

DALIAN BN VOCATIONAL SCHOOL

Independent Auditor's Report and Financial Information
For the period from 1 September 2013 to 31 August 2014

DALIAN BN VOCATIONAL SCHOOL

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL INFORMATION
PERIOD FROM 1 SEPTEMBER 2013 TO 31 AUGUST 2014

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial information of Dalian BN Vocational School (the "School"), which comprises the School's statement of financial position as at 31 August 2014, the statement of comprehensive income and expenditure, the statement of changes in reserves and the statement of cash flows for the period from 1 September 2013 to 31 August 2014, 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 the 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 the 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 the 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.

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.

INDEPENDENT AUDITOR'S REPORT

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

Opinion

In our opinion, the Financial Information for the period from 1 September 2013 to 31 August 2014 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 Certified Public Accountants LLP

Deloitte Touche Tohmatsu Certified Public Accountants LLP

15 September 2014

DALIAN BN VOCATIONAL SCHOOL

STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE
PERIOD FROM 1 SEPTEMBER 2013 TO 31 AUGUST 2014
(Expressed in RMB)

	<u>Notes</u>	<u>Period from 1 Sep. 2013 to 31 Aug. 2014</u>	<u>Period from 1 Sep. 2012 (date of operation) to 31 Aug. 2013</u>
Total Contributions	5	<u>1,595,051</u>	<u>2,653,868</u>
Operating expenditure			
Salaries and social securities	6	(676,760)	(956,420)
Student costs		(496,528)	(406,125)
Renovation on premises		(333,582)	(825,996)
Teaching costs		(221,955)	(94,319)
Expenses on earmarked projects		(220,139)	(86,723)
Depreciation		(55,750)	(38,627)
Administrative costs		(26,017)	(18,304)
Total operating expenditure		<u>(2,030,731)</u>	<u>(2,426,514)</u>
Net surplus/(deficit) of operating activities		<u>(435,680)</u>	<u>227,354</u>
Government grants		232,000	52,080
Interest income		790	709
Surplus/(Deficit) for the period		<u>(202,890)</u>	<u>280,143</u>

DALIAN BN VOCATIONAL SCHOOL

STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2014
(Expressed in RMB)

	<u>Notes</u>	<u>31 Aug. 2014</u>	<u>31 Aug. 2013</u>
Current assets			
Cash and bank balances	7	38,800	90,209
Other receivables		132	2,721
Inventories	8	29,540	29,675
Total current assets		<u>68,472</u>	<u>122,605</u>
Non-current assets			
Equipment and vehicles	9	235,993	248,746
Total non-current assets		<u>235,993</u>	<u>248,746</u>
Total assets		<u>304,465</u>	<u>371,351</u>
Current liabilities			
Other payables	10	227,212	91,208
Total current liabilities		<u>227,212</u>	<u>91,208</u>
Reserves		<u>77,253</u>	<u>280,143</u>
Total liabilities and reserves		<u>304,465</u>	<u>371,351</u>

DALIAN BN VOCATIONAL SCHOOL

STATEMENT OF CHANGES IN RESERVES
PERIOD FROM 1 SEPTEMBER 2013 TO 31 AUGUST 2014
(Expressed in RMB)

	<u>Total reserves</u>
Balance at 1 September 2012	-
Surplus for the period	<u>280,143</u>
Balance at 31 August 2013	280,143
Deficit for the period	<u>(202,890)</u>
Balance at 31 August 2014	<u><u>77,253</u></u>

DALIAN BN VOCATIONAL SCHOOL

STATEMENT OF CASH FLOWS
PERIOD FROM 1 SEPTEMBER 2013 TO 31 AUGUST 2014
(Expressed in RMB)

	<u>Notes</u>	Period from 1 Sep. 2013 to 31 Aug. 2014	Period from 1 Sep. 2012 (date of operation) to 31 Aug. 2013
Cash from operating activities			
Surplus/(Deficit) for the period		(202,890)	280,143
Adjustments for:			
Depreciation		55,750	38,627
Interest income		(790)	(52,080)
Net cash inflow from operations before working capital movements		(147,930)	266,690
Working capital movements:			
Decrease/(Increase) in other receivables		2,589	(2,721)
Decrease/(Increase) in inventories		135	(29,675)
Increase in other payables		136,004	91,208
Net cash generated by/(used in) operating activities		(9,202)	325,502
Cash flows from investing activities			
Payments for property, plant and equipment		(42,997)	(287,373)
Interest received		790	52,080
Net cash used in investing activities		(42,207)	(235,293)
Net increase/(decrease) in cash and cash equivalents		(51,409)	90,209
Cash and cash equivalents at 1 September 2013		90,209	-
Cash and cash equivalents at 31 August 2014	7	38,800	90,209

NOTES TO FINANCIAL INFORMATION
PERIOD FROM 1 SEPTEMBER 2013 TO 31 AUGUST 2014

1. GENERAL

Dalian BN Vocational School (大连百年农工子弟职业学校, the "School") is a non-profit organization, founded in Dalian, People's Republic of China, which is supported by the China Youth Development Foundation ("CYDF") and BN Vocational School (北京百年农工子弟学校, the "Beijing BNVS"). The premise of the School is provided by Dalian Communist Youth League free of charge. The School started operation on 1 September 2012, obtained the registration certificate (No. 42245335-2) from the Quality & Technology Supervision Bureau of Dalian on 27 June 2012.

The principal activity of the School is to provide two-and-a-half-year education programs 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. PREPARATION OF FINANCIAL INFORMATION

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

The School's statement of financial position as at 31 August 2014, the statement of comprehensive income and expenditure, the statement of changes in reserves and the statement of cash flows for the period from 1 September 2013 to 31 August 2014, and a summary of significant accounting policies and other explanatory information (together "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 the accounting polices set out in note 4. These accounting policies are formulated in accordance with the 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 2013 to 31 August 2014.

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

NOTES TO FINANCIAL INFORMATION - continued
PERIOD FROM 1 SEPTEMBER 2013 TO 31 AUGUST 2014

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.

IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
IFRS 13	Fair Value Measurement
IAS 19 (as revised in 2011)	Employee Benefits
IAS 27 (as revised in 2011)	Separate Financial Statements
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities
Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

The formulation of accounting policies in accordance of these new and revised IFRSs has resulted 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 9	Financial Instruments ⁷
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures ⁴
IFRS 15	Revenue from Contracts with Customers ⁶
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities ¹
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations ⁵
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle ³
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle ²
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ⁵
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants ⁵
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions ²
Amendments to IAS 27	Equity Method in Separate Financial Statements ⁵
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities ¹
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Asset ¹
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting ¹
IFRIC 21	Levies ¹

NOTES TO FINANCIAL INFORMATION - continued
PERIOD FROM 1 SEPTEMBER 2013 TO 31 AUGUST 2014

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

3.2 New and revised IFRSs issued but not yet effective - continued

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

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

³ Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

⁴ Effective for annual periods beginning on or after 1 January 2015

⁵ Effective for annual periods beginning on or after 1 January 2016

⁶ Effective for annual periods beginning on or after 1 January 2017

⁷ Effective for annual periods beginning on or after 1 January 2018

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.

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 CYDF confirms the amount of contribution.

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.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

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 at the quoted exchange rate for the day.

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.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial assets - continued

Impairment of loans and receivables - continued

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 derecognition 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.

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.

NOTES TO FINANCIAL INFORMATION - continued
 PERIOD FROM 1 SEPTEMBER 2013 TO 31 AUGUST 2014

4. SIGNIFICANT ACCOUNTING POLICIES - continued

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 derecognition 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.

Reserves

Reserves represent the cumulative excess of income from contributions and other income over operating expenditure.

5. CONTRIBUTIONS

	<u>Period from 1 Sep. 2013 to 31 Aug. 2014</u> RMB	<u>Period from 1 Sep. 2012 (date of operation) to 31 Aug. 2013</u> RMB
Cash contributions	1,595,051	2,533,160
Contributions in inventories	-	120,708
Total contributions	<u>1,595,051</u>	<u>2,653,868</u>

NOTES TO FINANCIAL INFORMATION - continued
 PERIOD FROM 1 SEPTEMBER 2013 TO 31 AUGUST 2014

6. SALARIES AND SOCIAL SECURITIES

	Period from 1 Sep. 2013 to 31 Aug. 2014 RMB	Period from 1 Sep. 2012 (date of operation) to 31 Aug. 2013 RMB
Salaries	622,120	873,464
Social securities	54,640	82,956
Total salaries and social securities	<u>676,760</u>	<u>956,420</u>

7. CASH AND BANK BALANCES

	31 Aug. 2014 RMB	31 Aug. 2013 RMB
Cash on hand	4,704	388
Cash at banks	34,096	89,821
Total cash and bank balances	<u>38,800</u>	<u>90,209</u>

Cash at banks consists of interest bearing deposits at market rate of 0.35% (31/08/2013: 0.35%).

8. INVENTORIES

	31 Aug. 2014 RMB	31 Aug. 2013 RMB
Purchased:		
Uniforms	15,597	17,944
Textbooks	3,235	3,202
Stationery	988	1,002
Others	9,720	7,527
Total inventories	<u>29,540</u>	<u>29,675</u>

DALIAN BN VOCATIONAL SCHOOL

NOTES TO FINANCIAL INFORMATION - continued
 PERIOD FROM 1 SEPTEMBER 2013 TO 31 AUGUST 2014

9. EQUIPMENT AND VEHICLES

	<u>Equipment and vehicles</u> RMB
COST	
Balance at 1 September 2012 (date of operation)	-
Addition	<u>287,373</u>
Balance at 31 August 2013	287,373
Addition	<u>42,997</u>
Balance at 31 August 2014	<u>330,370</u>
DEPRECIATION	
Balance at 1 September 2012 (date of operation)	-
Depreciation expenses	<u>(38,627)</u>
Balance at 31 August 2013	(38,627)
Depreciation expenses	<u>(55,750)</u>
Balance at 31 August 2014	<u>(94,377)</u>
CARRYING VALUES	
Balance at 31 August 2014	<u>235,993</u>
Balance at 31 August 2013	<u>248,746</u>

10. OTHER PAYABLES

	<u>31 Aug. 2014</u> RMB	<u>31 Aug. 2013</u> RMB
Salaries and social securities	27,309	28,282
Amounts of securities due to Liaoning Foreign Trade School	11,926	-
Amounts of securities due to Dalian Worker's University	-	9,887
Amounts of student meals	-	43,974
Others	<u>187,977</u>	<u>9,065</u>
Total other payables	<u>227,212</u>	<u>91,208</u>

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Foreign currency risk

For cash contributions made in foreign currencies, CYDF exchanges the equivalent amount of RMB to the School at the rates on the date when the contribution is deposited into the bank account of CYDF. Therefore, the School is not exposed to fluctuations in foreign currency exchange rates.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the School. The School has adopted a policy of only dealing with creditworthy counterparties, e.g. the state-owned commercial banks for wealth management products, as a means of mitigating the risk of financial loss from defaults.

(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.

12. RELATED PARTIES

(a) Identification of related parties

The School is supported by CYDF which is identified as a related party.

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

The Board 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 the Board members, senior management, as well as close members of their families or households.

DALIAN BN VOCATIONAL SCHOOL

NOTES TO FINANCIAL INFORMATION - concluded PERIOD FROM 1 SEPTEMBER 2013 TO 31 AUGUST 2014

12. RELATED PARTIES - continued

(b) Transactions with related parties

During the period, the School's contributions were allocated from Liaoning CYDF in the amount of RMB132 (31/08/2013: RMB66,000), and from Beijing BNVS in the amount of RMB1,594,919 (31/08/2013: RMB2,454,668).

	<u>Amounts due from</u>		<u>Amounts due to</u>	
	<u>31 Aug. 2014</u>	<u>31 Aug. 2013</u>	<u>31 Aug. 2014</u>	<u>31 Aug. 2013</u>
	RMB	RMB	RMB	RMB
Liaoning CYDF	132	-	-	-
Yinchuan BN Vocational School		-	3,328	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

There were no transactions with the key management personnel.

(c) Remuneration

None of the members under (a) above received remuneration from the School during the period from 1 September 2013 to 31 August 2014.

13. EVENTS AFTER THE REPORTING PERIOD

The School has moved operating premise from 1 September 2014. The premise is provided by Liaoning Foreign Trade School free of charge.

14. APPROVAL OF FINANCIAL INFORMATION

The Financial Information was approved and authorized for issue by the Board on 15 September 2014.
