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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1565

立學中華
語通世界

ANNUAL REPORT 2015

CONTENTS

COMPANY PROFILE

Virscend Education Company Limited (the "**Company**"), together with its subsidiaries and consolidated affiliated entities (collectively the "**Group**"; stock code: 01565) is a leading provider of pre-school to grade 12 ("**K-12**") private education services. Through our schools, we provide education services to students in every age group from kindergarten through university. As at 31 December 2015, we had enrollment of an aggregate number of approximately 32,706 students, including approximately 14,252 students at the university, and we employed an aggregate of approximately 2,002 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 Yunan 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 Gaokao administered in 2013, 2014 and 2015, approximately 73.6%, 69.5% and 77.4% 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 15 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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Wang Xiaoying *(Chairwoman of the Board)*
Dr. 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
Dr. Xu Ming

COMPANY SECRETARY

Ms. Ng Sau Mei

LEGAL ADVISORS

As to Hong Kong law:
Orrick, Herrington & Sutcliffe
43rd Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law:
Jingtian & Gongcheng
34/F Tower 3, China Central Place
77 Jianguo Road
Chaoyang District
Beijing
The PRC

As to Cayman Islands law:
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

AUDITORS

Ernst & Young
Certified Public Accountant
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

COMPLIANCE ADVISER

TC Capital Asia Limited
Suite 1903 & 1904, 19/F, Tower 6
The Gateway, Harbour City
9 Canton Road
Tsim Sha Tsui, Kowloon
Hong Kong

CORPORATE INFORMATION

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 23 He Xin Lu
Pi County
Chengdu
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

36/F, Tower Two
Times Square
1 Matheson Street
Causeway Bay
Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716,
17th Floor, Hopewell Centre
183 Queen's Road East
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PRINCIPAL BANKERS

Industrial and Commercial Bank of China
China Construction Bank Corporation

INVESTOR RELATIONS

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Investor Relations Director
Email: ir@virscendeducation.com
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COMPANY'S WEBSITE

www.virscendeducation.com

STOCK CODE

1565

DATE OF LISTING

15 January 2016

FINANCIAL HIGHLIGHTS

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

FOUR-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**
Revenue	502,057	554,719	626,007	**707,690**
Gross profit	197,752	207,239	254,623	**296,353**
Profit for the year	95,774	53,730	114,321	**125,150**
Adjusted net profit (note 1)	95,774	53,730	114,321	**151,444**
Attributable to equity holders of the parent	66,482	37,302	79,120	**109,677**

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**
Gross profit margin (%)	39.4%	37.4%	40.7%	**41.9%**
Net profit margin (%)	19.1%	9.7%	18.3%	**17.7%**
Adjusted net profit margin (%)	19.1%	9.7%	18.3%	**21.4%**

FINANCIAL HIGHLIGHTS

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

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

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	2013	2014	**2015**
Net cash from operating activities	146,726	219,474	273,865	**577,035**

CHAIRWOMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I hereby present the annual report of the Group for the year ended 31 December 2015.

RESULTS

The Group's audited profit attributable to equity holders of the parent for the year ended 31 December 2015 was RMB109.7 million, representing an increase of 38.6% compared with the results for the previous year. Basic and diluted earnings per share for the year ended 31 December 2015 were RMB0.0487.

The Group's adjusted net profit for the year ended 31 December 2015 was RMB151.4 million, representing an increase of 32.5% compared with the results for the previous year.

BUSINESS REVIEW

Through over 15 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 2015, the total student enrollment including K-12 students and the university students increased to approximately 32,706, with an increase of 2.7% in the total student enrollment compared with that of previous year.

CHAIRWOMAN'S STATEMENT

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 Gaokao administered in 2015, approximately 77.4% 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, a student from Chengdu Foreign Languages School received the top scores in Gaokao in Sichuan Province and Chengdu for Gaokao administered in 2015. 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.

As the Group has established a strong reputation for providing quality education to the students, the Group believes it is in a position to optimize the pricing without compromising the reputation and the ability to attract and retain students as compared to the competitors with a view to enhancing the Group's profitability. For the 2015/2016 school year, the Group increased tuition fees in all of the schools (except the university) by up to 20% over the tuition fee levels for the previous school year. As a result of the increase in student enrollment and standard of tuition fees, the revenue from tuition fees increased by RMB80.4 million, or 13.7%, from RMB588.4 million for the year ended 31 December 2014 to RMB668.8 million for the year ended 31 December 2015.

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 maintain and strengthen the position as the largest and high-quality provider of K-12 private education services in Southwest China. To achieve this goal, the Group plans to pursue the following business strategies:

Continue to enhance the reputation as a provider of high-quality education

The Group plans to continue to provide high standard of educational services to students across the entire range of grades and levels, which the Group believes is a foundation to the future success and growth. To achieve this goal, the Group plans to continue to pay close attention to students' academic performance, maintain and refine the differentiated English courses taught at the Group's middle and high schools to newly admitted students with varying levels of English language skills. The Group believes that it has the potential to further enhance the existing strong reputation of the schools, not only in Sichuan Province and Southwest China, but also in China more generally.

Expand the school network and increase the market penetration

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 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, establish new schools and 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.

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 2016

MANAGEMENT DISCUSSION AND ANALYSIS

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 RMB81.7 million, or 13.1%, from RMB626.0 million for the year ended 31 December 2014 to RMB707.7 million for the year ended 31 December 2015. This increase was primarily the result of revenue from tuition fees increasing by RMB80.4 million, or 13.7%, from RMB588.4 million for the year ended 31 December 2014 to RMB668.8 million for the year ended 31 December 2015. 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 RMB39.9 million, or 10.7%, from RMB371.4 million for the year ended 31 December 2014 to RMB411.3 million for the year ended 31 December 2015. This increase was primarily the result of an increase in staff costs, depreciation and amortization. Staff costs increased by RMB20.0 million, or 8.2%, from RMB243.7 million for the year ended 31 December 2014 to RMB263.7 million for the year ended 31 December 2015, primarily as a result of increased salaries and benefits payable to the Group's teachers. Depreciation and amortization increased by RMB18.1 million, or 41.6%, from RMB43.5 million for the year ended 31 December 2014 to RMB61.6 million for the year ended 31 December 2015, 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 RMB41.8 million, or 16.4%, from RMB254.6 million for the year ended 31 December 2014 to RMB296.4 million for the year ended 31 December 2015, which was in line with the growth of the Group's business. Gross profit margin increased to 41.9% for the year ended 31 December 2015 from 40.7% for the year ended 31 December 2014 mainly due to the increase of the Group's student enrollment and average tuition fee.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses consist primarily of advertising expenses, student admission expenses and business entertainment expenses. Selling and distribution expenses increased by RMB0.6 million, or 27.3%, from RMB2.2 million for the year ended 31 December 2014 to RMB2.8 million for the year ended 31 December 2015. 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 increased by RMB36.7 million, or 111.9%, from RMB32.8 million for the year ended 31 December 2014 to RMB69.5 million for the year ended 31 December 2015, primarily due to (i) an increase in staff costs as salaries and benefits for the Group's staff increased in 2015; and (ii) an increase in listing expenses in 2015.

OTHER EXPENSES

Other expenses consist primarily of expenses relating to donation, which represents the donations of teaching equipment made to third-party educational institutions, and disposal of various fixed assets. Other expenses increased from RMB73,000 for the year ended 31 December 2014 to RMB1.6 million for the year ended 31 December 2015. The increase was primarily attributable to (i) a one-time good-will donations to the families of certain deceased students; and (ii) the disposal loss of the entire equity interest of the Group in the Sichuan Derui Education Development Fund.

FINANCE COSTS

Finance costs consist primarily of the interest expenses for bank borrowings and borrowings from other financial institutions, as well as payments by the Group to Xinhua Winshare. With respect to payments to Xinhua Winshare, from 2012 and until the termination of the agreement, Xinhua Winshare is entitled to receive 10% of its total capital contribution in the University annually. Such total capital contribution amounted to RMB260.0 million, which was treated as a loan for accounting purposes. Finance costs decreased by RMB7.3 million, or 6.6%, from RMB109.8 million for the year ended 31 December 2014 to RMB102.5 million for the year ended 31 December 2015, mainly reflecting lower amount of interest expenses the Group paid on bank loans and other borrowings because the amount of new indebtedness the Group incurred was less than the amount of existing loans the Group repaid.

MANAGEMENT DISCUSSION AND ANALYSIS

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 of the year. The following table reconciles from profit for the year to adjusted net profit for both financial years:

	For the year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Profit for the year	**125,150**	114,321
Add:		
Listing expenses	**26,294**	—
Adjusted net profit	**151,444**	114,321

Adjusted net profit increased by RMB37.1 million, or 32.5%, from RMB114.3 million for the year ended 31 December 2014 to RMB151.4 million for the year ended 31 December 2015, due primarily 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; and (iii) the decrease in finance costs as mentioned above.

CAPITAL EXPENDITURE

Capital expenditures during the year primarily related to constructing Phase 2 of the University's campus, maintaining and upgrading the existing school premises and purchasing additional educational facilities and equipment for the schools. Capital expenditure increased by RMB1,352.4 million, from RMB72.4 million for the

year ended 31 December 2014 to RMB1,424.8 million for the year ended 31 December 2015, 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	
	2015 RMB'000	2014 RMB'000
Net cash flows from operating activities	577,035	273,865
Net cash flows used in investing activities	(219,218)	(343,116)
Net cash flows used in financing activities	(219,080)	(10,352)
Net increase/(decrease) in cash and cash equivalents	138,737	(79,603)
Cash and cash equivalents at beginning of year	109,850	189,453
Effect of foreign exchange rate changes, net	13	—
Cash and cash equivalents at end of year	248,600	109,850

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Interest-bearing bank and other borrowings	1,335,021	1,350,648

Analysis of the maturity profile of the interest-bearing bank and other borrowings of the Group as at 31 December 2015 and 2014 is set out in the note 21 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2015, all the interest-bearing bank and other borrowings were settled in RMB, while cash and cash equivalents were primarily held in RMB. 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 2015 were at fixed interest rates or floating interest rates for loans denominated in RMB.

CAPITAL COMMITMENT

As at 31 December 2015 and 2014, the Group did not have any significant authorised but not contracted capital commitment.

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:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Within one year	**13,550**	1,820
In the second to fifth years, inclusive	**33,952**	8,179
Beyond five years	**20,755**	23,199
	68,257	33,198

As at 31 December 2015, the Group had total future minimum lease payments under non-cancellable operating leases amounting to RMB68.3 million. The increase was mainly because 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. In the past, our schools leased such buildings from the connected persons for nil consideration before September 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, increased from approximately 198.0% as at 31 December 2014 to 226.9% as at 31 December 2015, primarily due to the decrease in the Group's total equity, which was due to the fact that dividends of RMB220.0 million has been declared for the six months ended 30 June 2015.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

Apart from the reorganization of the Group in relation to the Listing, there were no significant investments held as at 31 December 2015, nor other material acquisitions and disposals of subsidiaries and associated companies during the Reporting Period.

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 2015, certain bank balances were denominated in USD. The Group did not enter into any financial instrument for hedging purpose as it is expected that foreign exchange exposure will not be material.

CONTINGENT LIABILITIES

As at 31 December 2015, the Group had no material contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2015, the Group did not pledge any assets.

HUMAN RESOURCES

As at 31 December 2015, the Group had 2,890 employees (2014: 2,784), excluding the logistics personnel who were outsourced since October 2015.

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 2015 was RMB297.0 million (2014: RMB269.3 million).

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Ms. Wang Xiaoying (王小英), aged 53, 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.

Dr. Xu Ming (徐明), aged 44, was appointed as the chief executive officer of the Company and an executive Director on 31 August 2015. Dr. Xu has over 20 years of experience in business management and is responsible for overall operations management of the Group. Dr. Xu is also a director of Tibet Huatai. Prior to joining the Company, from September 1991 to December 2001, Dr. 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, Dr. 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, Dr. 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. Dr. 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, Dr. 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). Dr. Xu graduated from Sichuan University* (四川大學) in the PRC with a doctor degree in economics in June 2009. Dr. 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 56, 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 54, 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 65, was appointed as an independent non-executive Director on 28 December 2015 and is responsible for providing independent opinion and judgment 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 34, was appointed as an independent non-executive Director on 28 December 2015 and is responsible for providing independent opinion and judgment 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 69, was appointed as an independent non-executive Director on 28 December 2015 and is responsible for providing independent opinion and judgment 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 52, 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 69, has been the president of the University since April 2004 when he joined the Group. Mr. Yin has over 44 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 middle 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 secondary school division of the Sichuan Foreign 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 55, 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 61, 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 58, 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 School as principal and was responsible for the overall administration of Chengdu Experimental Foreign 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 58, 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*

REPORT OF DIRECTORS

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 2015 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 2015 are set out in note 1 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss on page 73 of this annual report.

FINAL DIVIDENDS

The Board did not recommend the payment of a final dividend for the year ended 31 December 2015.

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

MARKET REVIEW

According to the independent market research reported dated 31 December 2015, commissioned by the Company on the private education market of the PRC and prepared by Frost & Sullivan ("**Frost & Sullivan Report**"), the PRC fundamental education industry has exhibited strong growth over the past five years, primarily driven by rising government public expenditure and private consumption in the PRC. According to the Frost & Sullivan Report, as at the end of 2014, total revenue generated by the PRC fundamental education industry was RMB1,994.6 billion, compared to RMB922.5 billion in 2009, representing a compound annual growth rate ("**CAGR**") of approximately 16.7%. Total revenue of the PRC fundamental education industry is calculated by aggregating the total PRC government public expenditure allocated to schools in the industry by the PRC central and local governments, funding provided to private schools by investors, revenue generated from the donations to and fundraising by schools, revenue generated by schools from teaching, research and other activities (such as tuition and businesses ran by the schools), and other educational funding or school revenue, according to the Frost & Sullivan Report. For the year ended 31 December 2014, PRC public expenditure accounted for approximately 86.9% of the total revenue generated by the PRC fundamental education industry.

In addition, according to the Frost & Sullivan Report, the continuous growth of the PRC economy has resulted in increases in annual disposable income of urban households and in the per capita annual living expenditure of urban households. From 2009 to 2014, the PRC per capita consumption expenditure on education, culture and recreation articles and services grew at a CAGR of approximately 10.9%. In addition, in 2014, the per capita expenditure on education, culture and recreation articles and services of urban households was estimated to be RMB2,475, representing approximately 12.9% of total per capita living expenditure of PRC urban households.

As the PRC government terminated the "one-child policy" and adopted a universal "two-child policy" in 2015, and continues to support preschool education, the number of students enrolled in the PRC fundamental education industry is expected to rise to 230.8 million in 2019, with at a CAGR of approximately 2.6% from 2014 to 2019, according to the Frost & Sullivan Report. Over the past years, more and more students have enrolled in private schools in China. The total number of students enrolled in PRC private schools increased from 23.0 million in 2009 to 35.3 million in 2014, representing a CAGR of approximately 8.9%. The total number of student enrollment in private schools is expected to increase to 50.6 million in 2019, at a CAGR of approximately 7.5%. 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.

As at the end of 2014, total revenue generated by the PRC private fundamental education industry was RMB168.7 billion, compared to RMB51.9 billion in 2009, representing a CAGR of approximately 26.6%. According to the Frost & Sullivan Report, total revenue generated by the PRC private fundamental education industry is expected to reach RMB334.4 billion in 2019, representing a CAGR of approximately 14.7% from 2015 to 2019. The number of student enrollment in the PRC fundamental education industry primarily depends on the school-age population, which is expected to increase over the next five years, and student enrollment rate.

The private fundamental education market in PRC is highly competitive and fragmented. The total number of private fundamental educational schools was approximately 152,148 by the end of 2014, and they were distributed across China based on the distribution of the school-age population and the level of demand for private education in a specific province or region. So far, the PRC private fundamental education market lacks dominant players with a nationwide coverage and significantly higher market share. The market shares of major participants in the industry in terms of student enrollment as at 31 December 2014 were all less than 0.1%, indicating the highly fragmented nature of the market. A substantial majority of the private fundamental education operators in China own a limited number of schools and commonly focus on regional markets for their operation and development since China's private fundamental education market is relatively locally-based. The players with different operating region-focus usually have limited competition between one another due to their entirely different customer targets and regulatory and operating environments.

Similar to the PRC private fundamental education market, the private fundamental education market in the Southwest China is also fragmented. According to the Frost & Sullivan Report, the total number of student enrollment in such sector in Southwest China was approximately 4.2 million in 2014, and the top five private school operators had an aggregate enrollment of approximately 66,100, which accounted for only 1.6% of the total market share. With a total of approximately 17,900 K-12 student enrollment in 2014, the Group ranked first in the region.

REPORT OF DIRECTORS

BUSINESS OVERVIEW

The Group is the largest provider of K-12 private education services in Southwest China in terms of student enrollment as at 30 June 2015, according to the Frost & Sullivan Report. 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, the Group had established and were operating five schools for grades K-12, 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, Chengdu Institute Sichuan International Studies University. As at 31 December 2015, our K-12 student enrollment increased to approximately 18,454 and the University student enrollment increased to approximately 14,252. Through the schools operated by the Group, the Group provides high-quality formal educational services to students in every age group from kindergarten through university and according to the Frost & Sullivan Report, the Group is one of the few private education companies in Southwest China that offer complete K-12 and university education.

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 Gaokao administered in 2013, 2014 and 2015, approximately 73.6%, 69.5% and 77.4% 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 wellbeing, (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 2015, the Group had approximately 2,002 teachers, of which approximately 85.0% have a bachelor's degree or above, and approximately 25.7% have a master's degree or above. The schools operated by the Group employed approximately 43 foreign teachers as at 31 December 2015. 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 2015, approximately 29.1% of the teachers held the advanced teaching qualification, and approximately 16 of the Group's teachers were recognized as exceptional teachers.

Principal Risk and Uncertainties and 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, 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 and diversify its service offerings and increase revenue sources. In addition, the Group intends to expand its international programs.

Revenue

For the year ended 31 December 2015, the Company has witnessed growth of the schools operated by the Group in terms of revenue. Revenue increased from RMB626.0 million for the year ended 31 December 2014 to RMB 707.7 million for the year ended 31 December 2015. The Group typically charges students fees comprising tuition fees and boarding fees and tuition fees remained the major revenue, accounted for approximately 94.5% of the total revenue of the Company for the year ended 31 December 2015.

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

	Year ended 31 December 2015 RMB'000	Year ended 31 December 2014 RMB'000	Change RMB'000	Percentage Change
Chengdu Foreign Languages School	**184,986**	151,706	33,280	21.9
Chengdu Experimental Foreign Languages School	**127,891**	106,374	21,517	20.2
Chengdu Experimental Foreign Languages School (Western Campus)	**116,242**	106,102	10,140	9.6
The Primary School	**66,807**	61,870	4,937	8.0
The Kindergarten	**6,744**	6,221	523	8.4
The University	**166,154**	156,152	10,002	6.4
Total tuition fees	**668,824**	588,425	80,399	13.7
Boarding fees	**38,866**	37,582	1,284	3.4
Total	**707,690**	626,007	81,683	13.0

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 six schools the Group operates:

	School Year			
School	2013/2014 Gross Tuition Fees RMB'000	2013/2014 Average Tuition Fees RMB	2014/2015 Gross Tuition Fees RMB'000	2014/2015 Average Tuition Fees RMB
Chengdu Foreign Languages School	172,951	28,917	196,382	31,542
Chengdu Experimental Foreign Languages School	116,724	26,772	133,968	29,482
Chengdu Experimental Foreign Languages School (Western Campus)	113,563	28,138	126,363	30,686
The Primary School	62,253	23,599	65,846	24,424
The Kindergarten	6,179	20,259	6,747	21,625
The University	150,554	11,429	161,605	11,810

Notes: Average tuition fees are calculated based on the gross tuition fees, which exclude boarding fees, a particular school 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 2015	As at 31 December 2014	Change	Percentage Change
High school students	**5,491**	5,026	465	9.3
Middle school students	**9,960**	10,053	(93)	(0.9)
Primary school students	**2,678**	2,685	(7)	(0.3)
Kindergarten students	**325**	312	13	4.2
K-12 students	**18,454**	18,076	378	2.1
University students	**14,252**	13,762	490	3.6
Total number of students	**32,706**	31,838	868	2.7

As at 31 December 2015, the aggregate number of students enrolled at the schools of the Group increased to approximately 32,706 from 31,838 as at 31 December 2014. The increase in the aggregate number of students enrolled was attributable to the increases in the capacity of certain existing schools.

Future development

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 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:

Expand its existing business by collaborating with third-party business partners

The Group generally operates its schools under a traditional business model under which its schools or its school sponsor owned substantially all or a portion of the premises that the schools occupy. This traditional business model requires its schools or our school sponsor to obtain its relevant land use rights and expend significant amount of capital outlay in connection with the establishment of the schools. The Group utilized this business model primarily because the Group needed to establish and build the reputation of its schools during its initial stage of operation and accumulate relevant private school operating experience. Going forward, in addition to continuing to operate under its existing business model, the Group intends to enter into cooperative arrangements with business partners who are independent third parties, including local governments, real estate developers and other public and private school operators who share their education philosophies and vision, pursuant to which such business partners contribute or lease to us the relevant land and facilities, as the case may be, while the Group contributes its brand name and teachers and provides funding for the operation of the school(s). The Group believes it can substantially lower its capital requirement to expand its operations under this type of business model, which allows us to better utilize its available cash and efficiently allocate its financial resources. As at the date of this announcement, the Group had undertaken the following steps to expand its business:

- On 22 September 2015, Chengdu Foreign Languages School entered into a cooperation agreement with the local government of Panzhihua City in Sichuan Province and its related state-owned investment company, pursuant to which the parties agreed to establish a school ("**Panzhihua School**") with an aggregate expected total student enrollment of approximately 3,000 students. The school is expected to comprise a middle school and a high school. Chengdu Foreign Languages School is expected to be the sponsor of the new school and will own all of the school sponsor's interest in such school. Subject to the approval by and registration with competent authorities, the new middle school is expected to commence operation before 1 September 2017 while the new high school is expected to commence operation before 1 September 2020. The parties identified suitable school premises owned by the local government, which is comprised of two parcels of land with a total gross site area of approximately 54,349.72 sq. m. 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) and 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 Chengdu Foreign Languages School 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 Chengdu Foreign Languages School for the first three years of the rental period; and

- On 3 February 2016, Chengdu Experimental Foreign Languages School entered into a cooperation agreement ("**Cooperation Agreement**") with Chengdu Wanke Xindu Zhiye Co., Ltd.* (成都萬科新都置業有限公司) ("**Chengdu Wanke**"), an independent property management company, and 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, pursuant to which the parties contemplated establishing a new campus in Wulongshan, Chengdu, Sichuan Province (the "**Wulongshan School**"). Pursuant to the Cooperation Agreement, Wulongshan School shall operate under the name of "Chengdu Experimental Foreign Languages School" with expected student capacity of approximately 5,000 students. Upon its establishment, Wulongshan School shall be owned as to 45.0% and 55.0% by Chengdu Experimental Foreign Languages School and an entity jointly established by Chengdu Wanke and Chengdu Yirui ("**JV Entity**"), respectively. The JV Entity shall be responsible for providing and developing the land and building to be used as campus of Wulongshan School. Upon completion of the development of the land and establishment of Wulongshan School, Chengdu Experimental Foreign Languages School shall contribute funds to the Wulongshan School depending on the capital needs of Wulongshan School. The Group expects that the Wulongshan School shall commence operations on or before September 2017.

* For identification purpose only.

Establish or acquire new schools directly

Where the Group can identify appropriate opportunities, the Group intends to expand its school network by purchasing the land use rights and developing new schools, or acquiring established schools from independent third parties. When establishing new schools, the Group intends to do so through one of its existing schools similar to the arrangement with the proposed establishment of Panzhihua School, whereby its existing school will then own all or part of the school sponsor's interest in the new school. The Group intends to purchase a parcel of land in Wenjiang, Chengdu, Sichuan Province, in connection with the opening of a new campus for Chengdu Experimental Foreign Languages School. The Group estimates that the capacity of the new campus will be approximately 6,500 students and anticipates that the new campus will be operational in the second half of 2017, subject to relevant government approval. When selecting an acquisition target, the Group will consider factors that include, among other things, the general economic and social condition in the local area in which a target school is located, the demand for the education the Group provides in such area, the level of government support in promoting private education, and the anticipated cost of any acquisition. The Group will seek relevant legal advice to ensure that the relevant shareholding structure for any newly acquired schools in the future will comply with the relevant PRC legal requirements.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last four financial years are set out on pages 5 to 6 "Financial Highlights" 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$1,930.2 million. As of 31 December 2015, none of the proceeds had been utilised. Such amounts are proposed to be used according to the allocation set out in the Prospectus.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended 31 December 2015, 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 2015, the Group's five largest suppliers accounted for 83.9% of the Group's total purchases and the Group's single largest supplier accounted for 52.6% of the Group's total purchases.

As at the date of this annual report, 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 Reporting Period, there were no material and significant dispute between the Group and its employees, suppliers and/or customers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2015 are set out in note 13 to the consolidated financial statements.

By comparing the valuation of the property interest of the Group as set out in Appendix III to the Prospectus, the valuation surplus is approximately RMB386,256,000 as compared to the carrying amounts of the Group's property interests as at 30 November 2015. The valuation surplus of the property interests had not be incorporated in the Group's consolidated financial statements for the Reporting Period. If the valuation surplus were to be included in the consolidated financial statements, an additional annual depreciation charge of approximately RMB8,583,000 would be incurred.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 23 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year ended 31 December 2015 are set out in the consolidated statement of changes in equity on page 77 of this annual report and note 33 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company's reserve available for distribution was Nil (as at 31 December 2014: Nil).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2015 are set out in note 21 to the consolidated financial statements.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 14 June 2016 to 17 June 2016, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the forthcoming annual general meeting of the Company to be held on 17 June 2016 (the "**AGM**"), 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 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 13 June 2016.

REPORT OF DIRECTORS

DIRECTORS

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

Executive Directors:
Ms. Wang Xiaoying *(Chairwoman of the Board)*
Dr. 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, Dr. Xu Ming, Mr. Ye Jiayu, and Mr. Yan Yude 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 2016.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 16 to 19 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 2015 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 2015 and up to the date of this annual report.

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 2015 and up to the date of this annual report.

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 2015 and up to the date of this annual report.

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 2015 and up to the date of this annual report.

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 page V-20 of the Prospectus "Share Option Scheme".

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 the Company had not been listed on the Stock Exchange on 31 December 2015, during the year ended 31 December 2015, Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "**SFO**") and Section 352 of the SFO did not apply to the Directors, and chief executives of the Company.

As at the date of this annual report, 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	1,562,467,500	Long position	50.59
	Interest of spouse	67,500,000	Long position	2.19
Ms. Wang Xiaoying[2]	Interest of spouse	1,562,467,500	Long position	50.59
	Interest in a controlled corporation	67,500,000	Long position	2.19
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 Company Limited and he is therefore deemed to be interested in the Shares held by Virscend Holdings Company Limited. Mr. Yan Yude is also the husband of Ms. Wang Xiaoying and is therefore deemed to be interested in the Shares held by Ms. Wang Xiaoying through Smart Ally International.

(2) Ms. Wang Xiaoying is the sole shareholder and director of Smart Ally International and she is therefore deemed to be interested in the Shares held by Smart Ally International. Ms. Wang Xiaoying is also the wife of Mr. Yan Yude and is therefore deemed to be interested in the Shares indirectly held by Mr. Yan Yude through Virscend Holdings Company Limited.

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

Save as disclosed above, as the date of this annual report, 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 otherwise disclosed in 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 the Company had not been listed on the Stock Exchange on 31 December 2015, during the year ended 31 December 2015, Divisions 2 and 3 of Part XV of the SFO and Section 336 of the SFO did not apply to the Company.

As at the date of this annual report, 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 Company Limited(1)	Beneficial owner	1,562,467,500	Long position	50.59
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 Company Limited and he is therefore deemed to be interested in the Shares held by Virscend Holdings Company Limited.

(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 the date of this annual report, 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 9 years and 9 months.

During the year ended 31 December 2015, 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 and in the Prospectus, during the year ended 31 December 2015 and up to the date of this annual report, 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 the date of this annual report, 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 the date of this annual report, 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 the date of this annual report, 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

As the Company had not been listed on the Stock Exchange as at 31 December 2015, during the year ended 31 December 2015, the provisions relating to disclosure of connected transactions under Chapter 14A of the Listing Rules were not applicable to the Company.

As at the date of this annual report, the Group has entered into the following continuing connected transactions pursuant to Chapter 14A of the Listing Rule:

(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 for nil consideration. The table below sets out the details regarding the four lease agreements ("**Property Lease Agreements**") entered into between the relevant PRC operating Entity and Sichuan Derui:

	Leasee	Leaser	Duration of the Lease	Description and use of the property leased
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.
II	Chengdu Foreign Languages School	Sichuan Deru	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.
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.
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.

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) 92.9% and7.1% 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.

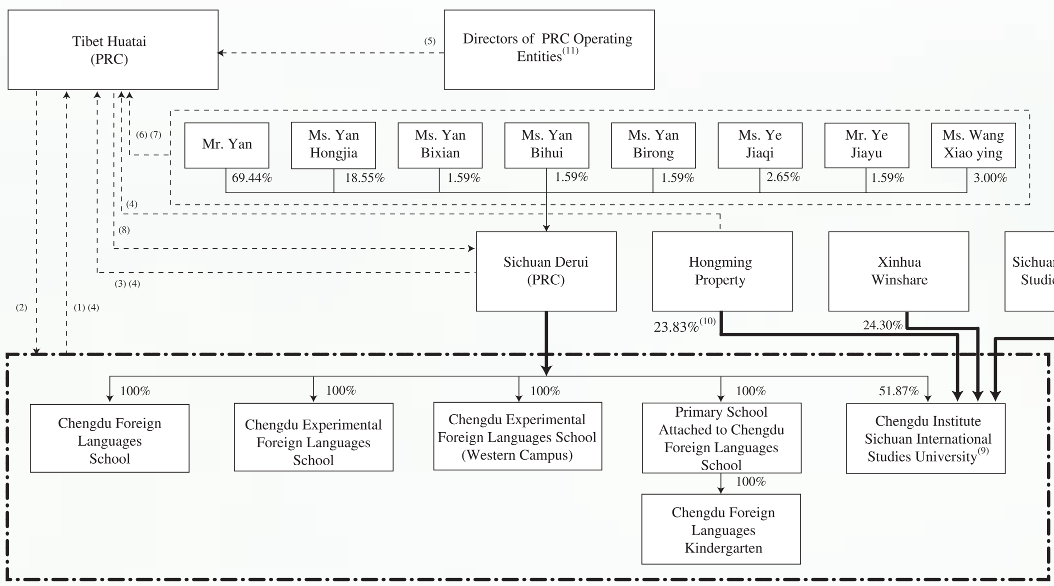
(2) Structured Contracts

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 Education Management Consulting Co., Ltd., (西藏華泰教育管理有限公司) ("**Tibet Huatai**"), the Group's wholly-owned subsidiary, on 7 September 2015, 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, 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, 24.3% 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 Dr. 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 Dr. 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; and

(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 by 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 For the year ended 31 December		Net Profit For the year ended 31 December		Total assets As at 31 December	
	2015	2014	**2015**	2014	**2015**	2014
PRC Operating Entities	**100%**	100%	**111%**	100%	**99%**	100%

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 2015	Assets RMB'000 As at 31 December 2015
PRC Operating Entities	707,690	2,591,883

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 control 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 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.

On 13 August 2015 and 30 September 2015, with the assistance of the PRC Legal Advisors, the Company consulted the Education Department of the Sichuan Province, being the competent authority as advised by the PRC Legal Advisors to issue such confirmation in respect of the matters relating to the Sino-Foreign Joint Venture Private Schools relevant to us. The Company was advised by the deputy director of the department of policies and regulations and comprehensive reforms (政策法規與綜合改革處副處長) at the Education Department of the Sichuan Province that:

(i) the Foreign Ownership Restriction applies to Sino-Foreign Joint Venture Private Schools in their region;

(ii) a foreign investor in a Sino-Foreign Joint Venture Private School should be an educational institution that can award diploma certificates in the country where the foreign investor is located;

(iii) as a matter of policy, no Sino-Foreign Joint Venture Private School has been approved in Sichuan Province after the Sino-Foreign Regulation became effective on 1 September 2003 and no change to such policy could be foreseen in the coming year;

(iv) three Sino-Foreign joint venture public schools in Sichuan Province, which are not separate legal persons, had been approved;

(v) an independent college had previously consulted the Education Department, but had not obtained approval, for the establishment of a Sino-Foreign Joint Venture Private School;

(vi) no implementing measures or specific guidance pursuant to the Sino-Foreign Regulation had been promulgated in Sichuan Province; and

(vii) the execution of the Structured Contracts does not require approval from the education authorities.

The PRC Legal Advisors are of the view that the aforesaid officer has authority to provide the confirmation on the basis that the deputy director of the department has good and authoritative understanding of the PRC laws and regulations regarding Sino-foreign cooperative education and its actual implementation in Sichuan Province.

As advised by the PRC Legal Advisors, the Sichuan governmental authority has not promulgated any implementing measures or specific guidance pursuant to the Sino-Foreign Regulation as at 31 December 2015 and up to the date of this annual report. Except for (a) three Sino-Foreign joint venture public schools in Sichuan Province which have been approved, which included (i) an Sino-Foreign cooperative education institution approved in 2000 (i.e. prior to the Sino-Foreign Regulation becoming effective) with the PRC sponsor being a province-run school and (ii) two Sino-Foreign cooperative education institutions directly approved by the Ministry of Education (as the relevant PRC sponsors are state-run universities under its direct jurisdiction); and (b) an independent college which has previously consulted the Education Department, but had not obtained approval, for the establishment of a Sino-Foreign Joint Venture Private School, the Company is not aware of any applications in respect of Sino-Foreign Joint Venture schools, whether private or public, being previously submitted for approval with the authority in Sichuan Province. As advised by the PRC Legal Advisors, private schools established by enterprises, institutions, public organizations, other social organizations and individuals using non-government funds are highly regulated under the Law for Promoting Private Education (中華人民共和國民辦教育促進法) and the Implementation Rules for the Law for Promoting Private Education (中華人民共和國民辦教育促進法實施條例), which are not applicable to public schools.

Given that as at 31 December 2015 and up to the date of this annual report, as advised by the PRC Legal Advisors, the Company does not meet the Qualification Requirement as the Company has no experience in operating a school outside of the PRC, 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 confirmed that there is no change to the regulatory developments.

3. Plan to Comply with the Qualification Requirement

The Company has adopted a specific plan and begun to take the following concrete steps which the Company reasonably believes are meaningful endeavors to demonstrate compliance with the Qualification Requirement. The Education Department of Sichuan Province had confirmed to us that (i) the foreign investor of a Sino-Foreign Joint Venture Private School should be an education institution that can award diploma certificates in the country where the foreign investor is located and there are no specific requirements as to whether the foreign investor must be a private or public education institution, or as to the educational level, financial position, academic discipline and country or area of such investor; and (ii) it is possible that approval may be granted to an investor that is an education institution that legally awards diploma certificates in a foreign country, which is established by cooperation between a PRC entity and a foreign entity and which gradually accumulates education experience and reputation overseas, to qualify for approval as a foreign investor of a Sino-Foreign Joint Venture Private School. The PRC Legal Advisors also confirmed that they are of the view that the following steps taken by us to demonstrate compliance with the Qualification Requirements are reasonable and appropriate.

As at 31 December 2015 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 2015 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 and the BPPE has acknowledged receipt of the application of the Company on 28 December 2015. The approval process with the BPPE is expected to complete within approximately 12 months from the date of application and the Company has engaged counsels in California for advice on matters relating to the approval process. For details of the regulatory environment in California for the operation of a private postsecondary school, please see the section headed "Regulatory Overview – Regulations on Private Postsecondary Education in the State of California" in the Prospectus. The Company has expended approximately US$130,000 in connection with the Group's plan as at 31 December 2015 and up to the date of this annual report and will continue to negotiate with CBA to enter into a cooperation agreement containing detailed terms of the Group's collaboration, such as the Group's responsibilities in addition to providing funding. This agreement is expected to be entered into after the Company has obtained the approval to operate the new school from the BPPE. In addition, in preparation of and in connection with the Group's application for approval to operate from the BPPE, on 2 November 2015, Wahtai (US) entered into a commercial lease agreement with USA Tianren Hotel Management Inc. ("**USA Tianren Hotel**"), a connected person, pursuant to which the Company leased from USA Tianren Hotel certain premises in Fullerton, California, with a gross floor area of 5,000 sq.ft. to be used as classrooms and executive offices of the new school. The Company will pay a monthly rent of US$6,000 plus any applicable sales and use taxes. The lease has a term of three years and will expire on 2 November 2018. The lease may be renewed by us by giving to USA Tianren Hotel a 60-day prior written notice.

In the opinion of the PRC Legal Advisors, if both of the Foreign Ownership Restriction and the Foreign Control Restriction are removed but the Qualification Requirement remains and assuming the new school to be operated by Wahtai (US) or another educational institution established by us gains a level of foreign experience sufficient to demonstrate compliance with the Qualification Requirement and obtains the approval of the relevant education authorities for the establishment of a Sino-Foreign Joint Venture Private School in the future, the Company will be able to operate the schools operated by the Group in the PRC directly through the new school operated by Wahtai (US) or such other educational institution. Further, the PRC Legal Advisors advised that while the Sino-Foreign Regulation provides that the foreign investor in a Sino-Foreign Joint Venture Private School must be a foreign educational institution with relevant qualification and high quality of education, there is no requirement that the qualification must be of the same level as the qualification of the Sino-Foreign Joint Venture Private School. The Educational Department of Sichuan Province also confirmed to us that the foreign investor of a Sino-Foreign Joint Venture Private School should be an educational institution that can award diploma certificates in the country where the foreign investor is located and there are no specific requirements as to whether the foreign investor must be a private or public educational institution, or as to the educational level, financial position, academic discipline and country or area of such investor. The PRC Legal Advisors are of the opinion that an educational institution which only offers diploma certificates at the university level in a foreign jurisdiction that acts as the foreign investor for the establishment of a Sino-foreign joint venture private kindergarten and high schools in Sichuan Province is in compliance with the general requirements of the existing PRC laws.

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 enterpris`es.

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 2015 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, indirectly held 50.59% of the issued share capital of the Company as at 31 December 2015 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) Mr. Yan Yude is of Chinese nationality, 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.

Save as disclosed, the Company and the Board after consultation with the PRC Legal Advisors, is satisfied that there are no other updates relating to the Draft Foreign Investment Law and the Explanatory Notes.

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 obtains 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.

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, amongst 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

Save as disclosed above, 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 Contract (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 auditors 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.

The auditor of the Company has performed certain pre-determined audit procedures regarding the Structured Contracts and confirmed that:

(i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Structured Contracts, and have been operated so that the profit generated by the PRC Operating Entities has been substantially retained by the Group;

(ii) no dividends or other distributions have been made by the PRC Operating Entities to the holders of its school sponsor's interest which are not otherwise subsequently assigned or transferred to the Group, and

(iii) the Structured Contracts and if any, any new contracts entered into, renewed or reproduced between the Group and the PRC Operating Entities during the relevant financial period are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Shareholders as a whole.

The auditor of the Company has performed certain pre-determined audit procedures regarding the Continuing Connected Transactions (excluding the Structured Contracts) entered into by the Group during the year ended 31 December 2015 as set out above and states that:

(1) the transactions have been approved by the Board;

(2) the transactions were, in all material respects, in accordance with the pricing policies of the Group;

(3) the transactions were entered into, in all material respects, in accordance with the relevant agreements governing the transactions;

(4) the aggregate amounts of the transactions have not exceeded the relevant caps as disclosed in the Prospectus; and

(5) the foresaid Structured Contracts have been entered into in accordance with the relevant Structured Contracts and that no dividends or other distributions have been made by the PRC Operating Entities to the holders of its school sponsor's interest which are not otherwise subsequently assigned or transferred to the Group.

Save as disclosed in this annual report, as of the date of this annual report, the Company had no 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.

Note: The Company has also entered into certain exempted continuing connected transactions as disclosed in the Prospectus, including (i) lease agreement with USA Tianren Hotel Management Inc. on 2 November 2015, pursuant to which the Company leased a premises in Fullerton, California, with a gross floor area of 5,000 sq. ft. to be used as classroom and executive office of the new school in the State of California, the United States; and (ii) certain lease agreements with Chengdu Tianren Property Development Co., Ltd.* (成都天仁房地產開發有限公司) on 16 November 2015, pursuant to which the Company leased an office located in Chengdu, Sichuan Province. Please refer to the section headed "Connected Transaction – Exempted Continuing Connected Transaction" of the Prospectus for further details.

Please refer to note 28 to the consolidated financial statements for the amount paid by the Group under the Property Lease Agreements for the year ended 31 December 2015.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended 31 December 2015 are set out in note 28 to the consolidated financial statements.

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

DONATIONS

During the Reporting Period, the charitable and other donations made by the Group amounted to RMB259,000.

SIGNIFICANT LEGAL PROCEEDINGS

During the year ended 31 December 2015, 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 2015 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.

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 important events occured since the year ended 31 December 2015 are disclosed in note 32 to the consolidated financial statements.

REPORT OF DIRECTORS

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 2015.

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 61 to 70 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 2015. 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 of the Company 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

China, Sichuan, 24 March 2016

CORPORATE GOVERNANCE REPORT

The Company's Shares have been listed on the Stock Exchange since 15 January 2016. As the Company was not listed as of 31 December 2015, the CG Code as set out in Appendix 14 of the Listing Rules does not apply to the Company during the Reporting Period, but has applied to the Company since the Listing Date.

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 Corporate Governance 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 the date of this annual report. 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

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
Dr. Xu Ming
Mr. Ye Jiayu
Mr. Yan Yude

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

CORPORATE GOVERNANCE REPORT

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 the date of this annual report, 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
Dr. 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 Dr. 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 by 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 2015, two Board meetings and no general meetings were held and the attendance of each Director at the Board meetings is set out in the table below:

Directors	Attended/ Eligible to attend the Board meeting(s)
Ms. Wang Xiaoying	2/2
Dr. Xu Ming	2/2
Mr. Ye Jiayu	2/2
Mr. Yan Yude	2/2
Mr. Sit Chiu Wing	1/1
Mr. Chan Kim Sun	1/1
Ms. Xu Dayi	1/1

Model Code for Securities Transactions

As the Company was not listed on the Stock Exchange as of 31 December 2015, related rules under the Listing Rules concerning the Model Code that Directors shall observe did not apply to the Company for the year ended 31 December 2015.

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. 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 the date of this annual report.

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.

As the Company's shares were listed on the Main Board of the Stock Exchange from 15 January 2016 and the Audit Committee was only set up on 28 December 2015, no meeting was held by the Audit Committee during the year ended 31 December 2015.

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 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.

As the Company's shares were listed on the Main Board of the Stock Exchange from 15 January 2016 and the Nomination Committee was only set up on 28 December 2015, no meeting was held by the Nomination Committee during the year ended 31 December 2015.

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 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.

As the Company's shares were listed on the Main Board of the Stock Exchange from 15 January 2016 and the Remuneration Committee was only set up on 28 December 2015, no meeting was held by the Remuneration Committee during the year ended 31 December 2015.

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 16 to 19 of this annual report, for the year ended 31 December 2015 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 2015 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 71 to 72 of this annual report.

INTERNAL CONTROL

The Board acknowledges that it is the responsibility of the Board for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and reviewing the effectiveness of such system on an annual basis.

The Board has conducted a review of the effectiveness of the internal control system of the Group and considered the internal control system to be effective and adequate.

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 2015 was approximately as follows:

Type of Services	Amount (RMB)
Audit services	838,000
Non-audit services related to tax consultation	100,000
Total	938,000

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 Dr. Xu Ming, Chief Executive Officer and an executive Director.

For the year ended 31 December 2015, 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 AGMs to answer Shareholders' questions. The auditor will also attend the AGMs 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. There was no change in the memorandum and articles of association of the Company during the period from the Listing Date to the date of this annual report.

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

We have audited the consolidated financial statements of Virscend Education Company Limited (the "Company") and its subsidiaries set out on pages 73 to 140, which comprise the consolidated statement of financial position as at 31 December 2015, 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 a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with IFRSs and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

Certified Public Accountants
Hong Kong

24 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
REVENUE	5	707,690	626,007
Cost of sales		(411,337)	(371,384)
Gross profit		296,353	254,623
Other income and gains	5	5,184	4,764
Selling and distribution expenses		(2,789)	(2,194)
Administrative expenses		(69,458)	(32,844)
Other expenses		(1,595)	(73)
Finance costs	7	(102,545)	(109,848)
Share of profit and loss of an associate		—	(107)
PROFIT BEFORE TAX	6	125,150	114,321
Income tax expense	10	—	—
PROFIT FOR THE YEAR		125,150	114,321
Attributable to:			
Owners of the parent	12	109,677	79,120
Non-controlling interests		15,473	35,201
		125,150	114,321
Earnings per share attributable to ordinary equity holders of the parent			
– basic and diluted for the year	12	RMB0.0487	RMB0.0352

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

	2015 RMB'000	2014 RMB'000
PROFIT FOR THE YEAR	**125,150**	114,321
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(13)**	—
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(13)**	—
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(13)**	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**125,137**	114,321
Attributable to:		
Owners of the parent	**109,660**	79,120
Non-controlling interests	**15,477**	35,201
	125,137	114,321

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	2,064,117	812,794
Prepaid land lease payments	14	259,995	151,606
Other non-current assets		375	369
Long-term receivable	15	—	520,947
Amounts due from related parties	28(a)	—	863,419
Total non-current assets		2,324,487	2,349,135
CURRENT ASSETS			
Prepayments, deposits and other receivables	17	40,188	136,315
Financial asset held for trading	16	—	250
Cash and cash equivalents	18	248,600	109,850
Total current assets		288,788	246,415
CURRENT LIABILITIES			
Other payables and accruals	20	233,054	78,403
Interest-bearing bank and other borrowings	21	589,000	626,000
Deferred revenue	19	435,743	371,371
Deferred income – current	22	190	—
Amounts due to related parties	28(a)	14,653	—
Total current liabilities		1,272,640	1,075,774
NET CURRENT LIABILITIES		(983,852)	(829,359)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,340,635	1,519,776

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,340,635**	1,519,776
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	21	**746,021**	724,648
Deferred income – non-current	22	**6,163**	4,810
Amounts due to related parties	28(a)	**—**	108,035
Total non-current liabilities		**752,184**	837,493
Net assets		**588,451**	682,283
EQUITY			
Equity attributable to owners of the parent			
Share capital	23	**310**	—
Reserves	24	**587,971**	590,058
Non-controlling interests		**170**	92,225
Total equity		**588,451**	682,283

Wang Xiaoying
Director

Xu Ming
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Notes	Attributable to owners of the parent							
		Share capital RMB'000 Note 23	Capital reserve RMB'000 Note 24(a)	Statutory surplus reserve RMB'000 Note 24(b)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2014		—	374,540*	76,372*	—	87,561*	538,473	69,424	607,897
Profit for the year		—	—	—	—	79,120	79,120	35,201	114,321
Total comprehensive income for the year		—	—	—	—	79,120	79,120	35,201	114,321
Capital contribution		—	65	—	—	—	65	—	65
Transfer from retained profits		—	—	31,275	—	(31,275)	—	—	—
Final dividend declared	11	—	—	—	—	(27,600)	(27,600)	(12,400)	(40,000)
At 31 December 2014 and 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	23	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		310	416,242*	153,543*	(17)*	18,203*	588,281	170	588,451

* These reserve accounts comprise the consolidated reserves of RMB587,971,000 (2014: RMB590,058,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	6	**125,150**	114,321
Adjustments for:			
Finance costs	7	**102,545**	109,848
Share of profit and loss of an associate		**—**	107
Loss on disposal of a subsidiary		**487**	—
Interest income	5	**(823)**	(653)
Loss on disposal of items of property, plant and equipment	6	**3**	9
Government grants released	5	**(507)**	(1,656)
Depreciation	6,13	**56,300**	40,101
Recognition of prepaid land lease payments	6,14	**6,130**	4,612
		289,285	266,689
Decrease/(increase) in prepayments, deposits and other receivables		**148,783**	(21,820)
Increase in other non-current assets		**(6)**	—
Increase/(decrease) in other payables and accruals		**58,504**	(6,278)
Increase in amounts due to related parties		**15,274**	—
Increase in deferred revenue		**64,372**	32,965
Increase in deferred income		**—**	1,656
Cash generated from operations		**576,212**	273,212
Interest received	5	**823**	653
Income tax paid	10	**—**	—
Net cash flows from operating activities		**577,035**	273,865
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment	13	**(27,047)**	(87,209)
Receipt of government grants	5	**2,050**	3,694
Receipt of disposal of investments		**1,200**	3,121
Increase in amounts due from related parties		**(180,513)**	(212,633)
Decrease in amounts due to related parties		**(10,404)**	—
Increase in long-term receivable		**—**	(50,089)
Disposal of a subsidiary		**(4,504)**	—
Net cash flows used in investing activities		**(219,218)**	(343,116)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Note	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		671,000	558,800
Repayments of bank and other borrowings		(688,000)	(659,000)
Proceeds from issues of new shares		310	—
Deemed contribution from the controlling shareholders		315	—
Contribution from non-controlling shareholders		190	—
Dividends paid to sponsors		(101,048)	(40,000)
Repayment of related party loans		—	(14,115)
Decrease in amounts due from related parties		—	251,000
Interest paid		(100,960)	(107,037)
Prepayment for listing expenses		(887)	—
Net cash flows used in financing activities		(219,080)	(10,352)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		138,737	(79,603)
Cash and cash equivalents at beginning of year		109,850	189,453
Effect of foreign exchange rate changes, net		13	—
CASH AND CASH EQUIVALENTS AT END OF YEAR		248,600	109,850
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	248,600	109,850

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.

The Company and its subsidiaries now comprising the Group underwent the reorganization as set out in the paragraph headed "Corporate Reorganisation" under the section "History and Corporate Structure" in the Prospectus dated 31 December 2015 ("Corporate Reorganisation").

Upon completion of the Corporate Reorganisation and 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:

Company 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	USD500,000	—	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*

Company 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	
Chengdu Foreign Languages School 成都外國語學校 ("Chengdu Foreign Languages School")	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 ("Chengdu Experimental Foreign Languages School")	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) ("Chengdu Experimental Foreign Languages School (Western Campus)")	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

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 and the transfer of sponsor interest is expected to be completed within the year 2016. 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 entitles it to receive an annual fixed dividend equaling to 8%, 9% and 10% of its total investment amounting to RMB260 million 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.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with IFRSs, which comprise all standards and interpretations issued by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance.

The financial statements have been prepared under the historical cost convention, except for certain financial assets held for trading which have been measured at fair value. The 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 2015. 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 in the accounting policy for subsidiaries 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 RMB983,852,000 as at 31 December 2015. Taking into account the financial resource of the Group, including the Group's net proceeds of RMB1,617.1 million (HK$1,930 million) from the Listing and recognized banking facilities, 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 revised standards for the first time for the current year's financial statements.

Amendments to *IAS 19 Defined Benefit Plans: Employee Contributions*
Annual Improvements to IFRSs 2010-2012 Cycle
Annual Improvements to IFRSs 2011-2013 Cycle

The nature and the impact of each amendment is described below:

(a) Amendments to IAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have defined benefit plans.

(b) The *Annual Improvements to IFRSs 2010-2012 Cycle* issued in December 2013 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:

- IFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

- IAS 24 *Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES – *continued*

(c) The *Annual Improvements to IFRSs 2011-2013 Cycle* issued in December 2013 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:

- IFRS 3 *Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of IFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group do not have any joint arrangement.

- IFRS 13 *Fair Value Measurement*: Clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 or IAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which IFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in IFRS 13.

- IAS 40 *Investment Property*: Clarifies that IFRS 3, instead of the description of ancillary services in IAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as the Group do not have any of investment properties.

In addition, the requirements of Part 9 "Accounts and Audit" of the Hong Kong Companies Ordinance (Cap. 622) came into effect for the first time during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

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

IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[1]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
IFRS 14	*Regulatory Deferral Accounts*[3]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IAS 1	*Disclosure Initiative*[1]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[1]
Amendments to IAS 27	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs[1]
Amendments to IAS 7	*Disclosure Initiative* [4]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Loss* [4]
Amendments to IFRS 16	*Leases* [5]

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2019

In July 2014 the IASB issued the completed version of IFRS 9. The IASB made limited amendments to the classification and measurement requirements for financial assets by addressing a narrow range of application questions and by introducing a ‘fair value through other comprehensive income’ measurement category for particular simple debt instruments. The IASB also added the impairment requirements relating to the accounting for an entity’s expected credit losses on its financial assets and commitments to extend credit. A new mandatory effective date was also set. The Group expects to adopt IFRS 9 from 1 January 2018. During 2015, 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:

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs – *continued*

(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.

(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.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 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 Group expects to adopt the amendments from 1 January 2016.

The amendments to IFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in IFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs – *continued*

IFRS 14 allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balance upon its first-time adoption of IFRSs. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss. The standard requires disclosures on the nature of, and risk associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements. The standard is not expected to have any impact on the Group as the Group is not subject to rate regulation is not a first-time adopter of IFRSs.

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 July 2015, the IASB issued an amendment to IFRS 15 regarding a one-year deferral of the mandatory effective date of IFRS 15 to 1 January 2018. The Group expects to adopt IFRS 15 on 1 January 2018.

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 Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs – *continued*

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 to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets. The IAS 16 and IAS 41 Amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will be within the scope of IAS 16 instead of IAS 41. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost before maturity. After the bearer plants mature, they will be measured either using the cost model or revaluation model in accordance with IAS 16. The amendments also require that produce growing on the bearer plants will remain in the scope of IAS 41 and is measured at fair value less costs to sell. Government grants relating to bearer plants will now be accounted for in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any impact on the Group as the Group does not have any bearer plants.

The IAS 27 (2011) Amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRSs and electing to change to the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements are required to apply the change retrospectively. The amendments will not be applicable to the Group's consolidated financial statements.

The Annual Improvements to IFRSs 2012-2014 Cycle issued in October 2014 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2016. None of the amendments are expected to have a significant financial impact on the Group. 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 HKFRS 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 to be applied prospectively.

- IFRS 7 Financial Instruments: Disclosures: Clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the IFRS 7 disclosures are required.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs – *continued*

- IFRS 7 Financial Instruments: Disclosures: Clarifies that the disclosures in respect of the offsetting of financial assets and financial liabilities in IFRS 7 are not required in the condensed interim financial statements, except where the disclosures provide a significant update to the information reported in the most recent annual report, in which case the disclosures should be included in the condensed interim financial statements.

- IAS 19 Employee Benefits: Clarifies that market depth of high quality corporate bonds used for discounting the post-employment benefit obligation for defined benefit plans is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond.

- IAS 34 Interim Financial Reporting: Clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report. The amendments also specifies that the information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time rates must be used.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of an associate is included in the consolidated statement of profit or loss and consolidated other comprehensive income respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred.

Goodwill arising from the acquisition of associate is included as part of the Group's investment in an associate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

Investments in associates – *continued*

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

The results of associates are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

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

The Group measures its financial asset held for trading at fair value at the end of each reporting period. 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 and financial assets), 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 the year as to whether there is an indication that previously recognized 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 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) 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.

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.

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. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

Property, plant and equipment and depreciation – *continued*

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 2.6%
Leasehold improvements	10%
Motor vehicles	18%
Furniture and fixtures	18%
Computer equipment	18%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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 sale proceeds and the carrying amount of the relevant asset.

Construction in progress mainly represents leasehold improvements under construction and machinery received but not completely installed. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Operating Leases

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognized initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognized 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.

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

Investments and other financial assets – *continued*

Subsequent measurement – continued

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. Amortized 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 recognized 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

Impairment of financial assets

The Group assesses at the end the year whether there is any objective evidence that a financial asset or a group of financial assets is impaired. 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, recognized 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 amount of 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 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 loans and borrowings.

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 other payables and accruals, amounts due to related parties, and interest-bearing bank and other borrowings.

Subsequent measurement

Loans and borrowings

After initial recognition, interest-bearing bank and other 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

Cash and cash equivalents

For the purpose of the consolidated statements 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 statements of financial position, cash and cash equivalents comprise cash on hand and at banks 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 year, 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 each 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 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, 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, and 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, joint ventures and associate, 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 recognized 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 an other payables and accruals 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*

Dividends

Final dividends are recognized as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

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 recognized immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB. 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 recognized 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 recognized in other comprehensive income or profit or loss is also recognized 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 the presentation currency of the Company 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.

The resulting exchange differences are recognized 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 recognized in the consolidated statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on 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.

Estimation uncertainty

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

Impairment of 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – *continued*

Judgements – *continued*

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 judgment 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 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	2015 RMB'000	2014 RMB'000
Revenue			
Tuition fees		668,824	588,425
Boarding fees		38,866	37,582
		707,690	626,007
Other income and gains			
Interest income	6	823	653
Fee sharing income (Note (i))		949	2,192
Donation income		16	196
Government grants			
– related to assets		174	—
– related to income		333	1,656
Others		2,889	67
		5,184	4,764

Note (i): 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	2015 RMB'000	2014 RMB'000
Employee benefit expense (excluding directors' and chief executive's remuneration (Note 8)):			
Wages and salaries		167,079	142,548
Pension scheme contributions (defined contribution scheme)		32,497	25,990
Depreciation of property, plant and equipment	13	56,300	40,101
Amortisation of land lease payments	14	6,130	4,612
Minimum lease payments under operating leases		6,922	8,705
Auditors' remuneration			
– audit service		838	78
– non-audit service		346	—
Listing expenses		26,294	—
Bank interest income	5	(823)	(653)
Loss on disposal of items of property, plant and equipment		3	9
Loss on disposal of a subsidiary		487	—

7. FINANCE COSTS

	2015 RMB'000	2014 RMB'000
Interest on bank loans and other borrowings	102,545	109,848

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The Company did not have any chief executive, executive directors, non-executive directors and independent non-executive directors at any time during the year ended 31 December 2014.

Mr. Yan was appointed as executive director of the Company in March 2015, while Ms. Wang Xiaoying, Mr. Ye Jiayu and Dr. 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 Dr. 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 2015.

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:

	2015 RMB'000	2014 RMB'000
Salaries, allowances and benefits in kind	1,244	1,505
Pension scheme contributions	5	—
	1,249	1,505

(a) Independent non-executive directors

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

	2015 RMB'000	2014 RMB'000
Mr. Sit Chiu Wing	—	—
Mr. Chan Kim Sun	—	—
Ms. Xu Dayi	—	—
	—	—

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

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

(b) Executive directors and the chief executive

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:			
Dr. Xu Ming	106	5	111
	1,244	5	1,249

2014	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:			
Mr. Yan	720	—	720
Ms. Wang Xiaoying	785	—	785
Mr. Ye Jiayu	—	—	—
	1,505	—	1,505
Executive director and Chief executive:			
Dr. Xu Ming	—	—	—
	1,505	—	1,505

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 2 directors (2014: 2), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining 3 (2014: 3) highest paid employees who are neither a director nor chief executive of the Group are as follows:

	2015 RMB'000	2014 RMB'000
Salaries, allowances and benefits in kind	943	578
Pension scheme contributions	22	—
	965	578

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

	2015	2014
Nil to RMB1,000,000	3	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 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 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. During the year and up to the date of these financial statements, no separate policies, regulations or rules have been introduced by the authorities in this regard. In accordance with the historical tax returns filed to the relevant tax authorities and the confirmation obtained therefrom, the Group's schools have enjoyed the preferential corporate income tax exempt treatment since their establishment.

Based on the confirmations 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 Reorganisation, the corporate income tax rate for Tibet Huatai is 15% based on the relevant tax regulations of Tibet Autonomous Region. The Tibet local government has exempted 40% corporate income tax payable by enterprises in Tibet Autonomous Region for a period of three years commencing from 1 January, 2015 to 31 December, 2017. Therefore the effective corporate income tax rate initially applicable for Tibet Huatai is 9%, which will be increased to 15% beginning in 2018 when the three-year preferential tax exemption expires. No income tax expense was recognised for the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

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:

	2015		2014	
	RMB'000	%	RMB'000	%
Profit before tax	125,150		114,321	
Tax at the statutory tax rate	37,708		28,580	25.0
Lower tax rate(s) for specific provinces or enacted by local authority	1,114	0.9	—	—
Expenses not deductible for tax	627	0.5	—	—
Tax losses not recognised	47	—	—	—
Income not subject to tax	(39,496)	(31.6)	(28,580)	(25.0)
Tax charge at the Group's effective rate	—	—	—	—

10. INCOME TAX – *continued*

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 RMB6,965,000 as at 31 December 2015 (31 December 2014: nil) 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 utilised.

As at 31 December 2015, 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 RMB70,122,000 as at 31 December 2015 (31 December 2014: RMB107,812,000).

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

11. DIVIDENDS

Prior to the reorganization, dividends of RMB220,000,000 have been declared by certain subsidiaries during the year ended 31 December 2015 (2014: RMB40,000,000). Dividends of RMB66,442,000 have been settled by offsetting the balance of amounts due from Sichuan Derui and RMB101,048,000 has been paid by 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 2,250,000,000 (2014: 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 a result of the Capitalisation Issue described in note 23 to the financial statements.

There were no potentially dilutive ordinary shares in issue during the years ended 31 December 2015 and 2014, and therefore the diluted earnings per share amount is equivalent to the basic earnings per share.

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

	2015	2014
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB'000)	109,677	79,120
Shares		
Weighted average number of ordinary shares in issue	2,250,000,000	2,250,000,000
Basic and diluted earnings per share (expressed in RMB per share)	0.0487	0.0352

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	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 (Note(i))	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

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 2014						
At 1 January 2014:						
Cost	678,355	90,127	9,444	39,154	189,312	1,006,392
Accumulated depreciation	(38,878)	(9,649)	(6,277)	(29,199)	(141,896)	(225,899)
Net carrying amount	639,477	80,478	3,167	9,955	47,416	780,493
At 1 January 2014, net of accumulated depreciation	639,477	80,478	3,167	9,955	47,416	780,493
Additions	40,989	24,041	517	789	6,071	72,407
Disposals	—	—	—	—	(5)	(5)
Depreciation provided during the year (note 6)	(17,538)	(9,597)	(831)	(2,658)	(9,477)	(40,101)
At 31 December 2014, net of accumulated depreciation	662,928	94,922	2,853	8,086	44,005	812,794
At 31 December 2014						
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

Note(i): On 30 June 2015, the Group, the related parties which had outstanding balances with the Group as specified in note 28(b), and Sichuan Derui entered into certain agreements, pursuant to which Sichuan Derui agreed to transfer to the Group its property, plant and equipment and leasehold lands (the "Target Assets") in Phase 2 of the University for a total consideration of RMB1,390,401,000, with RMB1,273,304,000 and RMB117,097,000 for the property, plant and equipment and leasehold lands, respectively. The consideration was settled by offsetting the net balance of amounts due from and to Sichuan Derui and the related parties which had outstanding balances with the Group as at 30 June 2015 (notes 14, 15 and 28(a)).

14. PREPAID LAND LEASE PAYMENTS

	Note	2015 RMB'000	2014 RMB'000
Carrying amount at beginning of year		156,218	160,830
Addition (Note(i))		117,097	—
Recognised during the year		(6,130)	(4,612)
Carrying amount at end of year		267,185	156,218
Current portion included in prepayments, deposits and other receivables	17	7,190	4,612
Non-current portion		259,995	151,606

Note(i): On 30 June 2015, the Group, the related parties which have outstanding balance with the Group as specified in note 28(b), and Sichuan Derui entered into certain agreements, pursuant to which Sichuan Derui agreed to transfer to the Group the Target Assets in Phase 2 of the University for a total consideration of RMB1,390,401,000, with RMB1,273,304,000 and RMB117,097,000 for the property, plant and equipment and leasehold lands, respectively. The consideration was settled by offsetting the net balance of amounts due from and to Sichuan Derui and the related parties which had outstanding balances with the Group as at 30 June 2015 (notes 13, 15 and 28(a)).

15. LONG-TERM RECEIVABLE

	2015 RMB'000	2014 RMB'000
Sichuan Xingtai Engineering Co., Ltd. ("Xingtai Engineering") 四川興泰建築工程有限公司	—	520,947
	—	520,947

The long-term receivable was advanced to Xingtai Engineering for the construction of properties of Phase 2 of the University, and was interest-free. Xingtai Engineering was engaged by Sichuan Derui to provide infrastructure construction service to Phase 2 of the University. The Group has offered lending to Xingtai Engineering to support the infrastructure construction of the University during the year. On 30 June 2015, the Group, Xingtai Engineering and Sichuan Derui entered into certain agreements, pursuant to which Sichuan Derui agreed to transfer to the Group the Target Assets in Phase 2 of the University for a total consideration of RMB1,390,401,000 and the Group has transferred its creditor of Xingtai Engineering to Sichuan Derui in order to offset the consideration paid to Sichuan Derui (notes 13, 14, and 28(a)).

16. FINANCIAL ASSET HELD FOR TRADING

	2015 RMB'000	2014 RMB'000
Listed		
In Mainland China		
– Investment in a fund issued by a commercial bank	—	250

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2015 RMB'000	2014 RMB'000
Prepaid expenses		1,946	719
Receivable from disposal of an interest in an associate		—	1,200
Prepaid lease payments (current portion)	14	7,190	4,612
Advance to staff		343	275
Other deposits (Note (ii))		15,133	—
Advances to third parties (Note (i))		—	123,600
Deferred cost - current		—	3,608
Other receivables		5,700	2,301
Listing expenses		9,876	—
		40,188	136,315

Note (i): As at 31 December 2014, the amounts mainly represent the advances to Chengdu Jinxin Commercial & Trading Co., Ltd. ("Jinxin C&T") (成都勁新商貿有限公司) of RMB123,600,000. Jinxin C&T is owned by independent third parties.

Note (ii): Since October 2015, as requested by relevant laws and regulations, the schools providing compulsory education terminated the canteen outsourcing arrangement with independent third party and began to operate the canteen by themselves, while the schools not providing compulsory education still engage the independent third party to provide the food and cantering service to their students.

As at 31 December 2015, the amount represented the fees collected from students for the food and catering service and deposited in individual's personal bank accounts. The individuals are employees of the canteens of the schools providing compulsory education. Certain trustee agreements entered into with the employees pursuant to which the employees held the cash on behalf of the Group.

The amounts are interest-free and are not secured with collateral.

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.

18. CASH AND CASH EQUIVALENTS

	2015 RMB'000	2014 RMB'000
Cash and bank balances	248,600	109,850

At the end of the year, the cash and bank balances of the Group denominated in RMB amount to RMB245,855,000 (2014: RMB109,850,000). 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.

19. DEFERRED REVENUE

	2015 RMB'000	2014 RMB'000
Tuition fees	411,815	348,157
Boarding fees	23,928	23,214
	435,743	371,371

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

20. OTHER PAYABLES AND ACCRUALS

	2015 RMB'000	2014 RMB'000
Accrued payrolls	**31,155**	16,669
Payables to suppliers of certain schools' canteens (Note(i))	**12,842**	—
Payables for purchase of property, plant and equipment	**14,410**	7,134
Miscellaneous expenses received from students (Note(ii))	**52,507**	18,578
Other tax payable	**3,870**	3,498
Dividend payable (Note(iii))	**52,510**	—
Interest payable	**27,991**	28,202
Accrued listing-related expense	**21,070**	—
Others	**16,699**	4,322
	233,054	78,403

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

Note (i): The amount represents the payables to third-party suppliers for materials of the schools' own canteens since 1 October 2015.

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

Since October 2015, as requested by relevant laws and regulations, the schools providing compulsory education terminated the canteen outsourcing arrangement with independent third party and began to operate the canteen by themselves, while the schools not providing compulsory education still engage the independent third party to provide the food and cantering service to their students.

The amount represents the payables to third-party suppliers of food and services for the canteens operated by schools providing compulsory education.

Note (iii): Dividends of RMB220,000,000 have been declared by certain subsidiaries for the year. Dividends of RMB66,442,000 has been settled by offsetting the balance of amounts due from Sichuan Derui and RMB101,048,000 have been paid by 31 December 2015.

21. INTEREST-BEARING BANK AND OTHER BORROWINGS

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

31 December 2014

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans – secured	5.88-7.57	2015	626,000
Non-current			
Bank loans – secured	7.21	2016-2022	384,648
Other borrowing – secured	7.55	2016	80,000
Other borrowing – unsecured	10.00	*	260,000
			724,648
			1,350,648

* Other borrowings–unsecured represents the 24.3% sponsor interest held by Xinhua Winshare which entitles it to receive an annual fixed dividend equalling to 10% of its total investment amounting to RMB260 million in the University.

21. INTEREST-BEARING BANK AND OTHER BORROWINGS – *continued*

	2015 RMB'000	2014 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**509,000**	626,000
In the second year	**105,000**	80,000
In the third to fifth years, inclusive	**255,000**	180,000
Beyond five years	**126,021**	124,648
	995,021	1,010,648
Other borrowings repayable:		
Within one year or on demand	**80,000**	—
In the second year	**—**	80,000
Beyond five years	**260,000**	260,000
	340,000	340,000
	1,335,021	1,350,648

The other borrowings of the subsidiaries are from a trust fund company and an independent third-party company.

Certain of the subsidiaries' bank and other borrowings amounting to RMB1,090,648,000 at 31 December 2014 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 ("Hui Gou"), Chengdu Kanglisi Engineering Development ("Kanglisi Engineering"), Sichuan Hongyi Industries Group Co, Ltd. ("Hongyi Industries") and Mr. Yan.

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

22. DEFERRED INCOME

	2015 RMB'000	2014 RMB'000
At beginning of year	4,810	1,116
Received amounts	2,050	5,350
Charged to profit or loss	(507)	(1,656)
At end of year	6,353	4,810
Current	190	—
Non-current	6,163	4,810
	6,353	4,810

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.

23. SHARE CAPITAL

	2015 RMB'000	2014 RMB'000
issued and fully paid:		
2,250,000,000 (2014: 2,250,000,000) ordinary shares of HK$0.01 each	310	—

23. 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 2015		—	—	—	—
On incorporation		38,000,000	310	—	310
Capitalisation Issue	(a)	2,212,000,000	18,670	(18,670)	—
At 31 December 2015		2,250,000,000	18,980	(18,670)	310

Note:

(a) Pursuant to the written resolutions of the shareholders passed on 28 December 2015 (the "Resolutions"), the Directors were authorised to capitalise ("Capitalisation Issue") the amount of HK$22,120,000 from the amount standing to the credit of the share premium account of the Company to pay up in full at par 2,212,000,000 shares for allotment and issue to the person(s) whose name(s) appears on the register of members of the Company on the date of the written resolutions (or as they may direct) on a pro rata basis.

24. 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 7 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 non-controlling interest held by persons other than the controlling shareholders.

24. 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.

25. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

During the year, 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 (note 11); ii) offsetting the consideration of the Target Assets with amount of RMB1,390,401,000 (note 13 and 14); iii) paid RMB180,513,000 by cash, recorded in consolidated statement of cash flows.

26. COMMITMENTS

Capital commitments

As at 31 December 2014 and 2015, the Group did not have any significant authorised, but not contracted capital commitment.

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:

	2015 RMB'000	2014 RMB'000
Within one year	**13,550**	1,820
In the second to fifth years, inclusive	**33,952**	8,179
Beyond five years	**20,755**	23,199
	68,257	33,198

27. CONTINGENT LIABILITIES

As at 31 December 2014 and 2015, the Group did not have any significant contingent liabilities.

28. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

As disclosed in the consolidated statement of financial position, the Group had outstanding balances due from and to related parties at 31 December 2014 and 2015.

Amounts due from related parties

	Note	2015 RMB'000	2014 RMB'000
Sichuan Derui	28(b)-2	—	349,044
Dewanxing	28(b)-2	—	248,660
Chengdu Renjiu Commercial & Trading Co., Ltd. ("Renjiu C&T") 成都仁久商貿有限公司	28(b)-2	—	115,600
Sichuan Derui Education Management Co., Ltd. ("Derui Education") 四川德瑞教育管理有限公司	28(b)-2	—	60,738
Tianren Property	28(b)-2	—	75,262
Chengdu Lianghe Cultivation & Breeding Co., Ltd. ("Lianghe C&B") 成都良禾種養殖有限責任公司	28(b)-2	—	9,035
Chengdu Jinhui Packing Products Co., Ltd. ("Jinhui Packing") 成都金輝包裝製品有限公司	28(b)-2	—	3,540
Chengdu Experimental Foreign Languages Primary School ("Chengdu Experimental Foreign Languages Primary School") 成都市實驗外國語學校附屬小學	28(b)-2	—	1,279
Sichuan Deruiwanhua Education Management Co., Ltd. ("Wanhua Education") 四川德瑞萬華教育管理公司	28(b)-2	—	261
		—	863,419

These balances are unsecured, interest-free and are not expected to be repaid within one year.

28. RELATED PARTY TRANSACTIONS – *continued*

(a) Outstanding balances with related parties – *continued*

Amounts due to related parties

	Note	2015 RMB'000	2014 RMB'000
Derui Education	28(b)-2	201	—
Tianren Property	28(b)-2	1	—
USA Tianren Hotel	28(b)-2	84	—
Chengdu Dehong Agriculture Development Co., Ltd. ("Dehong Agriculture") 成都德弘農業發展有限公司	28(b)-2	—	106,928
Chengdu Angiocardiopathy Hospital ("Chengdu Angiocardiopathy Hospital") 成都心血管病醫院	28(b)-2	—	407
Chengdu Xinji Concrete Co., Ltd. ("Xinji Concrete") 成都鑫基混凝土有限公司	28(b)-2	—	700
Sichuan Derui	28(b)-2	14,367	—
		14,653	108,035

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

28. RELATED PARTY TRANSACTIONS – *continued*

(b) Other related party transactions

1) During the period from 1 January 2015 to 6 September 2015, Sichuan Derui and Derui Education provided certain subsidiaries with land and items of property, plant and equipment to use free of charge.

2) On 30 June 2015, the Group, the related parties which have outstanding balances with the Group as specified in note 28(a), and Sichuan Derui entered into certain agreements, pursuant to which Sichuan Derui agreed to transfer to the Group the Target Assets in Phase 2 of the University for a total consideration of RMB1,390,401,000, with RMB1,273,304,000 and RMB117,097,000 for the property, plant and equipment and leasehold lands, respectively. The consideration was settled by offsetting the net balance of amounts due from and to Sichuan Derui and the related parties which had outstanding balances with the Group on 30 June 2015 (notes 13 and 14).

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

	Notes	Nature of transaction	2015 RMB'000	2014 RMB'000
Dehong Agriculture	(i)	Procurement of plant	—	40,990
Sichuan Derui	(ii)	Procurement of property, plant and equipment and leasehold lands	1,390,401	—
Sichuan Derui		Property Lease	4,836	—
Derui Education Management		Property Lease	201	—
Tianren Property		Property Lease	1	—
USA Tianren Hotel		Property Lease	84	—

(i) The purchases of plant from Dehong Agriculture were made at prices mutually agreed between the Group and Dehong Agriculture.

(ii) The purchase of property, plant and equipment and leasehold lands from Sichuan Derui were made at the prices mutually agreed between the Group and Sichuan Derui.

4) Certain of the subsidiaries' bank and other borrowings amounting to RMB1,090,648,000 at 31 December 2014 are secured or guaranteed by Sichuan Derui, Tianren Property, Hongming Property, Tianchen Estate, Liheng Investment, Hui Gou, and Mr. Yan.

Certain of the subsidiaries' bank and other borrowings amounting to RMB1,075,021,000 at 31 December 2015 are secured or guaranteed by Sichuan Derui, Tianren Property, Hongming Property, Tianchen Estate, Liheng Investment, Hui Gou, Dewanxing and Mr.Yan.

28. RELATED PARTY TRANSACTIONS – *continued*

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

	2015 RMB'000	2014 RMB'000
Salaries, allowances and benefits in kind	2,076	2,181
Pension scheme contributions	5	—
	2,081	2,181

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.

29. 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 – held for trading	2015 RMB'000	2014 RMB'000
Financial asset held for trading	—	250
	—	250

29. FINANCIAL INSTRUMENTS BY CATEGORY – *continued*

Financial assets – loans and receivables	**2015** **RMB'000**	2014 RMB'000
Financial assets included in prepayments, deposits and other receivables	**6,043**	127,376
Cash and cash equivalents	**248,600**	109,850
Financial assets included in other non-current assets	**375**	369
	255,018	237,595

Financial liabilities at amortised cost	**2015** **RMB'000**	2014 RMB'000
Amounts due to related parties	**14,653**	108,035
Financial liabilities included in other payables and accruals	**172,269**	57,896
Interest-bearing bank and other borrowings	**1,335,021**	1,350,648
	1,521,943	1,516,579

30. 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:

	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 - non-current	746,021	746,021
	746,396	746,311

	2014 Carrying amounts RMB'000	2014 Fair values RMB'000
Financial asset held for trading	250	250
Financial assets included in other non-current assets	369	286
Interest-bearing bank and other borrowings - non-current	724,648	724,648
	725,267	725,184

Management has assessed that the fair values of cash and cash equivalents, amounts due from related parties, financial assets included in prepayments, deposits and other receivables, amounts due to related parties and short-term interest-bearing loans and borrowings 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 fair values of the long-term 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 2014 and 2015 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.

30. 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:

As at 31 December 2015

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

As at 31 December 2014

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial asset held for trading	250	—	—	250
	250	—	—	250

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS – *continued*

Fair value hierarchy – *continued*

Assets for which fair values are disclosed:

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
	—	—	290	290

As at 31 December 2014

	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	—	—	286	286
	—	—	286	286

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS – *continued*

Fair value hierarchy – *continued*

Liabilities for which fair values are disclosed:

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	—	486,021	260,000	746,021
	—	486,021	260,000	746,021

As at 31 December 2014

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	—	384,648	340,000	724,648
	—	384,648	340,000	724,648

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and cash and cash equivalents. The Group has various other financial assets and liabilities such as amounts due from related parties, 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 summarised 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 21) 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 minimise 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 2014 and 2015 would decrease/increase by RMB2,239,000 and RMB3,355,000, 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.

31. 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:

	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
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

	2014					
	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	45,000	11,436	254,060	189,822	260,000*	760,318
variable rate	25,000	10,415	209,750	340,472	145,187	730,824
Amounts due to related parties	—	—	—	108,035	—	108,035
Financial liabilities included in other payables and accruals	57,896	—	—	—	—	57,896
	127,896	21,851	463,810	638,329	405,187	1,657,073

* The other borrowings-fixed rate of RMB260,000,000 bears fixed annual dividend rate of 10% without maturity date.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *continued*

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.

The capital structure of the Group consists of net debt, which includes borrowings disclosed in note 21, 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.

32. EVENTS AFTER THE REPORTING PERIOD

(a) In connection with the Company's initial public offering ("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 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.

(b) Upon the creation of the Company's share premium account as a result of the IPO, an amount of HK$22,120,000 standing to the credit of the share premium account of the Company has been capitalised by applying such sum towards paying up in full at par a total of 2,212,000,000 shares for allotment and issue to the then existing shareholders. As at the date of the Capitalisation issue, 38,000,000 shares were in issue with an amount of HK$380,000 and therefore the total outstanding shares were 3,000,000,000 including the 750,000,000 issued upon IPO.

33. 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:

	2015 RMB'000
NON-CURRENT ASSETS	
Investments in subsidiaries	315
Total non-current assets	315
CURRENT ASSETS	
Cash and cash equivalents	310
Prepayments, deposits and other receivables	2,042
Total current assets	2,352
CURRENT LIABILITIES	
Amounts due to subsidiary	8,167
Total current liabilities	8,167
NET CURRENT LIABILITIES	(5,815)
TOTAL ASSETS LESS CURRENT LIABILITIES	(5,500)
Total non-current liabilities	—
Net liabilities	(5,500)
DEFICIENCY IN ASSETS	
Share capital	310
Reserves	(5,810)
Total deficits	(5,500)

33. 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)

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2016.

"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
"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

DEFINITION

"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
"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

DEFINITION

"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 2015
"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% Mr. Ye Jiayu, 1.59% by Ms. Yan Bixian, 1.59% by Ms. Yan Birong and 1.59% by Ms. Yan Bihui

"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
"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 March 20, 2015 and wholly-owned by Mr. Yan Yude, an executive Director and one of the Controlling Shareholder

DEFINITION

"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 Sates, 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