

Report and Financial Statements

Shanghai Retech Information Technology Co., Ltd.  
上海睿泰信息科技有限公司

For the year ended 31 December 2016

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Expressed in Renminbi ("RMB")	

## Independent auditors' report

GTCNSZ(2017) No. 310C0004-I

**To the shareholders of Shanghai Retech Information Technology Co., Ltd.**

上海睿泰信息科技有限公司

**(established in the People's Republic of China with limited liability)**

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the financial statements of Shanghai Retech Information Technology Co., Ltd. 上海睿泰信息科技有限公司 (the "Company") set out on pages 4 to 35, which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Federation of Accountants ("IFAC"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the IFAC's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Management's Responsibility and Those Charged with Governance for the Financial Statements**

Management of the Company is responsible for the preparation of financial statements that give a true and fair view in accordance with applicable HKFRSs issued by the HKICPA, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditors' Responsibility for the Audit of the Financial Statements**

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

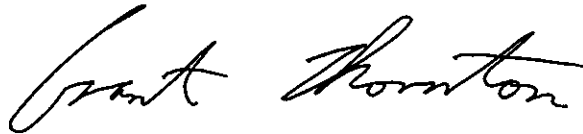
Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

**Auditors' Responsibility for the Audit of the Financial Statements (Continued)**

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

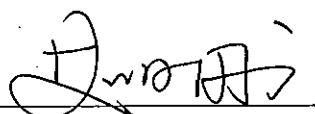


**Grant Thornton**  
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The People's Republic of China

10 May 2017

# Statement of profit or loss and other comprehensive income for the year ended 31 December 2016

	Notes	Year ended 31/12/2016 RMB	Year ended 31/12/2015 RMB
Revenue	5	59,101,403	28,439,183
Costs of sales		(44,146,545)	(10,938,957)
<b>Gross profit</b>		<b>14,954,858</b>	<b>17,500,226</b>
Other revenue	5	-	1,580,000
Other income	6	9,001,416	7,658
Selling and distribution costs		(1,581,928)	(2,050,342)
Administrative expenses		(4,528,076)	(5,356,559)
<b>Operating profit</b>		<b>17,846,270</b>	<b>11,680,983</b>
Finance cost	7	(45,312)	-
Share of loss from an associate		(267,978)	(832,816)
<b>Profit before income tax</b>	8	<b>17,532,980</b>	<b>10,848,167</b>
Income tax expense	9	(4,467,916)	(196,982)
<b>Profit and total comprehensive income for the year</b>		<b>13,065,064</b>	<b>10,651,185</b>



**Legal Representative**


The notes on pages 10 to 35 are an integral part of these financial statements.

## Statement of financial position as at 31 December 2016

	Notes	31/12/2016 RMB	31/12/2015 RMB
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	47,621	332,599
Interest in an associate	11	-	1,763,540
Intangible assets	12	-	13,550
Deferred tax assets	13	345,969	1,183,163
		<b>393,590</b>	<b>3,292,852</b>
<b>Current assets</b>			
Trade and other receivables	14	16,438,230	4,981,628
Amounts due from customers on contract works	15	9,716,872	1,954,738
Loan receivable	16	4,961,542	-
Loan to a related company	17	6,000,000	-
Amount due from immediate holding company	18	13,509,043	-
Amount due from a fellow subsidiary	18	3,751,224	3,751,224
Amounts due from related companies	18	2,195,339	10,911
Amounts due from shareholders	18	2,000	-
Bank and cash balances	19	5,709	486,695
		<b>56,579,959</b>	<b>11,185,196</b>
<b>Current liabilities</b>			
Trade and other payables	20	10,080,005	5,768,742
Amounts due to customers on contract works	15	2,813,468	796,734
Borrowings	21	5,000,000	-
Amount due to immediate holding company	17	-	3,282,857
Amounts due to related companies	17	10,888,280	-
Current tax provisions		4,377,162	1,380,145
		<b>33,158,915</b>	<b>11,228,478</b>
<b>Net current assets/ (liabilities)</b>		<b>23,421,044</b>	<b>(43,282)</b>
<b>Net assets</b>		<b>23,814,634</b>	<b>3,249,570</b>

## Statement of financial position as at 31 December 2016 (Continued)

	Notes	31/12/2016 RMB	31/12/2015 RMB
<b>EQUITY</b>			
Paid up capital	22	12,500,000	5,000,000
Retained earnings/ (Accumulated losses)		11,314,634	(1,750,430)
<b>Total equity</b>		<b>23,814,634</b>	<b>3,249,570</b>



**Legal Representative**

The notes on pages 10 to 35 are an integral part of these financial statements.



## Statement of cash flows for the year ended 31 December 2016

	Year ended 31/12/2016 RMB	Year ended 31/12/2015 RMB
<b>Cash flows from operating activities</b>		
Profit before tax	17,532,980	10,848,167
Adjustments for:		
Depreciation of property, plant and equipment	143,849	206,437
Amortisation of intangible assets	3,162	5,420
Impairment losses on trade and other receivables	987,646	-
Loss on disposal of property, plant and equipment	21,140	-
Loss on disposal of intangible assets	1,014	-
Interest income	(1,416)	(692)
Interest expense	45,312	-
Share of loss from an associate	267,978	832,816
Gain on disposal of a subsidiary	(9,000,000)	-
Operating profit before working capital changes	10,001,665	11,892,148
Increase in trade and other receivables	(10,948,686)	(3,935,353)
Increase in amounts due from customers on contract works	(7,762,134)	(356,216)
Changes in amount due from/ (to) immediate holding company	(16,791,900)	(7,712,836)
Increase in amount due from a fellow subsidiary	-	(3,735,074)
Increase in amounts due from related companies	(2,184,428)	-
Decrease in amount due from a director	-	150,414
Increase in amounts due from shareholders	(2,000)	-
Increase in trade and other payables	4,311,263	3,906,187
Increase in amounts due to customers on contract works	2,016,734	441,996
Decrease in amount due to a fellow subsidiary	-	(121,430)
Increase in amounts due to related companies	10,888,280	-
<i>Cash (used in)/ generated from operations</i>	<i>(10,471,206)</i>	<i>529,836</i>
Interest received	1,416	692
Interest paid	(45,312)	-
Income taxes paid	(633,705)	-
<i>Net cash (used in)/ generated from operating activities</i>	<i>(11,148,807)</i>	<i>530,528</i>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	-	(103,979)
Proceeds from disposal of property, plant and equipment	119,989	-
Proceeds from disposal of intangible assets	9,374	-
Acquisition of subsidiary, net of cash acquired	(2,000,000)	-
Proceeds from sale of a subsidiary, net of cash disposed of	11,000,000	-
Loan to a related company	(6,000,000)	-
Loan to a third party	(4,961,542)	-
<i>Net cash used in investing activities</i>	<i>(1,832,179)</i>	<i>(103,979)</i>

## Statement of cash flows for the year ended 31 December 2016 (Continued)

	Year ended 31/12/2016 RMB	Year ended 31/12/2015 RMB
<b>Cash flows from financing activities</b>		
Proceeds from issuance of share capital	7,500,000	-
Proceeds from new borrowings	10,000,000	-
Repayment of borrowings	(5,000,000)	-
<i>Net cash from financing activities</i>	<i>12,500,000</i>	<i>-</i>
<b>Net changes in cash and cash equivalents</b>	<b>(480,986)</b>	<b>426,549</b>
Cash and cash equivalents at the beginning of the year	486,695	60,146
<b>Cash and cash equivalents at the end of year</b>	<b>5,709</b>	<b>486,695</b>

The notes on pages 10 to 35 are an integral part of these financial statements.

## Statement of changes in equity for the year ended 31 December 2016

	Paid up capital RMB	(Accumulated losses)/ Retained earnings RMB	Total RMB
Balance as at 1 January 2015	5,000,000	(12,401,615)	(7,401,615)
Profit and total comprehensive income for the year	-	10,651,185	10,651,185
Balance as at 31 December 2015 and 1 January 2016	5,000,000	(1,750,430)	3,249,570
Profit and total comprehensive income for the year	-	13,065,064	13,065,064
<u>Transactions with owners of the Company:</u>			
Capital contribution by owners of the Company	7,500,000	-	7,500,000
Balance as at 31 December 2016	12,500,000	11,314,634	23,814,634

The notes on pages 10 to 35 are an integral part of these financial statements.

# Notes to the financial statements for the year ended 31 December 2016

## **1. GENERAL INFORMATION**

Shanghai Retech Information Technology Co., Ltd. 上海睿泰信息科技有限公司 ("the Company") is a limited liability company established and domiciled in the People's Republic of China (the "PRC"). The address of its registered office and principal place of business is Level 18, 335, Guoding Road, Yangpu Districts, Shanghai 200082, the PRC.

The Company is controlled by Shanghai Retech Enterprise Management Group Co., Ltd. 上海睿泰企业管理集团有限公司, a company incorporated and domiciled in the PRC. Management considers the ultimate controlling party of the Company is Mr. AI Shun Gang, a PRC national.

The principal activity of the Company is provision of IT related solutions and consultancy services. The Company's operations are based in the PRC. The financial statements for the year ended 31 December 2016 were approved for issue by management on 10 May 2017.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **2.1 Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the accounting principles generally accepted in Hong Kong.

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **2.1 Basis of preparation (Continued)**

The financial statements have been prepared on the historical cost basis. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

### **2.2 Subsidiaries**

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Company has power over the entity, only substantive rights relating to the entity (held by the Company and others) are considered.

In the Company's statement of financial position, investment in a subsidiary is carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost includes direct attributable costs of investments.

The results of subsidiary are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

### **2.3 Associates**

An associate is an entity over which the Company has significant influence, which is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

In financial statements, an investment in an associate is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate or joint venture recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Company, plus any costs directly attributable to the investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Company's share of the associate's profit or loss in the period in which the investment is acquired.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **2.3 Associates (Continued)**

Under the equity method, the Company's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Company's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal Company that is classified as held for sale). The profit or loss for the year includes the Company's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on the investment in associate recognised for the year. The Company's other comprehensive income for the year includes its share of the associate's other comprehensive income for the year.

Unrealised gains on transactions between the Company and its associate are eliminated to the extent of the Company's interest in the associates. Where unrealised losses on assets sales between the Company and its associate are reversed on equity accounting, the underlying asset is also tested for impairment from the Company's perspective. Where the associate uses accounting policies other than those of the Company for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Company when the associate's financial statements are used by the Company in applying the equity method.

When the Company's share of losses in an associate equals or exceeds its interest in the associate, the Company does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Company's interest in the associate is the carrying amount of the investment under the equity method together with the Company's long-term interests that in substance form part of the Company's net investment in the associate.

After the application of equity method, the Company determines whether it is necessary to recognise an additional impairment loss on the Company's investment in its associates. At each reporting date, the Company determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Company calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs of disposal) of the associate and its carrying amount. In determining the value in use of the investment, the Company estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including cash flows arising from the operations of the associate and the proceeds on ultimate disposal of the investment.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **2.4 Property, plant and equipment**

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, as follows:

Computer and office equipment	3 years
Furniture and fixtures	3 years
Leasehold improvement	3 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

### **2.5 Intangible assets**

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives.

Amortisation commences when the intangible assets are available for use. The following useful lives are applied:

Software	10 years
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Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses. The assets' amortisation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets, with finite and indefinite useful lives, are tested for impairment as described below in note 2.13.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **2.6 Financial assets**

The Company's financial assets are classified as loans and receivables.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Company becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

#### 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 are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.



## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **2.6 Financial assets (Continued)**

#### Impairment of financial assets

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Company about one or more of the following loss events:

- Significant financial difficulty of the debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;
- The disappearance of an active market for that financial asset because of financial difficulties; and
- A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss 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 been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the profit or loss of the year in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the profit or loss of the year in which the reversal occurs.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **2.6 Financial assets (Continued)**

Impairment losses on financial assets other than financial assets at fair value through profit or loss and trade receivables that are stated at amortised cost, are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Company is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the profit or loss.

### **2.7 Cash and cash equivalents**

Cash and cash equivalents include cash at banks and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### **2.8 Financial liabilities**

The Company's financial liabilities include trade and other payables, amount due to immediate holding company and Amounts due to related companies.

Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

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

Where 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 the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

#### **Trade and other payables, amount due to immediate holding company and Amounts due to related companies**

Trade and other payables, amount due to immediate holding company and Amounts due to related companies are recognised initially at its fair value and subsequently measured at amortised cost, using the effective interest method.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **2.9 Leases**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

#### **(i) Classification of assets leased to the Company**

Assets that are held by the Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases.

#### **(ii) Operating lease charges as the lessee**

Where the Company has the right to use of assets held under operating leases, payments made under the leases are charged to the profit or loss on the straight-line method over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to the profit or loss in the accounting period in which they are incurred.

### **2.10 Paid up capital**

Paid up capital is classified as equity. It is determined using the proceeds from capital contributions made by the investors.

### **2.11 Revenue recognition**

Sales of services are recognised in the accounting period in which the services are rendered. When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period. The stage of completion of a transaction is determined by the proportion that costs incurred to date bear to the estimated total costs of the transaction. Only costs that reflect services performed to date are included in costs incurred to date. Only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction.

When services are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

Interest income is recognised on a time-proportion basis using the effective interest method.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **2.12 Contracts for e-learning solutions and e-course direct services**

Contract revenue on the rendering of e-learning services comprises the agreed contract amount. Contract costs comprise direct equipment and material costs, labour and other costs of personnel directly engaged in rendering the services and attributable overheads.

Revenue from the rendering of E-learning services (other than those that are recognised on a time proportion basis over the period of the contract or when the relevant services have been rendered, as appropriate) is recognized based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction, or the value of services performed to date as a percentage of the value of total services to be performed under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

### **2.13 Impairment of non-financial assets**

The following assets are subject to impairment testing:

- Property, plant and equipment
- Intangible assets; and
- The Company's interest in an associate

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use. 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 assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **2.13 Impairment of non-financial assets (Continued)**

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **2.14 Employee benefits**

#### Retirement benefits

Retirement benefits to employees are provided through a defined contribution plan.

The employees of the Company are required to participate in a central pension scheme operated by the local municipal government. This Company is required to contribute portion of its payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Company's obligations under these plans are limited to the fixed percentage contributions payable.

#### Short-term employee benefits

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

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

### **2.15 Borrowing costs**

Borrowing costs are expensed when incurred.

### **2.16 Government grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received. Government grants relating to income is presented in gross under "Other revenue" in the statement of profit or loss and other comprehensive income.

### **2.17 Accounting for income taxes**

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the tax periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **2.17 Accounting for income taxes (Continued)**

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax liabilities are not recognised if the temporary difference arises on investment in a subsidiary, except where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit and loss or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) the Company has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Company presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.18 Related parties

For the purposes of these financial statements, a party is considered to be related to the Company 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 Company;
  - (ii) Has significant influence over the Company; or
  - (iii) Is a member of the key management personnel of the Company or of a parent of the Company; or
- (b) The party is an entity where any of the following conditions applies:
  - (i) The entity and the Company are members of the same group;
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - (iii) The entity and the Company 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 Company or an entity related to the Company;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
  - (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).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

## 3. ADOPTION OF NEW AND AMENDED HKFRSs

The Company has adopted all new and amended HKFRSs issued by the HKICPA, which are relevant to and effective for the Company's financial statements for the annual period beginning on 1 January 2016. The adoption of these HKFRSs has had no material impact on the results for the current and prior periods that have been presented.

At the date of authorisation of these financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement and the adoption is not expected to have a material impact on the Company's financial statements.

#### **4. KEY SOURCES OF ESTIMATION UNCERTAINTY**

The key assumptions concerning the future and other key sources of estimation of uncertainty at the end of the reporting period are discussed below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

##### **4.1 Impairment of loans and receivables**

The Company's management assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. Factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments are objective evidence of impairment. In determining whether there is objective evidence of impairment, the Group considers whether there is observable data indicating that there have been significant changes in the debtor's payment ability or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

##### **4.2 Income taxes**

The Company is subject to income taxes in jurisdiction in which the Company operates. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

##### **4.3 Revenue from contracts for service**

The Company recognises contract revenue on the rendering of services by reference to the stage of completion of the contract activity at the end of reporting period, when the outcome of a contract can be estimated reliably. The stage of completion is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs to be incurred under the transaction. Significant assumptions such as the total budgeted staff costs, are required to estimate the total contract costs and/or the stage of completion. The estimates are made based on past experience and knowledge of management.



## 5. REVENUE AND OTHER REVENUE

	Year ended 31/12/2016 RMB	Year ended 31/12/2015 RMB
<b>Revenue</b>		
E-Learning solutions	33,323,152	15,920,630
E-Training partnership	14,995,232	3,277,368
E-Course direct	10,783,019	5,094,340
Outsourcing services	-	4,146,845
	<b>59,101,403</b>	<b>28,439,183</b>
<b>Other revenue</b>		
Government subsidy income (note)	-	1,580,000
	<b>59,101,403</b>	<b>30,019,183</b>

Note:

Government subsidy income relates to cash subsidies in respect of operating activities from the PRC government which are either unconditionally granted or grants with conditions that have been satisfied.

## 6. OTHER INCOME

	Year ended 31/12/2016 RMB	Year ended 31/12/2015 RMB
Interest income	1,416	692
Gain on disposal of a subsidiary (Note 26)	9,000,000	-
	<b>9,001,416</b>	<b>7,658</b>

## 7. FINANCE COST

	Year ended 31/12/2016 RMB	Year ended 31/12/2015 RMB
Interest expenses	45,312	

## 8. PROFIT BEFORE INCOME TAX

	Year ended 31/12/2016 RMB	Year ended 31/12/2015 RMB
Profit before income tax is arrived at after charging:		
- Depreciation of property, plant and equipment	143,849	206,437
- Amortisation of intangible assets	3,162	5,420
- Operating lease charges on rented premises	335,702	669,812
- Impairment losses on trade and other receivables	987,646	-
- Loss on disposal of property, plant and equipment	21,140	-
- Loss on disposal of intangible assets	1,014	-
- Staff costs – salaries and wages	8,937,403	9,945,182
- Staff costs – other benefits	1,099,147	1,375,593

## 9. INCOME TAX EXPENSE

	Year ended 31/12/2016 RMB	Year ended 31/12/2015 RMB
<u>Current tax</u>		
- Current	3,630,722	1,380,145
<u>Deferred tax</u>		
- Current	837,194	(1,183,163)
Total income tax expense	4,467,916	196,982

Pursuant to the relevant laws and regulations in the PRC, PRC incorporated companies are subject to corporate income tax rate of 25% on the estimated assessable profits for the year. The Company enjoyed a preferential corporate income tax rate of 15% during 2015 as it obtained the High and New Technology Enterprises qualification (“HNTE”) on 11 September 2013. The Company’s HNTE status expired on 11 August 2016 and therefore corporate income tax rate of 25% will be applicable to the Company on 2016 taking into consideration that the profits will be assessed in 2017.

Under relevant laws and regulations in the PRC, PRC incorporated companies can also deduct an additional 50% of qualified research and development (“R&D”) expenses actually incurred for the development of new technology, new products and new skills (“super deduction”).

## 9. INCOME TAX EXPENSE (Continued)

Reconciliation between income tax expense and accounting profit at applicable tax rate is as follows:

	Year ended 31/12/2016 RMB	Year ended 31/12/2015 RMB
Profit before income tax	17,532,980	10,848,167
Tax on profit before income tax, calculated at corporate tax rate of 25% (2015: 15%)	4,383,245	1,627,225
Tax effect of non-deductible expenses	84,671	154,250
Tax effect of super deduction of R&D expenses	-	(205,770)
Utilisation of deductible temporary differences previously not recognised	-	(905,458)
Effect of tax rate change on deferred tax assets	-	(473,265)
Income tax expense	4,467,916	196,982

## 10. PROPERTY, PLANT AND EQUIPMENT

	Computer and office equipment RMB	Furniture and fixtures RMB	Leasehold improvement RMB	Total RMB
<b>At 1 January 2015</b>				
Cost	863,065	299,675	562,520	1,725,260
Accumulated depreciation	(711,993)	(291,406)	(286,804)	(1,290,203)
<b>Net book amount</b>	<b>151,072</b>	<b>8,269</b>	<b>275,716</b>	<b>435,057</b>
<b>Year ended 31 December 2015</b>				
Opening net book amount	151,072	8,269	275,716	435,057
Additions	103,979	-	-	103,979
Depreciation	(88,235)	(4,155)	(114,047)	(206,437)
<b>Closing net book amount</b>	<b>166,816</b>	<b>4,114</b>	<b>161,669</b>	<b>332,599</b>
<b>At 31 December 2015 and 1 January 2016</b>				
Cost	967,044	299,675	562,520	1,829,239
Accumulated depreciation	(800,228)	(295,561)	(400,851)	(1,496,640)
<b>Net book amount</b>	<b>166,816</b>	<b>4,114</b>	<b>161,669</b>	<b>332,599</b>
<b>Year ended 31 December 2016</b>				
Opening net book amount	166,816	4,114	161,669	332,599
Depreciation	(28,197)	(1,604)	(114,048)	(143,849)
Disposals	(138,619)	(2,510)	-	(141,129)
<b>Closing net book amount</b>	<b>-</b>	<b>-</b>	<b>47,621</b>	<b>47,621</b>
<b>At 31 December 2016</b>				
Cost	-	-	562,520	562,520
Accumulated depreciation	-	-	(514,899)	(514,899)
<b>Net book amount</b>	<b>-</b>	<b>-</b>	<b>47,621</b>	<b>47,621</b>

# 11. INTEREST IN AN ASSOCIATE

	31/12/2016 RMB	31/12/2015 RMB
Unlisted share, at cost	-	8,000,000
Share of post-acquisition loss and other comprehensive loss	-	(6,236,460)
	-	1,763,540

Name of associate	Form of business structure	Place / country of incorporation and business	Particulars of issued and paid up capital	Percentage of interests held by the Company	Principal activity
Changsha Retech Information Technology Co., Ltd. 长沙睿泰信息科技有限公司 ("CSR")	Incorporated	Changsha, Hunan Province, the PRC.	RMB20.0 million	N/A (2015: 40%)	Research and development in information technology

Set out below is the summarised financial information of CSR which is accounted for using the equity method:

	30/12/2016 RMB	31/12/2015 RMB
Current assets	-	1,718
Non-current assets	-	6,077,399
Current liabilities	-	(1,670,267)
Net assets	-	4,408,850

	Year ended 30/12/2016 RMB	Year ended 30/12/2015 RMB
Total expense and loss for the period	(669,945)	(2,082,040)

A reconciliation of the above summarised financial information to the carrying amount of the investment in CSR is set out below:

	30/12/2016 RMB	31/12/2015 RMB
Total net assets of the associate	-	4,408,850
Proportion of ownership held by the Group	-	40%
Carrying amount of the interest in an associate in the financial statements	-	1,763,540

On 23 September 2016, the Company has disposed off its interest in CSR to a third party for a consideration of RMB1,495,562.

## 12. INTANGIBLE ASSETS

	Software RMB
<b>At 1 January 2015</b>	
Cost	54,200
Accumulated amortisation	(35,230)
<b>Net book amount</b>	<b>18,970</b>
<b>Year ended 31 December 2015</b>	
Opening net book amount	18,970
Amortisation	(5,420)
<b>Closing net book amount</b>	<b>13,550</b>
<b>At 31 December 2015 and 1 January 2016</b>	
Cost	54,200
Accumulated amortisation	(40,650)
<b>Net book amount</b>	<b>13,550</b>
<b>Year ended 31 December 2016</b>	
Opening net book amount	13,550
Amortisation	(3,162)
Disposal	(10,388)
<b>Closing net book amount</b>	<b>-</b>
<b>At 31 December 2016</b>	
Cost	-
Accumulated amortisation	-
<b>Net book amount</b>	<b>-</b>

## 13. DEFERRED TAX ASSETS

The movement during the year in the deferred tax assets is as follows:

	31/12/2016 RMB	31/12/2015 RMB
At 1 January	1,183,163	-
Recognised in profit or loss	(837,194)	1,183,163
<b>At 31 December</b>	<b>345,969</b>	<b>1,183,163</b>

### 13. DEFERRED TAX ASSETS (Continued)

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

#### Deferred tax assets

	Impairment losses on trade and other receivables RMB	Trade payables and accruals RMB	Total RMB
At 1 January 2015	-	-	-
Recognised in profit or loss	172,304	1,010,859	1,183,163
<b>At 31 December 2015 and 1 January 2016</b>	<b>172,304</b>	<b>1,010,859</b>	<b>1,183,163</b>
Recognised in profit or loss	208,661	754,145	962,806
<b>At 31 December 2016</b>	<b>380,965</b>	<b>1,765,004</b>	<b>2,145,969</b>

#### Deferred tax liabilities

	Gain on disposal of intangible assets RMB	Total RMB
At 31 December 2015 and 1 January 2016	-	-
Recognised in profit or loss	(1,800,000)	(1,800,000)
<b>At 31 December 2016</b>	<b>(1,800,000)</b>	<b>(1,800,000)</b>

The amounts recognised in the statement of financial position are as follows:

	31/12/2016 RMB	31/12/2015 RMB
Deferred tax assets	2,145,969	1,183,163
Deferred tax liabilities	(1,800,000)	-
<b>Net deferred tax assets</b>	<b>345,969</b>	<b>1,183,163</b>

#### 14. TRADE AND OTHER RECEIVABLES

	31/12/2016 RMB	31/12/2015 RMB
Trade receivables	14,974,257	4,359,911
Other receivables	2,831,834	1,064,263
Gross receivables	17,806,091	5,424,174
Less: Impairment losses on trade and other receivables	(1,523,861)	(689,215)
Total loans and receivables	16,282,230	4,734,969
Add: Prepayments	156,000	246,669
<b>Total trade and other receivables</b>	<b>16,438,230</b>	<b>4,981,628</b>

Management of the Company considers that the fair values of trade receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

The movement in the provision for impairment losses is as follows:

	31/12/2016 RMB	31/12/2015 RMB
Balance at the beginning of the year	689,215	689,215
Recognised in profit or loss	987,646	-
Written off	(153,000)	-
<b>Balance at the end of the year</b>	<b>1,523,861</b>	<b>689,215</b>

At each reporting date the Company reviews receivables for evidence of impairment on both an individual and collective basis. At the end of the reporting period, trade and other receivables that are individually impaired amounted to RMB1,523,861 (2015: RMB689,215). None of the trade receivables are impaired on a collective basis.

At the end of 2016, none of the remaining outstanding trade and other receivables was past due or impaired. These related to a large number of diversified customers for whom there was no recent history of default.

#### 15. AMOUNTS DUE FROM/(TO) CUSTOMERS FROM CONTRACT WORKS

	31/12/2016 RMB	31/12/2015 RMB
Recognised and included in the statement of financial position:		
Amounts due from customers on contract works	9,716,872	1,954,738
Amounts due to customers on contract works	(2,813,468)	(796,734)
<b>Net amounts due from customers on contract works</b>	<b>6,903,404</b>	<b>1,158,004</b>

All amounts due from/(to) customers on contract works is expected to be recovered within one year.

**16. LOAN RECEIVABLE**

Loan receivable from a third party is unsecured, interest-free and repayable before 30 June 2017.

**17. LOAN TO A RELATED COMPANY**

Loan to a related company is unsecured, interest-free and repayable before 30 June 2017.

**18. AMOUNT DUE FROM/ (TO) IMMEDIATE HOLDING COMPANY/ AMOUNT DUE FROM A FELLOW SUBSIDIARY/ AMOUNTS DUE FROM RELATED COMPANIES/ AMOUNTS DUE FROM SHAREHOLDERS/ AMOUNTS DUE TO RELATED COMPANIES**

Amount due from/ (to) immediate holding company/ Amount due from a fellow subsidiary/ Amounts due from related companies/ Amounts due from shareholders/ Amounts due to related companies are unsecured, interest-free and repayable on demand.

**19. BANK AND CASH BALANCES**

	31/12/2016 RMB	31/12/2015 RMB
Cash at banks	5,709	486,695

**20. TRADE AND OTHER PAYABLES**

	31/12/2016 RMB	31/12/2015 RMB
Trade payables	8,526,172	2,447,453
Other payables	516,157	330,826
Accruals	539,315	1,789,636
Financial liabilities measured at amortised cost	9,581,644	4,567,915
Receipt in advances	-	317,401
Other tax liabilities	498,361	883,426
<b>Total trade and other payables</b>	<b>10,080,005</b>	<b>5,768,742</b>

All amounts are short-term and hence the carrying values of trade and other payables are considered to be a reasonable approximation of fair values.

**21. BORROWINGS**

	31/12/2016 RMB	31/12/2015 RMB
Unsecured bank loan, repayable within six months	5,000,000	-

The bank loan is unsecured, repayable within six months and bears interest rate of 6.53% per annum.



## 22. PAID UP CAPITAL

	31/12/2016 RMB	31/12/2015 RMB
Balance at the beginning of the year	5,000,000	5,000,000
Addition during the year	7,500,000	-
Balance at the end of the year	12,500,000	5,000,000

## 23. OPERATING LEASE COMMITMENTS

At the end of reporting period, the total future minimum lease payments under non-cancellable operating leases in respect of buildings are payable by the Company as follows:

	31/12/2016 RMB	31/12/2015 RMB
Not later than one year	123,775	541,670
Later than one year but not later than 5 years	82,516	902,784
	206,291	1,444,454

The Company leases its office space under operating lease. The lease runs for an initial period of five years, with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Company and landlord. The arrangement does not contain contingent rent.

## 24. RELATED PARTY TRANSACTIONS

The Company's related parties include its holding company, shareholders, fellow subsidiaries, associate and related companies. Details of the transactions between the company and its related parties are summarised below.

	Year ended 31/12/2016 RMB	Year ended 31/12/2015 RMB
<b>Outsourcing service income received from:</b>		
(a) Immediate holding company	4,282,075	1,174,890
(b) A fellow subsidiary - Jiangsu Retech Education Technology Co., Ltd. 江苏睿泰教育科技有限公司("JSR") <sup>(1)</sup>	-	3,024,035
<b>Disposal of a subsidiary to</b>		
(a) A related company, Retech Holdings Company Limited ("Retech Holdings") <sup>(2)</sup>	10,010,000	-
<b>Disposal of property, plant and equipment to:</b>		
(a) A related company, Shanghai Ruijian Information Technology Co., Ltd. 上海睿剑信息科技有限公司("SRIT") <sup>(3)</sup>	119,989	-
<b>Disposal of intangible assets to:</b>		
(a) A related company, SRIT	9,374	-

## 24. RELATED PARTY TRANSACTIONS (Continued)

	Year ended 31/12/2016 RMB	Year ended 31/12/2015 RMB
<b>Service fee paid to:</b>		
(a) A fellow subsidiary, JSR	-	85,638
(b) A related company, Shanghai Retech Digital Technology Co., Ltd. 上海睿泰数字科技有限公司("SRDT") <sup>(3)</sup> (Note 25)	30,644,721	-
<b>Operating expenses recharged to:</b>		
(a) A related company, SRDT	7,040,838	-

- (1) JSR is a subsidiary of the Company's immediate holding company.  
(2) Mr. AI Shun Gang is a director and controlling shareholder of the holding company of Retech Holdings.  
(3) SRIT and SRDT are the wholly-owned subsidiaries of Retech Holdings.

## 25. APPOINTMENT OF EXCLUSIVE SERVICE PROVIDER

Pursuant to service agreement signed between the Company and a related company, Shanghai Retech Digital Technology Co., Ltd. 上海睿泰数字科技有限公司 ("the Service Agreement"), the Company has appointed SRDT as its exclusive service provider for technical, consulting and other services from 1 August 2016 to 30 June 2017 ("Service Period") and from 1 July 2017 to 30 August 2026 ("Subsequent Service Period"). Under the terms of Service Agreement, the services provided by SRDT will be charged at a fee equal to 100% of the revenue received by the Company during the Service Period and at a fee equal to 95% of the revenue received by the Company during the Subsequent Service Period.

## 26. DISPOSAL OF SHANGHAI RUIJIAN INFORMATION TECHNOLOGY CO., LTD. 上海睿剑信息科技有限公司

On 6 May 2016, the Company contributed RMB2,000,000 as paid up capital to set up SRIT, a company incorporated and domiciled in the PRC and became the sole shareholder of SRIT. The principal activities of SRIT are mainly IT development, technology transfer and related consultancy services. In addition, the Company transferred several internally-generated patents with a total fair value of RMB9,000,000 as part of the Company's investment in SRIT.

On 11 July 2016, the Company transferred 9% of its investment in SRIT to a third party for a consideration of RMB990,000, therefore reduced its shareholding in SRIT to 91%.

On 1 September 2016, the Group transferred its remaining shareholding in SRIT to Retech Holdings Co., Ltd. for a consideration of RMB10,010,000.

## 27. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Company is exposed to financial risks through its use of financial instruments in its ordinary course of operations, and in its investment activities. The financial risks include market risk (including currency risk and interest risk), credit risk and liquidity risk.

The Company's overall financial risk management programme focuses on the unpredictability and volatility at financial markets and seeks to minimise potential adverse effects on the financial position, financial performance and cash flows of the Company. No derivative financial instruments are used to hedge any risk exposures.

### 27.1 Categories of financial assets and financial liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and financial liabilities.

	31/12/2016 RMB	31/12/2015 RMB
<b>Financial assets</b>		
<u>Loans and receivables:</u>		
- Trade and other receivables	16,282,230	4,734,969
- Loan receivable	4,961,542	-
- Loan to a related company	6,000,000	-
- Amount due from immediate holding company	13,509,043	-
- Amount due from a fellow subsidiary	3,751,224	3,751,224
- Amounts due from related companies	2,195,339	10,911
- Amounts due from shareholders	2,000	-
- Bank and cash balances	5,709	486,695
	<b>46,707,087</b>	<b>8,983,799</b>
<b>Financial liabilities</b>		
<u>Financial liabilities measured at amortised cost:</u>		
- Trade and other payables	9,581,644	4,567,915
- Borrowings	5,000,000	-
- Amount due to immediate holding company	-	3,282,857
- Amounts due to related companies	10,888,280	-
	<b>25,469,924</b>	<b>7,850,772</b>

## **27. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)**

### **27.2 Foreign currency risk**

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company does not have significant foreign currency risk as transactions and balances are predominately in original functional currencies.

### **27.3 Interest rate risk**

As the Company's borrowings have fixed interest rate and the Company has no other significant interest bearing financial assets and liabilities, the Company's income and operating cash flows are substantially independent to changes in market interest rates.

### **27.4 Credit risk**

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Company. The Company's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

The Company's maximum exposure to credit risk is limited to the carrying amounts of the financial assets at the reporting date as detailed in note 27.1.

Credit risk on trade and other receivables and amounts due from related parties are minimised as the Company performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually or collectively at the end of each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. At the reporting date, the Company has no concentration of credit risk.

None of the Company's financial assets are secured by collateral or other credit enhancements.

### **27.5 Liquidity risk**

Liquidity risk relates to the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company is exposed to liquidity risk in respect of settlement of its financing obligations and its cash flow management. The Company's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date when the Company can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Company is committed to pay.

## 27. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

### 27.5 Liquidity risk (Continued)

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining contractual maturity at end of reporting date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	On demand and within one year RMB	Total undiscounted amount RMB	Total carrying amount RMB
<b>31/12/2016</b>			
Trade and other payables	9,581,644	9,581,644	9,581,644
Borrowings	5,000,000	5,000,000	5,000,000
Amounts due to related companies	10,888,280	10,888,280	10,888,280
	<b>25,469,924</b>	<b>25,469,924</b>	<b>25,469,924</b>
<b>31/12/2015</b>			
Trade and other payables	4,567,915	4,567,915	4,567,915
Amount due to immediate holding company	3,282,857	3,282,857	3,282,857
	<b>7,850,772</b>	<b>7,850,772</b>	<b>7,850,772</b>

### 27.6 Fair values measurements of financial instruments

The fair values of the Company's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial assets and liabilities.

## 28. CAPITAL MANAGEMENT

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it continues to provide returns and benefits for shareholders. The Company manages capital by regularly monitoring its current and expected liquidity requirements.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.