

The cash outflow from operating activities was £0.13m (2009: cash inflow of £2.62m). The actions to restructure the UK business, Malvern House, impacted our cash reserves by £0.92m. Nevertheless, net cash at the end of the year stood at a healthy £3.09m (2009: £3.22m). Continued organic growth, in what was a difficult year, combined with the opportunities we see in 2011, have given the Board the confidence to recommend a final and total dividend of 0.20p per ordinary share. Subject to shareholder approval at the Annual General Meeting, the dividend will be paid in August 2011 to shareholders on the register at 24 June 2011. The ex-dividend date is 22 June 2011.

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Business Development

Whilst our UK business was adversely affected by the uncertainty surrounding student visa regulations, our Asian operations recorded growth in revenue ranging from 15% to 3% across its markets.

The major highlight in the year for our flagship AEC College in Singapore was its award of the EduTrust Certificate for four years in September 2010 by the Council of Private Education in Singapore, making it one of the few private education institutions in Singapore to have gained this status. We expect it to have a material positive effect on our ability to recruit new students. There was some disruption to the Singapore marketplace while the new regulations were being developed and introduced by the Government but as 2010 closed, student numbers were strong. The University of Wales, Newport (UK), Master of Business Administration and Bachelor programmes introduced last year performed extremely well, recording a 100% increase in student numbers albeit from a small base. Diploma and Advanced Diploma in Business programmes and the new Advanced Diploma in Business taught in Mandarin have also been very successful.

However, we did see significant reductions in vocational programmes, especially in the Diploma in Interactive Media. The market in Singapore is beginning to show signs of consolidation and we expect to be able to gain significantly from this as we go through 2011 and 2012.

These accounts reflect the first full year contribution from Kasturi College in Malaysia, after we acquired the 70% balance of the business which we did not already own in October 2009. The business continued to grow strongly with volumes increasing by 9% over the last full year. Degree programmes have achieved robust growth and the College has now been expanded to three locations in Kuala Lumpur to meet the growing demand for these programmes. The College will continue to invest in marketing to recruit students in Northern Africa and the Middle East where demand has been high. It will also continue to raise the level of its programmes to prepare for the opportunities that are being granted to high performing education institutions in Malaysia to become 'deemed' universities, with their own university campuses.

The results also include the first full year contribution from Malvern House, our London based business. As previously stated, the UK Government's review of student visa regulations and the prolonged uncertainty surrounding further government action caused significant disruption and the business recorded a pre-tax loss for the year of £603,000. A trend for students to book shorter English Language courses became increasingly evident over the year and the average number of course weeks per student reduced from 15 weeks to 11.5 weeks. This switch to shorter courses looks, for the time being, to be firmly established and we are not anticipating a material improvement in 2011. In reacting to the changes in trading conditions, we have significantly realigned capacity and overheads in London. These actions should provide a platform for Malvern

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House to return to sustainable profitability and we expect the business to contribute profitably to first half results in the current financial year.

During the year, we continued with our strategy to unroll the Malvern House brand and model across our Asian centres which teach English Language. The existing English Language centres in Singapore, Malaysia and Vietnam have now all been rebranded and their methodology and approach to teaching English Language now conforms to the Malvern House model. The expansion of the Malvern House brand, combined with the changes already made in the UK, gives us confidence that we will now begin to see a favourable return from our investment in the UK.

Educational Resources Ltd (“ER”), the Group’s London Chamber of Commerce & Industry (“LCCI”) examinations subsidiary, continued its programme of investment during the year. We added additional marketing and management resources to our operations in Hong Kong in order to develop new market segments as the changes to the schools syllabus impact and in Kuala Lumpur, we created a new Market Intelligence unit to support growth initiatives. Despite the decrease in ER’s overall revenues of 2%, gross profit increased by 10% year on year and the certification numbers grew by 3%. Within the overall revenue result, we saw a decrease in contribution from Hong Kong because of changes in the schools system but all our other LCCI markets performed well. New agreements with universities in Asia to accept Level 3 LCCI students into the first year of Business, Accounting and Finance courses, along with new initiatives in India, will provide ER with additional opportunities going forward.

Staff

2010 has been a particularly difficult year, with significant change having to be managed effectively. On behalf of the Board I would like to thank all staff for their hard work and efforts during the period. It was especially encouraging to see the positive attitude that has been apparent as we have implemented the necessary changes to ensure the Group returns to sustainable profit growth.

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CHAIRMAN'S STATEMENT

Prospects

During 2010, the Board was focused on managing both the challenges and opportunities in our various markets, and on ensuring that, where necessary, we adapted our model to create the appropriate platform for growth. We believe we are now almost at the end of that programme and that we will see a turnaround in our performance in 2011.

We have the resources and cash balances to support the growth of our existing operations and are also returning to our strategy to acquire businesses, with a focus on growth in Asia. We are also continuing with the search for suitable university partners in the UK and hope to be in a position to report more fully on this towards the end of 2011.

With strong cash balances, AEC is well placed to continue its development and the Board remains confident that the Group will return to profitability in 2011.

Liam Swords

Chairman

23 May 2011

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CHIEF EXECUTIVE'S STATEMENT

The Group's activities cover the three core offerings listed below and my report below provides an overview of each activity:

- pathways programmes;
- examinations; and
- the teaching of English.

Our pathway programmes and examinations provision are centred in Singapore and Malaysia principally, with a small presence in Vietnam. These centres also offer English Language teaching, however, it is our London operation which currently forms the hub of our English Language provision. Approximately 13,000 students passed through our schools in 2010 and the student base comprises a mix of students drawn from South East Asia, the Far East, South America, Europe, Africa and the Middle East.

Our global footprint has been built up through a well established network of marketing agencies. This network represents a valuable asset for the Group. Our staff travel extensively across the globe to meet students, agents and partners and our Malvern House brand has established a particularly strong reputation in the English Language market across the world. We believe that as we continue to develop, there will be further significant advantages to be derived from this network.

Technology is also important to us and we have a state-of-the-art IT system at Malvern House which enables both students and agents to engage actively with us and this will support our growth plans going forward.

Pathway Programmes

Following the award of the highly coveted EduTrust certificate covering the next four years, the second half of the year saw AEC achieve good progress in Singapore. Business and accounting qualifications performed robustly during the year and the programmes introduced last year saw excellent uptake. In addition, the three-year degree courses from the Manchester Metropolitan University and MBAs with the University of Wales are gradually gaining momentum. With AEC being one of only 17 providers in Singapore to have achieved the four-year EduTrust certificate, we are well placed to participate fully in the consolidation of the private education market in the country. We are currently expanding our premises, converting corporate offices into additional lecture rooms, and when fully operational, AEC College will have 28 lecture rooms. We are also increasing our marketing efforts in China and India, both of which offer exciting growth potential.

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In Malaysia, degree programmes have also continued to perform well, including the University of Wales degree offering. Uptake from students in Central Asia, North Africa and the Middle East, for whom Malaysia is an attractive destination, has remained strong and we are actively recruiting in these regions. New industry regulation has also been introduced in Malaysia and the newly created Malaysia Quality Agency has established more rigorous assessment and compliance requirements for education institutions. We invested substantially in Malaysia in 2010 to ensure that our operations met the new requirements and part of our investment was in leasing additional space. We achieved full compliance with the new regulations in the last quarter of the year. As a result, the College is now benefiting from government loan sponsored programmes supporting less well-off local students. We are also reviewing the potential for the college to qualify as a "deemed university" which would require significant investment in a campus for the college.

Given the evolving landscape for UK universities, there are exciting new opportunities for additional partnerships. AEC College in Singapore is launching a new law programme with Birmingham City University in 2011 and the Group is in active discussions with a number of other UK universities with a view to forming partnerships in London, Singapore and Malaysia.

Examinations (Educational Resources Pte Ltd ("ER"))

Overall, our examinations business, which offers London Chamber of Commerce & Industry ("LCCI") qualifications, showed a satisfactory performance. The Hong Kong market was affected by changes to the school syllabus but ER's operations elsewhere in Asia increased their market share. In total 149,000 individual exams (entries) were taken by students across Asia in 2010 at both Certificate and Diploma levels, compared to 145,000 in 2009.

We continue to work together with Asian universities in order to ensure that the qualifications remain an attractive option for students and we now have in place a number of agreements with universities to accept Level 3 LCCI accounting students onto Business, Accounting and Finance courses. The Group is also introducing new initiatives in India which should support our expansion in this large potential market.

Teaching of English

As we have previously reported, 2010 was especially challenging for our English Language business in London, with the Government's review of student visas creating major uncertainty and disruption in the marketplace. At the same time, the Government's new compliance requirements for all private education schools in UK also required management attention and additional investment.

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Although there is now greater clarity in the UK marketplace, some residual uncertainty remains and the shift to shorter term courses we saw in 2010 looks to be firmly established. However, we believe that Malvern House in London is now better placed to operate profitably having removed cost and adjusted its model in 2010. We expect to see a significantly better performance in 2011, with losses reversing. In early 2011, Malvern House was awarded 'Highly Trusted Sponsor' status from the UK Borders Agency ("UKBA") and this will enable it to map its future in the changing UK landscape.

We were also focused during the year on implementing the Malvern House model and branding across our English Language businesses in Asia. We introduced the Malvern House English Language programmes in Malaysia, Vietnam and Singapore, and rebranded Kasturi College in Malaysia as Malvern International College. This means that our students in Asia study English to the same high standards provided by Malvern House in London. Over time, we see scope to use the Malvern House model and brand in other parts of Asia and potentially in South America and the Middle East.

Outlook

2010 was a challenging year and 2011 should see a turnaround in performance, driven by the changes we have implemented over last year both in the UK and in Asia. Now that we have largely completed the reorganisation of our UK resources and adapted the model, we believe that the UK business should see a return to sustainable profits growth. However, we are also aware that we have yet to see the English Language market in the UK fully settle since some UKBA regulation has yet to take effect. In Singapore and Malaysia, our new accredited status should help our operations here to make strong progress and we believe that we are well placed to benefit from the expected market consolidation in both countries as new regulatory requirements reshape the private education sector. We are also refocusing our efforts on seeking complementary acquisitions which will assist us in achieving our growth ambitions.

Going forward in 2011, I expect Group profitability to be restored and view prospects for growth positively.

I am very grateful to all our partners in business for their co-operation and support and to our loyal staff for their hard work in this challenging year.

David Ho
Chief Executive

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DIRECTORS' REPORT

The directors present their report and the audited financial statements of AEC Education plc (the "Company") and its subsidiary companies for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activities of the Company are those of investment holding and the provision of educational consultancy services. The principal activities of the subsidiary companies are set out in Note 13 to the financial statements. There have been no significant changes in the nature of these activities during the year.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

2010 was a testing year for the Group as results indicate. However, we believe that 2011 should see AEC return to profitability.

The key challenge in 2010 was in the UK, with our operations (which principally provide English Language teaching programmes to overseas students) seeing considerable disruption as a result of changes to UK Government policy on overseas student visas. In an election year, the review of Government policy on overseas student visas was caught up in a wider political debate on immigration, and the prolonged debate caused a great deal of uncertainty in our marketplace. While Government policy is now clear, the uncertainty had a serious affect on the flow of students into UK, with an adverse impact on the profitability of our Malvern House business in 2010. The full effect of the new regulations on overseas student numbers have yet to be felt but the changes we have made to our model in the UK over 2010, including removing costs, should mean that the business is positioned to deliver a substantially improved performance in 2011.

In Asia, demand in the private education markets remains very strong. In AEC's core markets, of Singapore and Malaysia, a major feature of 2010 was the introduction of tighter regulatory regimes in both countries. In Singapore, a new act to regulate the private education industry was implemented in the early part of the year. A Council for Private Education ("CPE") was set up under the act and all private education companies were required to register with the CPE by June 2011 and to obtain the CPE's EduTrust certificate in order to operate legally. As we previously reported, we were amongst the first few institutions to be awarded a four year EduTrust Certificate in September 2010, and to date only a small percentage of the 1,000 plus education institutions in Singapore have met the demanding criteria for the award of a four year Certificate. Student recruitment was affected by the uncertainty created by the new act. Nevertheless, our Singapore operations saw growth in student numbers over the year as a whole and in 2011, we expect to benefit from market consolidation.

Malaysia saw a similar change to the regulatory environment for private education institutions. Over the course of 2010, we invested in enhancing our facilities and, in the final quarter of the year, we completed our qualification under the new regulatory requirements. In addition, we introduced new programmes, including a full degree programme with the University of Wales. There is also an opportunity to build on our presence in Malaysia and position the college for "deemed university" status.

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DIRECTORS' REPORT

Group revenues increased by 43% to £18.1m (2009: £12.6m) for the year ended 31 December 2010. This largely reflected the inclusion of full year contributions from both Malvern House in UK and Kolej Kasturi in Malaysia, acquired respectively in June and October 2009. The underlying loss before tax for the year was £0.22m, with the statutory loss for the year at £0.44m (2009: profit of £1.08m). The statutory figure includes the cost of share options worth £217,026 which were granted to the Directors and Management of the Group.

During the year, the Group continued to invest in and expand its facilities and staffing to meet the demand expected in the years ahead. We have also identified and signed new affiliations with universities in the UK for the introduction of new educational programmes in Singapore and Malaysia and we will continue to look for further potential partners. At the same time, the Group has accelerated its plans to implement the expansion of English Language teaching under the Malvern House brand to overseas markets and we expect to make further progress here in 2011.

A more detailed review of the business and the prospects are covered in the Chairman's statement and the Chief Executive's Statement.

INDEMNITY PROVISION

Directors and officers insurance is in place to indemnify the directors against liabilities arising from the discharge of their duties as directors of the Company.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Group operates in an increasingly challenging environment, mainly in Singapore, Malaysia, United Kingdom and Hong Kong. Keen competition, changes in government policy on education, immigration, funding and accreditation are some of the factors that could affect the operations of the Group. The general economic and political environment, and exchange rate fluctuations also play an important part in determining the level of risk to which the Group is exposed.

The Group manages these risks by monitoring the situation carefully and working closely with all the parties concerned to minimise the impact of any changes on the operations.

The risks faced by the Group, including financial risk, credit risk, liquidity risk and cash flow interest rate risk and the Group's management of these risks are detailed in note 33 of the accounts.

FINANCIAL INSTRUMENTS

Details of financial instruments are given in note 33 of the accounts.

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DIRECTORS' REPORT

KEY PERFORMANCE INDICATORS

	2010	2009	2008
Revenue growth	43%	106%	123.4%
Operating (loss)/ profit	(£537,095)	£828,523	£743,724
(Loss) / Earnings per share	(0.85 pence)	2.50 pence	3.13 pence
Staff turnover	31%	41%	38%

CREDITOR PAYMENT POLICY AND PRACTICE

Group policy is to pay creditors in line with agreed credit terms and generally this policy is adhered to. On average, creditors were settled within 60 days of their due date except on disputed items. Trade creditor days of the Group for the year ended 31 December 2010 were 30 days (2009: 40 days). This represents the ratio, expressed in days, between amounts invoiced to the Group by its suppliers in the year and in the amounts due at the year end to trade creditors within one year.

DIVIDENDS

The directors recommend the payment of a dividend of 0.2p for the year ended 31 December 2010 (2009: 0.15p).

SUBSTANTIAL SHAREHOLDING

At 7 April 2011, notification had been received of the following holdings of more than 3% of the issued share capital of the Company. Apart from these, the directors are not aware of any individual interests or group of interests held by persons acting together, which exceeds 3% of the Company's issued share capital.

	Shares of £0.10 each	% (note)
KSP Investments Pte Limited	11,035,037	24.97
Pershing Nominees Limited Des: PERNY	3,615,555	8.18
Emerge Learning Services Pte Limited	3,400,000	7.69
Educational Development International plc	3,000,000	6.79
Naresh Kumar Malhotra	2,625,750	5.94
Ranch House Limited	2,000,000	4.53
Naboobalan s/o Ramansamy Naidu	1,708,301	3.87
Real Time Consultancy Limited	1,450,000	3.28

Note: As a percentage of the issued share capital of the Company, comprising 44,198,781 shares.

EVENTS SINCE THE END OF THE REPORTING PERIOD

No reportable events since the end of the reporting period.

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DIRECTORS' REPORT

DIRECTORS

The names of the directors who held office during the year and to date were:

William Joseph Swords (Chairman)
Ramasamy Jayapal
Gopinath Pillai
Ho Peng Cheong
Naresh Kumar Malhotra
Sithawalla Haider Mohamedally (Appointed on 11 January 2010)

DIRECTORS' INTERESTS

The directors holding office at the end of the financial year and their interests in the share capital of the Company and its related corporations as recorded in the register of directors' shareholdings were as follows:

Name of company and director	At beginning of the year/ At date of appointment	At end of the year
	Shares of £0.10 each	Share of £0.10 each
AEC Education plc		
William Joseph Swords (Chairman)	1,000,000	1,000,000
Ramasamy Jayapal	633,131	633,131
Gopinath Pillai	-	-
Ho Peng Cheong	24,000	24,000
Naresh Kumar Malhotra	2,625,750	2,625,750
Sithawalla Haider Mohamedally	-	-
<u>Indirect Interest</u>		
William Joseph Swords (Chairman)	-	-
Ramasamy Jayapal	-	-
Gopinath Pillai	25,000	25,000
Ho Peng Cheong	11,035,037	11,035,037
Naresh Kumar Malhotra	1,308,000	1,308,000
Sithawalla Haider Mohamedally	19,000	19,000

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DIRECTORS' REPORT

DIRECTORS' INTERESTS *(continued)*

	Exercise Period	Number of shares under option				Exercise price	
		Granted during the financial year	Total granted	Total exercised	Total lapsed		Total not exercised
Share option in the Company							
Ho Peng Cheong	6.9.2009 to 6.3.2013	-	250,000	-	-	250,000	£0.10
	13.1.2011 to 13.7.2014	-	500,000	-	-	500,000	£0.172
Ramasamy Jayapal	13.1.2011 to 13.7.2014	-	350,000	-	-	350,000	£0.172
Gopinath Pillai	13.1.2011 to 13.7.2014	-	350,000	-	-	350,000	£0.172
William Joseph Swords	6.9.2009 to 6.3.2013	-	200,000	-	-	200,000	£0.10
	13.1.2011 to 13.7.2014	-	400,000	-	-	400,000	£0.172
Haider M Sithawalla	6.9.2009 to 6.3.2013	-	175,000	-	-	175,000	£0.10
	13.1.2011 to 13.7.2014	-	300,000	-	-	300,000	£0.172

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DIRECTORS' REPORT

CHARITABLE AND POLITICAL DONATIONS

During the year the Group made the following donations:

	2010	2009
Charitable donations-education	<u>5,000</u>	<u>5,000</u>

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DIRECTORS' REPORT

DISCLOSURE OF INFORMATION

At the date of making this report each of the persons who are directors at the time when this Report is approved confirms that:

- (a) so far as each director is aware, there is no relevant audit information (as defined by section 418(3) of the Companies Act 2006 of which the Company's auditors are unaware; and
- (b) each director has taken all the steps that ought to have been taken as a director, in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

BY ORDER OF THE BOARD

William Swords

DIRECTOR
23 May 2011

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law the directors have elected to prepare the Group and parent Company financial statements in accordance with International Financial Reporting Standards and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- a) select suitable accounting policies and then apply them consistently
- b) make judgements and accounting estimates that are reasonable and prudent
- c) state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent Company financial statements
- d) prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and parent Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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Independent Auditors' Report to the Shareholders of AEC Education plc

We have audited the financial statements of AEC Education plc for the period ended 31 December 2010 which comprise the Group Statement of Comprehensive Income, the Group and parent Company Statements of Financial Position, the Group and parent Company Statements of Cash Flows, the Group and parent Company Statements of Changes in Equity and the related notes numbered 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibility Statement set out on page 14 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Chairman's Statement and the Chief Executive's Statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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Independent Auditors' Report to the Shareholders of AEC Education plc (*continued*)

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2010 and of the Group's loss for the period then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all of the information and explanations we require for our audit.

Witold Sawin (Senior Statutory Auditor)
For and on behalf of Sawin & Edwards,
Statutory Auditors

15 Southampton Place
London
WC1A 2AJ

23 May 2011

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CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	<u>Note</u>	<u>2010</u> £	<u>2009</u> £ (Restated)*
Revenue			
Sale of services	4	17,398,279	11,954,647
Other income	5	737,867	686,239
		18,136,146	12,640,886
Administrative expenses			
Cost of services sold		8,872,015	6,072,230
Salaries and employees' benefits	6	3,993,116	3,692,818
Amortisation of development costs	12	9,677	8,555
Amortisation of licence costs	15	18,853	3,587
Depreciation of plant and equipment	11	452,821	229,642
Finance costs	7	48,050	36,161
Other operating expenses		5,278,709	1,769,370
Total operating costs and expenses		18,673,241	11,812,363
Operating (loss)/profit	8	(537,095)	828,523
Share of results of associated companies		98,486	253,318
(Loss)/profit before income tax		(438,609)	1,081,841
Income tax	9	148,723	(192,874)
(Loss)/profit for the year		(289,886)	888,967
Attributable to:			
Equity holders of the Company		(376,291)	831,209
Minority interest		86,405	57,758
		(289,886)	888,967
(Loss)/earnings per share (in pence)	10		
Basic		(0.85)	2.50
Diluted		(0.79)	2.19

The Company has taken advantage of section 408 of the Companies Act 2006 not to publish its own income statement.

* Restated comparatives- see note 34

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	<u>2010</u> £	<u>2009</u> £
(Loss)/Profit for the year	(289,886)	888,967
Foreign currency translation movements	<u>303,027</u>	<u>(186,340)</u>
Other comprehensive income/ (expense) for the year	<u>303,027</u>	<u>(186,340)</u>
Total comprehensive income for the year	<u>13,141</u>	<u>702,627</u>
Attributable to:		
Equity holders of the parent	(66,291)	630,804
Minority interest	<u>79,432</u>	<u>71,823</u>
Total comprehensive income for the year	<u>13,141</u>	<u>702,627</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	<u>Note</u>	<u>Group</u>		<u>Company</u>	
		<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
		<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
Non-Current Assets					
Plant and equipment	11	1,349,078	1,299,556	-	-
Development expenditure	12	19,547	26,500	-	-
Investment in subsidiary companies	13	-	-	6,706,056	6,625,108
Investment in associated companies	14	40,681	23,548	-	-
Intangible assets	15	5,794,317	5,576,068	-	-
Goodwill	16	2,095,112	1,980,738	-	-
		<u>9,298,735</u>	<u>8,906,410</u>	<u>6,706,056</u>	<u>6,625,108</u>
Current Assets					
Inventories	17	59,241	93,709	-	-
Trade receivables	18	876,513	1,078,827	-	-
Other receivables	19	1,122,706	874,814	7,215	13,870
Prepaid education expenditure	20	120,809	140,038	-	-
Due from subsidiary companies	13	-	-	401,014	270,268
Due from related parties	21	26,620	31,062	-	-
Cash and cash equivalents	22	3,091,912	3,219,622	7,115	50,377
		<u>5,297,801</u>	<u>5,438,072</u>	<u>415,344</u>	<u>334,515</u>
Total Assets		<u>14,596,536</u>	<u>14,344,482</u>	<u>7,121,400</u>	<u>6,959,623</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

**STATEMENTS OF FINANCIAL POSITION
(CONTINUED)**

AS AT 31 DECEMBER 2010

	<u>Note</u>	<u>Group</u>		<u>Company</u>	
		<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
		£	£	£	£
EQUITY AND LIABILITIES					
Non-Current Liabilities					
Deferred income	24	11,020	102,627	-	-
Financial liabilities	26	699,364	197,238	23,000	-
Deferred taxation	9	27,669	29,609	-	-
		<u>738,053</u>	<u>329,474</u>	<u>23,000</u>	<u>-</u>
Current Liabilities					
Trade payables	23	744,701	810,410	-	-
Deferred income	24	3,212,467	4,007,223	-	-
Other payables and accruals	25	1,462,622	1,059,244	83,746	86,751
Due to subsidiary companies	13	-	-	1,553,867	1,657,149
Due to related parties	21	123,220	112,512	102,598	102,182
Financial liabilities	26	412,065	205,847	14,000	4,000
Provision for income tax		74,908	124,383	4,634	16,630
		<u>6,029,983</u>	<u>6,319,619</u>	<u>1,758,845</u>	<u>1,866,712</u>
Equity attributable to equity holders of the Company					
Share capital	27	4,419,878	4,324,878	4,419,878	4,324,878
Share premium		707,588	693,338	707,588	693,338
Reserves		2,502,313	2,534,099	212,089	74,695
		<u>7,629,779</u>	<u>7,552,315</u>	<u>5,339,555</u>	<u>5,092,911</u>
Minority interest in equity		198,721	143,074	-	-
Total equity		<u>7,828,500</u>	<u>7,695,389</u>	<u>5,339,555</u>	<u>5,092,911</u>
Total Equity and Liabilities		<u>14,596,536</u>	<u>14,344,482</u>	<u>7,121,400</u>	<u>6,959,623</u>

The financial statements were approved by the Board of Directors on 23 May 2011 and were signed on its behalf by:

William Swords

Chairman

Company registration number: 0517445

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Share Capital	Share Premiu m	Other Reserve s Share- Based Paymen t Reserve	Other Reserves Retained Earnings	Other Reserves Trans- lation Reserve	Other Reserves Capital Reserve	Total Of Other Reserves	Attribut- able To Equity Holders Of The Company	Minority Interests	Total
	£	£	£	£	£	£	£	£	£	£
Balance at 1 January 2009	1,800,874	286,415	154,220	517,533	897,511	170,560	1,739,824	3,827,113	93,126	3,920,239
Profit	-	-	-	831,209	-	-	831,209	831,209	57,758	888,967
Total other comprehensive income	-	-	-	-	(200,405)	-	(200,405)	(200,405)	14,065	(186,340)
Total comprehensive for the year	-	-	-	831,209	(200,405)	-	630,804	630,804	71,823	702,627
Issue of shares in the year	2,524,004	433,762	-	-	-	-	-	2,957,766	-	2,957,766
Warrants granted	-	(26,839)	26,839	-	-	-	26,839	-	-	-
Share based compensation	-	-	136,632	-	-	-	136,632	136,632	-	136,632
Total transactions with owners	2,524,004	406,923	163,471	-	-	-	163,471	3,094,398	-	3,094,398
Premium paid on acquisition of minority interests	-	-	-	-	-	-	-	-	(853)	(853)
Dividend paid to minority interest	-	-	-	-	-	-	-	-	(21,022)	(21,022)
Balance at 31 December 2009	4,324,878	693,338	317,691	1,348,742	697,106	170,560	2,534,099	7,552,315	143,074	7,695,389

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Share Capital	Share Premiu m	Other Reserves Share- Based Payment Reserve	Other Reserves Retained Earnings	Other Reserves Trans- lation Reserve	Other Reserve s Capital Reserve	Total Of Other Reserves	Attribut- able To Equity Holders Of The Company	Minority Interests	Total
	£	£	£	£	£	£	£	£	£	£
Balance at 1 January 2010	4,324,878	693,338	317,691	1,348,742	697,106	170,560	2,534,099	7,552,315	143,074	7,695,389
Profit	-	-	-	(376,291)	-	-	(376,291)	(376,291)	86,405	(289,886)
Total other comprehensive income	-	-	-	-	303,027	-	303,027	303,027	(6,973)	296,054
Total comprehensive for the year	-	-	-	(376,291)	303,027	-	(73,264)	(73,264)	79,432	6,168
Issue of shares in the year	95,000	14,250	(109,250)	-	-	-	(109,250)	-	-	-
Dividends	-	-	-	(66,298)	-	-	(66,298)	(66,298)	-	(66,298)
Share based compensation	-	-	217,026	-	-	-	217,026	217,026	-	217,026
Total transactions with owners	95,000	14,250	107,776	(66,298)	-	-	41,478	150,728	-	150,728
Dividend paid to minority interest	-	-	-	-	-	-	-	-	(23,785)	(23,785)
Balance at 31 December 2010	4,419,878	707,588	425,467	906,153	1,000,133	170,560	2,502,313	7,629,779	198,721	7,828,500

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010**

	<u>Note</u>	<u>2010</u>	<u>2009</u>
		<u>£</u>	<u>£</u>
Cash Flows from Operating Activities			
(Loss)/Profit before income tax		(438,609)	1,081,841
Adjustments for:			
Amortisation of deferred expenditure		9,677	8,555
Amortisation of intangibles		18,853	3,587
Depreciation of plant and equipment		452,821	229,642
Share-based payment charge		217,026	136,632
Loss on disposal of plant and equipment		-	5,520
Interest expense		48,050	36,161
Interest income		(2,874)	(15,862)
Share of results of associated companies		(98,486)	(253,318)
Operating cash flow before working capital changes		<u>206,458</u>	<u>1,232,758</u>
Changes in working capital:			
Receivables		215,199	322,042
Payables		(548,692)	788,965
Inventories		34,468	(1,724)
Related parties and associates		15,147	371,538
Net cash (used) / generated from operations		<u>(77,420)</u>	<u>2,713,579</u>
Taxation		(49,868)	(91,840)
Net cash (used) / generated from operating activities		<u>(127,288)</u>	<u>2,621,739</u>
Cash Flows from Investing Activities			
Interest income		2,874	15,862
Dividend income received from an associated company		89,058	111,600
Purchase of plant and equipment		(438,332)	(677,810)
Purchase of licence		(16,797)	(10,629)
Issue of shares		-	1,999,184
Acquisitions of associated companies		-	166,399
Acquisitions of subsidiaries net of cash acquired		-	(3,100,111)
Development expenditure		-	(500)
Net cash used in investing activities		<u>(363,197)</u>	<u>(1,496,005)</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES
CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2010

	<u>Note</u>	<u>2010</u>	<u>2009</u>
		£	£
Cash Flows from Financing Activities			
Interest paid		(48,050)	(36,161)
Proceed of term loan		775,457	(97,927)
Dividend paid to minority shareholders		(23,785)	(21,022)
Finance leases		(67,112)	315,924
Net cash generated in financing activities		<u>636,510</u>	<u>160,814</u>
Effect of foreign exchange rate changes on consolidation		(273,735)	(12,279)
Net increase in cash and cash equivalents		(127,710)	1,274,269
Cash and cash equivalents at beginning of the year		<u>3,219,622</u>	<u>1,945,353</u>
Cash and cash equivalents at end of the year		<u>3,091,912</u>	<u>3,219,622</u>

Cash and cash equivalents consist of the following:

	<u>2010</u>	<u>2009</u>
	£	£
Cash and bank balances	3,086,894	3,215,149
Fixed deposits	5,018	4,473
	<u>3,091,912</u>	<u>3,219,622</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Share Capital £	Share Premium £	Other Reserves Share-based Payment Reserve £	Other Reserves Retained Earnings £	Total of other Reserves £	Total £
Balance at 1 January 2009	1,800,874	286,415	154,220	(404,291)	(250,071)	1,837,218
Total comprehensive income for the year Profit for the year	-	-	-	161,295	161,295	161,295
Total comprehensive income for the year	-	-	-	161,295	161,295	161,295
Issue of shares to acquire subsidiary Ordinary shares to be issued re acquisition Share based compensation	2,524,004	433,762	-	-	-	2,957,766
	-	(26,839)	26,839	-	26,839	-
	-	-	136,632	-	136,632	136,632
Total transactions with owners	2,524,004	406,923	163,471	-	163,471	3,094,398
Balance at 31 December 2009	4,324,878	693,338	317,691	(242,996)	74,695	5,092,911

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Share Capital £	Share Premium £	Other Reserves Share-based Payment Reserve £	Other Reserves Retained Earnings £	Total of other Reserves £	Total £
Balance at 1 January 2010	4,324,878	693,338	317,691	(242,996)	74,695	5,092,911
Total comprehensive income for the year						
Profit for the year	-	-	-	95,916	95,916	95,916
Total comprehensive income for the year	-	-	-	95,916	95,916	95,916
Transactions with owners:						
Dividend paid	-	-	-	(66,298)	(66,298)	(66,298)
Issue of shares in the year	95,000	14,250	(109,250)	-	(109,250)	-
Share based compensation	-	-	217,026	-	217,026	217,026
Total transactions with owners	95,000	14,250	107,776	(66,298)	41,478	150,728
Balance at 31 December 2010	4,419,878	707,588	425,467	(213,378)	212,089	5,339,555

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	<u>2010</u>	<u>2009</u>
	£	£
Cash Outflows from Operating Activities		
Profit before income tax	95,916	163,475
Adjustments for:		
Interest income	(21)	(4,501)
Dividend income	(349,143)	(220,600)
Share-based payment charge	169,078	91,321
	<u>(84,170)</u>	<u>29,695</u>
Change in working capital		
Receivables	6,655	19,410
Payables	(12,822)	18,991
Related parties	(231,859)	1,559,951
Net cash (used) / generated from operations	<u>(322,196)</u>	<u>1,628,047</u>
Tax paid	(3,932)	(4,572)
Net cash (used) / generated from operating activities	<u>(326,128)</u>	<u>1,623,475</u>
Cash Flows from Financing Activities		
Payment of dividend to shareholders	(66,298)	-
Net cash used in financing activities	<u>(66,298)</u>	<u>-</u>
Cash Flows from Investing Activities		
Interest income	21	4,501
Dividend income	349,143	220,600
Issue of shares	-	1,999,184
Acquisition of a subsidiary	-	(3,801,557)
Net cash generated /(used in) investing activities	<u>349,164</u>	<u>(1,577,272)</u>
Net (decrease) / increase in cash and cash equivalents	(43,262)	46,203
Cash and cash equivalents at beginning of the year	<u>50,377</u>	<u>4,174</u>
Cash and cash equivalents at end of the year	<u>7,115</u>	<u>50,377</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

1 General

AEC Education plc (the “Company”) is a public limited liability company incorporated in England and Wales on 8 July 2004. The Company was admitted to AIM on 10 December 2004. Its registered office is Witan Gate House, 500-600 Witan Gate West, Milton Keynes MK9 1SH and its principal place of business is in Singapore. The registration number of the Company is 5174452.

The principal activities of the Company are that of investment holding and provision of educational consultancy services. The principal activities of the subsidiary companies are set out in Note 13 to the financial statements. There have been no significant changes in the nature of these activities during the year.

The Board of Directors have authorised the issue of these financial statements on the date of the Statement by directors set out on page 21.

2 Significant Accounting Policies

(1) Basis of Preparation

The consolidated financial statements of the Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The financial statements have been prepared on the historical cost basis except that certain financial instruments are accounted for at fair values. The principal accounting policies are set out below.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

2 Significant Accounting Policies (*continued*)

Standards applied

During the year the Group has adopted the following relevant standards:

International Accounting Standards (IAS/IFRSs)	Effective date
IFRS 2 (amended) Share-based payment	1 January 2010
IFRS 3 (revised) Business combinations	1 July 2009
IFRS 8 (amended) Operating segments	1 January 2010
IAS 1 (amended) Presentation of financial statements	1 January 2010
IAS 7 (amended) Statement of cash flows	1 January 2010
IAS 17 (amended) Leases	1 January 2010
IAS 36 (amended) Impairment of assets	1 January 2010
IAS 38 (amended) Intangible assets	1 July 2009
IAS 39 (amended) Financial instruments- recognition and measurement	1 January 2010

The adoption of these standards did not have a material impact on the Group and Company's financial position or performance.

The ISAB have issued the following relevant standards which are not yet effective and have not been early adopted for these financial statements:

	Effective date
IFRS 3 (amended) Business combinations	1 July 2010
IFRS 7 (amended) Disclosures	1 January 2011
IFRS 9 Financial Instruments	1 January 2013
IAS 1 (amended) Presentation of financial statements	1 January 2011
IAS 12 (amended) Income taxes	1 January 2012
IAS 24 (revised) Related party disclosure	1 January 2011
IAS 27 (amended) Consolidated and separate financial statements	1 July 2010
IAS 32 (amended) Financial instruments	1 February 2010
IAS 34 (amended) Interim financial reporting	1 January 2011

The directors do not anticipate that adoption of these new standards will have a material impact on the Group and Company's financial position or performance.

(2) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

2 Significant Accounting Policies *(continued)*

(2) Basis of Consolidation *(continued)*

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

During the first accounting period of the Company the consolidated financial statements were prepared on the basis of the pooling of interest method as allowed at that time.

(3) Subsidiary Company

A subsidiary company is an entity in which the Group, directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors or in which the Group has power to govern the financial and operating policies.

Investment in subsidiaries is stated in the financial statements of the Company at cost less any provision for impairment losses. The financial statements of subsidiaries acquired are consolidated in the financial statements of the Group from the date that control commences until the date control ceases, using the acquisition method of accounting.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

2 Significant Accounting Policies *(continued)*

(4) Associated Companies

Associates are those entities in which the Group has an interest of not less than 20% of the equity and in whose financial and operating policy decisions the Group exercise significant influence.

Significant influence is defined as the “power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies”.

The consolidated financial statements include the Group’s share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases.

When the audited financial statements of associated companies are not co-terminous with those of the Group, the Group’s share of profits and losses is arrived at based on the last audited financial statements available and unaudited management accounts to the end of the accounting period.

In the Company’s balance sheet, investments in associates are stated at cost less any provision for impairment losses.

Dividend income from investments in associated companies is recognised when the shareholders’ rights to receive payment have been established.

(5) Functional and Presentational Currency

The consolidated financial statements have been presented with United Kingdom sterling as the presentational currency, as the Company is incorporated in England and Wales with Sterling denominated shares which are traded on AIM.

Items included in the financial statements of each subsidiary of the Group are measured using the currency of the primary economic environment in which the subsidiary operates (“the functional currency”). The primary functional currencies of Group companies are Singapore Dollars and UK Sterling.

(6) Foreign Currency Translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated using the exchange rate prevailing at the balance sheet date. Non-monetary assets and liabilities are measured using the exchange rates prevailing at the transaction dates, or in the case of the items carried at fair value, the exchange rates ruling when the values were determined. Foreign exchange gains and losses resulting from

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

2 Significant Accounting Policies *(continued)*

(6) Foreign Currency Translation *(continued)*

the settlement of foreign currency transactions and translation of foreign currency denominated assets and liabilities are recognised in the income statement.

Assets and liabilities of the entities having functional currency other than the presentational currency are translated into sterling equivalents at exchange rates ruling at the balance sheet date. Revenues and expenses are translated at average exchange rates for the year, which approximates the exchange rates at the dates of transactions. All resultant differences are taken directly to equity. On disposal of a foreign entity, accumulated exchange differences are recognised in the income statement as part of the gain or loss on disposal.

The following rates of exchange have been applied:

	2010	2009
1 British Pound to 1 Singapore Dollar		
Closing rate	2.00	2.23
Average rate	2.10	2.27
1 Malaysian Ringgit to 1 Singapore Dollar		
Closing rate	2.38	2.44
Average rate	2.36	2.43
1 US Dollar to 1 Singapore Dollar		
Closing rate	1.29	1.41
Average rate	1.36	1.45
1 Hong Kong Dollar to 1 Singapore Dollar		
Closing rate	0.166	0.181
Average rate	0.175	0.187
1 Chinese Yuan to 1 Singapore Dollar		
Closing rate	0.1959	0.2055
Average rate	0.2009	0.2124
1 Vietnamese Dong to 10,000 Singapore Dollar		
Closing rate	0.6457	0.7526
Average rate	0.6804	0.802

(7) Revenue Recognition

Revenue is recognised on the following basis:

- (i) Course fees and examination fees are recognised as income based on classes or examinations conducted during the year.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

2 Significant Accounting Policies *(continued)*

(7) Revenue Recognition *(continued)*

- (ii) Publication sales are recognised upon sale of study guides.
- (iii) Registration fees are recognised upon approval of respective applications.
- (iv) Revenue from support services are recognised when services are rendered.
- (v) All other course fees in respect of courses offered with no obligation to impart lessons are recognised when the students register for the course and collect the study materials.
- (vi) Revenue from sub-letting of office space is recognised over the period of the lease.
- (vii) Consulting income is recognised on an accrual basis based on agreed amounts between parties.
- (viii) Commission income is recognised when services are rendered.
- (ix) Management fee income is recognised when services are rendered.
- (x) Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.
- (xi) Deferred income relates to course and accommodation fees received in advance and is recognised in the income statement based on classes conducted.
- (xii) Accommodation fees are recognised as income based on accommodation provided during the year.

(8) Plant and Equipment

Plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Depreciation policy, useful lives and residual values are reviewed at least annually, for all asset classes to ensure that the current method is the most appropriate.

Expenditure incurred after the plant and equipment have been put into operation, such as repairs and maintenance is charged to the income statement. Expenditure for additions, improvements and renewals is capitalised when it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be realised from the use of the items of plant and equipment beyond their originally assessed standard of performance.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

2 Significant Accounting Policies *(continued)*

(8) Plant and Equipment *(continued)*

Depreciation is calculated based on the straight-line method to write off the cost of plant and equipment less their estimated residual value over their estimated useful economic lives as follows:

Land and building leasehold	-	Over lease term
Furniture and fittings	-	3 - 10 years
Classroom and office equipment	-	3 - 10 years
Computers	-	1 - 5 years
Renovation of property	-	3 - 5 years
Motor vehicles	-	5 years
Library books	-	5 - 10 years

Plant and equipment held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets or, where shorter, the term of the relevant leases.

(9) Impairment of non-financial assets - excluding goodwill

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its fair value less costs to sell. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises unless the relevant asset is carried at a revalued amount in which case the impairment loss is treated as a revaluation decrease.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises unless the relevant asset is carried at a revalued amount in which case the impairment loss is treated as a revaluation increase.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

2 Significant Accounting Policies *(continued)*

(10) Intangible assets

(a) Goodwill on consolidation

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. After initial recognition, goodwill is measured at cost less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss is recognised for goodwill is not reversed in subsequent periods.

(b) Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method of an intangible asset with a finite useful life are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the useful life assessment continues to be supportable.

(c) Development Expenditure

Development expenditure represents direct expenditure and related costs incurred in developing new courses and is capitalised and deferred only when there is a clearly defined project and the outcome of the project has been assessed with reasonable certainty as to its technical feasibility and its ultimate commercial viability. These costs are amortised over the expected course duration of not more than five years, starting in the year when the course commences.

(d) Licence fees

Licence fees with an indefinite life are stated at cost less impairment. Licence fees with a definite life are amortised using a straight line method over a period of 2 to 5 years.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

2 Significant Accounting Policies *(continued)*

(11) Financial assets

Financial assets are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are initially recognised at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets have expired or have been transferred. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that has been recognised directly in equity is recognised in the income statement.

All regular purchases and sales of financial assets are recognised and derecognised on trade date basis where the purchase or sale of assets are under a contract whose terms require delivery of the assets within the timeframe established by the market concerned.

The Group classifies its investments in financial assets as loans and receivables. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date, with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except those maturing more than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are presented as trade and other receivables (including amounts due from subsidiaries, associates, related companies and related parties), fixed deposits and cash and bank balances on the balance sheet.

At subsequent reporting dates, loan and receivables are measured at amortised cost using the effective interest rate method.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

2 Significant Accounting Policies *(continued)*

(12) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired and recognise the impairment loss when such evidence exists.

Financial assets carried at amortised cost

An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. The carrying amount of the asset is reduced through the use of an allowance account.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in the income statement.

(13) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and bank deposits with an initial maturity of less than three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(14) Trade and Other Receivables

Trade and other receivables, which generally have 30 to 90 days terms, are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method, less allowance for impairment. An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original term of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of the estimated cash flows discounted at the original effective interest rate. The amount of the allowance is recognised in the income statement.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

2 Significant Accounting Policies *(continued)*

(15) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Cost comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Allowance for impairment is made for obsolete, slow moving and defective stocks.

(16) Trade and Other Payables

Trade and other payables, which are normally settled on 30 to 90 days term, are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

(17) Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax movements.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates and tax laws that have been enacted or substantively enacted in countries where the Company and its subsidiaries operate by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

2 Significant Accounting Policies (continued)

(17) Income Tax (*continued*)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates and tax laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(18) Leases

A finance lease which effectively transfers to the Group substantially all the risks and benefits to ownership of the leased item is capitalised at the lower of the fair value of the leased item and the present value of the minimum lease payments at the inception of the lease term and disclosed as plant and equipment. Lease payments are apportioned between the finance charges and reduction of the leased liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

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

A lease where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items is classified as an operating lease. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Where an incentive to sign the lease has been taken the incentive is spread on a straight line basis over the lease term.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

2 Significant Accounting Policies *(continued)*

(19) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, 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. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of provision is the present value of the expenditures expected to be required to settle the obligation.

(20) Employees' Benefits

Defined contribution plans

Contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Share-based compensation (see also 26 below)

The Group operates an equity-settled, share-based payment plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the Income Statement with a corresponding increase in the share based payment reserve over the vesting period.

(21) Educational expenditure paid in advance

Educational expenditure paid in advance relates to course fees and related expenses paid in advance and is recognised in the income statement as the course is delivered.

(22) Minority Interests

Minority interests are that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned directly or indirectly by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the date of acquisition by the Group and the minorities' share of changes in equity since the date of acquisition, except when the losses applicable to minority interest in a subsidiary exceed the minority interests in the equity of that subsidiary, in which case, the losses are absorbed by the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover its share of those losses.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

2 Significant Accounting Policies *(continued)*

(23) Intra-group Financial Guarantees

Financial guarantees are financial instruments issued by the Group that requires the issuer to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to meet payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees are recognised initially at fair value and are classified as financial liabilities. Subsequent to initial measurement, the financial guarantees are stated at the higher of the initial fair value less cumulative amortisation and the amount that would be recognised if they were accounted for as contingent liabilities. When financial guarantees are terminated before their original expiry date, the carrying amount of the financial guarantees is transferred to the income statement.

(24) Equity instruments

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against share premium.

Where ordinary shares will be issued as part of deferred purchase consideration then:

- a) where the number of shares to be issued has been fixed then such deferred consideration will be classified as equity
- b) where the number of shares to be issued is dependent on certain performance criteria been met then such deferred consideration will be classified as liability until such time as the number of shares to be issued is determined.

(25) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

2 Significant Accounting Policies *(continued)*

(26) Share based payments (see also 20 above)

The Group has applied the requirements of IFRS 2 Share-based Payments.

The Group issues equity-settled based payments to directors and certain employees of the Group. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of a Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

(27) Borrowing Costs

Borrowing costs incurred to finance the development of plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use. The capitalised costs are depreciated over the useful life of the plant and equipment.

Other borrowing costs including interest cost and foreign exchange differences, on short term borrowings are recognised on a time-apportioned basis in the income statement using the effective interest method.

(28) Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies above, management necessarily make judgements and estimates that have a significant effect on the amounts recognised in the financial statements. Changes in the assumptions underlying the estimates could result in a significant impact to the financial statements. The most critical of these accounting judgement and estimation areas are as follows:

(a) Estimated Impairment of Goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated above. The recoverable amount of goodwill is determined from value in use calculations. The key assumption for the value in use calculation are those regarding expected discounted future cash flows. In the opinion of the directors, as at 31 December 2010 there is no indication of impairment in the value of goodwill.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

2 Significant Accounting Policies *(continued)*

(28) Critical Accounting Judgements and Key Sources of Estimation Uncertainty

(b) Income Taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the capital allowance, deductibility of certain expenses and taxability of certain income during the estimation of the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities based on estimates of whether additional taxes will be due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

(c) Impairment of Assets other than Goodwill

The Group reviews the carrying amounts of assets as at each balance sheet date to determine whether there is any indication of impairment in accordance with the accounting policy stated above. If any such indication exists, the assets' recoverable amount or value in use is estimated. Determining the value in use of plant and equipment, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposal of the asset, requires the Company to make estimates and assumptions that can materially affect the financial statements. Any resulting impairment loss could have a material adverse impact on the Group's financial position and results of operations.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

3 Segmental Information

All revenue and profit before taxation arises from operations in the education sector. Reportable segments are based on the geographical area where operations are based.

Segmental analysis is as follows:

	UK	South East	Total
	£	£	£
2010			
Revenue from external customers	<u>9,154,823</u>	<u>8,981,323</u>	<u>18,136,146</u>
Depreciation and amortisation	<u>249,048</u>	<u>232,203</u>	<u>481,351</u>
(Loss)/profit before taxation	<u>(938,282)</u>	<u>499,673</u>	<u>(438,609)</u>
Taxation	<u>(136,238)</u>	<u>(12,485)</u>	<u>(148,723)</u>
Segmental assets	<u>5,816,412</u>	<u>8,780,124</u>	<u>14,596,536</u>
Segmental liabilities	<u>3,470,119</u>	<u>3,297,917</u>	<u>6,768,036</u>
2009			
Revenue from external customers	<u>5,474,392</u>	<u>7,166,494</u>	<u>12,640,886</u>
Depreciation and amortisation	<u>111,034</u>	<u>130,750</u>	<u>241,784</u>
Profit before taxation	<u>387,261</u>	<u>694,580</u>	<u>1,081,841</u>
Taxation	<u>117,084</u>	<u>75,790</u>	<u>192,874</u>
Segmental assets	<u>6,776,622</u>	<u>7,567,860</u>	<u>14,344,482</u>
Segmental liabilities	<u>3,949,904</u>	<u>2,699,189</u>	<u>6,649,093</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

4 Sale of services

	Group	
	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>
		(Restated)
Course fees	12,654,559	8,335,972
Examination fees	1,963,279	1,864,941
Accommodation fees	1,758,206	993,559
Publication fees	149,696	197,405
Application fees and registration fees	285,696	309,220
Sale of course materials	280,182	186,203
Training income	83,056	67,347
Other	223,605	-
	<u>17,398,279</u>	<u>11,954,647</u>

5 Other Income

	Group	
	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>
		(Restated)
Accounting fees	72,031	72,447
Interest income	2,874	15,862
Rental and related income	243,834	190,257
Miscellaneous income	419,128	407,673
	<u>737,867</u>	<u>686,239</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

6 Salaries and Employees' Benefits

	Group	
	<u>2010</u>	<u>2009</u>
	£	£
Staff salaries and related costs	5,386,791	4,199,126
Social security costs - staff	488,760	331,168
Director's fee	75,000	48,000
Directors' remuneration	364,214	144,903
Social security costs - directors	17,517	14,374
Pension costs - directors	10,000	-
Share based payments- directors	169,078	86,281
Share based payments- staff	47,948	50,350
Others	102,906	40,039
	<u>6,662,214</u>	<u>4,914,241</u>
Less shown in cost of sales	(2,669,098)	(1,221,423)
	<u>3,993,116</u>	<u>3,692,818</u>
Highest paid director		
Remuneration and benefits	164,827	89,903
Share based payments	44,494	30,606
	<u>209,321</u>	<u>120,509</u>
Average number of employees		
Lecturers	160	152
Marketing staff	52	54
Administration staff	139	145
	<u>351</u>	<u>351</u>

7 Finance Costs

	Group	
	<u>2010</u>	<u>2009</u>
	£	£
Interest on bank overdraft	-	901
Interest on term loan	26,450	9,791
Interest on finance lease	19,670	20,543
Other interest	1,930	4,926
	<u>48,050</u>	<u>36,161</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

8 Operating profit

Net (loss) / profit from operations is stated after charging / (crediting):

	Group	
	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>
Auditor's remuneration:		
- Fees payable to the Company's auditors for statutory audit	30,000	20,000
- Fees payable to the Company's auditors for statutory audit of subsidiary company	16,000	8,000
- Under provision of fees payable to the Company's auditors for statutory audit in prior year	10,000	7,500
- Under provision of fees payable to the Company's auditors for statutory audit of subsidiary company in prior year	16,675	-
- Fees payable to the Company's auditors for taxation services	-	8,000
- Fees payable to the other auditors for statutory audits	28,516	29,503
- Fees payable to the other auditors for taxation services	2,826	2,931
Bad debts written off	-	133,882
Exchange loss	35,113	34,458
Deposits written off	-	-
Impairment for trade receivables	(11,039)	13,999
Plant and equipment written off	-	5,522
Office and equipment rental	2,709,385	1,132,453
Fees payable to the Company's auditors for due diligence work not disclosed above	-	44,325

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

9 Income Tax

Tax expense attributable to the results is made up of:

	Group	
	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>
Current income tax	68,212	190,678
Under provision in respect of previous years:		
Current income tax	(210,347)	6,452
Current year tax	<u>(142,135)</u>	<u>197,130</u>
Deferred taxation	<u>(6,588)</u>	<u>(4,256)</u>
	<u>(148,723)</u>	<u>192,874</u>

The reconciliation of the current year tax expense and the product of accounting profit multiplied by the Singapore statutory tax rate is as follows:

	<u>2010</u>		Group		<u>2009</u>	
	<u>£</u>	<u>%</u>	<u>£</u>	<u>%</u>	<u>£</u>	<u>%</u>
Profit before income tax	<u>(438,609)</u>		<u>1,081,841</u>			
Income tax at the statutory rate of 17%	(74,564)	(17)	183,913		17	
Effect of different tax rate in foreign jurisdictions	(66,309)	(15.1)	47,946		4.4	
Non deductible expenses	111,460	25.4	64,145		5.9	
Singapore statutory stepped income exemption	(36,408)	(8.3)	(60,472)		(5.5)	
Underprovision of income tax in respect of prior years	(210,347)	(48)	6,452		0.6	
Utilisation of previously unrecognised tax assets	70,523	16.1	21,251		1.9	
Income not subject to tax	(39,072)	(8.9)	(84,844)		(7.8)	
Change in tax rate	2,034	0.5	(1,242)		(0.1)	
Deferred tax asset not recognised	66,527	15.2	-		-	
Deferred tax	(6,588)	(1.5)	(4,256)		(0.3)	
Other effects not separately identified	34,021	7.8	19,981		1.8	
	<u>(148,723)</u>	<u>(33.9)</u>	<u>192,874</u>		<u>17.8</u>	

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

9 Income tax (continued)

The Company is tax resident in Singapore. Group income tax liability is subject to agreement by the tax authorities of the respective countries in which the companies in the Group operate.

Temporary differences arising from investment in subsidiary and associated companies are considered to be insignificant to the Group.

	Group		Company	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
Composition of deferred taxation:				
On the excess of the net book value over tax written down value of plant and equipment	27,669	29,609	-	-
Analysis of provision for deferred taxation:				
Balance at the beginning of the year	29,609	27,492	-	-
Deferred taxation for the year	(6,587)	(4,256)	-	-
Deferred taxation addition on acquisition of subsidiary	-	8,350	-	-
Currency realignment	4,647	(1,977)	-	-
Balance at the end of the year	<u>27,669</u>	<u>29,609</u>	<u>-</u>	<u>-</u>

The amount of temporary differences for which no deferred tax asset has been recognised in the balance sheets is as follows:

	Group		Company	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
Excess of tax allowances over depreciation	147,463	(25,013)	-	-
Unabsorbed capital allowances	136,092	7,951	-	-
Unutilised tax losses	2,213,870	1,827,202	-	-
Accrued unutilised leaves	(20,594)	(21,760)	-	-
	<u>2,476,831</u>	<u>1,788,380</u>	<u>-</u>	<u>-</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

9 Income tax *(continued)*

Deferred tax assets have not been recognised in respect of tax losses as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised. There is no deferred tax asset recognised on other deductible temporary differences as the tax effect is immaterial to the Group and the Company. The utilisation of the deferred tax assets are subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies in the Group operate.

Included within the unutilised tax losses are unutilised tax losses of £37,788 (Singapore \$75,441) (2009: £79,789). The utilisation of these losses are subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation in Singapore as a result of substantial change in ultimate shareholders and significant change in shareholders in prior years. The Group is in the process of appealing to the tax authorities for the waiver of the “shareholders’ test”.

10 (Loss)/Earnings Per Share

The basic (loss)/earnings per share was based on (loss)/profit attributable to shareholders of loss of (£376,291) (2009: earnings of £831,209) and the weighted average number of ordinary shares in issue at the year end of 44,146,726 (2009: 33,223,897) shares.

The diluted (loss)/earnings per ordinary share was based on (loss)/profit attributable to shareholders of loss of (£376,291) (2009: earnings of £831,209) and the weighted average number of ordinary shares in issue at the year end diluted for the effect of share options and warrants in existence at the year end of 47,899,375 (2009: 37,926,546) shares.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

11 Plant and Equipment

	Renovation of property	Computers	Furniture & fittings	Classroom and office equipment	Motor vehicle	Leasehold Land	Library books	Computer Software	Total
	£	£	£	£	£	£	£		£
Group									
2010									
Cost									
As at 1 January 2010	459,225	538,519	318,636	1,160,832	32,875	417,253	11,360	-	2,938,700
Additions	45,315	43,043	33,070	125,309	-	98,892	28,606	64,097	438,332
Written off	-	-	(711)	(206)	-	-	-	-	(917)
Currency realignment	58,168	19,131	4,108	114,224	4,771	-	1,650	-	202,052
As at 31 December 2010	562,708	600,693	355,103	1,400,159	37,646	516,145	41,616	64,097	3,578,167
Accumulated depreciation									
As at 1 January 2010	185,769	487,521	166,598	499,084	1,432	288,850	9,890	-	1,639,144
Charge for the year	104,949	39,206	57,955	191,235	7,141	46,424	906	5,005	452,821
Disposal	-	-	(711)	(206)	-	-	-	-	(917)
Currency realignment	28,407	20,160	192	87,300	648	-	1,296	38	138,041
As at 31 December 2010	319,125	546,887	224,034	777,413	9,221	335,274	12,092	5,043	2,229,089
Net book value									
At 31 December 2010	243,583	53,806	131,069	622,746	28,425	180,871	29,524	59,054	1,349,078

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

11 Plant and Equipment (continued)

	Renovation of property	Computers	Furniture & fittings	Classroom and office equipment	Motor vehicle	Leasehold Land	Library books	Sign board	Total
	£	£	£	£	£	£	£		£
Group									
2009									
Cost									
As at 1 January 2009	354,592	230,002	93,321	70,523	545	-	2,808	-	751,791
Additions	56,067	21,923	44,764	469,881	32,370	51,492	1,313	-	677,810
Disposals	-	(7,236)	(20,030)	(9,482)	-	(16,284)	-	-	(53,032)
Additions on acquisition of subsidiary	71,731	305,944	205,310	632,969	-	382,045	7,333	591	1,605,923
Currency realignment	(23,165)	(12,114)	(4,729)	(3,659)	(40)	-	(94)	9	(43,792)
As at 31 December 2009	459,225	538,519	318,636	1,160,232	32,875	417,253	11,360	600	2,938,700
Accumulated depreciation									
As at 1 January 2009	97,989	184,073	60,376	46,662	545	-	2,807	-	392,452
Charge for the year	70,331	23,495	46,239	67,699	1,065	20,721	77	15	229,642
Accumulated depreciation on acquisition of subsidiary	23,915	295,803	77,563	396,106	-	284,413	6,952	467	1,085,219
Disposal	-	(7,220)	(14,658)	(9,350)	-	(16,284)	-	-	(47,512)
Currency realignment	(6,466)	(8,630)	(2,922)	(2,522)	(178)	-	54	7	(20,657)
As at 31 December 2009	185,769	487,521	166,598	498,595	1,432	288,850	9,890	489	1,639,144
Net book value									
At 31 December 2009	273,456	50,998	152,038	661,637	31,443	128,403	1,470	111	1,299,556

At the balance sheet date, the Group's net book value of computers and motor vehicle under finance lease and hire purchase agreements arrangements amounted to £331,533 and £28,425 respectively (2009: £376,928 and £31,443). The depreciation charge in the year amounted to £96,870 and £7,141 respectively (2009: £30,437 and £1,065).

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

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12 Development Expenditure

	Group	
	<u>2010</u>	<u>2009</u>
	£	£
Cost		
As at beginning of the year	106,684	113,859
Additions	-	500
Currency realignment	12,890	(7,675)
As at end of the year	<u>119,574</u>	<u>106,684</u>
Amortisation		
As at beginning of the year	80,184	76,677
Charge for the year	9,677	8,555
Currency realignment	10,166	(5,048)
As at end of the year	<u>100,027</u>	<u>80,184</u>
Net Book Value		
As at end of the year	<u>19,547</u>	<u>26,500</u>

13 Investment in Subsidiary Companies

	Company	
	<u>2010</u>	<u>2009</u>
	£	£
Investment in subsidiaries		
Unquoted equity shares, at cost		
As at beginning of the year	6,625,108	1,874,542
Additions during the year	-	4,705,255
Intra-group guarantee	33,000	-
Share options granted to subsidiaries employees	47,948	45,311
As at end of the year	<u>6,706,056</u>	<u>6,625,108</u>
Due from subsidiary companies	<u>401,014</u>	<u>270,268</u>
Due to subsidiary companies	<u>1,553,867</u>	<u>1,657,149</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

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FOR THE YEAR ENDED 31 DECEMBER 2010

13 Investment in Subsidiary Companies *(continued)*

During the year, the Company issued the balance of 950,000 ordinary shares of 10p each at 11.5p per share as deferred consideration payable for acquisition of Educational Resources Pte Ltd as per Sales & Purchase Agreement. The deferred consideration has been previously provided in the accounts.

In the previous year, the company issued options over ordinary shares in the Company to certain employees of subsidiary undertakings. The fair value of these options has been valued at £47,948 (2008: £45,311).

AEC College Pte Ltd., Malvern House Group Limited, AEC Bilingual Pte Ltd and Educational Resources Pte Ltd are the Company's immediate subsidiaries. The details of AEC College Pte Ltd, Malvern House Group Limited and Educational Resources Pte Ltd and the subsidiary companies they hold at 31 December 2010 are as follows:

Subsidiary companies and country of incorporation	Principal activities (Place of business)	Equity held by the Group	
		<u>2010</u> %	<u>2009</u> %
Malvern House Group Limited (United Kingdom)	Teaching of English as a foreign language	100	100
AEC College Pte Ltd. (Singapore)	Investment holding and provision of education consultancy services (Singapore)	100	100
Educational Resources Pte Ltd (Singapore)	Consultancy in the field of education, business training courses and related services (Singapore)	100	100
AEC Bilingual Pte Ltd (Singapore)	Technical, vocational and commercial education (Singapore)	51	51

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

13 Investment in Subsidiary Companies *(continued)*

Subsidiaries held by Malvern House Group Limited

Subsidiary companies and country of incorporation	Principal activities (Place of business)	Equity held by the Group	
		<u>2010</u>	<u>2009</u>
		%	%
Malvern House International Limited (United Kingdom)	Provider of further education (United Kingdom)	100	100
Malvern House Marketing Limited (United Kingdom)	Dormant (United Kingdom)	100	100
Learning Development Overseas Ltd (United Kingdom)	Dormant (United Kingdom)	100	100

Subsidiaries held by AEC College Pte Ltd.

Subsidiary companies and country of incorporation	Principal activities (Place of business)	Equity held by the Group	
		<u>2010</u>	<u>2009</u>
		%	%
AEC Resource Development Pte Ltd (Singapore)	Education, training and human resource consultancy (Singapore)	100	100
AEC Accountancy & Business School Pte Ltd * (Singapore)	Dormant (Singapore)	-	100
The McGregorr Consultants Pte Ltd (Singapore) **	Advisors and consultants for further learning and dealing in study kits and manuals (Singapore)	100	100

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

13 Investment in Subsidiary Companies *(continued)*

Subsidiaries held by AEC College Pte Ltd.(continued)

Subsidiary companies and country of incorporation	Principal activities (Place of business)	Equity held by the Group	
		<u>2010</u> %	<u>2009</u> %
Flexi Learning Systems Pte Ltd (Singapore)	Operator and agent of schools, colleges and professional assoc. in promoting training and educational programmes and courses (Singapore)	100	100
AEC Internet Education Technology Pte Ltd * (Singapore)	Dormant (Singapore)	-	100
Brighton Commercial Training Centre Pte Ltd (Singapore)	Technical, vocational and commercial education (Singapore)	100	100
AEC Business School Pte Ltd (Singapore)	Technical, vocational and commercial education (Singapore)	100	100
AEC Edutech Sdn Bhd (Malaysia)	Development, management, and provision of consultancy and market educational technology solutions related products (Malaysia)	100	100
Smartworks Learning Centre Pte Ltd (Singapore)	Commercial education and provide training in property investments, consultancy and maintenance (Singapore)	100	100

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

13 Investment in Subsidiary Companies *(continued)*

Subsidiaries held by AEC College Pte Ltd.(continued)

Subsidiary companies and country of incorporation	Principal activities (Place of business)	Equity held by the Group	
		<u>2010</u> %	<u>2009</u> %
BrainBox Limited (British Virgin Islands)	Consulting & marketing In education, training and related services (Vietnam)	100	100
Smart Eduprocess Group Sdn Bhd (Malaysia)	Investment holding (Malaysia)	100	100
<u>Held by AEC Edutech Sdn Bhd</u> ST Synergy (Malaysia) Sdn Bhd (Malaysia)	Dormant (Malaysia)	100	100
<u>Held by BrainBox Limited</u> BrainBox Foreign Language & Management Studies Training Center (Vietnam)	Training courses in foreign languages and business administration (Vietnam)	100	100
<u>Held by Smart Eduprocess Group Sdn Bhd</u> AEC Edugroup Malaysia Sdn Bhd (Malaysia)	Investment holding (Malaysia)	100	100
<u>Held by AEC Edugroup Malaysia Sdn Bhd</u> IMS Professional Training Services Sdn Bhd (Malaysia)	Education services (Malaysia)	100	100
Kasturi Management Consultancy Sdn Bhd (Malaysia)	Education services (Malaysia)	100	100

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

13 Investment in Subsidiary Companies *(continued)*

Subsidiary companies and country of incorporation	Principal activities (Place of business)	Equity held by the Group	
		<u>2010</u> %	<u>2009</u> %
<u>Subsidiaries held by Educational Resources Pte Ltd</u>			
Educational Development Pte Ltd (Singapore)	Dormant (Singapore)	100	100
LCCIEB Training Consultancy Co (People's Republic of China)	Consultancy in education, business business training courses and related services (People 's Republic of China)	100	100
LCCI International Qualifications (M) Sdn Bhd (Malaysia)	Consultancy in education, business training courses and related services (Malaysia)	100	100
Educational Resources (HK) Limited (Hong Kong)	Consultancy in education, business training courses and related services (Hong Kong)	100	100

* These companies were struck off the register during the year.

** This company was struck off the register subsequent to the year end.

In the opinion of the directors, the recoverable amount of the investment in subsidiary companies is not less than the carrying amount of the investment on the basis that the present value of the estimated future cash flows expected to arise from the subsidiaries' operations over the next few years will exceed the carrying amount of the investment in these subsidiaries.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

14 Investment in Associated Companies

	Group	
	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>
Unquoted shares, at beginning and at end of year, at cost	1,536,922	1,536,922
Share of net post-acquisition reserves:		
Balance at beginning of year	(1,513,374)	(1,489,573)
Adjustment for Kasturi Management Consultancy Sdn Bhd and IMS Professional Training Services Sdn Bhd from associated companies to subsidiaries	-	(166,399)
Share in profits for the year	98,486	253,318
Dividends received	(89,058)	(111,600)
Currency alignment	7,705	880
Balance at end of year	(1,496,241)	(1,513,374)
	40,681	23,548

Movement in goodwill during the year is as follows:

	Group	
	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>
Cost		
Balance as at beginning of the year	-	99,582
Transfer to goodwill arising as associate becoming a subsidiary	-	(99,582)
Balance as at end of the year	-	-

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

14 Investment in Associated Companies *(continued)*

Summarised financial information in respect of the Group's associated companies is set out below:

	<u>2010</u>	<u>2009</u>
	£	£
Total assets	293,887	316,409
Total liabilities	(144,859)	(205,400)
Net assets	149,028	111,009
Revenue	2,258,558	2,126,171
Profit for the year	318,169	207,110

Details of associated companies are as follows:

Associated companies and country of incorporation	Principal activities (Place of business)	Equity held by the Group	
		<u>2010</u>	<u>2009</u>
		%	%
Held by AEC College Pte. Ltd.			
Keris Murni Sdn Bhd (Malaysia)	Provision of education services and the operation of education tuition centres (Malaysia)	30	30
Pusat Tuisyen Kasturi Sdn Bhd (Malaysia)	Provision of education services and the operation of education tuition centres (Malaysia)	30	30

In the opinion of the directors, the recoverable amount of the investment in associated companies is not less than the carrying amount of the investment on the basis that the present value of the estimated future cash flows expected to arise from the associated companies' operations over the next few years will exceed the carrying amount of the investment in these associated companies.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

15 Intangible assets-Group

	Licences	
	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>
Cost		
At beginning of the year	1,864,424	1,896,021
Additions	16,797	9,922
Additions on acquisition of subsidiary	-	84,954
Currency alignment	227,412	(126,473)
At end of the year	<u>2,108,633</u>	<u>1,864,424</u>
Accumulated amortisation		
At beginning of the year	45,633	-
Charge	16,107	3,198
Accumulated amortisation at date of acquisition	-	41,784
Currency alignment	7,107	651
At end of the year	<u>68,847</u>	<u>45,633</u>
Net book value	<u>2,039,786</u>	<u>1,818,791</u>
Analysed as follows:		
Indefinite life	2,000,005	1,776,768
Definite life	39,781	42,023
	<u>2,039,786</u>	<u>1,818,791</u>
	Brands	
	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>
Cost		
At beginning of the year	3,750,000	-
Acquisition of Malvern House Brand	-	3,750,000
At end of the year	<u>3,750,000</u>	<u>3,750,000</u>
Net book value	<u>3,750,000</u>	<u>3,750,000</u>
Analysed as follows:		
Indefinite life	<u>3,750,000</u>	<u>3,750,000</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

15 Intangible assets-Group (continued)

	Trade Marks	
	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>
Cost		
At beginning of the year	8,099	-
Additions	-	707
Additions on acquisition of subsidiary	-	7,392
At end of the year	<u>8,099</u>	<u>8,099</u>
Accumulated amortisation		
At beginning of the year	822	-
Charge	2,746	389
Accumulated amortisation at date of acquisition	-	433
At end of the year	<u>3,568</u>	<u>822</u>
Net book value	<u>4,531</u>	<u>7,277</u>
Analysed as follows:		
Definite life	<u>4,531</u>	<u>7,277</u>
Total net book value	<u>5,794,317</u>	<u>5,576,068</u>

Intangible assets comprise licence fee, brands and trademarks.

In the previous year, the Company acquired 100% interest in Malvern House Group Limited and the purchase consideration included “Malvern Brand” which the directors estimated the value to be £3,750,000. The directors are of the opinion that the Company has acquired for an indefinite duration, the right to use the brand name and accordingly, the brand name is not subject to amortisation and is shown at cost less any impairment.

On 8 January 2008, in connection with the disposal of the entire equity interest by Educational Development International plc (“EDI”) in Educational Resources Pte Ltd (“ER”), ER entered into a new agency agreement with EDI for the right to continue to act as agent to sell and market LCCI International Qualification. Under the new agreement, ER is required to pay an additional sum of £450,000 in return for right to use and market the LCCI International Qualification for an indefinite duration subject to certain termination clauses and conditions. In accordance with the terms of the new agreement with EDI, the directors are of the opinion that ER has acquired for an indefinite duration, the right to use the licence. Accordingly, the licence fee is shown at cost less any impairment.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

15 Intangible assets-Group *(continued)*

The licence fee of a subsidiary Smart Eduprocess Group Sdn Bhd, was paid for professional and academic courses licensed to the Group for a period of 2 to 5 years.

Impairment of licence fee

Licence fee is allocated to the Group's cash generating unit ("CGU") relating to its education business. The recoverable amount of the CGU is determined based on value-in-use calculation. This calculation uses cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the external growth rates stated below. The growth rate does not exceed the long term average growth rate for the education business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	Education Business	
	2010	2009
	%	%
Growth rate (1) 2 to 3 years	5	5
Discount rate (2)	7	7

- (1) Weighted average growth rate used to extrapolate cash flows beyond the budget period.
(2) Pre-tax discount rate applied to the cash flow projections.

Management determined budgeted gross margin based on past performance and its expectation of the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

16 Goodwill

	Group	
	<u>2010</u>	<u>2009</u>
	£	£
Cost		
Balance as at beginning of the year	1,980,738	926,102
Transfer of goodwill on associate becoming a subsidiary (see note 14)	-	99,582
Goodwill arising on acquisition of subsidiary	-	404,352
Existing goodwill in acquired subsidiary (see note 13)	-	649,831
Currency alignment	<u>114,374</u>	<u>(99,129)</u>
Balance as at end of the year	<u>2,095,112</u>	<u>1,980,738</u>

Goodwill arose as a result of acquisitions by the Group.

In the previous year, the Company acquired the entire issued share capital of Malvern House Group Limited, a London-based educational courses provider which gave rise to goodwill on acquisition of £404,352.

In the previous year, the Group acquired the entire issued share capital of Smart Eduprocess Group Sdn Bhd whose assets included goodwill of £649,831. Negative goodwill arose on the acquisition of Smart Eduprocess Group Sdn Bhd of £226,854 and was written off to the income statement.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

16 Goodwill (continued)

Impairment of goodwill

Goodwill is allocated to the Group's cash generating unit ("CGU") identified according to business result and country of operation presented below:

	Group	
	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>
Education		
United Kingdom	404,352	404,352
Singapore	232,379	215,967
Malaysia	1,433,336	1,338,074
Vietnam	25,045	22,345
	2,095,112	1,980,738

The recoverable amount of the CGU is determined based on value-in-use calculation. This calculation uses cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the external growth rates stated below. The growth rate does not exceed the long term average growth rate for the education business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	Group	
	<u>2010</u>	<u>2009</u>
	<u>%</u>	<u>%</u>
Growth rate (1) 2 to 3 years	5	5
Discount rate (2)	7	7

(1) Weighted average growth rate used to extrapolate cash flows beyond the budget period.

(2) Pre-tax discount rate applied to the cash flow projections.

Management determined budgeted gross margin based on past performance and its expectation of the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

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17 Inventories

	Group	
	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>
Publications and books	59,241	93,709

18 Trade Receivables

	Group	
	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>
Trade receivables are stated after deducting the following allowance for impairment:	72,067	60,814

	Group	
	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>
Trade receivables are denominated in the following currencies:		
Singapore Dollars	554,884	518,825
Pound Sterling	116,088	291,235
Malaysian Ringgit	161,077	217,150
US Dollar	37,571	20,786
Chinese Yuan	5,060	30,737
Hong Kong Dollar	1,833	-
Vietnamese Dong	-	94
	876,513	1,078,827

19 Other Receivables

	Group		Company	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
Deposits	194,045	146,499	-	-
Prepayments	417,917	418,401	-	-
Staff loan	-	447	-	-
Tax recoverable	248,093	-	-	-
Other receivables	262,651	309,467	7,215	13,870
	1,122,706	874,814	7,215	13,870

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

19 Other Receivables *(continued)*

Other receivables (excluding prepayments) are denominated in the following currencies:

	Group		Company	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
Singapore Dollars	126,439	120,170	-	-
Pound Sterling	259,349	69,696	7,215	13,870
Malaysian Ringgit	293,276	192,763	-	-
Chinese Yuan	5,882	4,358	-	-
Vietnamese Dong	1,903	59,802	-	-
Hong Kong dollar	15,373	9,624	-	-
Sri Lankan Rupee	2,567	-	-	-
	<u>704,789</u>	<u>456,413</u>	<u>7,215</u>	<u>13,870</u>

20 Prepaid educational expenditure

	Group	
	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>
Consultancy and course fees paid in advance	85,534	100,380
Agents commission paid in advance	35,275	39,658
	<u>120,809</u>	<u>140,038</u>

21 Due from / to Related Parties

Related parties are entities (except for subsidiary companies and associated companies) with common direct/indirect shareholders and directors. Parties are considered to be related (directly or indirectly) if one party has the ability to control or exercise significant influence over the other party in making financial and operating decisions by virtue of such common interests.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

21 Due from / to Related Parties (continued)

	Group		Company	
	<u>2010</u> £	<u>2009</u> £	<u>2010</u> £	<u>2009</u> £
Due from related parties				
Non-trade	26,620	31,062	-	-
	<u>26,620</u>	<u>31,062</u>	<u>-</u>	<u>-</u>
Due to related parties				
Non-trade	123,220	112,512	102,598	102,182
	<u>123,220</u>	<u>112,512</u>	<u>102,598</u>	<u>102,182</u>
Total	<u>96,600</u>	<u>81,450</u>	<u>102,598</u>	<u>102,182</u>

Balances with related parties are denominated in the following currency:

Due from related parties				
Singapore Dollars	26,620	21,889	-	-
Malaysian Ringgit	-	9,173	-	-
Pound Sterling	-	-	-	-
	<u>26,620</u>	<u>31,062</u>	<u>-</u>	<u>-</u>
Due to related parties				
Singapore Dollars	123,220	9,911	-	-
Malaysian Ringgit	-	419	-	-
Pound Sterling	-	102,182	102,598	102,182
	<u>123,220</u>	<u>112,512</u>	<u>102,598</u>	<u>102,182</u>

Amounts due from / to related parties are unsecured, interest-free and due within the next twelve months.

	Group		Company	
	<u>2010</u> £	<u>2009</u> £	<u>2010</u> £	<u>2009</u> £
Details of related party balances:				
Due to related parties				
OLOL Management Service Pte Ltd	1,032	26	-	-
Other parties	19,590	417	-	-
KSP Investment Pte Ltd	102,598	102,182	102,598	102,182
Savant Infocomm Pte Ltd	-	9,887	-	-
	<u>123,220</u>	<u>112,512</u>	<u>102,598</u>	<u>102,182</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

21 Due from / to Related Parties *(continued)*

	Group		Company	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
Details of related parties balances:				
Due from related parties				
Eastcom System Pte Ltd	-	50	-	-
Savant Infocomm Pte Ltd	888	293	-	-
LOLO Management Services Pte Ltd	49	114	-	-
Savant infotech Solution Pte Ltd	-	227	-	-
AEC Business School India	-	14,708	-	-
Windmill International Pte Ltd	653	10,089	-	-
Melewar Academia Holdings Pte Ltd	692	617	-	-
AEC India Pte Ltd	17,156	-	-	-
AEC Property Management Pte Ltd	6,555	4,964	-	-
Playware Pte Ltd	627	-	-	-
	<u>26,620</u>	<u>31,062</u>	<u>-</u>	<u>-</u>

22 Cash and Cash Equivalents

	Group		Company	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
Cash at bank and in hand	3,086,894	3,215,149	7,115	50,377
Fixed deposits with bank	5,018	4,473	-	-
Cash and cash equivalents	<u>3,091,912</u>	<u>3,219,622</u>	<u>7,115</u>	<u>50,377</u>

Cash and cash equivalents are denominated in the following currencies:

Singapore Dollars	2,070,426	1,166,045	-	-
Vietnamese Dong	29,723	9,251	-	-
Pound Sterling	582,747	1,514,906	7,115	50,377
Hong Kong	165,848	305,140	-	-
Chinese Yuan	13,892	13,717	-	-
United States Dollars	78,113	121,598	-	-
Malaysian Ringgit	148,277	74,423	-	-
Euro	-	14,453	-	-
Sri Lanka Rupee	2,886	89	-	-
	<u>3,091,912</u>	<u>3,219,622</u>	<u>7,115</u>	<u>50,377</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

23 Trade Payables

	Group	
	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>
Trade payables balances are denominated in the following currencies:		
Singapore Dollars	340,385	252,018
Pound Sterling	304,951	270,707
Malaysian Ringgit	54,285	110,303
Chinese Yuan	361	28,946
Hong Kong dollar	11,807	100,609
US Dollar	32,912	47,827
	744,701	810,410

24 Deferred Income

Deferred income relates to course fees received in advance and recognised in the income statement based on classes and examinations conducted

	Group	
	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>
Deferred income is denominated in the following currency:		
Non-current liabilities		
Pound Sterling	11,020	102,627
Current liabilities		
Singapore dollars	1,078,743	1,146,585
Pound Sterling	2,133,724	2,860,638
	3,212,467	4,007,223

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

25 Other Payables

	Group		Company	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
Other creditors	320,604	413,396	18,474	34,718
Accrued expenses	1,142,018	645,848	65,272	52,033
	<u>1,462,622</u>	<u>1,059,244</u>	<u>83,746</u>	<u>86,751</u>

	Group		Company	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
Other payables are denominated in the following currencies:				
Singapore Dollars	377,776	525,589	-	-
Pound Sterling	701,838	323,117	83,746	86,751
Malaysian Ringgit	264,605	148,734	-	-
Chinese Yuan	39,674	7,389	-	-
Vietnamese Dong	65,158	54,415	-	-
Hong Kong Dollar	13,571	-	-	-
	<u>1,462,622</u>	<u>1,059,244</u>	<u>83,746</u>	<u>86,751</u>

26 Financial Liabilities

	Group		Company	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
Non-current liabilities				
Finance lease obligations	110,948	197,238	-	-
Term loan	588,416	-	-	-
Intra-group financial guarantee	-	-	23,000	-
	<u>699,364</u>	<u>197,238</u>	<u>23,000</u>	<u>-</u>
Current liabilities				
Finance lease obligations	150,545	131,367	-	-
Term loan	261,520	74,480	-	-
Intra-group financial guarantee	-	-	14,000	4,000
	<u>412,065</u>	<u>205,847</u>	<u>14,000</u>	<u>4,000</u>
	<u>1,111,429</u>	<u>403,085</u>	<u>37,000</u>	<u>4,000</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

26 Financial Liabilities (continued)

Finance Lease Obligations

At 31 December 2010, the Group and the Company has obligations under finance leases that are payable as follows:

	Group		Group	
	Minimum		Present value	
	<u>lease payments</u>		<u>of minimum</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
Within one year	161,908	135,861	150,545	131,367
Due after one year	117,278	219,747	110,948	197,238
	<u>279,186</u>	<u>355,608</u>	<u>261,493</u>	<u>328,605</u>
Less: Future finance charges	(17,693)	(27,003)	-	-
Present value of lease obligations	<u>261,493</u>	<u>328,605</u>	<u>261,493</u>	<u>328,605</u>

Finance lease creditors are denominated in the following currencies:

Singapore Dollars	-	2,632
Malaysian Ringgit	28,229	27,551
Pound Sterling	233,264	298,422
	<u>261,493</u>	<u>328,605</u>

The fair value of finance lease obligation is calculated based on present value of future principal and interest cash flows, discounted at the market rate at the reporting date. The carrying amount approximates fair value.

Term Loan

	Group	
	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>
Principal to be repaid:		
- Due within one year	261,520	74,480
- Due after one year	588,416	-
	<u>849,936</u>	<u>74,480</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

26 Financial Liabilities *(continued)*

During the year, the Group obtained a new term loan of approximately £ 951,000 (\$2,000,000). The term loan is used specifically as working capital of a wholly-owned subsidiary.

The facility is available for a period of four years from the date of the first draw down. The term loan shall be repaid by 48 equal monthly instalments and bears interest at 5% per annum.

The term loan is secured by a fresh corporate guarantee for an unlimited amount from the Company, AEC Education plc.

The term loan for renovation works was fully repaid during the year and the first fixed and floating charge over certain property, plant and equipment of the Group was discharged accordingly. The loan borne interest ranging from 7.38% to 7.44% (2009: 7.38% to 8.52%) per annum.

The fair value of term loan is calculated based on present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The carrying amount approximates fair value.

Intra-group financial guarantee

Intra-group financial guarantee comprises a corporate guarantee granted by the Company to a bank in respect of the term loan facility granted to a wholly-owned subsidiary. At the reporting date, the Company does not consider it probable that a claim will be made against the Company under the guarantee. The fair value of the guarantee amounts to £37,000 (2009: £4,000). The periods in which the financial guarantee expires are as follows:

	Company	
	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>
Less than 1 year	14,000	4,000
Between 1 and 5 years	23,000	-
	<u>37,000</u>	<u>4,000</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

27 Share Capital

	Group and Company	
	<u>2010</u>	<u>2009</u>
	<u>£</u>	<u>£</u>
Authorised		
50,000,000 ordinary shares of 10p each	<u>5,000,000</u>	<u>5,000,000</u>
Allotted, called up and fully paid		
At beginning of the year		
- 43,248,781 (2009: 18,008,738) ordinary shares of 10p each	4,324,878	1,800,874
Issued during the year		
- 950,000 ordinary shares of 10p each issued at 11.5p each for acquisition of 65.04% share capital of Educational Resources Pte Ltd (shown in Note 13)	95,000	-
- 28,441 ordinary shares of 10p each issued at 13p each for the acquisition of the outstanding balance of 5% share capital of Brainbox Ltd	-	2,844
- 17,187,656 ordinary shares of 10p each issued at 12p each	-	1,718,765
- 7,500,000 ordinary shares of 10p each issued at 12p each for the acquisition of 100% share capital of Malvern House Group Ltd (shown in note 13)	-	750,000
- 25,000 ordinary shares of 10p each issued at par on exercise of share options	-	2,500
- 498,946 ordinary shares of 10p each issued at 11p each for the acquisition of 51% share capital of AEC Bilingual Pte Ltd (shown in note 13)	-	49,895
At end of the year		
- 44,198,781 (2009: 43,248,781) ordinary shares of 10p each	<u>4,419,878</u>	<u>4,324,878</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

28 Share based payments reserve

	Group	
	<u>2010</u>	<u>2009</u>
	£	£
Balance as at beginning of year	317,691	154,220
Fair value of options issued and charged to the income statement	217,026	136,632
Fair value of warrants issued and charged to the share premium account	-	26,839
Ordinary shares issued as deferred consideration on acquisition of subsidiary	<u>(109,250)</u>	-
Balance as at year end	<u>425,467</u>	<u>317,691</u>

	Company	
	<u>2010</u>	<u>2009</u>
	£	£
Balance as at beginning of year	317,691	154,220
Fair value of options issued and charged to the income statement	169,078	91,321
Fair value of options issued as addition to investment in subsidiary	47,948	45,311
Fair value of warrants issued and charged to the share premium account	-	26,839
Ordinary shares issued as deferred consideration on acquisition of subsidiary	<u>(109,250)</u>	-
Balance as at year end	<u>425,467</u>	<u>317,691</u>

An Unapproved Executive Share Option Scheme (the “ESOS”) was adopted by the Directors on 21 February 2008.

The ESOS is a share incentive scheme to give recognition to employees whose contributions have been essential to the well-being and prosperity of the Group.

On 3 March 2008, a total of 1,220,000 non-transferable options to subscribe for ordinary shares of £0.10 each in the Company were granted to Executive Directors, Managerial Staff and Specially Selected Employees. Options are granted for a term of 5 years to purchase AEC Education plc ordinary shares.

On 14 July 2009, 1,900,000 non-transferable options to subscribe for ordinary shares of £0.10 each in the Company were granted to Executive Directors and Managerial Staff. Options are granted for a term of 5 years to purchase AEC Education plc ordinary shares.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

28 Share based payments reserve *(continued)*

On 9 September 2009, 535,000 non-transferable options to subscribe for ordinary shares of £0.10 each in the Company were granted to Managerial Staff and Specially Selected Employees. Options are granted for a term of 5 years to purchase AEC Education plc ordinary shares.

The exercise price was fixed at market value less 20% discount or par value per share whichever is higher. All options have an 18-month vesting period.

As part of the share placement 262,649 share warrants were granted to the Nominated Advisors WH Ireland on 17 March 2009. The exercise period is 3 years from the placement date and the warrants are exercisable at 12p per share.

	<u>2010</u>	<u>2009</u>
	<u>No of options</u>	<u>No of options</u>
Options at beginning of year	3,490,000	1,080,000
Options granted in year	-	2,435,000
Options lapsed in year	-	-
Options exercised in year	-	(25,000)
Options at year end	<u>3,490,000</u>	<u>3,490,000</u>
Options exercisable at year end	<u>1,055,000</u>	<u>1,055,000</u>
Weighted average exercisable prices were as follows:		
At beginning of year	15p	10p
Options granted	-	17.2p
Options lapsed	-	-
Options exercised	-	10p
Options at year end	15p	15p
Options exercisable at year end	10p	10p
Weighted average share price at date of exercise for options exercised during the year	None	21.5p
	<u>2010</u>	<u>2009</u>
Weighted average remaining contracted life of options outstanding at year end	<u>3.15 years</u>	<u>4.15 years</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

28 Share based payments reserve (continued)

	<u>2010</u>	<u>2009</u>
Exercise prices of options outstanding at year end:	<u>No of</u>	<u>No of</u>
- Exercise price per share	<u>options</u>	<u>options</u>
10p	1,055,000	1,055,000
17.2p	2,435,000	2,435,000
Weighted average fair value of options granted in year	None	15p

The option pricing model used in calculating the fair value of options granted was the Black Scholes model.

Inputs in the model for share options granted 2009 were as follows:

Weighted average share price	21.5p
Weighted average exercise price	17.2p
Average expected volatility	77%
Average option life	5 years
Average risk free rate	4.75%
Expected dividends	Nil

The warrant pricing model used in calculating the fair value of warrants granted was the Black Scholes model.

Inputs in the model for warrants granted during 2009 were as follows:

Weighted average share price	18.5p
Weighted average exercise price	12.0p
Average expected volatility	72%
Average warrant life	3 years
Average risk free rate	4.75%
Expected dividends	Nil

Expected volatility was determined by calculating the actual volatility of the Company's share price over the period from December 2004 up to the grant date of the options / warrants.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

29 Related Party Transactions

In addition to the related party information disclosed in note 21, there were the following significant transactions with related parties on terms agreed between the parties:

	Group		Company	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	£	£	£	£
With Subsidiary				
<u>Educational Resources Pte Ltd</u>				
- Consultancy fee charged	-	-	95,996	86,023
<hr/>				
<u>Malvern House Group Ltd</u>				
- Consultancy fee charged	-	-	120,000	211,165
<hr/>				
<u>AEC College Pte Ltd (formerly known as AEC .Edu Group Pte Ltd</u>				
- Accounting fees	-	-	(13,746)	(12,691)
<hr/>				
With a related party with common directors				
<u>OLOL Management Service Pte Ltd</u>				
- Commission paid and payable	(340,148)	(925,562)	-	-
<hr/>				
<u>Windmill International Pte Ltd</u>				
- Accounting fees	72,031	72,459	-	-
- Rental fees	135,033	108,536	-	-
<hr/>				

	Group	
	<u>2010</u>	<u>2009</u>
	£	£
Key management personnel		
Directors' remuneration:		
- Salaries and bonuses	364,214	144,903
- Directors' fees	75,000	48,000
- Pension costs	10,000	-
- Share based compensation	169,078	86,281
- Directors' benefit in kind	2,695	-
Other key management personnel:		
- Salaries and bonuses	255,705	300,862
- Share based compensation	33,608	41,734
	<hr/>	<hr/>
	910,300	621,780
	<hr/>	<hr/>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

29 Related Party Transactions (*continued*)

Analysis of directors fees and emoluments:

	Salary & bonus	Fees	Pension costs	Share based payments	Benefit in kind	Total
2010						
Directors						
William Swords	-	£59,000	-	£35,596	-	£94,596
Ramasamy Jayapal	-	£8,000	-	£31,146	-	£39,146
Gopinath Pillai	-	£8,000	-	£31,146	-	£39,146
Ho Peng Cheong	£164,827	-	-	£44,494	-	£209,321
Naresh Malhotra	£112,750	-	£10,000	-	£2,695	£125,445
Haider Sithawalla	£86,637	-	-	£26,696	-	£113,333
Total	£364,214	£75,000	£10,000	£169,078	£2,695	£620,987

	Salary & bonus	Fees	Pension costs	Share based payments	Benefit in kind	Total
2009						
Directors						
William Swords	-	£48,000	-	£24,485	-	£72,485
Ramasamy Jayapal	-	-	-	£15,595	-	£15,595
Gopinath Pillai	-	-	-	£15,595	-	£15,595
Ho Peng Cheong	£89,903	-	-	£30,606	-	£120,509
Naresh Malhotra	£55,000	-	-	-	-	£55,000
Total	£144,903	£48,000	-	£86,281	-	£279,184

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

30 Operating Lease Commitments

The Group has various operating lease agreements for equipment, offices and other facilities. Most leases contain renewable options. The Group also has operating leases for some premises for periods of up to 15 years and are renewable under such terms and conditions as may be agreed upon with the lessor.

At the balance sheet date, the future minimum rentals payable under these non-cancellable operating leases are as follows:-

	Group	
	<u>2010</u>	<u>2009</u>
	£	£
Payable:		
Within one year	1,695,759	1,293,201
Between two to five years	3,339,766	2,932,350
Over five years	<u>2,907,000</u>	<u>3,181,313</u>
	<u>7,942,525</u>	<u>7,406,864</u>

31 Subsequent events

There were no subsequent events.

32 Dividends

	The Group and the Company	
	<u>2010</u>	<u>2009</u>
	£	£
Final one-tier dividend paid in respect of the previous financial year of 0.15p (2009: NIL) per share	<u>66,298</u>	<u>-</u>

After the balance sheet date, the directors of the Company proposed a one-tier tax-exempt final dividend of 0.2p per share totalling £88,397 based on issued shares as at 24 June 2011. The dividends have not been provided for and are subject to shareholders' approval at the forthcoming Annual General Meeting of the Company.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

33 Financial Instruments

(a) Financial Risk Management Objectives and Policies

Risk management is integral to the whole business of the Group. The Group has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. The management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

(i) Credit risk

Exposure to the credit risks are monitored on an ongoing basis. The Group does not require collateral in respect of financial assets.

The carrying amount of trade and other receivables, subsidiary companies and related party balances and cash represent the Group's maximum exposure to credit risk.

Cash and cash balances are placed with reputable financial institutions. Therefore credit risk arises mainly from the inability of customers to make payments when due.

46% (2009: 58%) of the Group's accounts receivables are made up of individual students, 18% (2009: 24%) relates to two large funding organisations and the balance of 36 % (2009: 18%) to other organisations.

All trading activity is concentrated in South East Asia and the United Kingdom.

The age analysis of trade receivables is as follows:

	Group	
	<u>2010</u>	<u>2009</u>
	£	£
Not past due and not impaired	<u>196,996</u>	<u>504,262</u>
Past due but not impaired		
- Past due 0 to 3 months	124,758	197,963
- Past due 3 to 6 months	500,209	207,519
- Past due over 6 months	54,550	169,083
	<u>679,517</u>	<u>574,565</u>
Impaired trade receivables	72,067	60,814
Less: Allowances for impairment loss	<u>(72,067)</u>	<u>(60,814)</u>
Total	<u>876,513</u>	<u>1,078,827</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

33 Financial Instruments *(continued)*

(ii) Liquidity risk

The Group adopts prudent liquidity risk management by maintaining sufficient cash and having adequate amounts of credit facilities. Due to the nature of the Group's operations, the Group aims at maintaining flexibility in funding by keeping committed credit facilities available.

The following tables detail the remaining contractual maturity for non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and Company can be required to pay.

**Group
2010**

	On demand or within one year £	Within 2 to 5 years £
Trade payables	744,701	-
Other payables and accruals	1,462,622	-
Due to related parties	123,220	-
Term loan	261,520	588,416
Finance lease obligations	150,545	110,948
	<u>2,742,608</u>	<u>699,364</u>

**Group
2009**

	On demand or within one year £	Within 2 to 5 years £
Trade payables	810,410	-
Other payables and accruals	1,059,244	-
Due to related parties	112,512	-
Term loan	74,480	-
Finance lease obligations	131,367	197,238
	<u>2,188,013</u>	<u>197,238</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

33 Financial Instruments *(continued)*

(ii) Liquidity risk *(continued)*

**Company
2010**

	On demand or within one year £	Within 2 to 5 years £
Other payables and accruals	83,746	-
Due to related parties	102,598	-
Amount due to subsidiaries	1,553,867	-
Intra-group guarantee	14,000	23,000
	<u>1,754,211</u>	<u>23,000</u>

**Company
2009**

	On demand or within one year £	Within 2 to 5 years £
Other payables and accruals	86,751	-
Due to related parties	102,182	-
Amount due to subsidiaries	1,657,149	-
Intra-group guarantee	4,000	-
	<u>1,850,082</u>	<u>-</u>

(iii) Foreign currency risk

The Group's investments in overseas subsidiaries and associates which are held for long-term investment purposes are exposed to currency translation risk. The differences arising from such translation are recorded under the foreign currency translation reserve.

The Group does not use derivative financial instruments to hedge against the volatility associated with foreign currency transactions as the directors believe that the risks arising from fluctuations in foreign currency exchange rates are not significant.

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

33 Financial Instruments *(continued)*

(iii) Foreign currency risk *(continued)*

The Group's exposures to foreign currencies are as follows:

	Other	Singapore Dollar	Malaysian Ringgit	Vietnamese Dong	US Dollar	HK Dollar	Chinese Yuan
	£	£	£	£	£	£	£
At 31.12.2010							
Financial assets							
Trade and other							
Receivables	2,567	707,943	454,353	1,903	37,571	17,206	10,942
Cash and bank balances	2,886	2,065,407	148,277	29,723	78,113	165,848	13,892
Fixed deposits	-	5,019	-	-	-	-	-
	<u>5,453</u>	<u>2,778,369</u>	<u>602,630</u>	<u>31,626</u>	<u>115,684</u>	<u>183,054</u>	<u>24,834</u>
Financial liabilities							
Borrowings	-	849,936	28,229	-	-	-	-
Trade and other							
Payables	-	841,381	318,890	65,158	32,914	25,378	40,034
	<u>-</u>	<u>1,691,317</u>	<u>347,119</u>	<u>65,158</u>	<u>32,914</u>	<u>25,378</u>	<u>40,034</u>
Net amount	<u>5,453</u>	<u>1,087,052</u>	<u>255,511</u>	<u>(33,532)</u>	<u>82,770</u>	<u>157,676</u>	<u>(15,200)</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

33 Financial Instruments *(continued)*

(iii) Foreign currency risk *(continued)*

	<u>Euro</u>	<u>Singapore Dollar</u>	<u>Malaysi an Ringgit</u>	<u>Vietname sDong</u>	<u>US Dollar</u>	<u>HK Dollar</u>	<u>Chinese Yuan</u>
	£	£	£	£	£	£	£
At 31.12.2009							
Financial assets							
Trade and other							
Receivables	-	660,885	419,085	59,897	20,786	9,623	35,095
Cash and bank							
Balance	14,453	1,161,572	74,512	9,251	121,598	305,140	13,717
Fixed deposits	-	4,473	-	-	-	-	-
	14,453	1,826,930	493,597	69,148	142,384	314,763	48,812
Financial liabilities							
Borrowings	-	77,112	27,551	-	-	-	-
Trade and other							
Payables	-	889,699	259,457	54,415	47,827	100,609	36,335
	-	966,811	287,008	54,415	47,827	100,609	36,335
Net amount	14,453	860,119	206,589	14,733	94,557	214,154	12,477

Sensitivity analysis for foreign exchange risk

The following analyses illustrate the effect that specific changes could have had on our income and equity for exchange movements. This analysis is for illustrative purposes only, as in practice market rates rarely change in isolation. Actual results in the future may differ materially from these results due to developments in the global financial markets which may cause fluctuations in interest and exchange rates to vary from the hypothetical amounts disclosed in the following table, which therefore should not be considered a projection of likely future events and losses.

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FOR THE YEAR ENDED 31 DECEMBER 2010

33 Financial Instruments *(continued)*

Sensitivity analysis for foreign exchange risk *(continued)*

	Group		Group	
	10% weakening of GBP		10% strengthening of GBP	
	<u>Impact on</u> <u>Equity</u> £	<u>Impact on</u> <u>Income</u> <u>/Reserves</u> £	<u>Impact on</u> <u>Equity</u> £	<u>Impact on</u> <u>Income</u> <u>/Reserves</u> £
At 31.12.2010				
Singapore Dollar	(108,705)	(108,705)	108,705	108,705
US Dollar	(8,277)	(8,277)	8,277	8,277
Malaysia Ringgit	(25,551)	(25,551)	25,551	25,551
Vietnamese Dong	3,353	3,353	(3,353)	(3,353)
Hong Kong Dollar	(15,767)	(15,767)	15,767	15,767
Chinese Yuan	(1,520)	(1,520)	1,520	1,520

	Group		Group	
	10% weakening of GBP		10% strengthening of GBP	
	<u>Impact on</u> <u>Equity</u> £	<u>Impact on</u> <u>Income</u> <u>/Reserves</u> £	<u>Impact on</u> <u>Equity</u> £	<u>Impact on</u> <u>Income</u> <u>/Reserves</u> £
At 31.12.2009				
Singapore Dollar	(86,012)	(86,012)	86,012	86,012
US Dollar	(9,456)	(9,456)	9,456	9,456
Malaysia Ringgit	(20,659)	(20,659)	20,659	20,659

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

33 Financial Instruments *(continued)*

	Group 10% weakening of GBP		Group 10% strengthening of GBP	
	<u>Impact on Equity</u> £	<u>Impact on Income /Reserves</u> £	<u>Impact on Equity</u> £	<u>Impact on Income /Reserves</u> £
Vietnamese Dong	(1,473)	(1,473)	1,473	1,473
Hong Kong Dollar	(21,415)	(21,415)	21,415	21,415
Chinese Yuan	(1,248)	(1,248)	1,248	1,248

(iv) Interest rate risk

The Group's exposure to market risk for changes in interest rates relate primarily to the Group's bank overdraft facility and term loan. A change in interest rate at the reporting date would not materially affect income or reserves.

The tables below set out the Group's exposure to interest rate risks. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Fixed rates		
	Less than 12 months £	Non-interest Bearing £	Total £
At 31.12.2010			
Assets			
Trade and other receivables	-	1,607,929	1,607,929
Cash and bank balances	-	3,086,894	3,086,894
Fixed deposit	5,018	-	5,018
Non-financial assets	-	9,896,695	9,896,695
Total assets	5,018	14,591,518	14,596,536

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

33 Financial Instruments *(continued)*

(iv) Interest rate risk *(continued)*

Liabilities	Floating rates £	Non-interest Bearing £	Total £
Liabilities			
Trade and other payables	-	2,405,452	2,405,452
Borrowings	1,111,429	-	1,111,429
Non-financial liabilities	-	3,251,155	3,251,155
Total Liabilities	1,111,429	5,656,607	6,768,036

Fixed rates

	Less than 12 months £	Non-interest Bearing £	Total £
At 31.12.2009			
Assets			
Trade and other receivables	-	1,552,433	1,552,433
Cash and bank balances	-	3,215,149	3,215,149
Fixed deposit	4,473	-	4,473
Non-financial assets	-	9,572,427	9,572,427
Total assets	4,473	14,340,009	14,344,482

Liabilities	Floating rates £	Non-interest Bearing £	Total £
Liabilities			
Trade and other payables	-	2,106,549	2,106,549
Borrowings	403,085	-	403,085
Non-financial liabilities	-	4,139,459	4,139,459
Total Liabilities	403,085	6,246,008	6,649,093

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

33 Financial Instruments *(continued)*

(v) Fair Values of financial assets and financial liabilities

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables, and short term borrowings approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The fair values of other financial assets and liabilities are as disclosed in the respective notes.

(vi) Capital risk management policies and objectives

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, cash and bank balances and equity attributable to holders of the parent comprising issued capital, other reserves and retained earnings as disclosed in the financial statements.

The Board of Directors reviews the capital structure on an annual basis.

34 Restated Adjustments

The revenue in financial year 2009 of a subsidiary company, Educational Resources Pte Ltd was reported in gross examination fee instead of net commission received. The revenue is restated to reflect more appropriately the way in which economic benefits are derived. Below is the detailed restated adjustment movement to be reflected during this year 2010. There is no change to net profit.

	Group	
	2009	2009
	£	£
	(Restated)	
Revenue		
Course fees	8,335,972	8,335,972
Examination fee	1,864,941	3,186,737
Accommodation fees	993,559	-
Publication fee	197,405	197,405
Application fees and registration fees	309,220	309,220
Sale of course materials	186,203	186,203
Training income	67,347	67,347
Other	-	993,559
	<u>11,954,647</u>	<u>13,276,443</u>

AEC EDUCATION PLC AND ITS SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

34 Restated Adjustments *(continued)*

	Group	
	2009	2009
	£	£
	(Restated)	
Other Revenue		
Accounting fee	72,447	72,447
Interest income	15,862	15,862
Rental and related income	190,257	190,257
Miscellaneous income	407,673	458,944
	686,239	737,510
Cost of Sales	6,072,230	7,445,297
	6,568,656	6,568,656