

SANYA BN VOCATIONAL SCHOOL

Independent Auditor's Report and Financial Information
For the period from 1 September 2012 to 31 August 2013

SANYA BN VOCATIONAL SCHOOL

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL INFORMATION
PERIOD FROM 1 SEPTEMBER 2012 TO 31 AUGUST 2013

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INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF SANYA BN VOCATIONAL SCHOOL

(A non-profit organization established in the People's Republic of China)

We have audited the financial information of Sanya BN Vocational School (the "School"), set out on pages 3 to 16 which comprises the School's statement of financial position as at 31 August 2013, and the statement of comprehensive income and expenditure, statement of changes in reserves, and statement of cash flows for the period from 1 September 2012 to 31 August 2013, and a summary of significant accounting policies and other explanatory information (together "the Financial Information"). The Financial Information has been prepared by the management of the School in accordance with the accounting policies set out in note 4 to the Financial Information.

Management's Responsibility for the Financial Information

The management of the School is responsible for the preparation and presentation of this Financial Information in accordance with the accounting policies set out in note 4 to the Financial Information, and for such internal control as the management of the School determines is necessary to enable the preparation of Financial Information that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this Financial Information based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Information is free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF SANYA BN VOCATIONAL SCHOOL - continued
(A non-profit organization established in the People's Republic of China)

Auditor's Responsibility - continued

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and presentation of the Financial Information 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 School's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Information.

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

Opinion

In our opinion, the Financial Information for the period from 1 September 2012 to 31 August 2013 is prepared, in all material respects, in accordance with the accounting policies set out in note 4 to the Financial Information.

Basis of Accounting and Restriction on Distribution and Use

Without modifying our opinion, we draw attention to note 2 to the Financial Information, which describes the basis of accounting. The Financial Information has been prepared solely for the information of the Board of the School. As a result, the Financial Information may not be suitable for another purpose. Our report is intended solely for the School and should not be distributed to or used by parties other than the School without our prior written consent. We do not assume responsibility towards or accept liability to any other person for the contents of this report. All duties and liabilities (including without limitation, those arising from negligence or otherwise) to any other parties are specifically disclaimed.

Deloitte Touche Tohmatsu CPA LLP
Beijing, China

24 September 2013

STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE

PERIOD FROM 1 SEPTEMBER 2012 TO 31 AUGUST 2013

(Expressed in RMB)

	Notes	Period from 1 September 2012 to 31 August 2013	Period from 1 September 2011 to 31 August 2012
Total Contributions	5	<u>910,241</u>	<u>3,874,615</u>
Operating expenditure			
Salaries and social securities	6	(914,652)	(894,143)
Student costs		(483,356)	(463,295)
Expenses on earmarked projects		(326,419)	(168,376)
Teaching costs		(105,700)	(123,294)
Depreciation		(72,522)	(69,940)
Administrative costs		(17,129)	(37,856)
Renovation on premises		-	(31,940)
Total operating expenditure		<u>(1,919,778)</u>	<u>(1,788,844)</u>
Net surplus of operating activities		<u>(1,009,537)</u>	<u>2,085,771</u>
Government grants		140,560	38,160
Interest income		<u>1,017</u>	<u>1,062</u>
Surplus/(deficit) for the period		<u>(867,960)</u>	<u>2,124,993</u>
Attributable to:			
Restricted reserves		(300,000)	300,000
Unrestricted reserves		<u>(567,960)</u>	<u>1,824,993</u>
		<u>(867,960)</u>	<u>2,124,993</u>

SANYA BN VOCATIONAL SCHOOL

STATEMENT OF FINANCIAL POSITION

AS AT 31 AUGUST 2013

(Expressed in RMB)

	<u>Notes</u>	<u>31/08/2013</u>	<u>31/08/2012</u>
Current assets			
Cash and bank balances	7	474,403	379,098
Other receivables	8	6,403	907,949
Inventories	9	71,320	81,570
Total current assets		<u>552,126</u>	<u>1,368,617</u>
Non-current assets			
Equipment and vehicles	10	<u>271,293</u>	<u>307,242</u>
Total non-current assets		<u>271,293</u>	<u>307,242</u>
Total assets		<u>823,419</u>	<u>1,675,859</u>
Current liabilities			
Other payables	11	<u>48,861</u>	<u>33,341</u>
Total current liabilities		<u>48,861</u>	<u>33,341</u>
Reserves			
Restricted reserves		-	300,000
Unrestricted reserves		<u>774,558</u>	<u>1,342,518</u>
Total reserves		<u>774,558</u>	<u>1,642,518</u>
Total liabilities and reserves		<u>823,419</u>	<u>1,675,859</u>

SANYA BN VOCATIONAL SCHOOL

STATEMENT OF CHANGES IN RESERVES
PERIOD FROM 1 SEPTEMBER 2012 TO 31 AUGUST 2013
(Expressed in RMB)

	Restricted <u>reserves</u>	Unrestricted <u>reserves</u>	Total <u>reserves</u>
Balance at 1 September 2011	-	(482,475)	(482,475)
Surplus for the period	<u>300,000</u>	<u>1,824,993</u>	<u>2,124,993</u>
Balance at 31 August 2012	300,000	1,342,518	1,642,518
Surplus for the period	<u>(300,000)</u>	<u>(567,960)</u>	<u>(867,960)</u>
Balance at 31 August 2013	<u>-</u>	<u>774,558</u>	<u>774,558</u>

STATEMENT OF CASH FLOWS
PERIOD FROM 1 SEPTEMBER 2012 TO 31 AUGUST 2013
(Expressed in RMB)

	Notes	Period from 1 September 2012 to 31 August 2013	Period from 1 September 2011 to 31 August 2012
Cash from operating activities			
Surplus/(deficit) for the period		(867,960)	2,124,993
Adjustments for:			
Depreciation		72,522	69,940
Interest income		(1,017)	(1,062)
Net cash inflow/(outflow) from operations before working capital movements		(796,455)	2,193,871
Working capital movements:			
Decrease/(Increase) in inventories		10,250	(14,478)
Decrease/(Increase) in other assets		901,546	(889,139)
Decrease in other payables		-	(1,010,792)
Increase in other liabilities		15,520	-
Net cash generated by operating activities		130,861	279,462
Cash flows from investing activities			
Purchase of property, plant and equipment		(36,573)	(9,500)
Interest received		1,017	1,062
Net cash used in investing activities		(35,556)	(8,438)
Net increase in cash and cash equivalents		95,305	271,024
Cash and cash equivalents at 1 September 2012		379,098	108,074
Cash and cash equivalents at 31 August 2013	7	474,403	379,098

NOTES TO FINANCIAL INFORMATION

PERIOD FROM 1 SEPTEMBER 2012 TO 31 AUGUST 2013

1. GENERAL

Sanya BN Vocational School (三亚百年农工子弟职业学校, the "School") is a non-profit organization, founded in Sanya, People's Republic of China ("PRC"), which is supported by Hainan Youth Development Foundation ("Hainan YDF") and BN Vocational School (北京百年农工子弟职业学校, the "Beijing BNVS"). The premise of the School is subsidized by Sanya Horizon Industrial Co., Ltd. free of charge. The School started operation on 1 June 2010, obtained a qualification of middle level vocational education and license of non-government school from Committee of Education of Sanya on 21 September 2010, and the registration certificate (Qiong san Min Zheng Zi No. 110403) from Bureau of Civil Affairs of Sanya Province on 25 March 2011.

The principal activity of the School is to provide a two-year education program free of charge to the young people from low-income families, and to help these young people become highly skilled employees to meet the current and future needs of cities for a skilled workforce.

2. BASIS OF PREPARATION

The School maintains its accounting records and prepares its statutory financial statements for each calendar year in accordance with accounting standards and regulations of the PRC which are applicable to the School.

The Financial Information has been prepared solely for the information of the Board of the School. The School has prepared the Financial Information in accordance with accounting policies set out in note 4. These accounting policies are formulated in accordance with International Financial Reporting Standards (IFRSs). Currently, the IFRSs do not contain specific guidelines for non-profit and non-governmental organizations concerning the accounting treatment and presentation of consolidated financial statements. Where the IFRSs are silent or do not give guidance on how to treat transactions specific to the not-for-profit sector, accounting policies have been based on the general IFRS principles, as detailed in The Conceptual Framework for Financial Reporting issued by the International Accounting Standards Board (IASB).

Different from its statutory financial statements, the period of accompanying Financial Information is from 1 September 2012 to 31 August 2013.

The Financial Information is presented in Renminbi ("RMB"), which is the functional and presentation currency of the School.

NOTES TO FINANCIAL INFORMATION

PERIOD FROM 1 SEPTEMBER 2012 TO 31 AUGUST 2013 - continued

3. FORMULATION OF ACCOUNTING POLICIES IN ACCORDANCE WITH NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

3.1 Formulation of Accounting Policies in accordance with New and Revised Standards, Amendments and interpretations (New and Revised IFRSs).

In the current period, the School has formulated its accounting policies, for the first time, in accordance with the following new and revised IFRSs which are or have become effective.

Amendments to IAS 12	Deferred Tax - Recovery of Underlying Assets
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The formulation of accounting policies in accordance of these new and revised IFRSs has had no material effect on the amounts reported in the Financial Information or disclosures set out in the Financial Information.

3.2 New and revised IFRSs issued but not yet effective

The School has not early formulated its accounting policies in accordance with the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 10	Consolidated Financial Statements ¹
IFRS 11	Joint Arrangements ¹
IFRS 12	Disclosure of Interests in Other Entities ¹
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ¹
IFRS 13	Fair Value Measurement ¹
IAS 19 (as revised in 2011)	Employee Benefits ¹
IAS 27 (as revised in 2011)	Separate Financial Statements ¹
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ¹
Amendments to IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities ¹
Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle ¹
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures ³
IFRS 9	Financial Instruments ³
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities ²
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities ²
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Asset ²
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting ²
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine ¹
IFRIC 21	Levies ²

¹ Effective for annual periods beginning on or after 1 January 2013

² Effective for annual periods beginning on or after 1 January 2014

³ Effective for annual periods beginning on or after 1 January 2015

The School anticipates that the adoption of these New and Revised IFRSs in future periods will have no material financial impact on the Financial Information of the School.

NOTES TO FINANCIAL INFORMATION

PERIOD FROM 1 SEPTEMBER 2012 TO 31 AUGUST 2013 - continued

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis and in accordance with the following accounting policies which are formulated in accordance with International Financial Reporting Standards.

Contributions

Cash contributions are recognized at the date of receipt of cash or when Hainan YDF confirms the amount to be contributed.

Contributions of property, plant and equipment and inventory are recognized on the date of receipt at fair value if the objective evidence on the fair value is available. When the fair values of contribution in kind are not available, the School will not assign any value to these contributions but will keep a record of these contributions. After initial recognition, contribution in kind recognized as property, plant and equipment and inventory recognized will follow the respective accounting policy of property, plant and equipment and inventory as set out in this note.

Contributions of service are recognized on the date of receipt of the service and are reported as equal contributions and expenditure in the statement of comprehensive income and expenditure, if the objective evidence on the fair value is readily available.

Interest income

Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable.

Foreign currency

For cash contributions made in foreign currencies, the School exchanges the contributions into equivalent amount of RMB at the actual rates on the date when the contribution is received, and deposits the equivalent amount of RMB into the bank account of the School.

Taxation

According to PRC Enterprise Income Tax Law, the income derived from a qualified non-profit organization is non-taxable. Based on Circular 122 issued jointly by the Chinese Ministry of Finance and the State Administration of Taxation (Cai Shui [2009] No. 122) on 11 November 2009, the non-profit organization should obtain the approval of such qualification from the Tax Bureau.

Although the School's application is in process, the Board believes that the School has satisfied all requirements for such qualification, and therefore, has applied such preferential taxation policy that all contribution income is deemed non-taxable.

NOTES TO FINANCIAL INFORMATION

PERIOD FROM 1 SEPTEMBER 2012 TO 31 AUGUST 2013 - continued

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial assets

The School's financial assets are classified into loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including other receivables and cash and bank balances) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans or receivables, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that loans and receivables because of financial difficulties.

Impairment loss on loans and receivable is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the loans and receivables' original effective interest rate.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the loans and receivables at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Loans and receivables are derecognized when the rights to receive cash flows from them expire or, they are transferred and the School has transferred substantially all the risks and rewards of ownership of them. On de-recognition of a loan or receivable, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

NOTES TO FINANCIAL INFORMATION

PERIOD FROM 1 SEPTEMBER 2012 TO 31 AUGUST 2013 - continued

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial liabilities

Financial liabilities at amortized cost

Financial liabilities including other payables are subsequently measured at amortized cost, using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

Financial liabilities at amortized cost are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Inventories

Inventories are recorded at lower of cost and net realisable value. The cost of inventories is based on the "first-in first-out" principle.

Property, plant and equipment

Property, plant and equipment are stated at costs less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is calculated using the straight-line method so as to depreciate the initial cost, after taking into account of the estimated residual value, over the item's useful life, which is as follows:

<u>Classes</u>	<u>Useful lives</u>	<u>Estimated residual value rates</u>	<u>Annual depreciation rates</u>
Equipment and vehicles	5 - 8 years	3%	12.125% - 19.40%

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculation as the difference between the net disposal proceeds and the carrying amount of the item) is included in the surplus or deficit in the period in which the item is derecognized.

NOTES TO FINANCIAL INFORMATION

PERIOD FROM 1 SEPTEMBER 2012 TO 31 AUGUST 2013 - continued

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Reserves

Restricted reserves represent the cumulative excess of income from earmarked voluntary contributions over expenditure on stipulated project operations.

Unrestricted reserve is not subject to any legal or third-party restriction and can be applied as the School sees fit. Unrestricted reserves may be designated for specific purposes to meet future obligations or risks.

5. CONTRIBUTIONS

	Period from 1 Sep. 2012 to 31 Aug. 2013 RMB	Period from 1 Sep. 2011 to 31 Aug. 2012 RMB
Cash contributions	910,241	3,855,275
Contributions of inventories	-	19,340
Total contributions	<u>910,241</u>	<u>3,874,615</u>

6. SALARIES AND SOCIAL SECURITIES

	Period from 1 Sep. 2012 to 31 Aug. 2013 RMB	Period from 1 Sep. 2011 to 31 Aug. 2012 RMB
Salaries	804,634	773,660
Social securities	<u>110,018</u>	<u>120,483</u>
Total salaries and social securities	<u>914,652</u>	<u>894,143</u>

NOTES TO FINANCIAL INFORMATION

PERIOD FROM 1 SEPTEMBER 2012 TO 31 AUGUST 2013 - continued

7. CASH AND BANK BALANCE

	<u>31/08/2013</u>	<u>31/08/2012</u>
	RMB	RMB
Cash on hand	2,826	4,248
Cash at banks	<u>471,577</u>	<u>374,850</u>
Total cash and bank balances	<u>474,403</u>	<u>379,098</u>

Cash at banks consist of interest bearing deposits at market rate 0.35% (31/08/2012: 0.35%).

8. OTHER RECEIVABLES

	<u>31/08/2013</u>	<u>31/08/2012</u>
	RMB	RMB
Due from fellow schools	-	903,603
Others	6,403	4,346
Less: allowance for other receivables	<u>-</u>	<u>-</u>
Total other receivables	<u>6,403</u>	<u>907,949</u>

9. INVENTORIES

	<u>31/08/2013</u>	<u>31/08/2012</u>
	RMB	RMB
Donated:		
Stationery	6,748	14,688
Others	5,203	7,575
Purchased:		
Stationery	3,919	5,434
Uniforms	28,762	19,836
Textbooks	14,439	17,980
Others	<u>12,249</u>	<u>16,057</u>
Total inventories	<u>71,320</u>	<u>81,570</u>

NOTES TO FINANCIAL INFORMATION

PERIOD FROM 1 SEPTEMBER 2012 TO 31 AUGUST 2013 - continued

10. EQUIPMENT AND VEHICLES

	<u>Equipment and vehicles</u> RMB
COST	
Balance at 1 September 2011	422,275
Addition	9,500
Disposal	-
	<hr/>
Balance at 31 August 2012	431,775
Addition	36,573
Disposal	-
	<hr/>
Balance at 31 August 2013	468,348
	<hr/>
DEPRECIATION	
Balance at 1 September 2011	(54,593)
Provide for the period	(69,940)
Disposal	-
	<hr/>
Balance at 31 August 2012	(124,533)
Provide for the period	(72,522)
Disposal	-
	<hr/>
Balance at 31 August 2013	(197,055)
	<hr/>
CARRYING VALUES	
Balance at 31 August 2013	271,293
	<hr/> <hr/>
Balance at 31 August 2012	307,242
	<hr/> <hr/>

Equipment and vehicles are depreciated on a straight-line basis at the following rate per annum:

Equipment and vehicles	12.5% to 20%
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NOTES TO FINANCIAL INFORMATION

PERIOD FROM 1 SEPTEMBER 2012 TO 31 AUGUST 2013 - continued

11. OTHER PAYABLES

	<u>31/08/2013</u>	<u>31/08/2012</u>
	RMB	RMB
Salary and social securities	30,065	23,979
Others	<u>18,796</u>	<u>9,362</u>
Total other payables	<u>48,861</u>	<u>33,341</u>

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Foreign currency risk

The School is not exposed to fluctuations in foreign currency exchange rates as all contributions are denominated in RMB.

(b) Credit risk

The School has a treasury policy which focuses on security of cash and bank balances. Those are held in banks of high credit ranking. Thus, the School is not exposed to significant credit risk.

(c) Liquidity risk

The School's objective is to strike a balance between continuity of funding and flexibility by maintaining sufficient funds as cash on hand, demand deposits or short-term deposits with maturities of one year or less to meet short-term liabilities. Therefore, the School is not exposed to significant liquidity risk.

NOTES TO FINANCIAL INFORMATION

PERIOD FROM 1 SEPTEMBER 2012 TO 31 AUGUST 2013 - continued

13. RELATED PARTIES

(a) Identification of related parties

The School is supported by Hainan YDF, and the legal representative is assigned by Hainan YDF, then Hainan YDF is identified as a related party.

Fellow schools that have the same supreme governing body (the Board) are identified as related parties.

Board of Directors of the School and key management personnel are persons who have authorities and responsibilities for planning, directing and controlling the activities of the School. Related parties are directors, senior management, as well as close members of their families or households.

(b) Transactions with related parties

During the period, the School received contributions from Beijing BNVS in the amount of RMB897,241, and RMB13,000 from Hainan YDF.

	<u>Amounts due from</u>		<u>Amounts due to</u>	
	<u>31/08/2013</u>	<u>31/08/2012</u>	<u>31/08/2013</u>	<u>31/08/2012</u>
	RMB	RMB	RMB	RMB
Hainan YDF	-	-	-	-
Beijing BNVS	-	903,603	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

There were no transactions with key management personnel during the period.

(c) Remuneration

None of the members under a) above received remuneration from the School during the period from 1 September 2012 to 31 August 2013.
