VIRSCEND EDUCATION COMPANY LIMITED
成實外教育有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1565

ANNUAL REPORT 2016

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COMPANY PROFILE

The Group is a leading provider of pre-school to grade 12 ("**K-12**") and university private education services. Through our schools, we provide education services to students in every age group from kindergarten through university. As at 31 December 2016, we had enrollment of an aggregate number of approximately 34,477 students, including approximately 14,719 students at the university, and we employed an aggregate of approximately 2,185 teachers.

We currently operate six schools, namely, Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School, Chengdu Experimental Foreign Languages School (Western Campus), the Primary School Attached to Chengdu Foreign Languages School, the Chengdu Foreign Languages Kindergarten and the Chengdu Institute Sichuan International Studies University, all of which are located in Chengdu, Sichuan Province. Through these schools, we offer formal education with comprehensive education programs from kindergarten through university. We are one of the few private education companies in Sichuan, Guizhou and Yunnan Provinces and Chongqing Municipality ("**Southwest China**") that offer complete K-12 and university education. This allows us to attract students at an early age and create a stable student pipeline for our schools at each grade within the K-12 system. The Group aspires to provide a pathway to first-tier universities in China and reputable colleges and universities abroad for interested students. For college entrance examination administered in 2014, 2015 and 2016, approximately 69.5%, 77.4% and 87.0% of the Group's graduating high school students who participated in such examinations achieved scores that allowed them to apply to and be accepted by first-tier universities in China, including Peking University, Tsinghua University, Fudan University, Zhejiang University and Shanghai Jiaotong University, among others. Moreover, certain of the Group's high school graduating students were accepted by colleges and universities overseas, including Harvard University, Columbia University, Cornell University and Northwestern University.

Through over 16 years of operating private schools in Chengdu, we believe that we have established a strong reputation, which helps us attract high-quality students and teachers and pave the way for our success. We intend to maintain and strengthen our market position in the private fundamental education industry in China.

BOARD OF DIRECTORS

Executive Directors

Ms. Wang Xiaoying *(Chairwoman of the Board)*
Mr. Xu Ming
Mr. Ye Jiayu
Mr. Yan Yude

Independent Non-executive Directors

Mr. Sit Chiu Wing
Mr. Chan Kim Sun
Ms. Xu Dayi

AUDIT COMMITTEE

Mr. Chan Kim Sun *(Chairman)*
Mr. Sit Chiu Wing
Ms. Xu Dayi

REMUNERATION COMMITTEE

Mr. Sit Chiu Wing *(Chairman)*
Ms. Wang Xiaoying
Ms. Xu Dayi

NOMINATION COMMITTEE

Mr. Sit Chiu Wing *(Chairman)*
Mr. Yan Yude
Ms. Xu Dayi

AUTHORISED REPRESENTATIVES

Ms. Wang Xiaoying
Mr. Xu Ming

COMPANY SECRETARY

Ms. Ng Sau Mei

LEGAL ADVISORS

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The PRC

As to Cayman Islands law:
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AUDITOR

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REGISTERED OFFICE

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HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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HONG KONG SHARE REGISTRAR

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Industrial and Commercial Bank of China

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COMPANY'S WEBSITE

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STOCK CODE

1565

DATE OF LISTING

15 January 2016

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from published audited financial statements, is set out below:

FIVE-YEAR COMPARISON OF KEY FINANCIAL FIGURES

Result of operation

	For the year ended 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
Revenue	502,057	554,719	626,007	707,690	827,205
Gross profit	197,752	207,239	254,623	296,353	391,190
Profit for the year	95,774	53,730	114,321	125,150	302,161
Adjusted net profit (note 1)	95,774	53,730	114,321	151,444	302,161
Attributable to equity holders of the parent	66,482	37,302	79,120	109,677	302,306
Basic earning per share (RMB)	0.03	0.02	0.04	0.05	0.10

Note 1: Adjusted net profit was derived from the profit for the year after adjusting the expenses relating to the listing, a non-recurring item of the year.

Financial ratio

	For the year ended 31 December				
	2012	2013	2014	2015	2016
Gross profit margin (%)	39.4%	37.4%	40.7%	41.9%	47.3%
Net profit margin (%)	19.1%	9.7%	18.3%	17.7%	36.5%
Adjusted net profit margin (%)	19.1%	9.7%	18.3%	21.4%	36.5%

Assets and liabilities	As at 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
Non-current assets	2,120,723	2,311,152	2,349,135	2,324,487	3,107,630
Current assets	250,737	305,998	246,415	288,788	1,093,616
Current liabilities	1,032,321	1,178,797	1,075,774	1,272,640	1,553,049
Net current liabilities	(781,584)	(872,799)	(829,359)	(983,852)	(459,433)
Total assets less current liabilities	1,339,139	1,438,353	1,519,776	1,340,635	2,648,197
Non-current liabilities	729,972	830,456	837,493	752,184	101,626
Total equity	609,167	607,897	682,283	588,451	2,546,571
Property, plant and equipment	706,871	780,493	812,794	2,064,117	2,518,179
Cash and cash equivalents	153,268	189,453	109,850	248,600	564,196
Deferred revenue	295,760	338,406	371,371	435,743	480,200
Interest-bearing bank and other borrowings	1,235,999	1,447,785	1,350,648	1,335,021	994,284

Financial ratio	As at/for the year ended 31 December				
	2012	2013	2014	2015	2016
Current ratio	0.24	0.26	0.23	0.23	0.70
Gearing ratio (note 2)	202.9%	238.2%	198.0%	226.9%	39.0%

Note 2: Gearing ratio equals total debt divided by total equity as of the end of the year. Total debt means all interest-bearing bank loans and other borrowings.

Cash flows	For the year ended 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000
Net cash from operating activities	146,726	219,474	273,865	577,035	458,873

Dear Shareholders,

On behalf of the Board, I hereby present the annual report of the Group for the year ended 31 December 2016.

RESULTS AND DIVIDENDS

The Group's audited profit attributable to equity holders of the parent for the year ended 31 December 2016 was RMB302.3 million, representing an increase of 175.6% compared with the results for the previous year. Basic and diluted earnings per share for the year ended 31 December 2016 were RMB0.10.

The Board has resolved to recommend the payment of final dividend of HK$0.07 per share for the year ended 31 December 2016.

BUSINESS HIGHLIGHTS

Through over 16 years of operating private schools in Chengdu, the Group has established a strong reputation and believes that the schools are highly recognizable in Chengdu and other parts of Sichuan Province and are often viewed by students and their parents as a pathway to first-tier universities in China and reputable colleges and universities abroad. As at 31 December 2016, the total student enrollment including K-12 students and the university students increased to approximately 34,477, with an increase of 5.4% in the total student enrollment compared with that of previous year.

The Group strives to provide continuous high-quality education services to students and cultivate well-rounded students who possess global perspective and practical knowledge. For college entrance examination administered in 2016, approximately 87.0% of the Group's graduating high school students who participated in such examinations achieved scores that allowed them to apply to and be accepted by first-tier universities in China, including Peking University, Tsinghua University, Fudan University, Zhejiang University and Shanghai Jiaotong University, among others. In addition, two students from Chengdu Experimental Foreign Languages School (Western Campus) received the top college entrance examination in Chengdu for college entrance examination administered in 2016. Moreover, certain of the Group's high school graduating students were accepted by colleges and universities overseas, including Harvard University, University of California-Berkeley, University of California-Los Angeles, New York University and Northwestern University.

In order to meet the increasing demand for competent teachers and further enhance the quality of the Group's educational services, in November 2016, the Group acquired certain properties and plans to transform the properties to a dedicated teacher and staff training and professional development center, which is expected to offer mandatory and continuing training courses and seminars to the Group's teachers and other staff and to offer mandatory professional teaching technique training courses for newly hired teachers. The Group believes the quality of education provided is strongly tied to the quality of the Group's teachers.

PROSPECTS

As a pioneer in the private education industry in Sichuan Province, the Group has accumulated abundant experience in operating private schools, which positions us well to capitalise on the growing opportunities in the PRC private education sector.

The Group intends to leverage its reputation to expand its school network in Southwest China. In order to solidify and strengthen its market-leading position in the region, the Group plans to expand its existing business by collaborating with third-party business partners and establish new schools. During the year ended 31 December 2016, the Group entered into agreements with celebrated local enterprise, local government, and several listed real estate companies, such as Vanke, Fantasia and Longfor, to jointly establish new schools in Sichuan Province. In particular, the Group will open 5 new school campuses, with a total of 9 new schools, in 3 cities in China, namely Chengdu, Panzhihua and Zigong, and these schools are expected to commence their first school year on 1 September 2017. The Group expects to open one new school in Chengdu in 2020. The Group believes that the establishment of the new schools would further strengthen its position as the largest and high-quality provider of K-12 private education services in Southwest China.

APPRECIATION

On behalf of the Board, I would like to thank all our Shareholders and stakeholders for their continued trust and confidence. I would also like to extend our sincere gratitude to the management and the staff to carry out the Group's strategies with outstanding professionalism, integrity and dedication. The Group will strive to continue to expedite the development of our business and focus on maximizing returns to Shareholders.

Wang Xiaoying
Chairwoman

Sichuan, the PRC, 24 March 2017

MARKET REVIEW

The PRC formal education industry primarily consists of fundamental education and higher education. The PRC fundamental education market includes four phases, which are pre-school, primary school, middle school and high school education. Among the four phases of fundamental education, primary school and middle school constitute the nine years of compulsory education, while the pre-school and high school constitute the non-compulsory education.

Market Size of PRC Private Education Industry

The PRC private education has become an important force in the Chinese education system. More and more parents in China tend to send their children to private schools because the private schools tend to have more diverse and broader curriculums than the public schools. The development of the PRC private education industry has exhibited strong growth over the past five years, primarily driven by favorable policies and regulations on private education and rising private consumption in the PRC. According to the market research report on the private education market prepared by Frost & Sullivan ("**Frost & Sullivan Report**"), as at the end of 2015, total revenue generated by the PRC private education industry was RMB287.9 billion, compared to RMB174.0 billion in 2011, representing a compound annual growth rate ("**CAGR**") of approximately 13.4%. Total revenue generated by the PRC private education industry is expected to increase from RMB287.9 billion in 2015 to RMB494.8 billion in 2020, representing a CAGR of approximately 11.4% from 2015 to 2020. The number of student enrollment and student enrollment rate in the PRC private education industry primarily depend on the school-age population, which is expected to increase over the next five years.

Student Enrollment in PRC Fundamental Private Education

According to the Frost & Sullivan Report, the total number of students enrolled in PRC private schools offering fundamental education increased from 29.4 million in 2011 to 37.8 million in 2015, representing a CAGR of approximately 6.5%. As the PRC government terminated the "One-child policy" and adopted a universal "Two-child Policy" in 2015, and continues to support pre-school education, the number of students enrolled in the PRC private fundamental education industry is expected to rise to 48.0 million in 2020, representing a CAGR of approximately 4.9% from 2015 to 2020. This growth was primarily driven by favorable government policies and support for private schools in China and the increased demand for private school education from parents.

Penetration Rate of Private Schools

The penetration rate of private schools in the PRC fundamental education market, which represents the number of students enrolled in the private schools as a percentage of the total students enrolled in private and public schools, increased from 14.1% in 2011 to 18.3% in 2015, indicating an increasing preference for private schools over public schools for the students and parents, according to the Frost & Sullivan Report. The penetration rate of private schools in the PRC fundamental education market is expected to reach approximately 21.3% in 2020.

Overview of Private Fundamental Education Industry in Sichuan

According to the Frost & Sullivan Report, as at the end of 2015, total revenue generated by the private fundamental education industry in Sichuan was RMB8.1 billion, compared to RMB3.9 billion in 2011, representing a CAGR of approximately 20.3%. Total revenue generated by the private fundamental education industry in Sichuan is expected to increase from RMB8.1 billion in 2015 to RMB15.2 billion in 2020, representing a CAGR of approximately 13.4% from 2015 to 2020. The total number of students enrolled in private schools offering fundamental education in Sichuan increased from 1.6 million in 2011 to 2.0 million in 2015, representing a CAGR of approximately 5.3%. The number of students enrolled in the private fundamental education industry in Sichuan is expected to rise to 2.6 million in 2020, representing a CAGR of approximately 5.1% from 2015 to 2020. In 2015, the penetration rate of private fundamental education in Sichuan reached 16.8% based on an approximately 1,987,600 total enrollment.

Market Position

The Group is the leading provider of K-12 private education services in Southwest China in terms of student enrollment. According to the Frost & Sullivan Report, as measured by student enrollment, the Group ranked first in the highly fragmented private fundamental education industry in Southwest China with a 0.43% market share as at 31 December 2015. In terms of student enrollment, the Group is the largest market player in the private fundamental education industry in Sichuan with a 0.93% market share and in Chengdu with a 3.44% market share as at 31 December 2016. The Group also leads the private education market of middle school in Chengdu with a market share of approximately 13.2% as at 31 December 2016.

As at 31 December 2016, all the six schools operated by the Group were located in Chengdu, Sichuan province. Through the schools operated by the Group, the Group provides high-quality formal educational services to students in every age group from kindergarten to university.

BUSINESS OVERVIEW

As at 31 December 2016, the Group had established and operated five schools for grades K-12 education, namely, Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School, Chengdu Experimental Foreign Languages School (Western Campus), the Primary School Attached to Chengdu Foreign Languages School and the Chengdu Foreign Languages Kindergarten. In addition, the Group operates one university, namely Chengdu Institute Sichuan International Studies University. As at 31 December 2016, the Group's K-12 student enrollment increased to approximately 19,758 and the University student enrollment increased to approximately 14,719.

Students

The Group strives to cultivate well-rounded students who possess global perspective and practical knowledge. The fundamental educational philosophy of the Group is to respect every student's life, stimulate his or her learning potential and care for his or her lifetime achievement based on the Group's people-oriented educational strategy and efficient school management. The Group also emphasizes the cultivation and promotion of the all-around development of students so they are well-prepared to face challenges in the future. The Group focuses on developing the "knowledge, character, ability and quality" of students as the foundation of teaching of the Group.

The Group provides high-quality education to the students. The Group aspires to provide a pathway to first-tier universities in China and reputable colleges and universities abroad for interested students. For example, for college entrance examination administered in 2014, 2015 and 2016, approximately 69.5%, 77.4% and 87.0% of the Group's graduating high school students who participated in such examinations achieved scores that allowed them to apply to and be accepted by first-tier universities in China, including Peking University, Tsinghua University, Fudan University, Zhejiang University and Shanghai Jiaotong University, among others. Moreover, during the Reporting Period, certain of the Group's high school graduating students were accepted by colleges and universities overseas. For example, a total of six graduating students from Chengdu Foreign Languages School were accepted by Harvard University, University of California-Berkeley, University of California-Los Angeles, New York University and Northwestern University during the Reporting Period. For students who are interested in attending colleges and universities in the United States or Canada and in preparing for overseas standardized college entrance examinations, such as TOEFL and SAT, the Group established international programs at Chengdu Foreign Languages School under which dual high school diplomas (PRC diplomas and American or Canadian diplomas) are offered to them through collaboration with third-party educational service providers. Such programs allow students to take either American or Canadian coursework taught by foreign teachers as well as PRC coursework taught by PRC teachers.

Teachers

The Group believes the quality of education provided is strongly tied to the quality of the Group's teachers. The Group considers that teachers who are capable and are dedicated to teaching will be instrumental in shaping the learning habits of students, which will be crucial to the Group's success and educational philosophy. The Group seeks to hire teachers who (i) demonstrate outstanding teaching track record, (ii) hold necessary academic credentials (i.e. diplomas), (iii) are passionate about education and improving students' academic performance and overall well-being, (iv) demonstrate competence in their subject areas, (v) possess strong communication and interpersonal skills, and (vi) are able to effectively use a variety of teaching tools and methods tailored to their students. As at 31 December 2016, the Group had approximately 2,185 teachers, of which approximately 94.3% have a bachelor's degree or above, and approximately 29.5% have a master's degree or above. The schools operated by the Group employed approximately 22 foreign teachers as at 31 December 2016. Most of the teachers are full-time teachers. The Group also values the recognition bestowed upon the teachers who have achieved teaching excellence. As at 31 December 2016, approximately 17.8% of the teachers held the advanced teaching qualification, and approximately 17 of the Group's teachers were recognized as exceptional teachers.

In November 2016, the Group acquired certain properties and plans to transform the properties to a dedicated teacher and staff training and professional development centre (the "**Training Centre**"). The Training Centre is expected to offer mandatory and continuing training courses and seminars to the Group's teachers and other staff and to offer mandatory professional teaching technique training courses for newly hired teachers.

Risk Management

The Group is exposed to various risks in the operations of the Group's business and the Group believes that risk management is important to the Group's success. Key operational risks faced by the Group include, among others, changes in general market conditions and perceptions of private education, changes in the regulatory environment in the PRC education industry, the ability of the Group to offer quality education to students, the ability of the Group to increase student enrollment and/or raise tuition rates, the potential expansion of the Group into other regions in Southwest China, availability of financing to fund the Group's expansion and business operations and competition from other school operators that offer similar quality of education and have similar scale.

In addition, the Group also faces numerous market risks, such as interest rate and liquidity risks that arise in the normal course of the Group's business.

Interest Rate Risk

The Group's fair value interest rate risk relates primarily to its fixed-rate bank and other borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly bank balances and bank and other borrowings which carry interest at prevailing market interest rates. It is the Group's policy to keep certain borrowings at floating rates of interest so as to minimize the fair value interest rate risk. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the Directors will consider hedging significant interest rate risk should the need arise.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

To properly manage these risks, the Group has established the following risk management structures and measures:

- The Board is responsible and has the general power to manage the Group's operations of the schools, and is in charge of managing the overall risks of the Group. It is responsible for considering, reviewing and approving any significant business decisions involving material risk exposures, such as the Group's decisions to expand its school network into new geographic areas, to raise the Group's tuition fees, and to enter into cooperative business relationships with third parties to establish new schools;

- The Group maintains insurance coverage, which the Group believes is in line with customary practice in the PRC education industry, including school liability insurance; and
- The Group has made arrangements with the Group's lenders to ensure that the Group will be able to obtain credit to support for its business operation and expansion.

Environment, Health and Safety

The business of the Group are not in violation of the applicable PRC Environmental laws and regulations in any material aspects.

The Group is dedicated to protecting the health and safety of the students. The Group has on-site medical staff or health care personnel at each of the schools the Group operates to handle routine medical situations involving students. In certain serious and emergency medical situations, the Group promptly sends the students to local hospitals for treatment. With respect to school safety, the Group engaged a qualified property management company to provide property security services at the Group's school premises.

As far as the Board and management of the Company are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Reporting Period, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

Strategy

To maintain and further strengthen the position of the Company as the largest provider of K-12 private education services in Southwest China in terms of student enrollment as at 31 December 2016, the Group intends to continue to enhance its reputation as a provider of high-quality education and improve the quality of the teachers and staff of the Group. The Group also intends to expand its school network and increase its market penetration. Furthermore, the Group intends to enhance the Group's profitability by optimizing the pricing of the schools of the Group, diversifying its service offerings and increasing revenue sources. In addition, the Group intends to expand its international programs.

Revenue

For the year ended 31 December 2016, the Company has witnessed growth of the schools operated by the Group in terms of revenue. Revenue increased from RMB707.7 million for the year ended 31 December 2015 to RMB827.2 million for the year ended 31 December 2016. The Group typically charges students fees comprising tuition fees and boarding fees and tuition fees remained the major revenue, accounted for approximately 95.2% of the total revenue of the Company for the year ended 31 December 2016.

The following table sets forth the gross revenue generated by each of the schools and categories:

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000	Change RMB'000	Percentage Change
Middle and High School	520,566	429,119	91,447	21.3
The Primary School	80,814	66,807	14,007	21.0
The Kindergarten	7,493	6,744	749	11.1
The University	178,793	166,154	12,639	7.6
Total tuition fees	787,666	668,824	118,842	17.8
Boarding fees	39,539	38,866	673	1.7
Total	827,205	707,690	119,515	16.9

The increase of the total revenue of the Group was mainly due to the increase of the Group's student enrollment and average tuition fee.

The following table sets forth the gross and average tuition fee of each of the categories of the schools operated by the Group:

	School Year			
Categories of the School	2015/2016 Gross Tuition Fees RMB'000	2015/2016 Average Tuition Fees RMB	2014/2015 Gross Tuition Fees RMB'000	2014/2015 Average Tuition Fees RMB
Middle and High School	512,115	33,384	456,713	30,677
The Primary School	73,087	27,220	65,846	24,424
The Kindergarten	7,367	22,123	6,747	21,625
The University	176,262	12,458	161,605	11,810

Notes: Average tuition fees are calculated based on the gross tuition fees, which exclude boarding fees, a particular category of the schools received for a given school year divided by the total number of students enrolled at such school for the same school year. For the purpose of this calculation, unlike revenue, which is determined after deducting scholarships and refunds, gross tuition fees do not take into account the scholarships given or refunds made by the schools to their students for the relevant school year.

Student Enrollment

The table below sets forth information relating to the student enrollment for each of the categories:

	As at 31 December 2016	As at 31 December 2015	Change	Percentage Change
High school students	6,122	5,491	631	11.5
Middle school students	10,491	9,960	531	5.3
Primary school students	2,792	2,678	114	4.3
Kindergarten students	353	325	28	8.6
K-12 students	19,758	18,454	1,304	7.1
University students	14,719	14,252	467	3.3
Total number of students	34,477	32,706	1,771	5.4

As at 31 December 2016, the aggregate number of students enrolled at the schools of the Group increased to approximately 34,477 from 32,706 as at 31 December 2015. The increase in the aggregate number of students enrolled was attributable to the increases in the capacity of certain existing schools.

Future development

The high school market has relatively high entry barriers because the students and parents place more emphasis on the reputation and education quality of high school due to the strong needs of applying for better universities. Therefore, the K-12 private education providers with reputable high schools will have more competitive advantages in the K-12 private education market because students and parents tend to enroll in the primary schools operated by such providers at an early age in order to secure the high schools within the same school system in the future. The Group intends to leverage its reputation to expand its school network in Chengdu, other areas in Sichuan Province and elsewhere in Southwest China. In addition, the Group is also under discussion with prestigious overseas schools to explore the possibility of operating new international schools. As at the date of this annual report, no definitive agreements have been entered into. In order to solidify and strengthen its market-leading position in the region, the Group plans to establish new schools or acquire existing schools. The Group intends to achieve future growth by means of multiple expansion strategies which include asset light expansions, acquisitions, and increase in the capacity of certain existing schools. Specifically, the Group plans to undertake the following strategies:

1) Expand its existing business by collaborating with third-party business partners such as local governments, famous real estate listed companies in China and celebrated private enterprises in local cities; and

2) Establish or acquire new schools directly.

In particular, the Group will open 5 new school campuses, with a total of 9 new schools, in 3 cities in China, namely Chengdu, Panzhihua and Zigong in Sichuan Province, and these schools are expected to commence their first school year on 1 September 2017. The Group expects to open one new school in Chengdu in 2020. Details of these new schools are as below:

1) *Chengdu Experimental Foreign Languages School – Wulongshan Campus ("Wulongshan Campus")*

The Wulongshan Campus will be located at Wulongshan, Xindu district, Chengdu, Sichuan Province with a land area of 142 mu, which is developed under asset light business model. Wulongshan Campus shall operate under the name of "Chengdu Experimental Foreign Languages School" with expected student capacity of approximately 5,000 students. The Wulongshan Campus consists of one primary and middle school, and one high school, and will offer programs to students from primary to high school. Upon its establishment, the school sponsor interest in these schools in Wulongshan Campus shall be owned as to 45.0% by the Group, 15.0% by Chengdu Wanke Xindu Zhiye Co., Ltd.* (成都萬科新都置業有限公司), an independent property management company, and 40.0% by Chengdu Yirui Education Consulting Co., Ltd.* (成都益瑞教育諮詢有限公司) ("Chengdu Yirui"), an independent educational consulting company. The Chengdu Wanke Xindu Zhiye Co., Ltd. and Chengdu Yirui shall be responsible for providing and developing the land and building to be used as campus of Wulongshan Campus. Upon completion of the development of the land and establishment of Wulongshan Campus, the Group shall contribute funds to the schools in Wulongshan Campus depending on the capital needs of schools. The schools in Wulongshan Campus are expected to commence their first school year on 1 September 2017. Please refer to the announcement of the Company dated 10 February 2016 for further details.

2) *Primary School Attached to Chengdu Foreign Languages School – Meinian Campus ("Meinian Campus")*

The Meinian Campus will be located in Fantasia MIC Plaza, Chengdu Hi-tech Industrial Development Zone, Sichuan Province with a total gross site area of approximately 56,711.19 sq. m, which is developed under asset light business model. The Meinian Campus shall operate under the name of "Primary School Attached to Chengdu Foreign Languages School" with expected student capacity of approximately 2,200 to 2,400 students. The Meinian Campus consists of one kindergarden and one primary school, and will offer programs for students from kindergarden to primary school. Upon its establishment, the school sponsor interest in these schools in Meinian Campus shall be owned as to 40.0% and 60.0% by the Group and the independent third parties respectively, which include a subsidiary of Fantasia Holdings Group Co., Limited, a real estate company listed on the Main Board of the Stock Exchange. The independent third parties shall be responsible for providing and developing the land and building to be used as campus of Meinian Campus. The Meinian Campus is expected to commence its first school year on 1 September 2017. Please refer to the announcement of the Company dated 25 July 2016 for further details.

3) *Chengdu Foreign Languages School – Panzhihua Campus ("Panzhihua Campus")*

The Panzhihua Campus will be located at Panzhihua, Sichuan Province with a total gross site area of approximately 54,349.72 sq. m, which is developed under asset light business model. Panzhihua Campus shall operate under the name of "Chengdu Foreign Languages School" with expected student capacity of approximately 3,300 students. The Panzhihua Campus consists of one middle and high school and will offer programs for students from middle to high school. The school sponsor interest in the school in Panzhihua Campus shall be wholly owned by the Group. Under the agreement, the state-owned investment company in Panzhihua City will invest to construct the school facilities on such land (with expected completion of construction before May 2017). The Group will lease the premises for the new school under a separate lease agreement, which was entered into concurrently with the cooperation agreement. The lease term for the school premises will be 20 years beginning on 1 September 2017 and the Group will pay to the state-owned investment company certain rental fees for the school premises beginning in the fourth year of the rental period. No rental fees will be payable by the Group for the first three years of the rental period. The Panzhihua Campus is expected to commence its first school year on 1 September 2017. Please refer to the section headed "Business" in the Prospectus for further details.

4) *Chengdu Foreign Languages School – Zigong Purun Campus ("Zigong Purun Campus")*

The Zigong Purun Campus will be located inside the Purun City development* (普潤城園區) in Zigong, Sichuan Province with a land area of not less than 150 mu, which is developed under asset light business model. Zigong Purun Campus shall operate under the name of "Chengdu Foreign Languages School" with expected student capacity of approximately 4,500 students. The Zigong Purun Campus consists of one kindergarten, one primary and middle school, and one high school, and will offer programs to students from kindergarten to high school. Upon its establishment, the school sponsor interest in these schools in Zigong Purun Campus shall be owned as to 47.0% and 53.0% by the Group and the independent third parties, respectively. The independent third parties shall be responsible for providing and developing the land and building to be used as campus of Zigong Purun Campus and shall provide the land and building to Zigong Purun Campus for its use during the subsistence of the school. The total investment of the Group in the Zigong Purun Campus is currently estimated to be approximately RMB50.0 million, which will be funded by the net proceeds from the global offering. The Zigong Purun Campus is expected to commence its first school year on 1 September 2017. Please refer to the announcement of the Company dated 30 June 2016 for further details.

5) Chengdu Experimental Foreign Languages School – Wenjiang Campus ("Wenjiang Campus")

The Wenjiang Campus will be located at Wenjiang district, Sichuan Province with a land area of 245 mu. Wenjiang Campus is the new campus for Chengdu Experimental Foreign Languages School and Primary School Attached to Chengdu Experimental Foreign Languages School, which are wholly owned by the Group, with expected student capacity of approximately 6,500 students. Upon establishment of the Wenjiang Campus, Chengdu Experimental Foreign Languages School will further expand its student capacity for both middle and high school. The Wengiang Campus consists of one new primary school and one middle and high school, and will offer programs to students from primary to high school. The school site of Wenjiang Campus is now under construction and is expected to be completed before April 2017. Subject to the approval by and registration with competent authorities, the Wenjiang Campus is expected to commence its first school year on 1 September 2017. The capital expenditure relating to the establishment of the Wenjiang Campus will be financed by the proceeds of the global offering and the Group's internal funds. Please refer to the section headed "Business" in the Prospectus for further details.

6) Longfor Xichen Yuanzhu Primary School Attached to Chengdu Foreign Languages School – Xichen Yuanzhu Campus ("Xichen Yuanzhu Campus")

The Xichen Yuanzhu Campus will be located at Yuren road, Chengdu, Sichuan Province with a a land area of 21 mu and a total gross site area of approximately 48,000 sq. m, which is developed under asset light business model. The Xichen Yuanzhu Campus shall operate under the name of "Primary School Attached to Chengdu Foreign Languages School" with expected student capacity of approximately 1,890 students. The Xichen Yuanzhu Campus consists of one primary school and will offer 6-year full-time primary education. Upon its establishment, the school sponsor interest in the school in Xichen Yuanzhu Campus shall be wholly owned by the Group and the Xichen Yuanzhu Campus will pay certain rental fees for the school premises to a subsidiary of Longfor Properties Co. Ltd., a real estate company listed on the Main Board of the Stock Exchange. The subsidiary of Longfor Properties Co. Ltd. shall be responsible for providing and developing the land and building to be used as campus of Xichen Yuanzhu Campus during the subsistence of the school. The Xichen Yuanzhu Campus is expected to commence its first school year on 1 September 2020.

In addition, the Group has entered into agreement with third party education consulting company and will make investment in new school in order to extend its school network. Detail of the investment is as below:

Investment in Chengdu Foreign Languages School – Western Hi-Tech Campus ("Western Hi-Tech Campus")

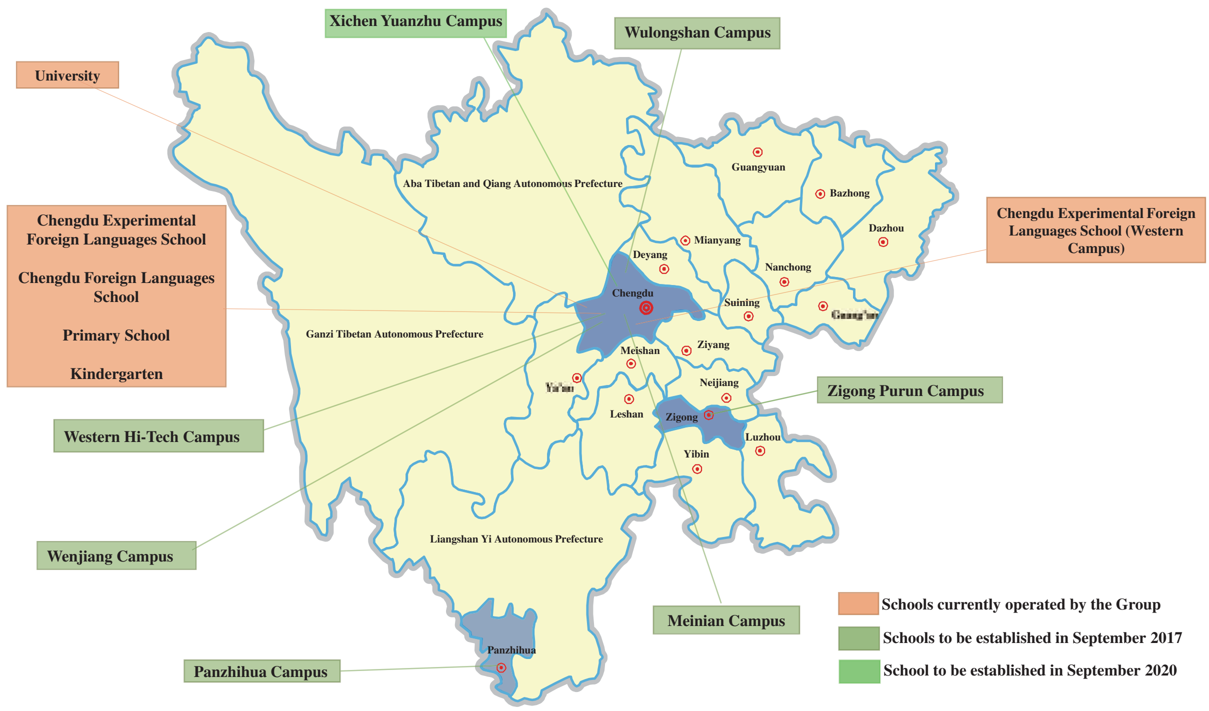
The Western Hi-Tech Campus will be located in Western Hi-Tech district, Chengdu, Sichuan Province with a total gross site area of approximately 77,067.19 sq. m, which is developed under asset light business model. The expected student capacity of the Western Hi-Tech Campus is approximately 3,300 students. Western Hi-Tech Campus will offer high school education programs. Upon its establishment, the school sponsor interest in the school in Western Hi-Tech Campus shall be owned as to 20.0% and 80.0% by the Group and the independent third party, respectively. The independent third party shall provide the land and building to the Western Hi-Tech Campus for its use without any charge during the subsistence of the school. The Western Hi-Tech Campus is expected to commence its first school year on 1 September 2017.

The Group had 6 schools as at 31 December 2016, and will add 10 new schools in our school network upon commencement of 2017/2018 school year. For illustration purpose, the school which provides multi-phases education programs is counted according to the number of the category of such education phases. For example, Chengdu Foreign Languages School which provides middle and high school education phases is counted as one middle school and one high school respectively. The following table shows a summary of the number of our schools by category as of the dates indicated:

Category of schools	Schools established as at 31 December 2016	Schools expected to be operated as at 1 September 2017
high school	3	7*
middle School	3	6
primary School	1	5
kindergarten	1	3
university	1	1
	9	22

* Western Hi-Tech Campus, the school sponsor of which is owned as to 20% by the Group, is included in the high school.

OUR SCHOOL NETWORK IN SICHUAN PROVINCE, CHINA



FINANCIAL REVIEW

Revenue

Revenue, which is also the Group's turnover, represents the value of services rendered, after deducting scholarships and refunds during the Reporting Period. The Group derives revenue from tuition fees and boarding fees the Group's schools collect from students.

Revenue increased by RMB119.5 million, or 16.9%, from RMB707.7 million for the year ended 31 December 2015 to RMB827.2 million for the year ended 31 December 2016. This increase was primarily the result of revenue from tuition fees increasing by RMB118.9 million, or 17.8%, from RMB668.8 million for the year ended 31 December 2015 to RMB787.7 million for the year ended 31 December 2016. The tuition fees the Group received increased because (i) the Group raised tuition fees for newly admitted students for the middle schools, the high schools and the Primary School in 2015 and the University in 2014, which initially applied to newly admitted students (i.e., students in the first, seventh and tenth grades and freshmen students at the University) only, while other students were not affected by the fee change and would continue to pay the tuition fee at pre-existing levels. As students advance each year, the aggregate number of students paying higher tuition fees would increase, such that the tuition fee income from the Group's schools would increase correspondingly; and (ii) the Group's student enrollment increased.

Cost of Sales

Cost of sales consists primarily of staff costs, depreciation and amortization, cost of cooperative education, utilities, cost of repairs, office expense, student subsidies and other costs.

Cost of sales increased by RMB24.7 million, or 6.0%, from RMB411.3 million for the year ended 31 December 2015 to RMB436.0 million for the year ended 31 December 2016. This increase was primarily the result of an increase in staff costs, depreciation and amortization. Staff costs increased by RMB7.9 million, or 3.0%, from RMB263.7 million for the year ended 31 December 2015 to RMB271.6 million for the year ended 31 December 2016, primarily as a result of increased salaries and benefits payable to the Group's teachers. Depreciation and amortization increased by RMB12.0 million, or 19.5%, from RMB61.6 million for the year ended 31 December 2015 to RMB73.6 million for the year ended 31 December 2016, mainly as a result of an increase in fixed assets as the properties, equipment and leasehold lands in Phase 2 of the University's campus were transferred to the Group on 30 June 2015.

Gross Profit and Gross Profit Margin

Gross profit increased by RMB94.8 million, or 32.0%, from RMB296.4 million for the year ended 31 December 2015 to RMB391.2 million for the year ended 31 December 2016, which was in line with the growth of the Group's business. Gross profit margin increased to 47.3% for the year ended 31 December 2016 from 41.9% for the year ended 31 December 2015 mainly due to the increase of the Group's student enrollment and average tuition fee.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of advertising expenses, student admission expenses and business entertainment expenses. Selling and distribution expenses increased by RMB0.3 million, or 10.7%, from RMB2.8 million for the year ended 31 December 2015 to RMB3.1 million for the year ended 31 December 2016. The increase of selling and distribution expenses was primarily because the Group incurred more student admission expenses as the Group enrolled more students for the University this year.

Administrative Expenses

Administrative expenses primarily consist of the salaries and other benefits for general and administrative staff, office-related expenses, depreciation of office buildings and equipment, travel expenses and other expenses. Administrative expenses decreased by RMB3.0 million, or 4.3%, from RMB69.5 million for the year ended 31 December 2015 to RMB66.5 million for the year ended 31 December 2016, primarily due to the listing expenses incurred in 2015.

Other Income and Gains

Other income and gains primarily consist of foreign exchange gain, interest income from bank deposits, fee sharing income from service fee sharing arrangements with China Telecom. Other income and gains increased from RMB5.2 million for the year ended 31 December 2015 to RMB57.0 million for the year ended 31 December 2016. The increase was primarily attributable to (i) an increase in foreign exchange gain of RMB42.9 million generated from the translation of the Hong Kong dollars bank deposits resulted from the depreciation of Renminbi against Hong Kong dollars; and (ii) an increase in interest income of RMB2.6 million from bank deposits attributable to unutilized listing proceeds.

Finance Costs

Finance costs consist primarily of the interest expenses for bank borrowings and borrowings from other financial institutions. Finance costs decreased by RMB48.2 million, or 47.0%, from RMB102.5 million for the year ended 31 December 2015 to RMB54.3 million for the year ended 31 December 2016, mainly reflecting lower amount of interest expenses the Group paid on bank loans because of the repayment of bank loan of approximately RMB341 million during the year.

Adjusted Net Profit

Adjusted net profit was derived from the profit for the year after adjusting the expenses relating to the Listing, a non-recurring item occurred during the year ended 31 December 2015. The following table reconciles from profit for the year to adjusted net profit for both financial years:

	For the year ended 31 December	
	2016 RMB'000	**2015 RMB'000**
Profit for the year	302,161	125,150
Add:		
Listing expenses	–	26,294
Adjusted net profit	302,161	151,444

Adjusted net profit increased by RMB150.8 million, or 99.6%, from RMB151.4 million for the year ended 31 December 2015 to RMB302.2 million for the year ended 31 December 2016, primarily due to (i) the increase of tuition fees for newly admitted students for the middle schools, the high schools and the Primary School in 2015 and the University in 2014; (ii) the increase of the Group's student enrollment; (iii) an increase in foreign exchange gain from the translation of the Hong Kong dollars bank deposits resulted from the depreciation of Renminbi against Hong Kong dollars; and (iv) the decrease in finance costs as mentioned above.

Capital Expenditure

Capital expenditures during the year primarily related to constructing Wenjiang campus, maintaining and upgrading the existing school premises and purchasing additional educational facilities and equipment for the schools. Capital expenditure decreased by RMB565.3 million, from RMB1,424.8 million for the year ended 31 December 2015 to RMB859.5 million for the year ended 31 December 2016, mainly because the property, plant and equipment and leasehold lands in Phase 2 of the University were transferred to the Group on 30 June 2015.

Liquidity and Financial Resources

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Net cash flows from operating activities	458,873	577,035
Net cash flows used in investing activities	(1,354,196)	(219,218)
Net cash flows from/(used in) financing activities	1,208,587	(219,080)
Net increase in cash and cash equivalents	313,264	138,737
Cash and cash equivalents at beginning of year	248,600	109,850
Effect of foreign exchange rate changes, net	2,332	13
Cash and cash equivalents at end of year	564,196	248,600

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Interest-bearing bank and other borrowings	994,284	1,335,021

Analysis of the maturity profile of the interest-bearing bank and other borrowings of the Group as at 31 December 2016 and 2015 is set out in the note 20 to the consolidated financial statements. The Group had adequate liquidity to meet its daily management and capital expenditure requirements and control internal operating cash flows.

Capital Structure

The Group's financial department is responsible for the Group's financial risk management which operates according to policies implemented and approved by the senior management. As at 31 December 2016, all the interest-bearing bank and other borrowings were settled in RMB, while cash and cash equivalents were primarily held in RMB and HKD. The Group plans to maintain an appropriate mix of financial equity and debt to ensure an efficient capital structure. The outstanding balances of interest-bearing bank and other borrowings as at 31 December 2016 were at fixed interest rates or floating interest rates for loans denominated in RMB.

Capital Commitment

The Group had the following capital commitments at the end of each of the following reporting periods:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Contracted, but not provided for:		
Land and buildings	340,112	—

As at 31 December 2016, the significant contracted, but not provided for capital commitments include RMB182.4 million related to the construction of Wenjiang Campus and RMB131.2 million related to the acquisition of Training Centre.

Operating Lease Commitments

As lessee

The Group leases certain of its buildings under operating lease arrangements. Leases for buildings were negotiated for terms of 3 to 20 years. As at the end of each of the following reporting periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within one year	18,136	13,550
In the second to fifth years, inclusive	19,992	33,952
Beyond five years	18,291	20,755
	56,419	68,257

As at 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases amounting to RMB56.4 million. Certain of our schools have entered into a number of continuing lease agreements and arrangements with our connected persons in September 2015 to lease certain buildings for use in the operation of the respective schools for a period of three years. The decrease of total future minimum lease payments under non-cancellable operating leases was mainly because the remaining lease period as at 31 December 2016 was less than that of the year of 2015.

Future Plan for Material Investments and Capital Assets

Save as disclosed in the Prospectus and this annual report, the Group did not have other plans for material investments and capital assets.

Gearing Ratio

The gearing ratio of the Group, which was calculated as total interest-bearing bank loans and other borrowings divided by total equity as at the end of the relevant financial year, decreased from approximately 226.9% as at 31 December 2015 to 39.0% as at 31 December 2016, primarily due to the increase in the Group's total equity as a result of the Listing.

Significant Investments, Acquisitions and Disposals

There were no significant investments held as at 31 December 2016, nor other material acquisitions and disposals of subsidiaries and associated companies.

Foreign Exchange Risk Management

The functional currency of the Company is RMB. The majority of the Group's revenue and expenditures are denominated in RMB. As at 31 December 2016, certain bank balances were denominated in HKD and USD. During the year ended 31 December 2016, the Group did not experience any significant difficulties in or impacts on its operations or liquidity due to fluctuations in currency exchange rates. The Directors believe that the Group has sufficient foreign exchange to meet its own foreign exchange requirements and will adopt practical and effective measures to prevent exposure to exchange rate risk. The Group did not enter into any financial instrument for hedging purpose.

Contingent Liabilities

As at 31 December 2016, the Group had no material contingent liabilities.

Pledge of Assets

As at 31 December 2016, the pledged bank deposits of RMB474.1 million (as at 31 December 2015: nil) were pledged to secure general banking facilities granted to the Group.

Human Resources

As at 31 December 2016, the Group had 3,054 employees (2015: 2,890 employees).

The remuneration policy and package of the Group's employees are periodically reviewed in accordance with industry practice and result performance of the Group. The Group provides external and internal training programs to its employees. The Group participates in various employee social security plans for its employees that are administered by local governments, including housing, pension, medical insurance, occupational injury insurance, maternity insurance and unemployment insurance.

The total remuneration cost incurred by the Group for the year ended 31 December 2016 was RMB307.2 million (2015: RMB297.0 million).

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Ms. Wang Xiaoying (王小英), aged 54, was appointed as the Chairwoman of the Board and an executive Director on 31 August 2015. Ms. Wang has more than 15 years of experience in business management and is responsible for the overall management and strategic development of the Group. Ms. Wang has been a director of certain of the PRC Operating Entities since Ms. Wang joined the Group in April 2004. Ms. Wang has been responsible for the overall business strategy and development and management of the PRC Operating Entities in her capacity serving as the general manager of the education sector of Sichuan Derui since January 2008. In August 1999, Ms. Wang joined Sichuan Derui as the vice general manager responsible for general administration. In January 2008, Ms. Wang was then re-designated as the general manager of Sichuan Derui in charge of the education sector and has since been responsible for the overall management and strategic development of the PRC Operating Entities. Ms. Wang graduated from Chengdu City No.32 Middle School* (成都市第三十二中學校) in July 1979. Ms. Wang is the spouse of Mr. Yan Yude, an executive Director and one of the Controlling Shareholders.

Mr. Xu Ming (徐明), aged 45, was appointed as the chief executive officer of the Company and an executive Director on 31 August 2015. Mr. Xu has over 20 years of experience in business management and is responsible for overall operations management of the Group. Mr. Xu is also a director of Tibet Huatai. Prior to joining the Company, from September 1991 to December 2001, Mr. Xu worked at various state-owned enterprises and government departments and obtained experience in finance and accounting and mid-level management for entities engaged in industrial, infrastructure and administrative business affairs. From November 2002 to April 2010, Mr. Xu served as manager of the finance department, chief financial officer and the director of Chuancai Securities Agents Co., Ltd.* (川財證券經紀有限公司), a securities firm providing financial services, and was responsible for operations and financial management of the firm. From 2011 to September 2014, Mr. Xu served as the executive director of Fang Yu Investment Fund* (成都方輿產業投資管理有限公司), and was responsible for operations and strategic development of the company. Mr. Xu concurrently also served as a member of the second session of the financial, accounting committee of the Securities Association of China* (中國證券業協會第二屆財務會計委員會). In February 2016, Mr. Xu has been appointed as the external director of Sichuan Agriculture Credit & Guarantee Company Limited* (四川省農業信貸擔保有限公司). Mr. Xu graduated from Sichuan University* (四川大學) in the PRC with a doctor degree in economics in June 2009. Mr. Xu has also received the following accreditations and certificates:

Accreditation	Awarding Authority	Date
Certified public accountant	Certified Public Accountant Examination Committee of the Ministry of Finance of the PRC* (中國財政部註冊會計師考試委員會)	August 1997
Certified public valuer	Ministry of Finance of the PRC	June 1998
Certified tax adviser	State Administration of Tax of the PRC	February 1999
Senior Accountant	Chengdu City Competency Reform Working Group* (成都市稱職改革工作領導小組)	December 2003

Mr. Ye Jiayu (葉家郁), aged 57, was appointed as an executive Director on 31 August 2015. Mr. Ye has more than 22 years of experience in business management and is responsible for the overall strategic development of the Group. Mr. Ye is also a supervisor of Tibet Huatai. Mr. Ye joined the Group as a director of certain of the PRC Operating Entities since September 2000. Since January 1993, Mr. Ye has joined Sichuan Derui and currently serves as an executive director of Sichuan Derui and is responsible for the overall management of Sichuan Derui. Mr. Ye obtained his diploma in mechanics from Sichuan Radio and TV University* (四川廣播電視大學) in the PRC in August 1985.

Mr. Yan Yude (嚴玉德), aged 55, was appointed as a Director on 13 March 2015 and was designated as an executive Director on 31 August 2015. Mr. Yan is also one of the Controlling Shareholders and a director of certain of the subsidiaries of the Group. Mr. Yan has over 20 years of experience in business management and is responsible for the overall strategic development of the Group. Mr. Yan has been a director of the PRC Operating Entities since September 2000. In January 1993, Mr. Yan made the investment in Sichuan Derui and remained as the controlling shareholder of Sichuan Derui since then. Mr. Yan joined Sichuan Derui in 1993 after he invested into Sichuan Derui and was involved in the overall management and strategic development of Sichuan Derui. Mr. Yan obtained his graduation certificate for postgraduate studies in criminology from the Sichuan University* (四川大學) in the PRC in July 1999. Mr. Yan is the husband of Ms. Wang Xiaoying, an executive Director.

Independent Non-executive Directors

Mr. Sit Chiu Wing (薛超穎), aged 66, was appointed as an independent non-executive Director on 28 December 2015 and is responsible for providing independent opinion and judgement to the Board. Prior to joining the Group, in December 1981, Mr. Sit joined and worked at the Marketing Department of Shaws Brothers (Hong Kong) Company Limited (邵氏兄弟 (香港) 有限公司). Mr. Sit has been appointed as the honorary president of Hong Kong Quanzhou Associations Limited since March 2001. Mr. Sit graduated from the Fujian Normal University* (福建師範大學) of the PRC with a bachelor's degree in history in July 1976.

Mr. Chan Kim Sun (陳劍燊), aged 35, was appointed as an independent non-executive Director on 28 December 2015 and is responsible for providing independent opinion and judgement to the Board. Prior to joining the Group, between October 2004 to March 2010, Mr. Chan joined an established firm of certified public accountants as an accountant before being promoted as audit manager in April 2008. From August 2011 to September 2014, Mr. Chan served as finance controller and from September 2012 to September 2014 as company secretary of a company primarily engaged in properties investment, sales of natural gas and investment holding and the shares of which are listed on the Stock Exchange. Mr. Chan is currently a non-practicing member of the Hong Kong Institute of Certified Public Accountants and is a fellow of the Association of Chartered Certified Accountants. Mr. Chan graduated from the Hong Kong University of Science and Technology with a bachelor's degree in business administration majoring in accounting and finance in June 2003.

Ms. Xu Dayi (許大儀), aged 70, was appointed as an independent non-executive Director on 28 December 2015 and is responsible for providing independent opinion and judgement to the Board. Prior to joining the Group, from January 1978 to August 1988, Ms. Xu served as a teaching fellow in Chinese for primary schools* (小學語文教研員) at the Chengdu City Dongcheng District Education Research Institute (成都市東城區教研室), a research institute primarily engaged in education field. From August 1988 to November 2001, Ms. Xu served as a teaching fellow in Chinese for primary schools* (小學語文教研員) and natural science for primary schools* (小學自然學科教研員) at the Chengdu City Education Scientific Research Institute* (成都市教育科學研究所) (currently known as the Chengdu City Institute of Education Science* (成都市教育科學研究院)), a research institute primarily engaged in education field. Ms. Xu also served as the deputy chairman and secretary-general of the Professional Committee of Chinese Teaching in Primary Schools of Chengdu City* (成都市教育學會小學語文專委會), the secretary-general of the Professional Committee of Natural Science Teaching in Primary Schools of Chengdu City (成都市小學自然專業委員會), the deputy secretary-general (副秘書長) of the Professional Committee of Chinese in Primary School of Sichuan Province* (四川省教育學會小學語文教學專業委員會).

Senior Management

Ms. Zhang Juan (張娟), aged 53, was appointed as the chief financial officer of the Company on 31 August 2015. Ms. Zhang is primarily responsible for the financial management and corporate governance of the Group. Ms. Zhang has over 15 years of experience in accounting and financing. Ms. Zhang joined the Group in September 2000 as the manager of the finance department of the PRC Operating Entities. Prior to joining the Group, Ms. Zhang joined the finance department of Sichuan Derui in October 1999 and had been responsible for the finance and accounting of Sichuan Derui. Ms. Zhang has also been the manager of the finance department of the Primary School since May 2003. Ms. Zhang obtained the certificate of higher education for adults in accounting from the Sichuan Administration and Commerce Management Cadre Institute* (四川行政財貿管理幹部學院) in July 1991.

Mr. Yin Dajia (尹大家), aged 70, has been the president and professor of the University since April 2004 when he joined the Group. Mr. Yin has over 45 years of experience in the education industry and is primarily responsible for the overall administration and day-to-day management of the University. Prior to joining the Group, Mr. Yin had been teaching at secondary schools in Sichuan Province from July 1971 to March 1984. From April 1984 to November 1995, Mr. Yin worked at the Neijiang City Education Science Research Institute* (內江市教育科學研究所) as a foreign language researcher and supervisor of the middle school education research division. From November 1995 to July 2000, Mr. Yin served as the supervisor of the recruitment division and the external operation division (學院對外辦學部門) of the Sichuan Foreign Language Institute* (四川外語學院). From August 2000 to March 2004, he served as the president of the Chengdu Institute Sichuan Foreign Language Institute* (四川外語學院). Mr. Yin was accredited as an Excellent Educator in the Education System in Sichuan Province* (四川省教育系統優秀教育工作者) granted by the Education Department of Sichuan Province* (四川省教育廳) and the Human Resource Department of Sichuan Province* (四川省人事廳) on September 2007. Mr. Yin was also accredited as the National Excellent Educator of Independent Institute* (全國獨立學院優秀工作者) by the China Independent Institute Association* (中國獨立學院協作會) in July 2010. Mr. Yin graduated from the Sichuan Foreign Language Institute* (四川外語學院) with a bachelor's degree in English in July 1969.

Mr. Gong Zhifa (龔智發), aged 56, was appointed as the acting principal of Chengdu Foreign Languages School in September 2015. Mr. Gong has over 15 years of experience in the education industry and is primarily responsible for the overall administration and day-to-day management of Chengdu Foreign Languages School. Mr. Gong joined the Group in September 2002 and held various positions in Chengdu Experimental Foreign Languages School, including the supervisor of the office of the academic affairs of Chengdu Experimental Foreign Languages School. Subsequently, from September 2007 to August 2015, Mr. Gong served as the vice-principal of Chengdu Foreign Languages School and was responsible for assisting in the day-to-day management of Chengdu Foreign Languages School. Prior to joining the Group, between 1999 to July 2002, Mr. Gong served as the vice-principal of An Yue Middle School* (安嶽中學). Mr. Gong was accredited as an Outstanding Teacher in Sichuan Province* (四川省優秀教師) by the Education Committee of the Sichuan Province* (四川省教育委員會), the Human Resource Department of Sichuan Province* (四川省人事廳) and Education Guild of Sichuan Province* (四川省教育工會) in September 1991, and as the Middle School Exceptional Teacher* (中學特級教師) by the People's Government of the Sichuan Province* (四川省人民政府) in September 2000. Mr. Gong graduated from the Sichuan Normal College* (四川師範學院) with a bachelor's degree in mathematics teaching by way of correspondence (函授) in June 1994.

Mr. Wang Jianwei (王建偉), aged 62, has been the principal of Chengdu Experimental Foreign Languages School since August 2014. Mr. Wang has more than 36 years of experience in the education industry and is responsible for the overall administration and management of Chengdu Experimental Foreign Languages School. Prior to joining the Group, from September 1979 to August 1993, Mr. Wang worked at Chengdu Second Middle School (成都市第二中學) as secretary of human resource and administrative officer. Mr. Wang joined the Group in September 2000 and held various positions at the Group, including the principal of Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School and the Primary School. Mr. Wang was accredited as the Outstanding Principal of the Sichuan Province* (四川省優秀校長) and the Excellent Principal in Sichuan Province* (四川省優秀校長) jointly awarded by the Education Department of the Sichuan Province* (四川省教育廳) and the Education Working Committee of the Communist Party of China of Sichuan Province* (中共四川省委教育工作委員會) in September 2005 and September 2008, respectively. Mr. Wang graduated from the Communist Party of China of Sichuan Province Cadre Correspondence College* (中共四川省委黨校函授學校) with a bachelor's degree in administration management in December 1998.

Mr. Xiao Minghua (肖明華), aged 59, has been the principal of Chengdu Experimental Foreign Languages School (Western Campus) since September 2007. Mr. Xiao has more than 20 years of experience in the education industry and is responsible for the overall administration and day-to-day management of Chengdu Experimental Foreign Languages School (Western Campus). Prior to joining the Group, from September 1994 to August 2001, Mr. Xiao held various positions of Sichuan Province Chengdu City Shishi Middle School (四川省成都市石室中學), including the vice principal. From September 2001 to August 2006, Mr. Xiao joined Chengdu Experimental Foreign Languages School as principal and was responsible for the overall administration of Chengdu Experimental Foreign Languages School. From August 2006 to August 2007, Mr. Xiao served as the deputy director* (副所長) at the Chengdu Education Science Research Institute* (成都市教育科學研究院). Mr. Xiao was accredited as the Leading Educator in the Primary and Middle Schools Subjects in Chengdu City* (成都中小學學科教學帶頭人) by the Chengdu Education Commission* (成都市教育委員會) in September 2000 and the Outstanding Middle School Exceptional Teacher* (中學特級教師) by the People's Government of Sichuan Province* (四川省人民政府) in September 2003. Mr. Xiao graduated from the Sichuan Education College* (四川教育學院) (currently known as the Chengdu Normal University* (成都師範學院)) with a bachelor's degree in mathematics in June 1985.

Ms. Mi Xiaorong (彌曉蓉) (alias Mi Xiaorong (彌小蓉)), aged 59, has been the principal of the Primary School since September 2009. Ms. Mi has more than 22 years of experience in the education industry and is responsible for the overall administration and management of the Primary School. Prior to joining the Group, from September 1993 to July 1995, Ms. Mi served as the vice principal of the Primary School Attached to the Sichuan Province Jiangyou Normal School* (四川省江油師範學校附小) (currently known as the Sichuan Preschool Educator College* (四川幼兒師範高等專科學校)). From September 1995 to July 2000, Ms. Mi served as the director of teaching affairs of the Jiangyou City Garden Primary School* (江油市花園小學). Ms. Mi joined the Group in May 2003 and held various positions at the Primary School, including the vice-principal. Ms. Mi was accredited as the Exceptional Teacher in Sichuan Province* (四川省特級教師) by the Education Department of the Sichuan Province* (四川省教育廳) in 1997. Ms. Mi was also accredited as the Leading Educator in the Jingniu District for 2014* (2014年感動金牛教育燈塔人物) by the People's Government of the Jingniu District* (金牛區政府) in September 2014. Ms. Mi graduated from the Chuanbei Education College* (川北教育學院) with a diploma in education management in June 1988.

*　*for identification purpose only*

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the Reporting Period.

GLOBAL OFFERING

The Company was incorporated on 13 March 2015 as an exempted company with limited liability under the laws of the Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange on 15 January 2016 (the "**Listing Date**").

PRINCIPAL ACTIVITIES

The Company is the leading provider of K-12 private education services in Southwest China. Analysis of the principal activities of the Group during the year ended 31 December 2016 is set out in the note 1 to the consolidated financial statements.

SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2016 are set out in note 1 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss on page 91 of this annual report.

BUSINESS REVIEW

A review of the business of the Group during the year ended 31 December 2016 and analysis by using financial key performance indicators, the Company's environmental policies and performance and a discussion on the Group's future business development are contained in the Management Discussion and Analysis on pages 9 to 25 of this annual report.

RISKS AND UNCERTAINTIES

The principal risks and uncertainties that may cause the Group's financial conditions or results materially different from the expected or historical results are set out in note 30 to the consolidated financial statements and in the section headed "Management Discussion and Analysis" of this annual report.

ENVIRONMENT, HEALTH AND SAFETY

The business of the Group are not in violation of the applicable PRC Environmental laws and regulations in any material aspects.

The Group is dedicated to protecting the health and safety of the students. The Group has on-site medical staff or health care personnel at each of the schools the Group operates to handle routine medical situations involving students. In certain serious and emergency medical situations, the Group promptly sends the students to local hospitals for treatment. With respect to school safety, the Group engaged a qualified property management company to provide property security services at the Group's school premises.

As far as the Board and management of the Company are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Reporting Period, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

FINAL DIVIDENDS

The Board recommended the payment of a final dividend of HK$0.07 per share for the year ended 31 December 2016. The final dividend is subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company to be held on 23 June 2017 (the "AGM") and the final dividend will be payable on or around 31 July 2017 to the Shareholders whose names appear on the register of members of the Company on 4 July 2017.

There is no arrangement that a Shareholder has waived or agreed to waive any dividend.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 20 June 2017 to 23 June 2017, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM to be held on 23 June 2017, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 19 June 2017.

The register of members of the Company will also be closed from 29 June 2017 to 4 July 2017, both days inclusive, in order to determine the entitlement of the Shareholders to receive the final dividend, during which period no share transfers will be registered. To qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 28 June 2017.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last five financial years are set out in the section headed "Financial Highlights" on pages 5 to 6 of this annual report. This summary does not form part of the audited consolidated financial statements.

USE OF NET PROCEEDS FROM LISTING

Net proceeds from the Listing (after deducting underwriting fee and relevant expenses) amounted to approximately HK$1,932.4 million (RMB1,629.2 million). As of 31 December 2016, a total amount of HK$1,303.6 million (RMB1,166.1 million) out of the net proceeds had been used by the Group according to the allocation set out in the Prospectus. The following sets forth a summary of the utilization of the net proceeds:

Purpose	Percentage to total amount	Net proceeds	Utilised amount (at 31 December 2016)	Unutilised amount (at 31 December 2016)
		RMB (million)	RMB (million)	RMB (million)
Cooperate with independent third parties to jointly establish new schools, purchase the relevant land use rights to develop new schools, and acquire existing schools	49.1%	800.4	485.6	314.8
Repay the existing short-term bank borrowings	21.3%	348.0	348.0	—
Establish a teacher and staff training and development center	20.4%	331.6	196.8	134.8
Fund the working capital and general corporate purposes	9.2%	149.2	135.7	13.5
Total	100.0%	1,629.2	1,166.1	463.1

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended 31 December 2016, the Group's customers primarily consist of the Group's students and their parents. The Group did not have any single customer who accounted for more than 5% of the Group's revenue.

Major Suppliers

For the year ended 31 December 2016, the Group's five largest suppliers accounted for 59.3% of the Group's total purchases and the Group's single largest supplier accounted for 16.8% of the Group's total purchases.

For the year ended 31 December 2016, none of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any interest in the Group's five largest suppliers.

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands the importance of maintaining a good relationship with its employees, suppliers and customers to meet its immediate and long-term goals. The Group maintains a good relationship with employees, suppliers and customers. During the year ended 31 December 2016, the Group strived to satisfy both the students and their parents by continuing to provide better education services. The Group also maintained ongoing communication with suppliers to shorten the delivering cycle and to obtain better payment terms. There were no material and significant dispute between the Group and its employees, suppliers and/or customers during the Reporting Period.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2016 are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 22 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year ended 31 December 2016 are set out in the consolidated statement of changes in equity on page 95 of this annual report and note 31 to the consolidated financial statements.

CHARITABLE DONATIONS

During the year ended 31 December 2016, the charitable donation made by the Group amounted to HKD1,000,000.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserve available for distribution was RMB64,803,000 (as at 31 December 2015: Nil).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2016 are set out in note 20 to the consolidated financial statements.

DIRECTORS

The Directors during the Reporting Period and up to the date of this annual report are:

Executive Directors:

Ms. Wang Xiaoying (Chairwoman of the Board)
Mr. Xu Ming
Mr. Ye Jiayu
Mr. Yan Yude

Independent Non-executive Directors:

Mr. Sit Chiu Wing
Mr. Chan Kim Sun
Ms. Xu Dayi

In accordance with article 84 of the Articles of Association, one-third of the Directors shall retire from office by rotation at each annual general meeting and shall then be eligible for re-election. Accordingly, Ms. Wang Xiaoying, Mr. Chan Kim Sun, and Ms. Xu Dayi shall retire by rotation, and being eligible, have offered themselves for re-election at the AGM.

Details of the Directors to be re-elected at the AGM are set out in the circular to the Shareholders dated 29 April 2017.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 26 to 30 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers such Directors to be independent throughout the year ended 31 December 2016 and remain so as of the date of this annual report.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until the end of the fixed term.

Each of the independent non-executive Directors has entered into a service contract with the Company for an initial fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until the end of the fixed term.

Save as disclosed above, none of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CONTROLLING SHAREHOLDERS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Non-exempt Continuing Connected Transaction" and otherwise disclosed in this annual report, no Director or its connected entity (within the meaning of section 486 of the Companies Ordinance) had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2016.

Apart from the contract relating to the reorganization of the Group in relation to the Listing and save as disclosed in the section headed "Non-exempt Continuing Connected Transaction" and otherwise disclosed in this annual report, none of the Controlling Shareholder or any of its connected entity (within the meaning of section 486 of the Companies Ordinance) had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2016.

No contract of significance for the provision of services to the Company or any of its subsidiaries or fellow subsidiaries by the Controlling Shareholder of the Company or any of its subsidiaries was entered into during the year ended 31 December 2016.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed for the year ended 31 December 2016.

EMOLUMENT POLICY

A remuneration committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

The Directors and senior management may also receive options to be granted under the Share Option Scheme. For further details of the Share Option Scheme, please refer to the section headed "Share Option Scheme" of this annual report.

Details of the emoluments of the Directors, and five highest paid individuals during the Reporting Period are set out in notes 8 and 9 to the consolidated financial statements.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in note 2.4 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules were as follows:

Name	Capacity/ Nature of Interest	Number of Shares	Long/short position	Approximate Percentage of Shareholding in the Company (%)
Mr. Yan Yude(1)	Interest in a controlled corporation Interest of spouse	1,359,956,045	Long position	44.03
Ms. Wang Xiaoying(2)	Interest of spouse Interest in a controlled corporation	1,359,956,045	Long position	44.03
Mr. Ye Jiayu(3)	Interest in a controlled corporation	95,400,000	Long position	3.09

Note:

(1) Mr. Yan Yude is the sole shareholder and sole director of Virscend Holdings and he is therefore deemed to be interested in 1,292,456,045 Shares held by Virscend Holdings. Mr. Yan Yude is also the husband of Ms. Wang Xiaoying and is therefore deemed to be interested in 67,500,000 Shares held by Ms. Wang Xiaoying through Smart Ally.

(2) Ms. Wang Xiaoying is the sole shareholder and director of Smart Ally and she is therefore deemed to be interested in 67,500,000 Shares held by Smart Ally. Ms. Wang Xiaoying is also the wife of Mr. Yan Yude and is therefore deemed to be interested in 1,292,456,045 Shares indirectly held by Mr. Yan Yude through Virscend Holdings.

(3) Mr. Ye Jiayu is interested in 37.5% equity interest of Lucky Sign Global Limited and is therefore deemed to be interested in 95,400,000 Shares held by Lucky Sign Global Limited.

Save as disclosed above, as 31 December 2016, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Option Scheme" of this annual report, at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, to the best knowledge of the Directors, the following persons (other than being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/ Nature of Interest	Number of Shares	Long/short position	Approximate Percentage of Shareholding in the Company (%)
Virscend Holdings(1)	Beneficial owner	1,292,456,045	Long position	41.84
Happy Venus Limited(2)	Beneficial owner	417,330,000	Long position	13.51
Ms. Yan Hongjia(2)	Interest in a controlled corporation	417,330,000	Long position	13.51

Note:

(1) Mr. Yan Yude is the sole shareholder and sole director of Virscend Holdings and he is therefore deemed to be interested in the Shares held by Virscend Holdings.

(2) Ms. Yan Hongjia is the sole shareholder and sole director of Happy Venus Limtied and she is therefore deemed to be interested in the Shares held by Happy Venus Limited.

Save as disclosed above, as at 31 December 2016, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on 28 December 2015 ("**Adoption Date**") for the purpose of giving the eligible persons an opportunity to have a personal stake in the Company and help motivate them to optimize their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executives (as defined below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Eligible persons include (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group ("**Executive**"), any proposed employee, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group ("**Employee**"); (b) a director or proposed director (including an independent non-executive director) of any member of our Group; (c) a direct or indirect shareholder of any member of our Group; (d) a supplier of goods or services to any member of our Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and (g) an associate of any of the persons referred to in paragraphs (a) to (f) above.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date, which is 300,000,000 Shares excluding Shares which may fall to be issued upon the exercise of the over-allotment option granted by the Company, representing approximately 9.71% of the issued shares as at the date of this annual report.

No option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of options granted and to be granted to that person in any 12-month period exceeds 1% of the Company's issued share capital from time to time. Where any further grant of options to such an Eligible Person would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such eligible person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by the Shareholders in general meeting with such eligible person and his close associates (or his associates if such eligible person is a connected person) abstaining from voting.

The Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an option to any eligible person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof). Subject to such terms and conditions as the Board may determine (including such terms and conditions in relation to their vesting, exercise or otherwise), there is no minimum period for which an option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

An offer of the grant of an option shall remain open for acceptance by the eligible person concerned for a period of 28 days from the offer date provided that no such grant of an option may be accepted after the expiry of the effective period of the Share Option Scheme. An option shall be deemed to have been granted and accepted by the eligible person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the option duly signed by the grantee together with a remittance in favor of the Company of HK$1.00 by way of consideration for the grant thereof is received by the Company on or before the date upon which an offer of an option must be accepted by the relevant eligible person, being a date no later than 28 days after the offer date.

The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever is the highest of: (a) the nominal value of a Share; (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and (c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the 5 business days (as defined in the Listing Rules) immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All options granted prior to such expiry and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme. The remaining life of the Share Option Scheme is around 8 years and 9 months.

During the year ended 31 December 2016 and from the Adoption Date, no options under the Share Option Scheme have been granted, exercised, lapsed or cancelled.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed "Share Option Scheme" of this annual report, during the year ended 31 December 2016, neither the Company nor any of its subsidiaries had entered into (i) any agreement that will or may result in the Company issuing Shares; or (ii) any agreement requiring the Company to enter into any agreement specified in (i).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period from the Listing Date to the date of this annual report, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands that would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

NON-COMPETITION UNDERTAKING

As of 31 December 2016, Mr. Yan Yude, the executive Director and a Controlling Shareholder, and Ms. Wang Xiaoying, the executive Director, the chairwoman of the Board, and the wife of Mr. Yan Yude, were interested in 70% and 30% interest of the Primary School Attached to Chengdu Experimental Foreign Languages School, respectively, which has ceased to provide education services and become dormant since 2007 school year. As the Primary School Attached to Chengdu Experimental Foreign Languages School no longer holds any valid private school operating license or registration certificate, the school is not permitted to operate or provide education services. As such, the Company believes the Primary School Attached to Chengdu Experimental Foreign Languages School does not directly or indirectly compete with the business of the Group.

As of 31 December 2016, the Controlling Shareholders do not have any other interest in any business that may, directly or indirectly, compete with the business of the Group.

Under the Structured Contracts, Mr. Yan Yude has provided certain non-competition undertaking in favor of the Company. For details of the Non-Competition Undertaking, please refer to the Prospectus.

The Company has received confirmations from the Controlling Shareholders confirming their compliance with the Non-Competition Undertaking during the Reporting Period for disclosure in this annual report.

The independent non-executive Directors have reviewed the compliance with the Non-Competition Undertaking during the Reporting Period based on the information and confirmation provided by or obtained from the Controlling Shareholders, and were satisfied that the Controlling Shareholders have duly complied with the Non-Competition Undertaking.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, during the period from the Listing Date and up to 31 December 2016, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTION

During the year ended 31 December 2016, the Group has entered into the following continuing connected transactions pursuant to Chapter 14A of the Listing Rule:

Non-exempt continuing connected transactions

(1) Property Lease Agreements

Four of the PRC Operating Entities leased certain buildings for use in the operation of their respective schools from Sichuan Derui and Derui Education Management. The table below sets out the details regarding the four lease agreements ("**Property Lease Agreements**") entered into among the relevant PRC Operating Entity, Sichuan Derui and Derui Education Management:

	Leasee	Leaser	Duration of the Lease	Description and use of the property leased	Proposed annual cap for the year ended 31 December 2016 RMB'000	Proposed annual cap for the year ended 31 December 2017 RMB'000
I	Chengdu Experimental Foreign Languages School	Sichuan Derui	For a period of three years commencing on 7 September 2015, with option to renew for another three years exercisable by Chengdu Experimental Foreign Languages School at any time during the term of the lease by written notice	Six properties comprising various buildings used as teaching complex dormitory and canteen with total gross floor area of approximately 94,778.30 sq.m.	4,760	6,120
II	Chengdu Foreign Languages School	Sichuan Derui	For a period of three years commencing on 7 September 2015, with option to renew for another three years exercisable by Chengdu Foreign Languages School at any time during the term of the lease by written notice	14 properties comprising various buildings used primarily as teaching complex and dormitory with total gross floor area of approximately 100,031.00 sq.m.	4,440	5,700
III	Primary School Attached to the Chengdu Foreign Languages School	Sichuan Derui and Derui Education Management	For a period of three years commencing on 7 September 2015, with option to renew for another three years exercisable by The Primary School Attached to the Chengdu Foreign Languages School at any time during the term of the lease by written notice	Ten properties comprising various buildings used as teaching complex with total gross floor area of approximately 46,953.12 sq.m.	1,960	2,520
IV	Chengdu Foreign Languages Kindergarten	Derui Education Management	For a period of three years commencing on 7 September 2015, with option to renew for another three years exercisable by Chengdu Foreign Languages Kindergarten at any time during the term of the lease by written notice	One property used as campus with total gross floor area of approximately 3,231.66 sq.m.	200	220

Each of the Property Lease Agreements has an initial term of three years commencing from 7 September 2015. The rental payable per annum is decided by reference to the market rate as determined by independent accountant and/or valuer pursuant to applicable laws and regulations and the Listing Rules. Each of the relevant PRC Operating Entities may renew the respective Property Leases Agreements at any time during the lease term of the respective Property Lease Agreements for another three years on the same terms as the Property Lease Agreements. Each of the relevant PRC Operating Entities may unilaterally terminate the respective Property Lease Agreements during the lease term. In addition, pursuant to the Property Lease Agreements, Sichuan Derui agreed that Sichuan Derui shall not transfer any of the properties under the Property Lease Agreements unless with the prior written consent of the relevant PRC Operating Entities, provided also that the relevant PRC Operating Entities are satisfied with the performance of Sichuan Derui under the Property Lease Agreements and the new lessor has the ability to satisfy the obligations under the Property Lease Agreements and guarantees that the new lease agreement will be on the same terms and conditions with the Property Lease Agreements. Furthermore, each of the relevant PRC Operating Entities has been granted a right of first refusal to acquire the properties at fair market value if the lessor intends to transfer any property under the Property Lease Agreements.

Mr. Yan Yude is a Director and a Substantial Shareholder of the Company, and therefore a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Sichuan Derui is owned as to 69.44% by Mr. Yan Yude and hence an associate of Mr. Yan Yude and a connected person of the Company. Since Derui Education Management is held as to (a) 92.9% by Mr. He Qikang (何其康), the husband of Ms. Yan Bihui and brother-in-law of Mr. Yan and Ms. Wang Xiaoying, and (b) 7.1% by Mr. Li Changjiu (李長久), husband of Ms. Yan Bixian and brother-in-law of Mr. Yan and Ms. Wang Xiaoying, pursuant to Rule 14A.07(1), Mr. Yan, a Director and Substantial Shareholder of the Company, and Ms. Wang Xiaoying, a Director, are both connected persons of the Company. Derui Education Management is therefore a majority-controlled company (as defined in Rule 14A.06(23)) held together by the relatives of the connected persons as described in Rule 14A.07(1) and the Company considers it appropriate to treat Derui Education Management as a connected person of the Company.

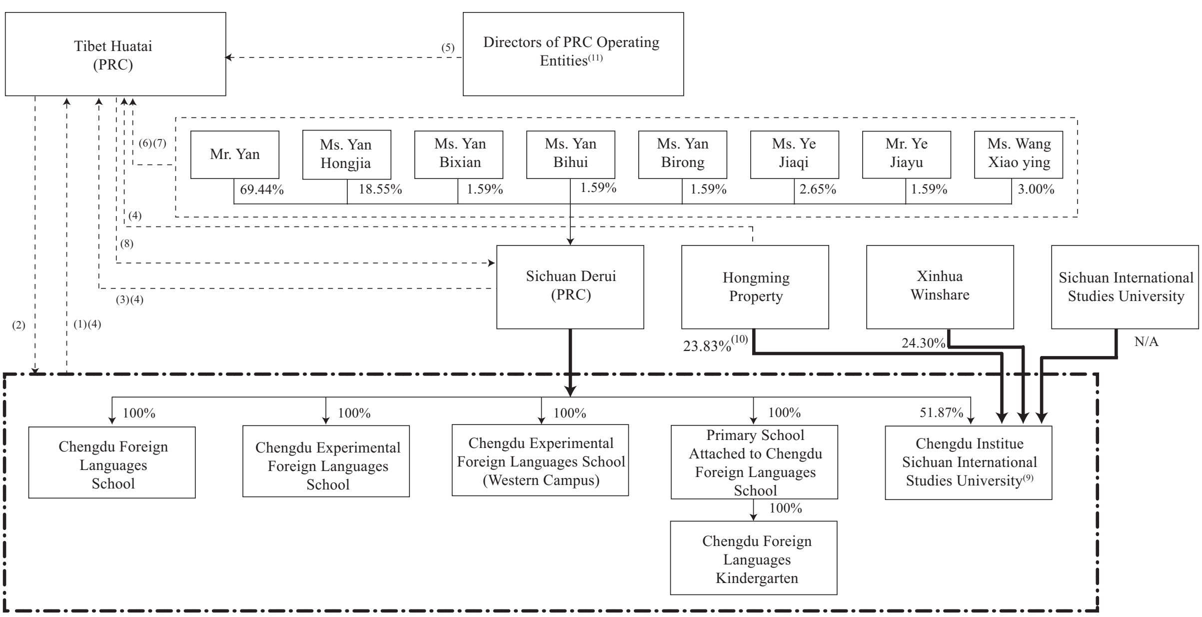
(2) Structured Contracts

A. Overview

The Group currently conducts its private education business through the PRC Operating Entities in the PRC as PRC laws and regulations generally prohibit or restrict foreign ownership in the private education industry in the PRC. PRC laws and regulations currently prohibit foreign ownership of primary and middle schools in the PRC and restrict the operation of preschools, high schools and higher education institutions to Sino-foreign ownership, in addition to imposing qualification requirements on the foreign owners. The Company does not hold any equity interest in the PRC Operating Entities. The Structured Contracts, through which the Company obtains control over and derives the economic benefits from the PRC Operating Entities, have been narrowly tailored to achieve the Group's business purpose and minimize the potential conflict with relevant PRC laws and regulations.

To comply with the above mentioned PRC laws and regulations, at the same time, advancing the Group's access to the international capital markets and effectively control of all of the operations, Tibet Huatai entered into various agreements that constitute the Structured Contracts with, among others, the PRC Operating Entities, under which all economic benefits arising from the business of the PRC Operating Entities are transferred to Tibet Huatai by means of services fees payable by the PRC Operating Entities to Tibet Huatai (subject to approval under PRC laws and regulations).

The following simplified diagram illustrates the flow of economic benefits from the PRC Operating Entities to the Group stipulated under the Structured Contracts:



Notes:

1. Payment of service fees. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (2) Exclusive Technical Service and Management Consultancy Agreement" of the Prospectus for details.

2. Provision of exclusive technical and management consultancy services. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (2) Exclusive Technical Service and Management Consultancy Agreement" of the Prospectus for details.

3. Exclusive call option to acquire all or part of the school sponsor's interest of Sichuan Derui in the PRC Operating Entities. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (3) Exclusive Call Option Agreement" of the Prospectus for details.

4. Entrustment of school sponsors' rights in the PRC Operating Entities by Sichuan Derui, Sichuan Hongming Property Co., Ltd.* (四川弘明置業有限公司) ("Hongming Property") and the Primary School including school sponsors' powers of attorney. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (4) School Sponsors' and Directors' Rights Entrustment Agreement" and "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (5) School Sponsors' Powers of Attorney" of the Prospectus for details.

5. Entrustment of directors' rights in the PRC Operating Entities by directors of the PRC Operating Entities appointed by Sichuan Derui, Hongming Property and the Primary School including directors' powers of attorney. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (4) School Sponsors' and Directors' Rights Entrustment Agreement" and "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (6) Directors' Powers of Attorney" of the Prospectus for details.

6. Spouse undertakings by the respective spouse of the Registered Shareholders, who are shareholders of Sichuan Derui. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (7) Spouse Undertakings" of the Prospectus.

7. Pledge of equity interest by the Registered Shareholders of their equity interest in Sichuan Derui. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (8) Equity Pledge Agreement" of the Prospectus.

8. Provision of loans by Tibet Huatai to Sichuan Derui which will be directly settled by Tibet Huatai as capital contribution of the PRC Operating Entities on behalf of Sichuan Derui. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (9) Loan Agreement" of the Prospectus for further details.

9. The school sponsor's interest in the University is owned as to 51.87% by Sichuan Derui, 24.30% by Xinhua Winshare and 23.83% by Hongming Property, each as a school sponsor, and Sichuan International Studies University is named as a school sponsor, entitled to the rights stipulated under the articles of the University and the relevant PRC laws, and returns under the 2009 University Agreement. Xinhua Winshare is a company listed on the Main Board of the Stock Exchange (stock code: 0811), and as it has a substantial interest in the University, it is a connected person of the Group. Hongming Property is held as to 60% by Ms. He Ling, daughter of Ms. Yan Bihui, and 40% by Mr. Li Zhigang, son of Ms. Yan Bixian.

10. All of the rights and liabilities attached to 23.83% school sponsor's interest held by Hongming Property in Chengdu Institute Sichuan International Studies University was assigned to Sichuan Derui pursuant to an agreement dated 26 March 2011. See "History and Corporate Structure – History of our Six Schools – Chengdu Institute Sichuan International Studies University" of the Prospectus for further details.

11. Directors of the PRC Operating Entities as appointed by Sichuan Derui, Hongming Property and the Primary School.

12. According to PRC laws and regulations, entities and individuals who establish private schools are commonly referred to as "school sponsors" instead of "owners" or "shareholders." See "Regulatory Overview" of the Prospectus for details.

13. "———" denotes direct legal and beneficial ownership in the equity interest.

14. "▬▬" denotes school sponsor's interest.

15. "··········" denotes Structured Contracts.

16. "— · · —" denotes the PRC Operating Entities.

B. Summary of the Material Terms of the Structured Contracts

(1) Business Cooperation Agreement

Pursuant to the Business Cooperation Agreement, Tibet Huatai shall provide technical service, management support and consulting service necessary for the private education business, and in return, the PRC Operating Entities shall make payments pursuant to the Structured Contracts. To ensure the due performance of the Structured Contracts, each of the PRC Operating Entities agreed to comply, and procure any of its subsidiaries to comply with, and Sichuan Derui and the Registered Shareholders agreed to procure the PRC Operating Entities to comply with the obligations as prescribed under in the Business Cooperation Agreement.

In order to prevent the leakage of assets and values of the consolidated affiliated entities, the Registered Shareholders, Sichuan Derui and each of the PRC Operating Entities have undertaken that, without prior written consent of Tibet Huatai or its designated party, Sichuan Derui, he/she/it shall not conduct or cause to conduct any activity or transaction which may have actual impact (i) on the assets, business, staff, obligations, rights or operations of the PRC Operating Entities or (ii) on the ability of Sichuan Derui, the Registered Shareholders and each of the PRC Operating Entities to perform the obligations under the Structured Contracts.

Furthermore, each of Sichuan Derui and the Registered Shareholders undertakes to Tibet Huatai that, unless with the prior written consent of Tibet Huatai, Sichuan Derui and the Registered Shareholders (severally or jointly) shall not (i) directly or indirectly engage, participate in, conduct, acquire or hold any business or activities which compete or may potentially compete with any of the PRC Operating Entities or its subsidiaries (the "**Competing Business**"), (ii) use information obtained from any of the PRC Operating Entities or its subsidiaries for the Competing Business, and (iii) obtain any benefit from any Competing Business. Each of Sichuan Derui and the Registered Shareholders further consent and agree that, in the event that Sichuan Derui and the Registered Shareholders (severally or jointly) directly or indirectly engage, participate in or conduct any Competing Business, Tibet Huatai and/or other entities as designated by us shall be granted an option to require the entity engaging in the Competing Business to enter into an arrangement similar to that of the Structured Contracts. If Tibet Huatai does not exercise such option, Sichuan Derui and the Registered Shareholders shall cease operation of the Competing Business within a reasonable time.

(2) Exclusive Technical Service and Management Consultancy Agreement

Pursuant to the Exclusive Technical Service and Management Consultancy Agreement, Tibet Huatai agreed to provide exclusive technical services to the PRC Operating Entities. Furthermore, Tibet Huatai agreed to provide exclusive management consultancy services to the PRC Operating Entities.

In consideration of the technical and management consultancy services provided by Tibet Huatai, each of the PRC Operating Entities (except for the University) agreed to pay Tibet Huatai a service fee equal to all of their respective amount of net profit (after deducting all costs, expenses, taxes, losses from the previous year (if required by the law) and the legally compulsory development fund of the respective school (if required by the law)); the University agreed to pay Tibet Huatai a service fee equal to all of its net profit (after deducting all costs, expenses, taxes, losses from the previous year (if required by the law) and the legally compulsory development fund of the school (if required by the law)) minus any reasonable return to be paid to Xinhua Winshare and any management fees to be paid to Sichuan International Studies University. The compulsory development fund is included as statutory surplus reserve at the Group's level and retained at schools' level. Tibet Huatai has the right (but not the obligation) to adjust the amount of such service fee by reference to the actual services provided and the actual business operations and needs of the PRC Operating Entities, provided that any adjusted amount shall not exceed the amount mentioned above. The PRC Operating Entities do not have any right to make any such adjustment.

Pursuant to the Exclusive Technical Service and Management Consultancy Agreement, unless otherwise prescribed under the PRC laws and regulations, Tibet Huatai shall have exclusive proprietary rights to any technology and intellectual property developed and materials prepared in the course of the provision of research and development, technical support and services by Tibet Huatai to the PRC Operating Entities, and any intellectual property in the products developed, including any other rights derived thereunder, in the course of performance of obligations under the Exclusive Technical Service and Management Consultancy Agreement and/or any other agreements entered into between Tibet Huatai and other parties.

(3) Exclusive Call Option Agreement

Under the Exclusive Call Option Agreement, Sichuan Derui has irrevocably granted Tibet Huatai or its designated purchaser the right to purchase all or part of the school sponsor's interest of Sichuan Derui in the PRC Operating Entities (the "**Equity Call Option**"). The purchase price payable by Tibet Huatai in respect of the transfer of such school sponsor's interest upon exercise of the Equity Call Option shall be the lowest price permitted under the PRC laws and regulations. Tibet Huatai or its designated purchaser shall have the right to purchase such proportion of the school sponsor's interest of the PRC Operating Entities as it decides at any time.

In the event that PRC laws and regulations allow Tibet Huatai or us to directly hold all or part of the equity interest in the PRC Operating Entities and operate private education business in the PRC, Tibet Huatai shall issue the notice of exercise of the Equity Call Option as soon as practicable, and the percentage of equity interest purchased upon exercise of the Equity Call Option shall not be lower than the maximum percentage then allowed to be held by Tibet Huatai or us under PRC laws and regulations.

(4) School Sponsors' and Directors' Rights Entrustment Agreement

Pursuant to the School Sponsors' and Directors' Rights Entrustment Agreement, each of Sichuan Derui, Hongming Property and the Primary School (as school sponsor of the Kindergarten) has irrevocably authorised and entrusted Tibet Huatai to exercise all its rights as school sponsor of each of the PRC Operating Entities to the extent permitted by the PRC laws. Pursuant to the School Sponsors' and Directors' Rights Entrustment Agreement, each of Yan Yude, Wang Xiaoying, Ye Jiayu, Jiang Chenglong and Lv Hongying (the "**Appointees**") has irrevocably authorised and entrusted Tibet Huatai to exercise all his/her rights as directors of the PRC Operating Entities as appointed by Sichuan Derui, Hongming Property or the Primary School (as applicable) and to the extent permitted by the PRC laws.

In addition, each of Sichuan Derui, Hongming Property, the Primary School and the Appointees have irrevocably agreed that (i) Tibet Huatai may delegate its rights under the School Sponsors' and Directors' Rights Entrustment Agreement to the directors of Tibet Huatai or its designated person, without prior notice to or approval by Sichuan Derui and the Appointees; and (ii) any person as successor of civil rights of Tibet Huatai or liquidator by reason of subdivision, merger, liquidation of Tibet Huatai or other circumstances shall have authority to replace Tibet Huatai to exercise all rights under the School Sponsors' and Directors' Rights Entrustment Agreement.

(5) School Sponsors' Powers of Attorney

Pursuant to the School Sponsors' Powers of Attorney executed by each of Sichuan Derui, Hongming Property and the Primary School in favor of Tibet Huatai, each of Sichuan Derui, Hongming Property and the Primary School (as school sponsor of the Kindergarten) authorised and appointed Tibet Huatai, the sole director of which is Mr. Xu Ming (who is not a director of any of the PRC Operating Entities and does not give rise to any conflicts of interest), as its agent to act on its behalf to exercise or delegate the exercise of all its rights as school sponsor of each of the PRC Operating Entities. For details of the rights granted, see "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (4) School Sponsors' and Directors' Rights Entrustment Agreement" of the Prospectus.

Tibet Huatai shall have the right to further delegate the rights so delegated to directors of Tibet Huatai or other designated person. Tibet Huatai confirms that it will not delegate any of these rights to anyone whose interest would potentially conflict with those of the Company. Sichuan Derui irrevocably agreed that the authorization appointment in the School Sponsor's Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of Sichuan Derui's subdivision, merger, winding up, consolidation, liquidation or other similar events. The School Sponsor's Power of Attorney shall constitute a part and incorporate terms of the School Sponsors' and Directors' Rights Entrustment Agreement.

(6) Directors' Powers of Attorney

Pursuant to the Directors' Powers of Attorney executed by each of the Appointees in favor of Tibet Huatai, each of the Appointees authorised and appointed Tibet Huatai, the sole director of which is Mr. Xu Ming (who is not a director of any of the PRC Operating Entities and does not give rise to any conflicts of interest), as his/her agent to act on his/her behalf to exercise or delegate the exercise of all his/her rights as directors of the PRC Operating Entities. For details of the rights granted, see "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (4) School Sponsors' and Directors' Rights Entrustment Agreement" of the Prospectus.

Tibet Huatai shall have the right to further delegate the rights so delegated to directors of Tibet Huatai or other designated person. Tibet Huatai confirms that it will not delegate any of these rights to anyone whose interest would potentially conflict with those of the Company. Each of the Appointees irrevocably agreed that the authorization appointment in the Directors' Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of his/her loss of or restriction on capacity, death or other similar events. The Directors' Power of Attorney shall constitute a part and incorporate terms of the School Sponsors' and Directors' Rights Entrustment Agreement.

(7) Spouse Undertakings

Pursuant to the Spouse Undertakings, the respective spouse of each of the Registered Shareholders (if any) has irrevocably undertaken that:

(a) the spouse has full knowledge of and has consented to the entering into of the Structured Contracts by the relevant Registered Shareholder, and in particular, the arrangement as set out in the Structured Contracts in relation to the restrictions imposed on the equity interest in Sichuan Derui, pledge or transfer the equity interest in Sichuan Derui, or the disposal of the equity interest in Sichuan Derui in any other forms;

(b) the spouse has not, is not and shall not in the future participate in the operation, management, liquidation, dissolution and other matters in relation to Sichuan Derui and the PRC Operating Entities (except for Mr. Yan Yude and Ms. Wang Xiaoying);

(c) the spouse authorizes the respective Registered Shareholder and/or his/her authorised person to execute all necessary documents and perform all necessary procedures from time to time for and on behalf of the spouse in relation to the spouse's equity interest in Sichuan Derui in order to safeguard the interest of Tibet Huatai under the Structured Contracts and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures;

(d) any undertaking, confirmation, consent and authorization under the Spouse Undertakings shall not be revoked, prejudiced, invalidated or otherwise adversely affected by death, loss of or restriction on capacity of the spouse, divorce or other similar events;

(e) any undertaking, confirmation, consent and authorization under the Spouse Undertakings shall not be revoked, prejudiced, invalidated or otherwise adversely affected by death, loss of or restriction on capacity of the spouse, divorce or other similar events; and

(f) all undertakings, confirmations, consents and authorizations under the Spouse Undertakings shall continue to be valid and binding until otherwise terminated by both Tibet Huatai and the spouse in writing.

The Spouse Undertakings shall have the same term as and incorporate the terms of the Business Cooperation Agreement.

(8) Equity Pledge Agreement

Pursuant to the Equity Pledge Agreement, each of the Registered Shareholders unconditionally and irrevocably pledged and granted first priority security interests over all of his/her equity interest in Sichuan Derui together with all related rights thereto to Tibet Huatai as security for performance of the Structured Contracts and all direct, indirect, consequential damages and foreseeable loss of interest incurred by Tibet Huatai as a result of the any event of default on the part of the Registered Shareholders, Sichuan Derui or each of the PRC Operating Entities and all expenses incurred by Tibet Huatai as a result of enforcement of the obligations of the Registered Shareholders, Sichuan Derui and/or each of the PRC Operating Entities under the Structured Contracts (the "**Secured Indebtedness**").

Pursuant to the Equity Pledge Agreement, without the prior written consent of Tibet Huatai, the Registered Shareholders shall not transfer the equity interest or create further pledge or encumbrance over the pledged equity interest. Any unauthorised transfer shall be invalid, and the proceeds of any transfer of the equity interest shall be first used in the payment of the Secured Indebtedness or deposited to such third party as agreed to by Tibet Huatai. The Registered Shareholders also waived any pre-emptive rights upon enforcement and agreed to any transfer of the pledged equity pursuant to the Equity Pledge Agreement. The pledge under the Equity Pledge Agreement was registered with the relevant Administration of Industry and Commerce of the PRC on 18 September 2015 and became effective on the same date.

Under the Structured Contracts, there is no equity pledge arrangement between the Company and Sichuan Derui over the school sponsor's interest in the PRC Operating Entities held by Sichuan Derui. As advised by the PRC Legal Advisors, if the Company were to make an equity pledge arrangement with Sichuan Derui where Sichuan Derui pledges its school sponsor's interest in each of the PRC Operating Entities in favor of us, such arrangement would be unenforceable under PRC laws and regulations given that school sponsor's interests in schools are not pledgeable under PRC laws and any equity pledge arrangements with respect to School Sponsor's interests in schools cannot be registered with the relevant PRC regulatory authorities.

(9) Loan Agreement

Pursuant to the Loan Agreement, Tibet Huatai agreed to provide interest-free loans to Sichuan Derui in accordance with the PRC laws and regulations and Sichuan Derui agreed to utilize the proceeds of such loans to contribute as capital of the PRC Operating Entities in its capacity as school sponsor of the schools operated by the Group in accordance with our instructions. Both parties agree that all such capital contribution will be directly settled by Tibet Huatai on behalf of Sichuan Derui.

The term of the Loan Agreement shall continue until all school sponsor's interest of the PRC Operating Entities are transferred to Tibet Huatai or its designee and the registration process required thereafter has been completed with the relevant local authorities. Each loan to be granted under the Loan Agreement will be for an infinite term until termination at the sole discretion of Tibet Huatai.

C. Business Activities of PRC Operating Entities

The consolidated affiliated entities of the Group, namely, Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School, Chengdu Experimental Foreign Languages School (Western Campus), the University, the Primary School attached to Chengdu Foreign Languages School and Kindergarten of the Primary School attached to Chengdu Jinniu District Foreign Languages School. Their business activities are primarily to offer educational services to students of different age groups from kindergarten to the university.

D. Significance and financial contributions of PRC Operating Entities to the Group

Pursuant to the Structured Contracts, the Group obtains control over and derives the economic benefits from the PRC Operating Entities. The table below sets out the financial contribution of the PRC Operating Entities to the Group:

	Significances and financial contribution to the Group					
	Revenue		Net Profit*		Total assets	
	For the year ended 31 December		For the year ended 31 December		As at 31 December	
	2016	2015	2016	2015	2016	2015
PRC Operating Entities	100%	100%	89%	111%	87%	99%

* Before service fee charged under Structured Contracts

E. Revenue and assets involved in Structured Contracts

The table below sets out (i) revenue; and (ii) assets involved in the PRC Operating Entities, they would be consolidated into the Group's financial statements pursuant to the Structural Contracts:

	Revenue RMB'000 For the year ended 31 December 2016	Assets RMB'000 As at 31 December 2016
PRC Operating Entities	827,205	3,667,298

F. Regulatory Framework

The Group currently conducts its private education business through the PRC Operating Entities in the PRC as PRC laws and regulations generally prohibit or restrict foreign ownership in the private education industry in the PRC. PRC laws and regulations currently prohibit foreign ownership of primary and middle schools in the PRC and restrict the operation of preschools, high schools and higher education institutions to Sino-foreign ownership, in addition to imposing qualification requirements on the foreign owners. The Company does not hold any equity interest in the PRC Operating Entities. The Structured Contracts, through which the Company obtains control over and derive the economic benefits from the PRC Operating Entities, have been narrowly tailored to achieve the Group's business purpose and minimize the potential conflict with relevant PRC laws and regulations.

1. Primary School and Middle School Education

Pursuant to the Implementation Opinions on Encouraging and Guiding Private Fund's Entry into the Education Sector and Promoting Healthy Development of Private Education (關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見) promulgated by the MOE on 18 June 2012 (the "**Implementation Opinions**"), foreign-invested companies that engage in educational activities in the PRC should comply with the Foreign Investment Catalog. Under the Foreign Investment Catalog, the latest amendment to which was promulgated by the National Development and Reform Commission ("**NDRC**") and the Ministry of Commerce of the PRC ("**MOFCOM**") in March 2015 and became effective on 10 April 2015, primary schools and middle schools offering compulsory education for students from grade one to nine fall within the "prohibited" category. As a result of the prohibition on foreign ownership, foreign investors (including individuals, companies, partnerships, educational institution and any other entities) are prohibited from owning primary schools or middle schools in the PRC, whether through direct investments or through wholly-owned subsidiaries in the PRC. Therefore, the Company does not hold any direct equity interest in any of Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School, Chengdu Experimental Foreign Languages School (Western Campus) and the Primary School, each of which offers either primary school or middle school education, and controls each of them through the Structured Contracts.

2. Preschool, High School and Higher Education

Pursuant to the Guidance Catalog of Industries for Foreign Investment (Amended in 2015) 《(外商投資產業指導目錄》(2015 年修訂)) (the "**Foreign Investment Catalog**") which was amended and promulgated by the NDRC and the MOFCOM on 10 March 2015 and became effective on 10 April 2015, and the Sino-Foreign Regulation, the foreign investor in a Sino-foreign joint venture school offering preschool, high school and higher education must be a foreign education institution with relevant qualification and high quality of education (the "**Qualification Requirement**"), hold less than 50% of the capital in a Sino-foreign education institute ("**Foreign Ownership Restriction**") and the domestic party shall play a dominant role ("**Foreign Control Restriction**"), meaning (a) the principal or other chief executive officer of the schools shall be a PRC national (with which the Group had fully complied); and (b) the representative of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign cooperative educational institution.

In relation to the interpretation of Sino-foreign cooperation, if the Company were to apply for any of the schools operated by the Group to be reorganized as a Sino-foreign joint venture private school for PRC students at a preschool, high school and schools offering higher education (a "**Sino-Foreign Joint Venture Private School**"), in addition to the Qualification Requirements and the Foreign Ownership Restriction, pursuant to the Implementation Opinions, the establishment of these schools is subject to approval of education authorities at the provincial or national level.

The PRC Legal Advisors have advised that as at the date of this annual report, it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant educational authority that it meets the Qualification Requirement.

As advised by the PRC Legal Advisors, the Sichuan governmental authority has not promulgated any implementing measures or specific guidance in respect of the Qualification Requirement as at 31 December 2016 and up to the date of this annual report.

Given that as at 31 December 2016 and up to the date of this annual report, as advised by the PRC Legal Advisors, there is no implementing measures or specific guidance in respect of the Qualification Requirement, it is therefore not practicable for us to seek to apply to reorganize any of the PRC Operating Entities as a Sino-Foreign Joint Venture Private School or convert any of the Kindergarten or the University into a Sino-Foreign Joint Venture Private School.

The Company has made inquiries with relevant educational authorities to understand any regulatory developments, including whether there will be any change in policy for approving Sino- Foreign Joint Venture Private Schools in the Sichuan Province, and the relevant educational authorities confirmed that there are no regulatory developments in this regard.

3. Plan to Comply with the Qualification Requirement

The Company has adopted a specific plan and taken the following concrete steps which the Company reasonably believes are meaningful endeavors to demonstrate compliance with the Qualification Requirement.

As at 31 December 2016 and up to the date of this annual report, the Company had taken the following concrete steps to implement the Group's plan. In September 2015, the Company entered into a letter of intent with College of Business Administration of California State University — Long Beach ("**CBA**"), pursuant to which the Company intends to establish a new school in the United States with the assistance from CBA. Pursuant to the letter of intent, CBA will provide teaching methodology consulting services and teaching materials and the Company will provide funding in an amount to be determined at a later date, which may be used to secure classrooms and facilities for the new school. The Company intends to allocate up to US$2.0 million for the purpose of establishing the new school, which is expected to be funded from the Group's internal resources. On 2 November 2015, the Company has formed an operating entity in the United States, Wahtai (US), which was owned as to 70.0% by Wah Tai and 30.0% by Dr. Robert T. Chi, Associate Dean of Accreditation at the Department of Information Systems at CBA and an independent third party. Wahtai (US) will be responsible for the daily operation and management of the new school. As at 31 December 2016 and up to the date of this annual report, the Company is in the process of designing the educational programs to be offered by the new school. The Company has submitted a formal application to the California Bureau for Private Postsecondary Education ("**BPPE**") through the non-accredited application process in November 2015. BPPE has approved the bachelor degree program for science in business administration and master degree program for business administration on 18 November 2016 and the business license of the new school was issued by city of Irvine on 12 December 2016. The new school is named as Virscend University. Wahtai (US) has leased a premise for the Virscend University and the premise is now under renovation. Virscend University is expected to commence its first school year in August 2017 and expects to enroll approximately 50 students in the fall semester. The Company has expended approximately US$150,000 in connection with the Group's plan as at 31 December 2016 and up to the date of this annual report.

4. Draft Foreign Investment Law

The MOFCOM published a discussion draft of the proposed Foreign Investment Law in January 2015 aiming to, upon its enactment, replace the major existing laws and regulations governing foreign investment in China. While the MOFCOM solicited comments on this draft earlier this year, substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The Draft Foreign Investment Law, if enacted as proposed, may materially impact the entire legal framework regulating foreign investments in China.

Among other things, the Draft Foreign Investment Law purports to introduce the principle of "actual control" in determining whether a company is considered a foreign invested enterprise, or an foreign invested entity ("**FIE**"). The Draft Foreign Investment Law specifically provides that entities established in China but "controlled" by foreign investors will be treated as FIEs, whereas an entity organized in a foreign jurisdiction, but cleared by the authority in charge of foreign investment as "controlled" by PRC entities and/or citizens, would nonetheless be treated as a PRC domestic entity for investment in the "restricted category" on the "negative list" to be issued subject to the examination of the relevant authority in charge of foreign investment. For these purposes, "control" is broadly defined in the draft law to cover any of the following summarized categories:

(i) holding directly or indirectly 50% or more of the equity interest, assets, voting rights or similar equity interest of the subject entity;

(ii) holding directly or indirectly less than 50% of the equity interest, assets, voting rights or similar equity interest of the subject entity but (a) having the power to directly or indirectly appoint or otherwise secure at least 50% of the seats on the board or other equivalent decision making bodies, (b) having the power to secure its nominated person to acquire at least 50% of the seats on the board or other equivalent decision making bodies, or (c) having the voting power to exert material influence over decision-making bodies, such as the shareholders' meeting or the board; or

(iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial, staffing and technology matters.

In respect of "actual control", the Draft Foreign Investment Law looks at the identity of the ultimate natural person or enterprise that controls the foreign-invested enterprise. "Actual control" refers to the power or position to control an enterprise through investment arrangements, contractual arrangements or other rights and decision-making arrangements. Articles 19 of the Draft Foreign Investment Law defined "actual controllers" as the natural persons or enterprises that directly or indirectly control foreign investors or foreign-invested enterprises.

If an entity is determined to be an FIE, and its investment amount exceeds certain thresholds or its business operation falls within a "negative list" to be separately issued by the State Council in the future, market entry clearance by the authority in charge of foreign investment would be required.

The "variable interest entity" structure, or VIE structure, has been adopted by many PRC-based companies, and has been adopted by the Company in the form of the Structured Contracts, to establish control of the PRC Operating Entities by Tibet Huatai, through which the Group operates its education business in PRC. Under the Draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangements would also be deemed as FIEs, if they are ultimately "controlled" by foreign investors. For companies with a VIE structure in an industry category that is in the "restricted category" on the "negative list," it is possible that the existing VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC state-owned enterprises or agencies, or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as FIEs and any operation in the industry category on the "negative list" without market entry clearance may be considered as illegal.

Pursuant to the Draft Foreign Investment Law, as far as the new VIE structures are concerned, if a domestic enterprise under the VIE structure is controlled by Chinese nationals, such domestic enterprise may be treated as a Chinese investor and therefore the VIE structures may be regarded as legal. On the contrary, if the domestic enterprise is controlled by foreign investors, such domestic enterprise may be treated as a foreign-investor or foreign-invested enterprise, and therefore the operation of such domestic enterprise through VIE structures may be regarded as illegal if the domestic enterprise operates in a sector which is on the "negative list" and the domestic enterprise does not apply for and obtain the necessary permission.

The Draft Foreign Investment Law stipulates restriction of foreign investment in certain industry sectors. The "negative list" set out in the Draft Foreign Investment Law classified the relevant prohibited and restricted industries into the Catalogue of Prohibitions and the Catalogue of Restrictions, respectively.

Foreign investors are not allowed to invest in any sector set out in the Catalogue of Prohibitions. Where any foreign investor directly or indirectly holds shares, equities, properties or other interests or voting rights in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalogue of Prohibitions, unless otherwise specified by the State Council.

Foreign investors are allowed to invest in sectors set out in the Catalogue of Restrictions, provided that the foreign investors are required to fulfil certain conditions and apply for permission before making such investment.

Notwithstanding that the accompanying explanatory notes to the Draft Foreign Investment Law (the "**Explanatory Notes**") do not provide a clear direction in dealing with VIE structures existing before the Draft Foreign Investment Law becoming effective, which is still pending for further study as at 31 December 2016 and up to the date of this annual report, the Explanatory Notes contemplate three possible approaches in dealing with foreign-invested enterprises with existing VIE structures and conducting business in an industry falling in the "negative list":

(a) to make a declaration to the competent authority that the actual control is vested with Chinese investors, then the VIE structures may be retained for its operation;

(b) to apply to the competent authority for certification of its actual control vested with Chinese investors and upon verification by the competent authority, the VIE structures may be retained for its operation;

(c) to apply to the competent authority for permission and the competent authority together with the relevant departments shall make a decision after taking into account the actual control of the foreign-invested enterprise and other factors.

Where foreign investors and foreign-invested enterprises circumvent the provisions of the Draft Foreign Investment Law by entrusted holding, trust, multi-level re-investment, leasing, contracting, financing arrangements, protocol control, overseas transaction or otherwise, make investments in sectors specified in the Catalogue of Prohibitions, or make investments in sectors specified in the Catalogue of Restrictions without permission or violate the information reporting obligations specified therein, the penalty shall be imposed in accordance with Article 144 of (Investments in Sectors Specified in the Catalogue of Prohibitions), Article 145 (Violation of Provisions on Access Permission), Article 147 (Administrative Legal Liability for Violating the Information Reporting Obligation) or Article 148 (Criminal Legal Liability for Violating the Information Reporting Obligation) of the Draft Foreign Investment Law, as the case may be.

Where foreign investors make investments in the sectors specified in the Catalogue of Prohibitions, the competent authorities of foreign investment of the people's governments of provinces, autonomous regions and municipalities directly under the Central Government at the place where the investments are made shall order them to cease the implementation of such investments, dispose of equity or other assets within a prescribed time limit, confiscate illegal gains, if any, and impose a fine of not less than RMB100,000 but not more than RMB1 million or of not more than 10% of illegal investments.

Where foreign investors make investments in the sectors specified in the Catalogue of Restrictions without authorization, the competent authorities of foreign investment of the people's governments of provinces, autonomous regions and municipalities directly under the Central Government at the place where the investments are made shall order them to cease the implementation of such investments, dispose of equity or other assets within a prescribed time limit, confiscate illegal gains, if any, and impose a fine of not less than RMB100,000 but not more than RMB1 million or of not more than 10% of illegal investments.

Where foreign investors or foreign-invested enterprises are in violation of the provisions of the Draft Foreign Investment Law, including failing to perform on schedule, or evading the performance of, the information reporting obligation, or concealing the truth or providing false or misleading information, the competent authorities of foreign investment of the people's governments of provinces, autonomous regions and municipalities directly under the Central Government at the place where the investments are made shall order them to make rectifications within a prescribed time limit; if they fail to make rectifications within the prescribed time limit, or the circumstances are serious, a fine of not less than RMB50,000 but not more than RMB500,000 or of not more than 5% of the investments shall be imposed. Where foreign investors or foreign-invested enterprises are in violation of the provisions of the Draft Foreign Investment Law, including failing to perform on schedule, or evading the performance of, the information reporting obligation, or concealing the truth or providing false or misleading information, and if the circumstances are extremely serious, a fine shall be imposed on the foreign investors or foreign-invested enterprises and the directly responsible person-in-charge and other persons liable shall be sentenced to fixed-term imprisonment of not more than one year or criminal detention.

If the Draft Foreign Investment Law is promulgated in the current draft form, on the basis that (i) Mr. Yan Yude, who is of Chinese nationality, is a Controlling Shareholder of the Company as at 31 December 2016 and up to the date of this annual report; (ii) the Company through Tibet Huatai exercises effective control over the PRC Operating Entities pursuant to the Structured Contracts and (iii) the majority seats of the Board are PRC nationals and the Company will ensure that the majority seats of the Board will be PRC nationals, the PRC Legal Advisors are of the view that the Company can apply for the recognization of the Structured Contracts as domestic investments and it is likely that the Structured Contracts will be considered as legal.

The Company and the Board after consultation with the PRC Legal Advisors, is satisfied that there are no updates relating to the Draft Foreign Investment Law and the Explanatory Notes in 2016.

5. 2016 Amendments

On 7 November 2016, the Decision on Amending the Law for Promoting Private Education of the PRC (關於修改《中華人民共和國民辦教育促進法》的決定) was approved by the Standing Committee of the National People's Congress (the "**Decision**"), which will become effective on 1 September 2017. The Decision has made certain amendments to the Law for Promoting Private Education of the PRC. According to the Decision, school sponsors of private schools can choose to establish schools as not-for-profit or for-profit entities, with the exception of schools providing compulsory education, which can only be established as not-for-profit entities.

As at the date of this annual report, the Decision has not taken effect yet and the detailed rules and regulations regarding the conversion of existing private schools into for-profit or non-for-profit schools have not been promulgated by local governmental authorities. There are uncertainties involved in interpreting and implementing the Decision, therefore, the Company has not decided (1) when the schools which provide compulsory education shall be converted into non-for-profit schools and (2) whether the schools which engage in non-compulsory education will be for-profit private schools or non-for-profit private schools.

As at the date of this annual report, to the best knowledge of the Company, the Decision, after it becomes effective, will not have material adverse impact on the business, including the existing operation and potential expansion plan, and financial impact on the Company's private school operation, because, among others, the Group derives the economic benefits arising from the operating schools within the Group through the entity wholly owned by the Company's provision of services to them in return pursuant to the Structured Contracts. For further details of the above the Structured Contracts, please refer to the section headed "Structured Contracts" of the Prospectus. According to the Company's PRC legal advisors, the arrangement under the existing Structured Contracts does not violate the Decision, because the Decision does not prohibit any for-profit or non-for-profit private schools from payment of services fees for their operation or impose any limit on the amount of the service fees to be paid by for-profit or non-for-profit private schools. After the Decision takes effect and the detailed rules and regulations regarding the conversion of existing private schools into for-profit or non-for-profit schools are promulgated, the Company will take measures to comply with the Decision by converting the schools which engage in compulsory education into non-for-profit school according to the detailed rules and regulations in due course and will finally decide whether to convert the existing private schools into for-profit or non-for-profit schools.

G. Risks associated with the arrangements and the actions taken to mitigate the risks

The Structured Contracts are used to enable the Group to consolidate the financial results of the PRC Operating Entities which engage in the operation of kindergarten, primary school, middle schools, high schools and university where the PRC laws and regulations currently prohibit foreign ownership of primary and middle schools in the PRC and restrict operation of preschools, high schools and higher education institutions to Sino-foreign ownership, in addition to imposing Qualification Requirements on the foreign owners and withholding government approval in respect of Sino-foreign ownership.

The PRC government may find that the Structured Contracts do not comply with applicable PRC laws and regulations, which may subject us to severe penalties and the Group's business may be materially and adversely affected. The Board emphasizes that the Draft Foreign Investment Law proposing sweeping changes to the PRC foreign investment regulatory regime, which would likely to have a significant impact on businesses operated in the PRC by foreign invested enterprises primarily through contractual arrangements. Furthermore, the Group relies on the Structured Contracts to obtain control over and derive the economic benefits from the PRC Operating Entities, which may not be as effective in providing operational control as direct ownership. The registered owners of the PRC Operating Entities may have conflicts of interest with the Group or there is deterioration of relations, which may materially and adversely affect the Group's business and financial condition. The Group's execution on the option to acquire school sponsor's interest of the PRC Operating Entities may be subject to certain limitations and the Company may incur substantial costs and expend significant resources to enforce the Structured Contracts if any of the PRC Operating Entities fails to perform its obligations thereunder. The Structured Contracts may be subject to scrutiny of PRC tax authorities and additional tax may be imposed, which may materially and adversely affect the Group's results of operation and value of the investment by the Shareholders or potential investors of the Company. Certain terms of the Structured Contracts may not be enforceable under PRC laws. The PRC Operating Entities may be subject to limitations on their ability to operate private education or make payments to related parties. The Company relies on dividend and other payments from Tibet Huatai to pay dividends and other cash distributions to the Shareholders. If any of the PRC Operating Entities or Sichuan Derui becomes subject to winding up or liquidation proceedings, the Company may lose the ability to enjoy certain important assets, which could negatively impact the Group's business and materially and adversely affect the Group's ability to generate revenue. For more details, please refer to the section headed "Risk Factors - Risks relating to our Structured Contracts" in the Prospects.

The Group has adopted the following measures to ensure the effective operation of the Group with the implementation of the Structured Contracts and the Group's compliance with the Structured Contracts:

(a) major issues arising from the implementation and compliance with the Structured Contracts or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;

(b) the Board will review the overall performance of and compliance with the Structured Contracts at least once a year;

(c) the Company will disclose the overall performance and compliance with the Structured Contracts in its annual reports and interim reports to update the Shareholders and potential investors;

(d) the Company and the Directors undertake to provide periodic updates in the annual and interim reports regarding the Qualification Requirement and the Group's status of compliance with the Draft Foreign Investment Law and its accompanying explanatory notes as stipulated under the section headed "Structured Contracts — Background of the Structured Contracts" and the latest development of the Draft Foreign Investment Law and its accompanying explanatory notes as disclosed under the section headed "Structured Contracts — Development in the PRC Legislation on Foreign Investment" of the Prospectus, including the latest relevant regulatory development as well as the Group's plan and progress in acquiring the relevant experience to meet the Qualification Requirement; and

(e) the Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Structured Contracts, review the legal compliance of Tibet Huatai and the PRC Operating Entities to deal with specific issues or matters arising from the Structured Contracts.

For the year ended 31 December 2016, the Board has reviewed the overall performance of the Structured Contracts and believed that the Group has complied with the Structured Contracts in all material respects.

We have been advised by our PRC Legal Advisors that the Structured Contracts do not violate the relevant PRC regulations.

In addition, notwithstanding that the executive Directors, Mr. Yan Yude, Ms. Wang Xiaoying and Mr. Ye Jiayu, are also the Registered Shareholders, the Company believes that the Directors are able to perform their roles in the Group independently and the Group is capable of managing its business independently after the Listing under the following measures:

(a) the decision-making mechanism of the Board as set out in the Articles includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of the Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;

(b) each of the Directors is aware of his fiduciary duties as a Director which requires, among other things, that he acts for the benefits and in the best interests of the Group;

(c) the Company has appointed three independent non-executive Directors, comprising over one-third of the Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of the Company and the Shareholders as a whole; and

(d) the Company will disclose in the announcements, circulars, annual and interim reports of the Company in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by the Board (including independent non-executive Directors) relating to any business or interest of each Director and his associates that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

H. Material changes

As of the date of this annual report, there were no material changes in the Structured Contracts and/or the circumstances under which the Structured Contracts were adopted.

I. Unwinding of the Structured Contracts

As of the date of this annual report, there has not been any unwinding of any Structured Contracts, nor has there been any failure to unwind any Structured Contracts when the restrictions that led to the adoption of the Structured Contracts are removed. For more details, please refer to the section headed "Structured Contracts — Operation of the Structured Contracts — Termination of the Structured Contracts" of the Prospectus. In the event that the PRC regulatory environment changes and all of the Qualification Requirement, the Foreign Ownership Restriction and the Foreign Control Restriction are removed (and assuming there are no other changes in the relevant PRC laws and regulations), Tibet Huatai will exercise the Equity Call Option in full to unwind the contractual arrangements so that the Company will be able to directly operate the schools without using the Structured Contracts.

For details of the above Structured Contracts, please refer to "Structured Contracts" and "Connected Transactions" in the Prospectus.

(3) Confirmation of independent non-executive Directors

The independent non-executive Directors have reviewed the aforesaid Property Lease Agreements and Structured Contracts (collectively, the "**Continuing Connected Transactions**") and confirmed that, during the Reporting Period:

(i) the Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the Group;

(ii) the Continuing Connected Transactions are on normal commercial terms; and

(iii) the Continuing Connected Transactions have been entered into in accordance with relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

(4) Confirmation of auditor of the Company

Ernst & Young, the Company's auditor, were engaged to report on the Group's Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

After performing the procedures related to continuing connected transactions, Ernst & Young confirmed that:

a. nothing has come to our attention that causes us to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.

b. for transactions involving the provision of goods or services by the Group, nothing has come to our attention that causes us to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group.

c. nothing has come to our attention that causes us to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

d. nothing has come to our attention that causes us to believe that dividends or other distributions have been made by Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School, Chengdu Experimental Foreign Languages School (Western Campus), Chengdu Institute Sichuan International Studies University, the Primary School Attached to Chengdu Foreign Languages School and Kindergarten of the Primary School Attached to Chengdu Jinniu District Foreign Languages School to the holders of its school sponsor's interests which are not otherwise subsequently assigned or transferred to the Group.

e. with respect to the aggregate amount of each of the continuing connected transactions i.e. leasing of property from Sichuan Derui Enterprise Development Co., Ltd and leasing of property from Sichuan Derui Education Management Co., Ltd, nothing has come to our attention that causes us to believe that the disclosed continuing connected transactions have exceeded the respective annual cap as set by the Company.

Ernst & Young have issued their letter containing their findings and conclusions in respect of the Continuing Connected Transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

One-Off Connected Transactions

(1) Acquisition of Properties from Hongming Property

On 10 November 2016, the University and Hongming Property entered into a property transfer agreement ("Property Transfer Agreement"), pursuant to which the University or its designated entity conditionally agreed to purchase, and Hongming Property conditionally agreed to sell, the Properties at cash consideration of RMB328 million.

The properties comprise a piece of land of total area of approximately 84,173 square meters (the "Land") and 49 buildings of total gross floor area of approximately 48,261.39 square meters situated on the Land.

The Group plans to transform the properties to the Training Centre and the Training Centre is expected to offer mandatory and continuing training courses and seminars to our teachers and other staff and to offer mandatory professional teaching technique training courses for newly hired teachers. Furthermore, with the addition of the Land, the University may then fulfil one of the key criteria for applying to change its status from an independent college*(獨立學院) affiliated with Sichuan International Studies University* (四川外國語大學) to a private higher education institutions* (民辦普通高校) not affiliated with any public university in the future.

As Hongming Property holds 23.83% of the school sponsor's interest of the University, Hongming Property is a substantial shareholder of a consolidated affiliated entity of the Company and thus a connected person of the Company as described in Rule 14A.07(1) of the Listing Rules. Please refer to the announcement of the Company dated 10 November 2016 for further details.

(2) Acquisition of 24.3% Economic Interest in the University

On 15 November 2016, Sichuan Derui and Xinhua Winshare entered into the School Sponsor's Interest Transfer Agreement, pursuant to which Xinhua Winshare agreed to sell and Sichuan Derui agreed to purchase 24.3% of the school sponsor's interest in the University at cash consideration of RMB260,250,000.

On 25 November 2016, pursuant to the existing Structured Contracts, Tibet Huatai, Sichuan Derui, the University and the Registered Shareholders entered into the School Sponsor's Interest Arrangement Agreement with respect to the increase in school sponsors' interest held by Sichuan Derui, pursuant to which, Tibet Huatai shall pay to Sichuan Derui a sum equals to the total consideration payable by Sichuan Derui to Xinhua Winshare as a result of the transfer under the School Sponsor's Interest Transfer Agreement. Upon completion of the above acquisition, the school sponsor's interest in the University will own as to 76.17% by Sichuan Derui and 23.83% by Hongming Property.

The above acquisition allows the Group to terminate the payment of the annual dividend to Xinhua Winshare which is equivalent to at least 10% of its investment amount of RMB260,000,000 in the University, have more control of the University and receive all the economic benefits derived from the University through the Structured Contracts.

Sichuan Derui is owned as to 69.44% by Mr. Yan Yude, a Director and a Substantial Shareholder of the Company, and therefore, Sichuan Derui is a connected person of the Company. Therefore, the transaction contemplated under the School Sponsor's Interest Arrangement Agreement constitutes a connected transaction of the Company. The above acquisition is in progress as at the date of the annual report and expected to be completed within the year 2017. Please refer to the announcement of the Company dated 25 November 2016 for further details.

Save as disclosed in this annual report, as of the date of this annual report, the Company had no non-exempt connected transactions which fell to be disclosed in accordance with the provisions under Chapter 14A of the Listing Rules in relation to the disclosure of connected transactions.

The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended 31 December 2016 are set out in note 27 to the consolidated financial statements.

SIGNIFICANT LEGAL PROCEEDINGS

During the year ended 31 December 2016, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatening against the Company.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year ended 31 December 2016 and up to the date of this annual report, the Group has complied with the relevant laws and regulations that have a significant impact on the Company. In particular, the Group is committed to minimizing the impact on the environment from our business activities and the details of such effort are set out in the section headed "Environmental, Social and Governance Report" in this annual report.

PERMITTED INDEMNITY PROVISION

Pursuant to article 164(1) of the Articles of Association, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of the Directors shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts; and none of them shall be answerable for the acts, receipts, neglects or defaults of the other or others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.

IMPORTANT EVENTS SINCE THE YEAR END

The Group had no important events occured since the year ended 31 December 2016.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Board and external auditor, has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2016.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 66 to 78 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's total issued shares, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, was held by the public at all times from the Listing Date and up to the date of this annual report.

AUDITOR

Ernst & Young was appointed as the auditor for the year ended 31 December 2016. The accompanying financial statements prepared in accordance with IFRSs have been audited by Ernst and Young.

Ernst & Young shall retire at the AGM and, being eligible, will offer itself for re-appointment. A resolution for the re-appointment of Ernst & Young as auditor will be proposed at the AGM.

RECOMMENDATION TO CONSULT PROFESSIONAL TAX ADVICE

If the Shareholders are not sure about the tax effect on the purchase, holding, sale, trading or exercise of any rights attached to the relevant shares of the Company, they are recommended to consult independent experts for advice.

On behalf of the Board
Wang Xiaoying
Chairwoman

Sichuan, the PRC, 24 March 2017

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2016.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code as its own code of corporate governance. The Company has complied with all applicable code provisions under the CG Code during the period from the Listing Date to 31 December 2016. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the Audit Committee, the remuneration committee (the "**Remuneration Committee**") and the nomination committee (the "**Nomination Committee**") (together, the "**Board Committees**"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the Shareholders at all times.

The Company has arranged appropriate liability insurance in respect of legal action against the Directors. The insurance coverage will be reviewed on an annual basis.

Board Composition

During the year ended 31 December 2016 and as at the date of this annual report, the Board comprises four executive Directors and three independent non- executive Directors as follows:

Executive Directors:
Ms. Wang Xiaoying
Mr. Xu Ming
Mr. Ye Jiayu
Mr. Yan Yude

Independent Non-executive Directors:
Mr. Sit Chiu Wing
Mr. Chan Kim Sun
Ms. Xu Dayi

The biographies of the Directors are set out under the section headed "Directors and Senior Management" in this annual report.

During the period from the Listing Date and up to 31 December 2016, the Board has met at all times the requirements under rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

The Company believes that the diversity of Board members will be immensely beneficial for the enhancement of the Company's performance. Therefore, the Company has adopted a Board diversity policy to ensure that the Company will, when determining the composition of the Board, consider Board diversity in terms of, among other things, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on merits, and candidates will be considered against objective criteria with reference to the Company's business model and specific needs, including but not limited to gender, race, language, cultural background, educational background, industry experience and professional experience, having due regard for the benefits of diversity of the Board.

As each of the independent non-executive Directors has confirmed his/her independence pursuant to rule 3.13 of the Listing Rules, the Company considers all of them to be independent parties.

Save as disclosed in the Directors' biographies set out in the section headed "Directors and Senior Management" and otherwise disclosed in this annual report, none of the Directors have any personal relationship (including financial, business, family or other material or relevant relationship) with any other Director and chief executive.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as the identity of the public companies or organisations and the time involved to the issuer, the Directors have agreed to disclose their commitments and any subsequent change to the Company in a timely manner.

Induction and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statues, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company has from time to time updated and provided written training materials relating to the roles, functions and duties of a Director.

The attendance record of professional training received by the Directors in preparation for the Listing on the Stock Exchange is as follows:

Name of Directors	Nature of Continuous Professional Development Programmes
Executive Directors	
Ms. Wang Xiaying	A/B/C/D
Mr. Xu Ming	A/B/C/D
Mr. Ye Jiayu	A/C/D
Mr. Yan Yude	A/B/C/D
Independent Non-Executive Directors	
Mr. Sit Chiu Wing	A/D
Mr. Chan Kim Sun	A/D
Ms. Xu Dayi	A/D

Notes:

A: Attending seminars and/or meetings and/or forums and/or briefings

B: Giving talks in the seminars and/or meetings and/or forums

C: Attending training relevant to the Company's business conducted by lawyers

D: Reading materials relevant to corporate governance, director's duties and responsibilities, listing rules and other relevant ordinances

Chairwoman and Chief Executive Officer

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals.

The Chairwoman of the Board and the chief executive officer of the Company (the "**Chief Executive Officer**") are currently two separate positions held by Ms. Wang Xiaoying and Mr. Xu Ming, respectively, with clear distinction in responsibilities. The Chairwoman of the Board is responsible for providing strategic advice and guidance on the business development of the Group, while the Chief Executive Officer is responsible for the day-to-day operations of the Group.

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until the end of the fixed term.

Each of the independent non-executive Directors has entered into a service contract with the Company for an initial fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until the end of the fixed term.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

Pursuant to the Articles of Association, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition and making recommendations to the Board on the appointment or re-election of Directors and succession planning for Directors.

Board Meetings

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board and Board Committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or Board Committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and are adequately prepared for the meetings. When Directors or Board Committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings are kept by the company secretary of the Company with copies circulated to all Directors for information and records.

Minutes of the Board meetings and Board Committee meetings are recorded in sufficient detail about the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are open for inspection by Directors.

During the year ended 31 December 2016, seven Board meetings, one annual general meeting and one extraordinary general meeting ("EGM") were held and the attendance of each Director at the meetings is set out in the table below:

	Attendance/Number of meetings		
Directors	Board Meeting	Annual general meeting	EGM
Ms. Wang Xiaoying	7/7	1/1	1/1
Mr. Xu Ming	7/7	1/1	1/1
Mr. Ye Jiayu	7/7	1/1	1/1
Mr. Yan Yude	7/7	1/1	1/1
Mr. Sit Chiu Wing	7/7	1/1	1/1
Mr. Chan Kim Sun	7/7	1/1	1/1
Ms. Xu Dayi	7/7	1/1	1/1

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions from the Listing Date to 31 December 2016. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code during the period from the Listing Date to 31 December 2016.

At the same time, since the Listing Date, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of the Directors which includes:

(a) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors;

(d) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board and report to the Board on matters;

(e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report; and

(f) to review and monitor the Company's compliance with the Company's whistleblowing policy.

BOARD COMMITTEES

Audit Committee

The Audit Committee comprises three members, namely Mr. Chan Kim Sun (chairman), Mr. Sit Chiu Wing and Ms. Xu Dayi, all of them are independent non-executive Directors.

The principal duties of the Audit Committee include the following:

1. To review the relationship with the auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of the auditor;

2. To review the financial statements and reports and consider any significant or unusual items raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or the auditor before submission to the Board;

3. To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures, including the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2016, the Audit Committee held two meetings. The attendance record of the meetings is set out in the table below:

Name of Committee Member	Attendance/ Number of meetings
Mr. Chan Kim Sun	2/2
Mr. Sit Chiu Wing	2/2
Ms. Xu Dayi	2/2

During the year ended 31 December 2016, the Audit Committee reviewed the annual results and reports for the year ended 31 December 2015 and the interim results and report for the six months ended 30 June 2016, significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditor. Having reviewed the effectiveness of the external audit process as well as the independence, the Audit Committee is satisfied with this relationship.

The Group's annual audited results for the year ended 31 December 2016 have been reviewed by the Audit Committee on 24 March 2017.

Nomination Committee

The Nomination Committee currently comprises three members, including two independent non-executive Directors namely Mr. Sit Chiu Wing (chairman) and Ms. Xu Dayi, and one executive Director namely Mr. Yan Yude.

The principal duties of the Nomination Committee include the following:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

3. to assess the independence of independent non-executive Directors;

4. to make recommendations to the Board on the appointment or re-appointment of Directors and the succession planning for Directors, in particular the chairman and the chief executive officer; and

5. to review the board diversity policy.

The Nomination Committee assesses the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision.

The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

The Company recognizes and embraces the benefits of having a diverse Board to enhance its performance and has adopted a board diversity policy aiming to set out the approach to achieve diversity on the Board. The implementation of the policy is monitored by the Nomination Committee. In designing the Board's composition, board diversity has been considered from a number of measurable objectives, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Nomination Committee will continue to monitor the implementation of the board diversity policy and will review the board diversity policy periodically to ensure its continued effectiveness.

During the year ended 31 December 2016, the Nomination Committee held one meeting to review the nomination procedures and the composition and diversity of the Board and was satisfied with the current procedures and composition. The attendance record of the meeting is set out in the table below:

Name of Committee Member	Attendance/ Number of meetings
Mr. Sit Chiu Wing	1/1
Ms. Xu Dayi	1/1
Mr. Yan Yude	1/1

Remuneration Committee

The Remuneration Committee comprises three members, including two independent non-executive Directors namely Mr. Sit Chiu Wing (chairman) and Ms. Xu Dayi, and one executive Director namely Ms. Wang Xiaoying.

The principal duties of the Remuneration Committee include the following:

1. to make recommendations to the Board on the Company's overall policy and structure for the remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy;

2. to review and approve the management's remuneration proposals with reference to the corporate goals and objectives determined by the Board;

3. to determine the remuneration packages of individual executive Directors and senior management. These include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

4. to make recommendations to the Board on the remuneration of non-executive Directors;

5. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

6. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

7. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

8. to ensure that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration.

The written terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2016, the Remuneration Committee held one meeting. The attendance record of the meeting is set out in the table below:

Name of Committee Member	Attendance/ Number of meetings
Mr. Sit Chiu Wing	1/1
Ms. Xu Dayi	1/1
Ms. Wang Xiaoying	1/1

During the year ended 31 December 2016, the Remuneration Committee reviewed and discussed the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management and other related matters of the Company. The Remuneration Committee ensured that no individual or any of his associates was involved in determining his own remuneration. It also ensured that remuneration awards were determined by reference to the performance of the individual and the Company and were aligned to the market practice and conditions, the Company's goals and strategies. No changes on the policy were recommended by the Remuneration Committee.

Remuneration of Directors and Senior Management

Details of the remuneration by band of the members of the Board and senior management of the Company, whose biographies are set out on pages 26 to 30 of this annual report, for the year ended 31 December 2016 are set out below:

Remuneration band	Number of individual
RMB0 to RMB1 million	13

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2016 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditor regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 86 to 90 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges that it is its responsibility to ensure that the Company establishes and maintains sound risk management and internal control systems within the Group and to review the effectiveness of the systems. Such systems are designed to manage and mitigate risks inherent in the Group's business faced by the Group to an acceptable level, but not eliminating the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement, loss or fraud.

The Board has entrusted the Audit Committee with the responsibility to oversee the risk management and internal control systems of the Group on an on-going basis and to review the effectiveness of the systems annually. The review covered all material controls, including financial, operational and compliance controls.

Under the Company's risk management and internal control structure, the management is responsible for the design, implementation and maintenance of risk management and internal control systems to ensure, amongst others, (i) appropriate policies and control procedures have been designed and established to safeguard the Group's assets against improper use or disposal; (ii) relevant laws, rules and regulations are adhered to and complied with; and (iii) that reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements.

The main features of risk management and internal control structure of the Company is as follows:

- Heads of major operation units or departments manage risks through identification and mitigating risks identified in accordance with the internal guidelines approved by the Board and the Audit Committee;

- The management ensures appropriate actions are taken on major risks affecting the Group's businesses and operations; and

- Internal audit auditors provide independent assurance to the Board, the Audit Committee and the management concerning the effectiveness of risk management and internal control systems.

During the Reporting Period, major works performed by the management in relation to risk management and internal control include the following:

- each major operation unit or department was responsible for daily risk management activities, including identifying major risks that may impact on the Group's performance; assessing and evaluating the identified risks according to their likely impacts and the likelihood of occurrence; formulating and implementing measures, controls and response plans to manage and mitigate such risks;

- the management, together with the controller's department, monitored and reviewed the risk management and internal control systems on an ongoing basis and reported to the Audit Committee regarding the status of the systems;

- the management periodically followed-up and reviewed the implementation of the measures, controls and response plans to major risks identified in order to make sure that sufficient attention, monitor and responses were paid to all major risks identified;

- the management reviewed the risk management and internal control systems periodically to identify process and control deficiencies, and designed and implemented corrective actions to address such deficiencies; and
- the management ensured appropriate procedures and measures such as safeguarding assets against unauthorized use or disposition, controlling capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publications, etc. are in place.

The internal audit function of the Company monitored the internal governance of the Company and provided independent assurances as to the adequacy and effectiveness of the Company's risk management and internal control systems. The senior executive in charge of the internal audit function reported directly to the Audit Committee. The internal audit reports on control effectiveness were submitted to the Audit Committee in line with agreed audit plan approved by the Board. All Directors were informed of the findings of internal audit assignments. During the Reporting Period, the internal audit function carried out an analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Company through, amongst others, examination of risk-related documentation prepared by operation units and the management and conducting interviews with employees at all levels. The senior executives in charge of the internal audit function attended meetings of the Audit Committee to explain the internal audit findings and responded to queries from members of the Audit Committee.

The Company has maintained internal guidelines for ensuring that inside information is disseminated to the public in an equal and timely manner in accordance with the applicable laws and regulations. Senior executives of the investor's relation, corporate affairs and financial control functions of the Group are delegated with responsibilities to control and monitor the proper procedures to be observed on the disclosure of inside information. Access to inside information is at all times confined to relevant senior executives and confined on "need-to-know" basis. Relevant personnel and other professional parties involved are reminded to preserve confidentiality of the inside information until it is publicly disclosed. Other procedures such as pre-clearance on dealing in Company's securities by the Directors and designated members of the management, notification of regular blackout period and securities dealing restrictions to Directors and employees, and identification of project by code name have also been implemented by the Company to guard against possible mishandling of inside information within the Group.

The Company has adopted arrangement to facilitate employees and other stakeholders to raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters. The Audit Committee reviewed such arrangement regularly and ensured that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

During the Reporting Period, the Audit Committee reviewed the effectiveness of the risk management and internal control systems of the Company. The annual review included works such as (i) review of reports submitted by heads of operation units or departments and the management regarding the implementation of the risk management and internal control systems; (ii) periodic discussions with the management and senior executives regarding the effectiveness of the risk management and internal control systems and the works of the internal audit function. Such discussions include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions; (iii) evaluation on the scope and quality of management's ongoing monitoring of the risks management and internal control systems; (iv) review of the effectiveness of the internal audit function to ensure coordination within the Group and between the Company's internal and external auditors and to ensure the internal audit function is adequately resourced and has appropriate standing within the Group; and (v) made recommendations to the Board and the management on the scope and quality of the management's ongoing monitoring of the risk management and internal control systems.

On the basis of the aforesaid, the Audit Committee was not aware of any significant issues that would have an adverse impact on the effectiveness and adequacy of the risk management and internal controls of the Company.

AUDITOR'S REMUNERATION

The remuneration for the audit and non-audit services provided by the auditor to the Group during the year ended 31 December 2016 was approximately as follows:

Type of Services	Amount (RMB)
Audit services	2,104,000
Non-audit services related to tax consultation	250,000
Total	2,354,000

COMPANY SECRETARY

Ms. Ng Sau Mei as the company secretary of the Company, a senior manager of the listing services department of KCS Hong Kong Limited, a company engaged in the business of providing corporate services, is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, as well as the applicable laws, rules and regulations are followed. Her primary contact person at the Company is Mr. Xu Ming, chief executive officer and an executive Director.

For the year ended 31 December 2016, Ms. Ng Sau Mei has undertaken not less than 15 hours of relevant professional training respectively in compliance with rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions.

The annual general meeting of the Company provides opportunity for the Shareholders to communicate directly with the Directors. The Chairwoman and the chairmen of the Board Committees of the Company will attend the annual general meetings to answer Shareholders' questions. The auditor will also attend the annual general meetings to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and the Shareholders and maintains a website of the Company at (www.virscendeducation.com), where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

Convening of extraordinary general meeting and putting forward proposals

Shareholders may put forward proposals for consideration at a general meeting of the Company according to the Articles of Association. Any one or more members holding as at date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or company secretary of the Company, to require an extraordinary general meeting of the Company to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the company secretary of the Company at 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong (email address: ir@virscendeducation.com).

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company has adopted the amended and restated memorandum and articles of association of the Company on 28 December 2015, with effect from the same date and the Listing Date, respectively. There was no change in the memorandum and articles of association of the Company during the period from the Listing Date to the 31 December 2016.

ABOUT ESG REPORT

This Environmental, Social and Governance Report ("ESG Report") details the Group's works in 2016 to fully implement the concept of sustainable development and to fulfill its corporate social responsibilities, as well as its performance in terms of social governance.

Scope of Report

The ESG Report focuses on the core businesses of the Group in Mainland China and the performance on environmental and social aspects for the year ended 31 December 2016. For details of corporate governance, please refer to the Corporate Governance Report in this annual report.

Reporting Standards

The ESG Report has been compiled in accordance with Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules.

Stakeholder Engagement

Employees from different departments have participated in the compilation of the ESG Report, which enables the Group to make clear the current developmental level on the environmental and social aspects. The information contained in the ESG Report is a summary of the environmental and social works of the Group in 2016, and serves as the basis of short-term and long-term sustainable development strategies formulated by the Group.

Information and Feedback

For the detailed information about the environmental and corporate governance of the Group, please refer to the official website (www.virscendeducation.com) and the annual report of the Group. The Group values your opinions on this report and welcome your email to the following mailbox (info@virscendeducation.com) should you have any comment or recommendation.

ENVIRONMENT AND RESOURCES

Emission Treatments

The Group has strictly complied with the laws and regulations concerning environmental protection in our daily operations such as the Law of Environmental Protection of the People's Republic of China (中華人民共和國環境保護法), the Law of the People's Republic of China on Environmental Impact Assessment (中華人民共和國環境影響評價法) and the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes (中華人民共和國固體廢物污染環境防治法).

Wastewater discharged by the Group mainly comes from the sewage from daily living and the oily wastewater from canteens, while the exhaust gas mainly comes from canteens' oily fume. There are corresponding treatment facilities for both wastewater and exhaust gas. Our schools hold discharge permits and we have engaged local monitoring agency to conduct an annual sampling inspection for the wastewater and canteens' fume discharged by each school, so as to ensure they comply with the relevant requirements under the Integrated Wastewater Discharge Standard (污水綜合排放標準), the Wastewater Quality Standards for Discharge to Municipal Sewers (污水排入城鎮下水道水質標準) and the Emission Standards of Cooking Fume (Trial) (飲食業油煙排放標準 (試行)).

The solid wastes produced by the Group mainly include the obsolete office supplies, teaching equipment, food waste, domestic waste and construction waste. We set up the garbage classification bins around the campus, and encourage solid wastes to be stored, recycled and treated according to their classification. Regarding the obsolete office supplies, teaching equipment and other wastes, we would first consider reusing them. And the non-reusable wastes are passed to the waste treatment service providers approved by the local government for waste disposal, and the food waste is passed to qualified enterprises for recycling and treatment. The domestic waste is regularly transported by the cleaning service companies to the landfills designated by the local government, and the construction waste is collectively transported in specialized vehicles to the designated locations for disposal.

Resources Conservation

The Group takes various measures to conserve water and reduce waste, including installing water-saving faucets and urinals, posting water-conservation slogans on campuses, regularly inspecting water leakage on water meters and pipes.

We strictly control paper usage, regularly count the quantity of paper used for monitoring and thus make improvements, for example, by using smaller fonts and spacing, double-sided printing, recycling paper, adhering to using waste paper for proof print, and encouraging employees to handle teaching or office matters through the electronic office platform, multimedia tools and electronic communication technology.

We collect power consumption data monthly to monitor the electricity consumption. In order to reduce the power consumption of the lighting system, besides encouraging employees and students to use natural lighting, we have installed energy-saving lamps in indoor areas including classrooms, apartments and offices to replace ordinary bulbs, as well as divided the indoor areas into a number of independently controlled lighting areas. We regularly clean the filters of air conditioners and check for leakage of refrigerant so as to improve the efficiency of the air conditioning systems. We stipulate that air conditioners can only be turned on when indoor temperature is higher than 30 degrees Celsius in the summer, and the temperature of air conditioning system should be set at 25.5 degrees Celsius or above. During the holiday period, water and electricity supply at the teaching buildings are cut off. In order to urge students to turn off air conditioners, lights, electronic whiteboard and other equipment, classroom inspectors would check the classrooms daily after school-hours and a point deduction system is implemented.

Environmental protection

Our schools' development objective is to build a green campus by integrating the concept of sustainable development with daily teaching management, and implement a number of measures to improve the employees' and students' environmental awareness and involvement, for example, organizing tree planting activities for graduates to remind the employees and students to recycle stationeries and reduce the use of disposable items; promoting the use of multimedia tools for presentations in meetings; posting banners or posters of environmental protection slogans on the campus; and encouraging the employees and students to participate in activities organized by environmental protection organizations.

Moreover, we carry out environmental impact assessment in compliance with the law before construction of new campus. During construction period, we would adopt a series of measures for dust prevention, noise control and waste management to reduce the environmental impact of the construction activities.

EMPLOYEE BENEFITS

Employment Policy

The Group strictly complies with the Labour Law of the People's Republic of China（中華人民共和國勞動法）, the Labour Contract Law of the People's Republic of China（中華人民共和國勞動合同法）, the Teachers Law of the People's Republic of China（中華人民共和國教師法） and the Law for Promoting Private Education of the People's Republic of China（中華人民共和國民辦教育促進法） and other relevant laws and regulations. We adhere to the hiring principles of "Open, Equal, Competitive, Merit-based" and the employment standard of Virtue and Talent with Integrity as priority「德才兼備、以德為先」, and would not discriminate due to gender, disability, ethnicity and religious beliefs of the candidates. We also advocate employee diversity policy to enhance the competitiveness and creativity of the Group by absorbing talents from different countries, backgrounds and ages. We require candidates to submit complete personal information, including academic certificates, identification documents and other documents to ensure that the teaching employees or headquarter employees we hire have the required teaching qualifications or entry conditions under the relevant laws and regulations and to avoid hiring child labour. We will dismiss any employee who severely violates the relevant laws and regulations or the disciplines of the Group. For the employees who are ill or injured as described in the labour law, and female employees during pregnancy, maternity and lactation leaves, we retain employment relationship and pay salaries to them as required by the law.

In accordance with the market-oriented principle, we provide the headquarter employees and teaching employees with competitive salaries. Our promotion system relates to the annual appraisal results of the employees and the operation performance of the Group. During the regular assessments, employees who have made special contribution to the Group or of outstanding performance may be exceptionally promoted. The headquarter implements standard working hours system. The employees work for five days per week with no more than eight hours per day. Employees enjoy statutory holidays and marital leave, funeral leave and maternity leave and other state-specified paid leave. Our schools implement flexible working hours system according to the particular characteristics of the education field, and arrange the working hours of the faculty members as flexible as possible through concentrating working days, concentrating of vacations, rotating days off and shifting rests as well as making flexible work arrangements; employees enjoy summer and winter vacations, statutory holidays and national paid leave. We strictly prohibit forced labour. If overtime is required during the off-hours, overtime compensation is paid to the employees in compliance with the labour laws.

In accordance with the relevant national and local regulations, we pay five types of social insurance contributions and housing provident fund contribution, and purchase commercial supplementary insurance for all employees. For the foreign teachers employed by the schools, we have provided social insurance, housing provident fund and other benefits under the Interim Measures for the Participation in the Social Insurance of Foreigners Employed in China (在中國境內就業的外國人參加社會保險暫行辦法) and the requirements of the Group.

Development and Training

We provide orientation training for our headquarter employees, business training for our management personnel, and overseas inspection training for organization supervisor or technical employees. We also provide internal training regarding professional skills and work ethics to our employees according to the training schemes and teachers' qualification. Based on our actual needs, we implement a flexible training forms, for examples, our employees would attend external training organized by professional organizations or lectures and forums held by accounting firms, and our chief executive officer would participate in training organized by brokerage associations.

The teacher development centers established by our schools are responsible for the development and implementation of the annual training plan. For new teachers, we provide orientation training, and organize Master/Apprentice Pairing (師徒結對) activities and Monthly Training (月培) work; for all teachers, we offer continuous training programs on various topics such as Putonghua, counseling and computer. Meanwhile, we give a teaching guidance to our teachers through our teaching and research groups and course preparation groups consisting of experienced teachers with outstanding teaching performance. To further strengthen the construction of our teaching employees, as well as to accelerate the growth of our excellent young and middle-aged teachers, we also organize trainings for young and middle-aged essential teachers by formulating individual professional development plan by mentors, organizing regular teacher study and scientific theories tutorials, organizing teaching and research activities, engaging experts and scholars to schools to hold academic seminars, recommending essential teachers to attend training courses in province or city for essential teachers, and assigning essential teachers to participate in external academic conferences or field trips. Upon completion of training, we would evaluate the training results which would be linked to the teachers' appraisal.

Care for Employees

Employees are regarded as the most valuable asset of an enterprise and our development depends on the hard work and dedication of each of our employees. We strictly comply with national and local laws and regulations related to occupational health and safety and labour hygiene. We have not only created a healthy and safe working environment where employees are well-motivated, but also strive to heighten their sense of belonging and enthusiasm for work.

We provide our employees with pre-employment body checks and annual body checks to safeguard their health. In order to maintain indoor air quality at an ideal level, we would clean the air-conditioning systems regularly and placed green plants indoors. We are devoted to fostering a favourable environment which continuously improves employees' welfare and treatment, for examples, certain holiday subsidies or festive supplies would be provided for our employees for greetings on holidays such as Teachers' Day, National Day, and Spring Festival; gifts or compassionate allowances would be given on special events such as birthday, weddings and funerals of lineal relative. Moreover, we have established a labour union with the aim to support and care for our employees in difficult situations or ill employees. Lunch subsidies are granted to our teaching employees by our schools. We are committed to delivering expediency and care in respect of our teaching employees' families and their daily lifes, which includes providing housing benefits and addressing issues relating to school admission for their children.

For years, our schools have been organizing attractive and healthy cultural and sport activities, such as employees basketball competitions, parent-child events on Children's Day, employees sports competitions, volleyball matches, Chinese zither lessons, as well as New Year's Day parties. These activities not only add bright colours to the daily lifes of our teaching employees during leisure time, but also help to promote interaction and cooperation among our teaching employees, and create a harmonious campus family.

OPERATIONS MANAGEMENT

Campus Safety and Health Protection

Safety and hygiene of campus is the basis of the maintenance of class order and stable development of our schools. The Group strictly complies with the laws and regulations such as the Law of the People's Republic of China on the Protection of Minors （中華人民共和國未成年人保護法）, the Food Safety Law of the People's Republic of China （中華人民共和國食品安全法）, Measures for the Safety Administration of Primary School, Middle School and Kindergarten（中小學幼兒園安全管理辦法）, School Sanitation Regulations （學校衛生工作條例） and Measures for the Handling of Student Injury and Accidents （學生傷害事故處理辦法）. The Group also formulates and keenly implements regulations and systems in respect of student safety management, management of laboratory and sports equipment, school bus safety management, hygiene and medical protection, management of food safety and hygiene and handling of accidents on campus. There was no significant incident, medical matter or safety issue during the year.

Guarantee of Teaching Quality

Teaching quality is the basis for the survival of a school. Devoted to providing quality teaching service to students from kindergarten to university, the Group has operated private schools in Chengdu for more than 16 years and become one of the well-known private education service providers in Southwest China. To facilitate comprehensive development of students in respect of knowledge, personality, ability and characters, each of our schools has been committed to improving their teaching quality by establishing better facilities, enhancing the qualification of teachers, organizing practical teaching activities, implementing the system of Master and Apprentice amongst teachers, and setting up diversified courses and external exchange programs in accordance with their characteristics of teaching and the actual operations.

Supply Chain Management

Suppliers of the Group are primarily construction, gardening, catering services companies and equipment suppliers. The Office of Academic Affairs purchases all of the text books from suppliers designated by the local education department. Our schools can directly acquire consumables with a value below RMB5,000 approved by internal review. Acquisition of significant equipment and facilities with a value more than RMB5,000 is subject to an invitation of tender by the Group after applied by our schools. The process of tendering by the Group strictly confronts to the relevant laws and regulations such as the Tendering and Bidding Law of the People's Republic of China （中華人民共和國招標投標法）, the Government Procurement Law of the People's Republic of China （中華人民共和國政府採購法） and the Work Procedures of Complaints Handling towards Suppliers of the Sichuan Provincial Government （四川省政府採購供應商投訴處理工作規程）.

We advocate green procurement by prioritizing and purchasing nearby products or services with less impact on the environment. In addition to requiring provision of supporting documents from our suppliers proving their compliance with the relevant national certification of quality, environment protection and safety, we also conduct on-site inspection at our supplier's premises from time to time.

Advertisement

Many of our excellent students were attracted by our reputation and public praise. Besides, we also publicize our enrolment by participating in student admission seminars in Sichuan and other provinces in China. With our strict compliance with laws and regulations such as the Advertising Law of the People's Republic of China （中華人民共和國廣告法）, we are committed to true and accurate advertisement and promotion materials without misleading statements. We have several measures in place to promote our brand and reveal our advantage in teaching as our business expands, for example, enhancement of cooperation with mainstream media such as television, newspaper and magazine, and promotion through internet news and school websites as well as social media such as Weibo and WeChat. As a responsible educational organization, our marketing and promotion initiatives are not limited to the abovementioned approaches. We also conduct market research for a better understanding of the needs of students and their parents, so that we can adjust the courses on offer as appropriate.

Privacy Protection

The Group implements strict confidential policies to prevent privacy within the Group from leaking out, for example, strengthening privacy-issues training, regularly checking privacy security, and setting up a reward and punishment system. As for our schools, we sign confidentiality agreements with our employees members each academic year, and assign special personnel to safekeep test papers, and to ensure the confidentiality of examination questions; Confidentiality Rules has been established to provide guidelines for our teaching employees, and to protect the personal privacy of our employees, students and parents.

Honorable Teaching

Our schools have been dedicated in building up a team of honorable teachers who care about the students and work hand in hand to achieve enhancement. Our teachers endeavor to adhere to the relevant laws and regulations such as the Guidelines of Professional Ethics for Primary and Secondary School Teachers（中小學教師職業道德規範） and the Guidelines of Professional Ethics for Teachers of Higher Education （高等學校教師職業道德規範）, as well as the relevant regulations of the Group and the schools. Teachers shall treat each student fairly and justly during each educational and teaching activities, and would refuse any paid tutoring which is against the laws and regulations, and oppose to any personal gains by using their position advantages. Meanwhile, our teachers shall educate the students about the malice and harm of corruption, and guide them towards an honest living through their words and deeds, to lay the foundation of the human force needed to build a harmonious society.

Moreover, employees across the Group strictly follow the relevant laws and regulations, including the Criminal Law of the People's Republic of China（中華人民共和國刑法）, the Anti-Corruption and Anti-Bribery Law of the People's Republic of China（中華人民共和國反貪污賄賂法）, as well as the Anti-Money Laundering Law of the People's Republic of China（中華人民共和國反洗錢）, so as to combat corruption and bribery in the Group's business operation.

COMMUNITY CONTRIBUTION

As a corporate citizen, the Group endeavors to take up its corporate social responsibilities, and link its own development with the society and people's livelihood. During the year, the Group participated in the "Stock Code Balloting for Charity Scheme" organized by The Community Chest and donated HK$1 million to the social charity organizations. Teachers and students of Chengdu Foreign Languages School have actively participated in the Charity Donation Day 「慈善一日捐」 organized by the Education Bureau of Chengdu, and donated approximately RMB59,860 to help those in need.

Our schools have always cared for students with disabilities and financial difficulties, and provide them with material assistance as well as support and care in respect of their school life. We encourage our students to pass on love and positive spirit, and support public welfare activities organized by student associations, for example, visiting the old people in nursing homes during the Chung Yeung Festival, donating income from New Year's charity sale to poor rural areas, and voluntarily contributing to the heroes participating in the relief of Wenchuan earthquake.

OUTLOOK

Nowadays, facing the worsening ecology and environment, and the increasingly obvious conflict between supply and demand of resources, the sustainable development of enterprises depends on how well they can handle the challenges of climate changes and balance the economic development with environmental conservation. Recognizing its importance, the Group has implemented a series of policies and measures to minimize the impact of our operations on the environment and society while developing its business and pursuing economic benefits. Looking ahead, we will focus on the needs of our students, parents, employees as well as the community, and other stakeholders, further improve our system construction and perfect our management organization, as well as continue to consider each aspect of our daily operation to establish eco-friendly campus with low carbon footprint and caring culture. We strive to contribute to the sustainable development of the industry, and to educate more and more talented members of the society to serve our country.

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Virscend Education Company Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Virscend Education Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 91 to 151, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the *HKICPA's Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
The preferential tax treatment	
According to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules"), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatment. Each of the schools within the Group requires reasonable returns. The Implementation Rules provide that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. Up to the date of approval of these consolidated financial statements, no separate policies, regulations or rules have been introduced by the authorities in this regard. Furthermore, under certain intra-group structured contracts, one of the Group's subsidiaries provides certain technical services to the schools and is entitled to substantially all of the operating profits and residual benefits generated by the schools through service fee charges. There are significant uncertainties arising from the preferential tax treatment enjoyed by the schools and risks associated with transfer pricing. As a result, we identified this matter as a key audit matter. The related disclosures of the preferential tax treatment are included in note 10 to the consolidated financial statements.	We discussed with the Group's PRC legal advisors about the tax position taken by the schools particularly in respect of the eligibility of the preferential tax treatment under relevant tax rules and regulations. In addition, we paid close attention to any new policies, regulations or rules that have been introduced by the authorities, which might have impact on tax position taken by the Group up to the date of this report. We have also reviewed transfer pricing documents prepared by the Company's professional tax advisor. Furthermore, we involved our internal tax specialist to assist us in the assessment of uncertainty arising from the preferential tax treatment enjoyed by the schools and the transfer pricing risk arising from the intergroup transactions.
Revenue recognition	
The existence and completeness of revenue are of high inherent risk because large volumes of tuition and boarding fees transactions are processed in certain short period of time. Moreover, all schools implemented tuition and boarding fees refund policies and the refund also has to be processed case by case. In addition, tuition and boarding fees paid in advance at the beginning of each academic year are recognised proportionately over the fiscal year. Accordingly, revenue may be recorded in incorrect period between the academic year and the fiscal year. The related disclosures of the revenue recognition are included in note 5 and 18 to the consolidated financial statements.	We tested the controls designed and applied by the Group over the collection and process of refund of tuition and boarding fees and the controls over calculation of the deferred revenue and corresponding amount of revenue. On a sampling basis, we tested the collection of tuition fees, observed the attendance and checked the identities of students to ensure their existence. In addition, we recalculated and checked the correctness of the amount of deferred revenue and revenue recognised in the fiscal year.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Law Kwok Kee.

Certified Public Accountants
Hong Kong

24 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	827,205	707,690
Cost of sales		(436,015)	(411,337)
Gross profit		391,190	296,353
Other income and gains	5	56,996	5,184
Selling and distribution expenses		(3,092)	(2,789)
Administrative expenses		(66,471)	(69,458)
Other expenses		(2,308)	(1,595)
Finance costs	7	(54,291)	(102,545)
PROFIT BEFORE TAX	6	322,024	125,150
Income tax expense	10	(19,863)	—
PROFIT FOR THE YEAR		302,161	125,150
Attributable to:			
Owners of the parent	12	302,306	109,677
Non-controlling interests		(145)	15,473
		302,161	125,150
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
– For profit for the year	12	RMB0.10	RMB0.05
Diluted			
– For profit for the year	12	RMB0.10	RMB0.05

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
PROFIT FOR THE YEAR	302,161	125,150
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	44	(13)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	44	(13)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	44	(13)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	302,205	125,137
Attributable to:		
Owners of the parent	302,343	109,660
Non-controlling interests	(138)	15,477
	302,205	125,137

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	2,518,179	2,064,117
Prepaid land lease payments	14	392,436	259,995
Intangible assets		215	—
Other non-current assets	15	196,800	375
Total non-current assets		3,107,630	2,324,487
CURRENT ASSETS			
Prepayments, deposits and other receivables	16	55,330	40,188
Pledged deposits	17	474,090	—
Cash and cash equivalents	17	564,196	248,600
Total current assets		1,093,616	288,788
CURRENT LIABILITIES			
Other payables and accruals	19	153,272	233,054
Tax payable		19,361	—
Interest-bearing bank and other borrowings	20	899,284	589,000
Deferred revenue	18	480,200	435,743
Deferred income – current	21	263	190
Amounts due to related parties	27	669	14,653
Total current liabilities		1,553,049	1,272,640
NET CURRENT LIABILITIES		(459,433)	(983,852)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,648,197	1,340,635

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		2,648,197	1,340,635
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	20	95,000	746,021
Deferred income – non-current	21	6,626	6,163
Total non-current liabilities		101,626	752,184
Net assets		2,546,571	588,451
EQUITY			
Equity attributable to owners of the parent			
Share capital	22	26,051	310
Reserves	23	2,520,488	587,971
		2,546,539	588,281
Non-controlling interests		32	170
Total equity		2,546,571	588,451

Wang Xiaoying
Director

Yan Yude
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

		Attributable to owners of the parent							
	Notes	Share capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
		Note 22	Note 23(a)	Note 23(b)					
At 1 January 2015		—	374,605	107,647	—	107,806	590,058	92,225	682,283
Profit for the year		—	—	—	—	109,677	109,677	15,473	125,150
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations		—	—	—	(17)	—	(17)	4	(13)
Total comprehensive income for the year		—	—	—	(17)	109,677	109,660	15,477	125,137
Issue of shares	22	310	—	—	—	—	310	—	310
Disposal of a subsidiary		—	(300)	(1,584)	—	—	(1,884)	2,100	216
Transfer from retained profits		—	—	47,480	—	(47,480)	—	—	—
Deemed contribution from the controlling shareholders		—	315	—	—	—	315	—	315
Acquisition of interests from the non-controlling shareholders		—	—	—	—	—	—	190	190
Acquisition of non-controlling interests upon completion of the reorganisation		—	41,622	—	—	—	41,622	(41,622)	—
Final dividend declared	11	—	—	—	—	(151,800)	(151,800)	(68,200)	(220,000)
At 31 December 2015 and 1 January 2016		310	416,242*	153,543*	(17)*	18,203*	588,281	170	588,451
Profit for the year		—	—	—	—	302,306	302,306	(145)	302,161
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations		—	—	—	37	—	37	7	44
Total comprehensive income for the year		—	—	—	37	302,306	302,343	(138)	302,205
Issuance of shares for the initial public offering ("IPO")	22	6,329	1,512,870	—	—	—	1,519,199	—	1,519,199
Issuance of shares under the over-allotment option	22	742	177,369	—	—	—	178,111	—	178,111
Capitalisation Issue	22	18,670	(18,670)	—	—	—	—	—	—
Share Issuance expense	22	—	(41,395)	—	—	—	(41,395)	—	(41,395)
Transfer from retained profits		—	—	33,775	—	(33,775)	—	—	—
At 31 December 2016		26,051	2,046,416*	187,318*	20*	286,734*	2,546,539	32	2,546,571

* These reserve accounts comprise the consolidated reserves of RMB2,520,488,000 (2015: RMB587,971,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	6	322,024	125,150
Adjustments for:			
Finance costs	7	54,291	102,545
Loss on disposal of a subsidiary		—	487
Interest income	5	(3,465)	(823)
Loss on disposal of items of property, plant and equipment	6	343	3
Government grants released	5	(420)	(507)
Depreciation of property, plant and equipment	6,13	67,645	56,300
Amortisation of intangible assets	6	4	—
Recognition of prepaid land lease payments	6,14	9,295	6,130
		449,717	289,285
Decrease in prepayments, deposits and other receivables		11,105	148,783
Decrease/(increase) in other non-current assets		375	(6)
(Decrease)/increase in other payables and accruals		(35,760)	58,504
(Decrease)/increase in amounts due to related parties		(13,984)	15,274
Increase in deferred revenue		44,457	64,372
Cash generated from operations		455,910	576,212
Interest received	5	3,465	823
Income tax paid	10	(502)	—
Net cash flows from operating activities		458,873	577,035
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to the other intangible assets		(219)	—
Purchase of items of property, plant and equipment	13	(711,973)	(27,047)
Increase in prepaid land lease payment	14	(145,370)	—
Receipt of government grants		956	2,050
Increase in pledge deposits	17	(474,090)	—
Receipt of disposal of investments		—	1,200
Increase in amounts due from related parties		—	(180,513)
Decrease in amounts due to related parties		—	(10,404)
Increase in deposits		(23,500)	—
Disposal of a subsidiary		—	(4,504)
Net cash flows used in investing activities		(1,354,196)	(219,218)

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		1,131,510	671,000
Repayments of bank and other borrowings		(1,473,320)	(688,000)
Proceeds from issues of new shares		1,697,310	310
Deemed contribution from the controlling shareholders		–	315
Contribution from non-controlling shareholders		–	190
Dividends paid to sponsors		(52,510)	(101,048)
Interest paid		(53,895)	(100,960)
Listing expenses paid		(40,508)	(887)
Net cash flows from/(used in) financing activities		1,208,587	(219,080)
NET INCREASE IN CASH AND CASH EQUIVALENTS		313,264	138,737
Cash and cash equivalents at beginning of year	17	248,600	109,850
Effect of foreign exchange rate changes, net		2,332	13
CASH AND CASH EQUIVALENTS AT END OF YEAR		564,196	248,600
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	17	564,196	248,600

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE INFORMATION

Virscend Education Company Limited (the "Company") was incorporated in the Cayman Islands on 13 March 2015 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the registered office of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 January 2016 (the "Listing Date").

The principal activity of the Company is investment holding. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in providing private education services in the People's Republic of China (the "PRC"). There has been no significant change in the Group's principal activities during the year.

In the opinion of the directors of the Company, as of the date of this report, Mr. Yan Yude ("Mr. Yan") and Virscend Holdings Company Limited, which was incorporated in British Virgin Islands (the "BVI") and fully owned by Mr. Yan, are the Company's controlling shareholders.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries. The particulars of which are set out below:

Name	Date and place of incorporation/ establishment and place of business	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Virscend Investment Holding Company Limited	20 March 2015, BVI	USD50,000	100.00%	—	Investment holding
Wah Tai (HK) Investment Limited	8 September 2014, Hong Kong	HKD10,000	—	100.00%	Investment holding
Tibet Huatai Education Management Consulting Co., Ltd. 西藏華泰教育管理有限公司 ("Tibet Huatai")	22 August 2015, the PRC	RMB300,000,000	—	100.00%	Provision of education services
Chengdu Institute Sichuan International Studies University 四川外國語大學成都學院 ("University") (Note (a))	10 January 2001, the PRC	RMB98,408,800	—	(Note (a))	Provision of university education services

1. CORPORATE INFORMATION – continued

Name	Date and place of incorporation/ establishment and place of business	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
Chengdu Foreign Languages School 成都外國語學校	14 January 2000, the PRC	RMB52,000,000	—	100.00%	Provision of high and middle school education services
Chengdu Experimental Foreign Languages School 成都市實驗外國語學校	12 October 2001, the PRC	RMB132,100,000	—	100.00%	Provision of high and middle school education services
Chengdu Experimental Foreign Languages School (Western Campus) 成都市實驗外國語學校(西區)	4 June 2003, the PRC	RMB1,000,000	—	100.00%	Provision of high and middle school education services
Primary School Attached to Chengdu Foreign Languages School 成都外國語學校附屬小學 ("Primary School")	23 May 2003, the PRC	RMB1,000,000	—	100.00%	Provision of elementary school education services
Kindergarten of the Primary School attached to Chengdu Jinniu District Foreign Languages School 成都市金牛區成外附小幼稚園 ("Kindergarten")	2 July 2007, the PRC	RMB1,000,000	—	100.00%	Provision of kindergarten education services
USA Wahtai Educational Consulting Services Inc.	2 November 2015, the United States of America (the "USA")	USD100,000	—	70.00%	Consulting services
Chengdu Derui Huatai Trading Co., Ltd. 成都德瑞華泰商貿有限公司	20 October 2015, the PRC	RMB100,000	—	100.00%	Trading
Chengdu Fianfu New Area Derui Huatai Education Management Co., Ltd. 成都天府新區德瑞華泰教育管理有限公司	8 June 2016, the PRC	HKD700,000,000	—	100.00%	Provision of education services

1. CORPORATE INFORMATION – continued

(a) In March 2011, Sichuan Hongming Property Co., Ltd. ("Hongming Property") 四川弘明置業有限公司 and Sichuan Derui Enterprise Development Co., Ltd. ("Sichuan Derui") 四川德瑞企業發展有限公司 entered into an equity transfer agreement, pursuant to which Hongming Property transferred its sponsor's interest of 23.83% in the University to Sichuan Derui for a total consideration of RMB255,000,000, which was determined with reference to the contribution made by Hongming Property to the registered capital of the University. On the same day, Hongming Property and Sichuan Derui entered into an agreement whereby the rights and liabilities attached to the 23.83% interest in the University were assigned to Sichuan Derui. Since then Sichuan Derui was deemed to be the beneficial owner of a 75.70% sponsor interest in the University. The consideration was fully paid on 8 August 2012.

The 24.30% sponsor interest held by Xinhua Winshare Publishing and Media Co., Ltd. ("Xinhua Winshare") 新華文軒出版傳媒股份有限公司 entitled it to receive annual fixed dividend equaling to 8%, 9% and 10% of its total investment amounting to RMB260,000,000 in the University in 2009, 2010 and 2011 and onwards. Accordingly the sponsor interest held by Xinhua Winshare was accounted for in its entirety as a financial liability on the consolidated statements of financial position even if that is non-redeemable because the net present value of the right to receive the fixed dividend is greater than the issue proceeds in 2015.

On 15 November 2016, Sichuan Derui and Xinhua Winshare entered into the School Sponsor's Interest Transfer Agreement, pursuant to which Xinhua Winshare agreed to sell and Sichuan Derui agreed to purchase 24.30% of the school sponsor's interest in the University at cash consideration of RMB260,250,000. On 25 November 2016, the Group paid the consideration of RMB260,250,000 to Sichuan Derui to acquire 24.30% of the school sponsor's interest in the University.

The transfer of the sponsor interest aforementioned is in progress as at the date of approval of these consolidated financial statements and expected to be completed within the year 2017.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with IFRSs, which comprise all standards and interpretations issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PREPARATION – continued

Basis of consolidation – continued

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company uses consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

The Group had net current liabilities of approximately RMB459,433,000 as at 31 December 2016. Taking into account the financial resource of the Group, including the anticipated operation cash flow, the directors of the Company are of the opinion that the Group has sufficient cash flows in the foreseeable future to enable it to continue its operations and meet its liabilities as and when they fall due. Therefore, the financial statements have been prepared on a going concern basis.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs

Other than as explained below regarding the impact of amendments to IAS 1, amendments to IAS 16 and IAS 38, annual Improvements to IFRSs 2012-2014 Cycle, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

(a) Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in IAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES – continued

(b) Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(c) Annual Improvements to *IFRSs 2012-2014 Cycle* issued in September 2014 sets out amendments to a number of IFRSs. Details of the amendments are as follows:

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in IFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transaction*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs – continued

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. During 2016, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs – continued

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

Amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 (2011) was removed by the IASB in November 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs – continued

IFRS 16 replaces IAS 17 Leases, IFRIC-Int 4 Determining whether an Arrangement contains a Lease, SIC-Int 15 Operating Leases - Incentives and SIC-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combination and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Business combination and goodwill – continued

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fair value measurement – continued

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, (only if there are revalued assets in the financial statements) unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Property and buildings	1.8% to 10%
Leasehold improvements	10%
Motor vehicles	18%
Furniture and fixtures	18%
Computer equipment	18%

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Investments and other financial assets – continued

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, derivative financial instruments and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Offsetting of financial instruments

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Income tax – continued

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

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

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

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of returns, discounts, and sales related tax.

Service income includes tuition fees and boarding fees from college, elementary schools, middle schools and high schools of the Group and tuition fees from preschool services.

The tuition fees from the schools of the Group are paid in advance at the beginning of each academic year. Revenue is recognised after a service contract is signed, the price is fixed or determinable, and services are provided.

Tuition and boarding fees received from college, elementary schools, middle schools and high schools are generally paid in advance prior to the beginning of each academic year, and are initially recorded as deferred revenue. Tuition and boarding fees are recognised proportionately over the relevant period of the applicable program. The portion of tuition and boarding payments received from students but not earned is recorded as deferred revenue and is reflected as a current liability as such amounts represent revenue that the Group expects to earn within one year. The academic year of the Group's school is generally from September to June of the following year.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of the income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Mainland China are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies – continued

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

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

Contractual arrangements

Certain subsidiaries are engaged in the provision of education services, which falls in the scope of "Catalogue of Restricted Foreign Investment Industries" and foreign investors are prohibited to invest in such business.

The Group exercises control over these subsidiaries and enjoys all economic benefits of the certain subsidiaries through the structured contracts.

The Group considers that it controls these subsidiaries, notwithstanding the fact that it does not hold direct equity interest in the certain subsidiaries, as it has power over the financial and operating policies of the certain subsidiaries and receives substantially all of the economic benefits from the business activities of the certain subsidiaries through the structured contracts. Accordingly, the certain subsidiaries have been accounted for subsidiaries during the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – continued

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each of the year. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in the production and provision of services, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at the end of each of the year based on changes in circumstances. Further details of the property, plant and equipment are set out in note 13 to the consolidated financial statements.

Income tax

Significant judgement is required in interpreting the relevant tax rules and regulation so as to determine whether the Group is subject to corporate income tax. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of the tax liabilities and such changes to tax liabilities will impact tax expense in the period that such determination is made.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the provision of education services in the PRC.

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to the directors of the Company, who are the chief operating decision-makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial statement and the directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

Geographical information

During the year, the Group operated within one geographical segment because all of its revenue was generated in the PRC and all of its long-term assets/capital expenditure were located/incurred in the PRC. Accordingly, no geographical segment information is presented.

Information about major customers

No sale to a single customer contributes 10% or more of total revenue of the Group during the year.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the value of services rendered, after deducting scholarships and refunds during the year.

An analysis of revenue, other income and gains is as follows:

	Note	2016 RMB'000	2015 RMB'000
Revenue			
Tuition fees		787,666	668,824
Boarding fees		39,539	38,866
		827,205	707,690
Other income and gains			
Interest income	6	3,465	823
Foreign exchange difference, net (note(i))	6	42,927	—
Fee sharing income (note (ii))		1,175	949
Donation income		—	16
Government grants			
– related to assets		190	174
– related to income		4,377	333
Others		4,862	2,889
		56,996	5,184

Note (i): Foreign exchange difference is generated from the translation of the Hong Kong dollars bank deposits resulted from the depreciation of Renminbi against Hong Kong dollars.

Note (ii): The amount represents the service fee sharing arrangements with China Telecom Corporation Limited ("China Telecom") under which the Group constructed certain campus network infrastructure and therefore was entitled to receive a certain percentage of telecommunication service fee earned from its students by China Telecom.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2016 RMB'000	2015 RMB'000
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):			
Wages, salaries and other allowances		272,697	263,211
Pension scheme contributions (defined contribution scheme)		30,359	32,497
Depreciation of property, plant and equipment	13	67,645	56,300
Amortisation of intangible assets		4	—
Amortisation of land lease payments	14	9,295	6,130
Minimum lease payments under operating leases		16,160	6,922
Auditor's remuneration			
– audit service		2,104	838
– non-audit service		102	346
Listing expenses		—	26,294
Bank interest income	5	(3,465)	(823)
Foreign exchange difference, net	5	(42,927)	—
Loss on disposal of items of property, plant and equipment		343	3
Loss on disposal of a subsidiary		—	487

7. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on bank loans and other borrowings	62,023	102,545
Less: interest capitalised	(7,732)	—
	54,291	102,545

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Mr. Yan was appointed as the executive director of the Company in March 2015, while Ms. Wang Xiaoying, Mr. Ye Jiayu and Mr. Xu Ming were appointed as executive directors of the Company in August 2015. Mr. Sit Chiu Wing, Mr. Chan Kim Sun and Ms. Xu Dayi were appointed as independent non-executive directors of the Company in December 2015, and Mr. Xu Ming was appointed as the chief executive of the Company in August 2015. The Company did not have any non-executive directors at any time during the year ended 31 December 2016.

There was no change in directors and chief executive during the year ended 31 December 2016.

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	4,157	1,244
Pension scheme contributions	33	5
	4,190	1,249

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2016 RMB'000	2015 RMB'000
Mr. Sit Chiu Wing	105	—
Mr. Chan Kim Sun	105	—
Ms. Xu Dayi	83	—
	293	—

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION – continued

(b) Executive directors and the chief executive

2016	**Salaries, allowances and benefits in kind RMB'000**	**Pension scheme contributions RMB'000**	**Total remuneration RMB'000**
Executive directors:			
Mr. Yan	894	–	894
Ms. Wang Xiaoying	894	–	894
Mr. Ye Jiayu	861	–	861
	2,649	–	2,649
Executive director and chief executive:			
Mr. Xu Ming	1,215	33	1,248
	3,864	33	3,897

2015	**Salaries, allowances and benefits in kind RMB'000**	**Pension scheme contributions RMB'000**	**Total remuneration RMB'000**
Executive directors:			
Mr. Yan	690	—	690
Ms. Wang Xiaoying	448	—	448
Mr. Ye Jiayu	—	—	—
	1,138	—	1,138
Executive director and chief executive:			
Mr. Xu Ming	106	5	111
	1,244	5	1,249

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year include 4 directors (2015: 2), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining 1 (2015: 3) highest paid employees who are neither a director nor chief executive of the Group are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	611	943
Pension scheme contributions	10	22
	621	965

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	2016	2015
Nil to HK$1,000,000	1	3

During the year, no highest paid employees waived or agreed to waive any remuneration and no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax.

Pursuant to the rules and regulations of the British Virgin Islands, the Group is not subject to any tax in the British Virgin Islands.

Hong Kong profits tax has not been provided as the Group did not derive any assessable profits in Hong Kong during the year.

10. INCOME TAX – continued

According to the Implementation Rules, private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatment. Each of the Group's schools requires reasonable returns. The Implementation Rules provide that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. In accordance with the historical tax returns filed to the relevant tax authorities and the confirmation obtained in 2015, the Group's schools have enjoyed the preferential corporate income tax exempt treatment since their establishment.

Based on the confirmations obtained in 2015 from the local tax bureaus and local offices of the State Administration of Taxation, the Group's schools were exempted from corporate income tax since their establishment.

After the corporate reorganization, Tibet Huatai is initially subject to a PRC income tax rate of 9%, which will be increased to 15% beginning in 2018 when the three-year exemption granted by Tibet local government expires in accordance with the relevant tax regulations.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates. The income tax expenses of the Group for the year are analysed as follows:

	2016 RMB'000	2015 RMB'000
Current – PRC		
Charge for the year	19,863	—
Total tax charge for the year	19,863	—

10. INCOME TAX – continued

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the statutory tax rates to the effective tax rates, are as follows:

	2016		2015	
	RMB'000	%	RMB'000	%
Profit before tax	322,024		125,150	
Tax at the statutory tax rate	77,387	25.0	37,708	25.0
Lower tax rate(s) for specific provinces or enacted by local authority	(49,950)	(15.5)	1,114	0.9
Expenses not deductible for tax	8,265	2.6	627	0.5
Tax losses utilised from previous periods	(629)	(0.2)	—	—
Tax losses not recognised	300	0.1	47	—
Income not subject to tax	(15,510)	(4.8)	(39,496)	(31.6)
Tax charge at the Group's effective rate	19,863	6.2	—	—

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

Deferred tax assets have not been recognised in respect of the losses amounting to RMB1,200,000 as at 31 December 2016 (31 December 2015: RMB6,965,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the taxable losses can be utilized.

As at 31 December 2016, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, the Group's fund will be retained in Mainland China for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB275,690,000 as at 31 December 2016 (31 December 2015: RMB70,122,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

11. DIVIDENDS

A final dividend of HK$0.07 per share in respect of the year ended 31 December 2016 has been proposed by the board of directors and is subject to approval by the shareholders at the forthcoming annual general meeting of the Company.

Prior to the reorganization, dividends of RMB220,000,000 have been declared by certain of the Group's schools during the year ended 31 December 2015.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average numbers of ordinary shares of 3,046,867,541 (2015: 2,250,000,000) in issue during the year.

The number of ordinary shares for the purpose of calculating basic earnings per share has been adjusted retrospectively as if the Company had been the holding company of the Group and the shares had been in issue throughout both periods.

There were no potentially dilutive ordinary shares in issue during the years ended 31 December 2016 and 2015, and therefore the diluted earnings per share amounts were equivalent to the basic earnings per share.

The calculations of basic and diluted earnings per share are based on:

	2016	2015
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB'000)	302,306	109,677
Shares		
Weighted average number of ordinary shares in issue	3,046,867,541	2,250,000,000
Basic and diluted earnings per share (expressed in RMB per share)	0.10	0.05

13. PROPERTY, PLANT AND EQUIPMENT

	Property and buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Electronic devices RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016							
At 1 January 2016:							
Cost	2,015,024	114,808	11,364	42,743	202,385	–	2,386,324
Accumulated depreciation	(89,353)	(30,679)	(8,040)	(34,000)	(160,135)	–	(322,207)
Net carrying amount	1,925,671	84,129	3,324	8,743	42,250	–	2,064,117
At 1 January 2016, net of accumulated depreciation	1,925,671	84,129	3,324	8,743	42,250	–	2,064,117
Additions	2,873	–	2,903	4,407	18,682	493,332	522,197
Disposals	–	–	(36)	(66)	(388)	–	(490)
Depreciation provided during the year (note 6)	(44,030)	(12,738)	(853)	(1,643)	(8,381)	–	(67,645)
At 31 December 2016, net of accumulated depreciation	1,884,514	71,391	5,338	11,441	52,163	493,332	2,518,179
At 31 December 2016							
Cost	2,017,897	114,808	14,231	47,084	220,679	493,332	2,908,031
Accumulated depreciation	(133,383)	(43,417)	(8,893)	(35,643)	(168,516)	–	(389,852)
Net carrying amount	1,884,514	71,391	5,338	11,441	52,163	493,332	2,518,179

13. PROPERTY, PLANT AND EQUIPMENT – continued

	Property and buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Electronic devices RMB'000	Total RMB'000
31 December 2015						
At 1 January 2015:						
Cost	719,344	114,168	9,961	39,943	195,285	1,078,701
Accumulated depreciation	(56,416)	(19,246)	(7,108)	(31,857)	(151,280)	(265,907)
Net carrying amount	662,928	94,922	2,853	8,086	44,005	812,794
At 1 January 2015, net of accumulated depreciation	662,928	94,922	2,853	8,086	44,005	812,794
Additions	1,295,680	640	1,403	2,800	7,140	1,307,663
Disposals	—	—	—	—	(40)	(40)
Depreciation provided during the year (note 6)	(32,937)	(11,433)	(932)	(2,143)	(8,855)	(56,300)
At 31 December 2015, net of accumulated depreciation	1,925,671	84,129	3,324	8,743	42,250	2,064,117
At 31 December 2015:						
Cost	2,015,024	114,808	11,364	42,743	202,385	2,386,324
Accumulated depreciation	(89,353)	(30,679)	(8,040)	(34,000)	(160,135)	(322,207)
Net carrying amount	1,925,671	84,129	3,324	8,743	42,250	2,064,117

14. PREPAID LAND LEASE PAYMENTS

	Note	2016 RMB'000	2015 RMB'000
Carrying amount at beginning of year		267,185	156,218
Addition		145,370	117,097
Recognised during the year		(9,295)	(6,130)
Carrying amount at end of year		403,260	267,185
Current portion included in prepayments, deposits and other receivables	16	10,824	7,190
Non-current portion		392,436	259,995

15. OTHER NON-CURRENT ASSETS

The University and Hongming Property entered into a Property Transfer Agreement, pursuant to which the University or its designated entity conditionally agreed to purchase, and Hongming Property conditionally agreed to sell, the properties at a cash consideration of RMB328,000,000, which shall be paid in cash in three installments. RMB196,800,000, approximately 60% of the total consideration, has been paid by 31 December 2016.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2016 RMB'000	2015 RMB'000
Prepaid expenses		4,434	1,946
Prepaid lease payments (current portion)	14	10,824	7,190
Listing expenses		—	9,876
Cooperative agreement deposits (note (i))		23,500	—
Advance to staff		564	343
Other receivables		7,594	5,700
Advances paid on behalf of others		8,414	—
Other deposits		—	15,133
		55,330	40,188

Note (i): The Group entered into cooperative arrangements of developing Chengdu Foreign Languages School – Zigong Purun Campus with business partners who are independent third parties, including Zigong Purun Trading Co., Ltd. and a state-owned investment company.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

17. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2016 RMB'000	2015 RMB'000
Cash and bank balances	564,196	248,600
Pledged deposits	474,090	—
	1,038,286	248,600

At the end of the year, the cash and bank balances of the Group denominated in RMB amount to RMB 523,447,000 (2015: RMB245,855,000). The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Pledged deposits earn interest at fixed rates based on the rates under relevant deposit contracts. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Pledged deposits represent deposits pledged to banks to secure banking facilities granted to the Group. All the deposits have been pledged to secure short-term borrowings and are therefore classified as current assets.

18. DEFERRED REVENUE

	2016 RMB'000	2015 RMB'000
Tuition fees	455,965	411,815
Boarding fees	24,235	23,928
	480,200	435,743

The customers are entitled to refund of the payment in relation to the proportionate service not yet provided.

19. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Accrued payrolls	30,628	31,155
Payables for purchase of property, plant and equipment	21,287	14,410
Miscellaneous expenses received from students (note (i))	34,496	52,507
Other tax payable	18,034	3,870
Dividend payable (note (ii))	–	52,510
Interest payable	27,314	27,991
Accrued listing-related expense	–	21,070
Others	21,513	29,541
	153,272	233,054

Other payables are non-interest-bearing and have an average term of six months.

Note (i): The amount represents the miscellaneous expenses received from students which will be paid out on behalf of students.

Note (ii): Dividends of RMB220,000,000 have been declared by certain schools during the year ended 31 December 2015. Dividends of RMB52,510,000 have been paid during 2016 and all dividends payable have been settled by 31 December 2016.

20. INTEREST-BEARING BANK AND OTHER BORROWINGS

31 December 2016

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans – secured	2.57-5.66	2017	899,284
Non-current			
Bank loans – secured	7.06-7.84	2018	95,000
			994,284

20. INTEREST-BEARING BANK AND OTHER BORROWINGS – continued

31 December 2015

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans – secured	4.57-6.23	2016	509,000
Other borrowing – secured	7.55	2016	80,000
			589,000
Non-current			
Bank loans – secured	5.67-7.84	2017-2022	486,021
Other borrowing – unsecured*	10.00	*	260,000
			746,021
			1,335,021

* Other unsecured borrowings represents the 24.30% sponsor interest in the University held by Xinhua Winshare which entitles it to receive an annual fixed dividend equalling to 10% of its total investment amounting to RMB260,000,000 in the University. The other borrowing was repaid in November 2016. Details of the accounting treatment of the other borrowing were included in note 1 to the financial statements.

20. INTEREST-BEARING BANK AND OTHER BORROWINGS – continued

	2016 RMB'000	2015 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	899,284	509,000
In the second year	95,000	105,000
In the third to fifth years, inclusive	–	255,000
Beyond five years	–	126,021
	994,284	995,021
Other borrowings repayable:		
Within one year or on demand	–	80,000
In the second year	–	–
Beyond five years	–	260,000
	–	340,000
	994,284	1,335,021

The other borrowings of the Group as at 31 December 2015 were from a trust fund company and an independent third-party company.

Certain of the Group's bank and other borrowings amounting to RMB1,075,021,000 as at 31 December 2015 were secured or guaranteed by Sichuan Derui, Chengdu Tianren Property Development Co., Ltd. ("Tianren Property"), Hongming Property, Sichuan Xinyuan Estates Investment Co., Ltd ("Xinyuan Estates"), Chengdu Tianchen Construction Real Estate Co., Ltd. ("Tianchen Estate"), Chengdu Liheng Investment Co., Ltd. ("Liheng Investment"), Derui Hui Gou Transportation (Group) Company Limited ("Hui Gou"), Chengdu Kanglisi Engineering Development Company Limited ("Kanglisi Engineering"), Sichuan Hongyi Industries Group Co., Ltd. ("Hongyi Industries"), Chengdu Dewanxing Industry Co., Ltd. ("Dewanxing") and Mr. Yan.

Certain of the Group's bank and other borrowings amounting to RMB568,094,000 as at 31 December 2016 were secured or guaranteed by Sichuan Derui, Dewanxing, Tianren Property, Xinyuan Estates, Tianchen Estate, Liheng Investment, Hui Gou, Kanglisi Engineering, Hongyi Industries and Mr. Yan. Bank borrowings amounting to RMB426,190,000 as at 31 December 2016 were secured by term deposit of the Group.

21. DEFERRED INCOME

	2016 RMB'000	2015 RMB'000
At beginning of year	6,353	4,810
Received amounts	956	2,050
Charged to profit or loss	(420)	(507)
At end of year	6,889	6,353
Current	263	190
Non-current	6,626	6,163
	6,889	6,353

The grants are related to the subsidies received from the government for the purpose of compensation for expenses arising from operating expenses and improvement of teaching facilities on certain special projects. Upon completion of the operating activities and the related projects, the grants related to the expense items would be recognised as other income directly in the statement of profit or loss and the grants related to an asset would be released to the statement of profit or loss over the expected useful life of the relevant asset.

22. SHARE CAPITAL

	2016 RMB'000	2015 RMB'000
Issued and fully paid:		
3,088,761,000 (2015: 2,250,000,000) ordinary shares of HK$0.01 each	26,051	310

22. SHARE CAPITAL – continued

A summary of movements in the Company's share capital is as follows:

	Note	Number of shares in issue	Issued capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2016		2,250,000,000	18,980	(18,670)	310
Issue of shares upon IPO and exercise of over-allotment option	(a)	838,761,000	7,071	18,670	25,741
At 31 December 2016		3,088,761,000	26,051	–	26,051

Note:

(a) In connection with the Company's IPO on 15 January 2016, 750,000,000 shares of HK$0.01 each of the Company were issued at an issue price of HK$2.40 and the Company was listed on the Main board of the Stock Exchange. On 5 February 2016, the over-allotment option has been partially exercised and the Company allotted and issued 88,761,000 additional shares at HK$2.40 per share on 15 February 2016.

23. RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity on page 95 of the financial statements.

(a) Capital reserve

The capital reserve of the Group represents the capital contribution from its then sponsors of the subsidiaries and deemed acquisition of a non-controlling interest held by persons other than the controlling shareholders.

23. RESERVES – continued

(b) Statutory surplus reserve

Pursuant to the relevant laws in the PRC, the Company's subsidiaries in the PRC shall make appropriations from after-tax profit to non-distributable reserve funds as determined by the boards of directors of the relevant PRC subsidiaries. These reserves include (i) the general reserve of the limited liability companies and (ii) the development fund of schools.

1) In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

2) According to the relevant PRC laws and regulations, for private schools that require for reasonable returns, it is required to appropriate to the development fund not less than 25% of the net income of the relevant schools as determined in accordance with generally accepted accounting principles in the PRC. The development fund is for the construction or maintenance of the schools or procurement or upgrade of educational equipment.

(c) Non-controlling interests

No subsidiaries had material non-controlling interests during the year. The equity interests in the Company held by persons other than the controlling shareholders were deemed to be non-controlling interests until completion of the corporate reorganisation on 7 September 2015 when the equity interest held by persons other than the controlling shareholders was deemed to be acquired by the Company with nil consideration and the entire balance of non-controlling interests had been transferred to the capital reserve.

24. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

There were no major non-cash transactions during the current financial year.

During 2015, the Group settled all its outstanding balance with related parties previously recorded in "Long-term receivable", "Amounts due from related parties", and "Amounts due to related parties" by: i) offsetting dividends payable of RMB66,442,000; ii) offsetting the consideration of the Target Assets with amount of RMB1,390,401,000; iii) paid RMB180,513,000 by cash, recorded in consolidated statement of cash flows.

25. COMMITMENTS

Capital commitments

The Group had the following capital commitments at the end of each of the reporting period:

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
Land and buildings	340,112	—

Operating lease commitments

As lessee

The Group leases certain of its buildings under operating lease arrangements. Leases for buildings were negotiated for terms of 3 to 20 years. As at the end of the year, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	18,136	13,550
In the second to fifth years, inclusive	19,992	33,952
Beyond five years	18,291	20,755
	56,419	68,257

26. CONTINGENT LIABILITIES

As at 31 December 2015 and 2016, the Group did not have any significant contingent liabilities.

27. RELATED PARTY TRANSACTIONS

(a) Names and relationships of related parties

Name	Relationship
Mr. Yan	Director of the Company
Ms. Wang Xiaoying	Spouse of Mr. Yan
Sichuan Derui	A company controlled by Mr. Yan
Sichuan Derui Education Management Co., Ltd. ("Derui Education Management") 四川德瑞教育管理有限公司*	A company controlled by Mr. Yan's relatives named Mr. He Qikang until September 2016
Hongming Property	A company controlled by Mr. Yan's relatives
Tianren Property	A company controlled by Mr. Yan's relatives
USA Tianren Hotel Management Inc. ("USA Tianren Hotel")	A company controlled by Ms. Xie Suhua, the mother of Mr. Yan
Dewanxing	A company controlled by Mr. Yan's relatives
Tianchen Estate	A company controlled by Mr. Yan and Ms. Wang Xiaoying
Liheng Investment	A company controlled by a director of the Company
Hui Gou	A company controlled by Mr. Yan's relatives

* Mr. He Qikang disposed the share of Derui Education Management to an independent third party in September 2016, therefore, Derui Education Management was no longer the related party of the Group since then.

As disclosed in the consolidated statement of financial position, the Group had outstanding balances due to related parties at 31 December 2015 and 2016.

(b) Outstanding balances with related parties

Amounts due to related parties

	2016 RMB'000	2015 RMB'000
Derui Education Management	–	201
Tianren Property	–	1
USA Tianren Hotel	499	84
Sichuan Derui	170	14,367
	669	14,653

The amounts due to related parties are unsecured and interest-free.

27. RELATED PARTY TRANSACTIONS – continued

(c) Other related party transactions

1) During the year, the Group entered into the following transactions with its related parties:

	Note	Nature of transaction	2016 RMB'000	2015 RMB'000
Sichuan Derui		Procurement of property, plant and equipment and leasehold lands	—	1,390,401
Sichuan Derui		Property Lease	10,729	4,836
Hongming Property	(i)	Procurement of property, plant and equipment and leasehold lands	196,800	—
Derui Education Management		Property Lease	243	201
Tianren Property		Property Lease	6	1
USA Tianren Hotel		Property Lease	499	84

(i) The procurement of property, plant and equipment and leasehold lands from Hongming Property were made at the prices mutually agreed between the Group and Hongming Property by reference to the valuation of the properties at RMB328,000,000 as at 30 September 2016, as assessed by DTZ Cushman & Wakefield Limited, a firm of independent professional valuers. RMB196,800,000, approximately of 60% of the total consideration, has been paid by 31 December 2016 (note 15).

2) Certain of the Group's bank and other borrowings amounting to RMB568,094,000 at 31 December 2016 were secured or guaranteed by Sichuan Derui, Tianren Property, Hongming Property, Xinyuan Estates, Tianchen Estate, Liheng Investment, Hui Gou, Kanglisi Engineering, Hongyi Industries, Dewanxing and Mr. Yan.

Certain of the Group's bank and other borrowings amounting to RMB1,075,021,000 at 31 December 2015 were secured or guaranteed by Sichuan Derui, Tianren Property, Hongming Property, Xinyuan Estates, Tianchen Estate, Liheng Investment, Hui Gou, Kanglisi Engineering, Hongyi Industries, Dewanxing and Mr. Yan.

On 15 November 2016, Sichuan Derui and Xinhua Winshare entered into the School Sponsor's Interest Transfer Agreement, pursuant to which Xinhua Winshare agreed to sell and Sichuan Derui agreed to purchase 24.30% of the school sponsor's interest in the University at cash consideration of RMB260,250,000. On 25 November 2016, the Group paid the consideration of RMB260,250,000 to Sichuan Derui to acquire 24.30% of the school sponsor's interest in the University.

27. RELATED PARTY TRANSACTIONS – continued

(d) Compensation of key management personnel of the Group:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	6,250	2,076
Pension scheme contributions	44	5
	6,294	2,081

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

The related party transactions in respect of items and above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

28. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as at the end of the year are as follows:

Financial assets – loans and receivables	2016 RMB'000	2015 RMB'000
Financial assets included in prepayments, deposits and other receivables	12,799	6,043
Cash and cash equivalents	564,196	248,600
Pledged deposits	474,090	—
Financial assets included in other non-current assets	—	375
	1,051,085	255,018

Financial liabilities at amortised cost	2016 RMB'000	2015 RMB'000
Amounts due to related parties	669	14,653
Financial liabilities included in other payables and accruals	91,195	172,269
Interest-bearing bank and other borrowings	994,284	1,335,021
	1,086,148	1,521,943

29. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

During the year, the carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	2016 Carrying amounts RMB'000	2016 Fair values RMB'000
Interest-bearing bank and other borrowings	994,284	994,284
	994,284	994,284

	2015 Carrying amounts RMB'000	2015 Fair values RMB'000
Financial assets included in other non-current assets	375	290
Interest-bearing bank and other borrowings	1,335,021	1,335,021
	1,335,396	1,335,311

Management has assessed that the fair values of cash and cash equivalents, financial assets included in prepayments, deposits and other receivables and amounts due to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

The following methods and assumptions were used to estimate the fair values:

The fair values of the interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2015 and 2016 was assessed to be insignificant.

The fair values of the financial assets included in non-current assets have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

29. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS – continued

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

There was no financial asset measured at fair value as at 31 December 2016 and 31 December 2015.

Assets for which fair values are disclosed:

There was no financial asset disclosed at fair value as at 31 December 2016.

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets included in other non-current assets	—	—	290	290

Liabilities for which fair values are disclosed:

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	—	994,284	—	994,284

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	—	1,075,021	260,000	1,335,021

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, cash and cash equivalents and pledged deposits. The Group has various other financial assets and liabilities such as other receivables, amounts due to related parties and other payables and accruals, which arise directly from its operations.

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

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed-rate bank and other borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on interest-bearing financial assets and liabilities, mainly bank balances and bank and other borrowings (note 20) which carried interest at prevailing market interest rates. It is the Group's policy to keep certain borrowings at floating rates of interest so as to minimize the fair value interest rate risk. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the directors of the Company will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable rate bank borrowings at the end of each reporting period and assumed that the amount of liabilities outstanding at the end of each period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the years ended 31 December 2015 and 2016 would decrease/increase by RMB3,355,000 and RMB2,150,000 respectively. This is mainly attributable to the Group's exposure to interest rates on its bank borrowings and other borrowings.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the year end exposure at the end of the year does not reflect the exposure during the respective years.

Credit risk

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by product type. There are no significant concentrations of credit risk within the Group.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of the year, based on the contractual undiscounted payments, was as follows:

	2016					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings - *fixed rate*	—	429,338	141,878	—	—	571,216
Interest-bearing bank and other borrowings - *variable rate*	360,259	2,198	45,671	97,449	—	505,577
Amounts due to related parties	669	—	—	—	—	669
Financial liabilities included in other payables and accruals	91,195	—	—	—	—	91,195
	452,123	431,536	187,549	97,449	—	1,168,657

	2015					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings - *fixed rate*	—	35,046	417,291	104,000	260,000*	816,337
Interest-bearing bank and other borrowings - *variable rate*	—	10,613	238,559	422,634	167,859	839,665
Amounts due to related parties	—	—	14,653	—	—	14,653
Financial liabilities included in other payables and accruals	172,269	—	—	—	—	172,269
	172,269	45,659	670,503	526,634	427,859	1,842,924

* The other fixed rate borrowings of RMB260,000,000 bears fixed annual dividend rate of 10% without maturity date.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from the proceeds denominated in HKD from IPO and over-allotment option. The forward currency contracts must be in the same currency as the hedged item. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rate of RMB against HKD and USD, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of forward currency contracts).

	Increase/ (decrease) in HKD or USD rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2016			
If the Renminbi weakens against the Hong Kong dollar	5	25,535	31,308
If the Renminbi strengthens against the Hong Kong dollar	5	(25,535)	(31,308)
If the Renminbi weakens against the United States dollar	5	207	208
If the Renminbi strengthens against the United States dollar	5	(207)	(208)
2015			
If the Renminbi weakens against the Hong Kong dollar	5	90	—
If the Renminbi strengthens against the Hong Kong dollar	5	(90)	—
If the Renminbi weakens against the United States dollar	5	194	195
If the Renminbi strengthens against the United States dollar	5	(194)	(195)

Capital management

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of business. The Group's overall strategy remains unchanged from prior years.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Capital management – continued

The capital structure of the Group consists of net debt, which includes borrowings disclosed in note 20, cash and cash equivalents, and equity attributable to owners of the parent, comprising capital, reserves and retained profits.

The directors of the Company review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the raising of new debts as well as the redemption of the existing debt.

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	79	—
Investments in subsidiaries	315	315
Total non-current assets	394	315
CURRENT ASSETS		
Cash and cash equivalents	15,048	310
Prepayments, deposits and other receivables	1,346	2,042
Due from related party	1,725,499	—
Total current assets	1,741,893	2,352
CURRENT LIABILITIES		
Other payables	2,346	—
Due to related party	18,598	8,167
Total current liabilities	20,944	8,167
NET CURRENT ASSETS/(LIABILITIES)	1,720,949	(5,815)
TOTAL ASSETS LESS CURRENT ASSETS /(LIABILITIES)	1,721,343	(5,500)
Total non-current liabilities	—	—
Net assets/(liabilities)	1,721,343	(5,500)
Share capital	26,051	310
Reserves	1,695,292	(5,810)
Total equity/(deficits)	1,721,343	(5,500)

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY – continued

Note:

A summary of the Company's reserves is as follows:

	Capital reserve RMB'000	Statutory surplus reserve fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2015	—	—	—	—
Loss for the year	—	—	(6,125)	(6,125)
Total comprehensive income for the year	—	—	(6,125)	(6,125)
Deemed contribution from the controlling shareholders	315	—	—	315
At 31 December 2015	315	—	(6,125)	(5,810)

	Capital reserve RMB'000	Statutory surplus reserve fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2016	315	–	(6,125)	(5,810)
Profit for the year	–	–	70,928	70,928
Total comprehensive income for the year	–	–	70,928	70,928
Issuance of shares for the IPO	1,512,870	–	–	1,512,870
Issuance of shares under the over-allotment option	177,369	–	–	177,369
Capitalisation issue	(18,670)	–	–	(18,670)
Share issuance expense	(41,395)	–	–	(41,395)
At 31 December 2016	1,630,489	–	64,803	1,695,292

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2017.

DEFINITION

"Articles of Association" or "Articles"	the articles of association of the Company as amended, supplemented or otherwise modified from time to time
"associate(s)"	has the meaning ascribed thereto in the Listing Rules
"Board"	the board of Directors
"Business Cooperation Agreement"	the business cooperation agreement entered into by and among Tibet Huatai, Sichuan Derui, the PRC Operating Entities and the Registered Shareholders dated 7 September 2015
"Chengdu Experimental Foreign Languages School"	Chengdu Experimental Foreign Languages School* (成都市實驗外國語學校), a private middle and high school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Chengdu Experimental Foreign Languages School (Western Campus)"	Chengdu Experimental Foreign Languages School (Western Campus)*(成都市實驗外國語學校(西區)), a private middle and high school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Chengdu Foreign Languages Kindergarten" or "Kindergarten"	Kindergarten of the Primary School attached to Chengdu Jinniu District Foreign Languages School* (成都市金牛區成外附小幼稚園), a private kindergarten school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by the Primary School, and a consolidated affiliated entity of the Company
"Chengdu Foreign Languages School"	Chengdu Foreign Languages School* (成都外國語學校), a private school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Chengdu Institute Sichuan International Studies University" or "University"	Chengdu Institute Sichuan International Studies University* (四川外國語大學成都學院), a private university established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is owned as to 51.87% by Sichuan Derui, 24.3% by Xinhua Winshare and 23.83% by Hongming Property, each a school sponsor. Sichuan International Studies University* (四川外國語大學) is named as a school sponsor entitled to the rights stipulated under the articles of the University and the relevant PRC laws

"Company"	Virscend Education Company Limited, a company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange (Stock Code: 01565)
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
"connected person(s)"	has the meaning ascribed thereto in the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it in the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of the Company, namely Mr. Yan and Virscend Holdings
"Corporate Governance Code" or "CG Code"	Code on corporate governance practices contained in Appendix 14 to the Listing Rules
"Derui Education Management"	Sichuan Derui Education Management Co., Ltd.* (四川德瑞教育管理有限公司), a company established under the laws of the PRC and held as to 92.9% by Mr. He Qikang (何其康), the husband of Ms. Yan Bihui and brother-in-law of Mr. Yan and Ms. Wang Xiaoying, and 7.1% by Mr. Li Changjiu (李長久), husband of Ms. Yan Bixian and brother-in-law of Mr. Yan and Ms. Wang Xiaoying
"Directors(s)"	the director(s) of the Company
"Draft Foreign Investment Law"	the draft version of the Foreign Investment Law* (中華人民共和國外國投資法(草案徵求意見稿)) issued by MOFCOM on 19 January 2015 for public consultation
"Directors' Powers of Attorney"	the school director's power of attorney executed by each of Mr. Yan, Ms. Wang Xiaoying, Mr. Ye Jiayu, Mr. Jiang Chenglong (蔣成龍) and Ms. Lv Hongying (呂宏英) in favor of Tibet Huatai dated 7 September 2015
"Equity Pledge Agreement"	the equity pledge agreement entered into by and among the Registered Shareholders, Sichuan Derui and Tibet Huatai dated 7 September 2015
"Exclusive Call Option Agreement"	the exclusive call option agreement entered into by and among Sichuan Derui, the PRC Operating Entities and Tibet Huatai dated 7 September 2015
"Exclusive Technical Service and Management Consultancy Agreement"	the exclusive technical service and management consultancy agreement entered into by and among Tibet Huatai and the PRC Operating Entities dated 7 September 2015

"Foreign Investment Catalog"	the Guidance Catalog of Industries for Foreign Investment(《外商投資產業指導目錄(2015)》), which was promulgated jointly by the MOFCOM and the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) on 10 March 2015 and became effective from 10 April 2015 and is amended from time to time
"Group", "we", "our" or "us"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Listing"	the listing of Shares on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan Agreement"	a loan agreement entered into by and among Tibet Huatai, Sichuan Derui and the PRC Operating Entities dated 7 September 2015
"PRC" or "China"	The People's Republic of China
"PRC Legal Advisors"	Jingtian & Gongcheng, the legal advisors of the Company as to the PRC laws
"PRC Operating Entities"	consolidated affiliated entities of the Company, namely, Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School, Chengdu Experimental Foreign Languages School (Western Campus), the University, the Primary School and the Kindergarten
"Primary School Attached to Chengdu Foreign Languages School" or "Primary School"	Primary School attached to Chengdu Foreign Languages School* (成都外國語學校附屬小學), a private primary school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Prospectus"	the prospectus of the Company dated 31 December 2015
"Registered Shareholders"	the shareholders of Sichuan Derui, namely Mr. Yan Yude (嚴玉德), Ms. Yan Hongjia (嚴弘佳), Ms. Wang Xiaoying (王小英), Ms. Ye Jiaqi (葉家齊), Mr. Ye Jiayu (葉家郁), Ms. Yan Bixian (嚴碧先), Ms. Yan Birong (嚴碧蓉) and Ms. Yan Bihui (嚴碧輝)

"Reporting Period"	the year ended 31 December 2016
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities Futures Ordinance
"Share(s)"	means share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	shareholder(s) of the Company
"Share Option Scheme"	the share option scheme adopted by the Company on 28 December 2015
"Sichuan Derui"	Sichuan Derui Enterprise Development Co., Ltd.* (四川德瑞企業發展有限公司) (previously known as Sichuan Province Derui Enterprise Development Company* (四川省德瑞企業發展總公司)), a company established under the laws of the PRC, which is owned as to 69.44% by Mr. Yan, 18.55% by Ms. Yan Hongjia, 3.00% by Ms. Wang Xiaoying, 2.65% by Ms. Ye Jiaqi, 1.59% by Mr. Ye Jiayu, 1.59% by Ms. Yan Bixian, 1.59% by Ms. Yan Birong and 1.59% by Ms. Yan Bihui
"Smart Ally"	Smart Ally International Limited, a Company incorporated in the BVI with limited liability on 12 May 2015 and wholly-owned by Ms. Wang Xiaoying, the spouse of Mr. Yan and the step-mother of Ms. Yan Hongjia
"School Sponsors' and Directors' Rights Entrustment Agreement"	the school sponsors' and directors' rights entrustment agreement entered into by and among Sichuan Derui, Hongming Property, the Primary School and Mr. Yan, Ms. Wang Xiaoying, Mr. Ye Jiayu, Mr. Jiang Chenglong, Ms. Lv Hongying and Tibet Huatai dated 7 September 2015
"School Sponsors' Powers of Attorney"	the school sponsor's power of attorney executed by each of Sichuan Derui, Hongming Property and the Primary School in favor of Tibet Huatai dated 7 September 2015
"Spouse Undertakings"	the spouse undertakings executed by each of the respective spouse of the Registered Shareholders, namely Mr. Yan, Ms. Wang Xiaoying, Mr. Li Changjiu (李長久), Mr. He Qikang (何其康) and Ms. Zhu Yihong (朱一紅), all dated 7 September 2015
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Subsidiary(ies)"	has the meanings ascribed to it in the Listing Rules. For the avoidance of doubt, the Subsidiaries included PRC Operating Entities in the Prospectus
"Substantial Shareholder"	has the meaning ascribed thereto in the Listing Rules
"Structured Contracts"	collectively, the Business Cooperation Agreement, the Exclusive Technical Service and Management Consultancy Agreement, the Exclusive Call Option Agreement, the Equity Pledge Agreement, the School Sponsors' and Directors' Rights Entrustment Agreement, the School Sponsors' Powers of Attorney, the Directors' Powers of Attorney, the Loan Agreement and the Spouse Undertakings
"Tibet Huatai"	Tibet Huatai Education Management Consulting Co., Ltd. (西藏華泰教育管理有限公司), a wholly-foreign owned enterprise established under the laws of PRC and a wholly-owned subsidiary of the Company
"U.S. dollar(s)" or "US$" or "USD"	United States dollars, the lawful currency of the United States of America
"Virscend Holdings"	Virscend Holdings Company Limited, a company incorporated in the British Virgin Islands with limited liability on 20 March 2015 and wholly-owned by Mr. Yan Yude, an executive Director and one of the Controlling Shareholder
"Wah Tai"	Wah Tai (HK) Investment Limited (香港華泰投資有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
"Wahtai (US)"	USA Wahtai Educational Consulting Services Inc., a company incorporated in the State of California, the United States, with limited liability and owned as to 70% by Wah Tai and 30% by Dr. Robert T. Chi, an independent third party
"Xinhua Winshare"	Xinhua Winshare Publishing and Media Co., Ltd.* (新華文軒出版傳媒股份有限公司) (previously known as Sichuan Xinhua Winshare Chainstore Co., Ltd.* (四川新華文軒連鎖股份有限公司)), a joint stock limited company established under the laws of the PRC with limited liability whose shares are listed on the Stock Exchange (stock code: 0811)
%	per cent