



# **Retechnology Co., Limited**

**ARBN 615 153 332**

## **Appendix 4E**

### **Preliminary final report**

### **for the year ended 31 December 2017**

Lodged with ASX under Listing Rule 4.3A

The preliminary final report covers the consolidated entity, consisting of Retechnology Co., Limited and its subsidiaries ("**Retechnology**" or the "**Company**"). The consolidated financial statements are presented in Renminbi (RMB), which is the Company's functional currency, unless otherwise stated.

The report is based on accounts which are in the process of being audited.

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## **About Retech Technology Co., Limited**

Retech provides technology solutions to, and builds E-Learning platforms and E-Coursewares for large companies, social organizations and training providers. With these solutions, Retech enables clients to deliver their offline training contents online through multiple channels, including the internet, mobile and social media platforms.

### 1. Details of the reporting period and the previous corresponding period

Reporting period:	<b>1 January 2017 to 31 December 2017</b>
Previous period:	10 May 2016 (date of incorporation) to 31 December 2016

### 2. Results for announcement to the market

	Reporting period RMB	Previous period RMB	% Changes
<b>2.1 Revenue from ordinary activities</b>	104,201,567	44,547,827	134%
<b>2.2 Profit from ordinary activities after tax attributable to members</b>	39,332,119	10,378,799	279%
<b>2.3 Net profit for the period attributable to members</b>	39,332,119	10,378,799	279%

#### 2.4 Final dividends

No dividends have been paid nor are any dividends proposed to be paid.

#### 2.5 Explanation of results

Sales revenue in 2017 rose by RMB59.65million compared to 2016 representing a year-on-year percentage growth of 134%. Gross profit increased by RMB 35.38million as of 118% growth rate comparing to the result of 2016. The year of 2017 was the first full financial year of the company since it was incorporated in May 2016. In 2017 the Company successfully listed in ASX with raising total amount of A\$17.9 million. Revenue and gross profit increased with the improved branding of the Company after listing and also the comparative competitive advantages in E-Learning technology and E-Courses.

Operating expenses increased by RMB10.30million representing a rise of 75%, which is mainly due to the employment of new sales force and administrative personnel to build sales channels and improve logistic departments' services.

Net profit attributable to members increased by RMB28.95million or 279% in 2017 compared with 2016 due to the above factors.

### 3. Consolidated statement of profit or loss and other comprehensive income

Please refer to Page 6

### 4. Consolidated statement of financial position

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**5. Consolidated statement of changes in equity**

Please refer to Page 9

**6. Consolidated statement of cash flows**

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**7. Notes to the consolidated financial statements**

Please refer to Page 13

**8. Dividends**

The Company has not declared any dividends.

**9. Dividend reinvestment plan**

The Company has no dividend reinvestment plan.

**10. Net tangible assets**

As of 31 December 2017 RMB cents per share	As of 31 December 2016 RMB cents per share
76.25 (based on 230,750,944 ordinary share in issue)	13.29 (based on 180,000,000 ordinary share in issue)

**11. Details of entities over which control has been gained or lost during the period**

The Company established of Shanghai Reunet Technology Co., Ltd. ("Reunet"), joint venture with leading Japanese E-Learning provider, NetLearning, Inc. Reunet is a subsidiary established by Retech's wholly-owned subsidiary, Retech Holdings Co., Ltd. ("Retech Holdings"). Retech Holdings owns 60.02% of Reunet. Reunet has not performed any operations during the period. Reunet will start operation from 2018. It will provide high-efficiency and practical E-Learning services via a SaaS learning platform to the Asian market, including mainland China, Hong Kong, Singapore and Japan.

**12. Details of associates and joint venture entities**

Not applicable

**13. Other significant information**

There are no other significant events or information not otherwise disclosed in these reports needed by an investor to make an informed assessment of the entity's financial performance and financial position.

**14. Accounting standards**

The reports have been prepared under Hong Kong Financial Reporting Standards.

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## 15. Commentary on the results

The Company earned a net profit after tax of RMB37,768,258. For the year ended 31 December 2017, the Company generated RMB104,201,567 in revenue and gross profit of RMB65,301,234. Also, please see the detail in section 2.5.

Besides, during this period, Retech has achieved principal activities in the Company's operation aspect as following listed:

- Listing on the ASX

In June 2017, Retech commenced trading on the ASX following a capital raising and Initial Public Offer ("IPO"), led by RM Corporate Finance and Investorlink Group.

Retech raised a total of A\$17.9 million through the issue of 35.8 million CHESS Depositary Interests ("CDIs") at A\$0.50 per CDI. The capital raising received backing from a number of prominent global institutional and high net worth investors, including Asian venture capital firm, Vickers Venture Partners and Chinese conglomerate Hailiang Group.

- Establishment of Shanghai Ruipengcheng Technology Co., Ltd.

Shanghai Retech Digital Technology Co., Ltd., the operation company and wholly-owned subsidiary of Retech subscribed for 62.5% interests in Shanghai Ruipengcheng Technology Co., Ltd. ("Ruipengcheng") on incorporation. Ruipengcheng was established as a vehicle to develop E-Courseware for vocation schools and training institutions.

- City Savvy becomes major shareholder

In November 2017, the wholly-owned subsidiary of Huarong Investment Stock Corporation Limited ("Huarong"), City Savvy Limited, became a major shareholder in Retech with a 12.00% interest in Retech's issued capital and the ability to achieve a maximum holding of 20.89% (18.16% on fully diluted basis) of all Retech CDIs on a fully diluted basis (subject to the conversion of a convertible note).

The transaction was being structured in three parts, namely:

- Part 1: An off-market acquisition by Huarong of circa 5.89% of the CDIs in Retech held by Miao Shi Investment Group Company Limited, an entity unrelated to Retech (Off-Market Acquisition);
- Part 2: The subscription by Huarong for circa 6.95% of new CDIs ("CDI Acquisition"); and
- Part 3: The issue to Huarong of a Convertible Note convertible with a maximum CDI issue number, resulting in, on conversion, the issue of a maximum of circa 8.05% of new CDIs in order to comply with ASX Listing Rule 7.1 ("Convertible Note Acquisition").

It is anticipated that the transaction may open up commercial opportunities for Retech with Huarong's Chinese corporate network.

## 16. Statement as to the audit status

The report is based on accounts which are in the process of being audited. The Company expects that the audit, when completed, will result in an unqualified audit opinion.

**Consolidated statement of profit or loss and other comprehensive income  
for the year ended 31 December 2017**

		Year ended 31 December 2017 RMB (Unaudited)	Period from 10 May 2016 (date of incorporation) to 31 December 2016 RMB
	Notes		
<b>Revenue</b>	5 & 6	<b>104,201,567</b>	44,547,827
Cost of services		<b>(38,900,333)</b>	(14,628,704)
<b>Gross profit</b>		<b>65,301,234</b>	29,919,123
Other income	7	<b>4,581,916</b>	535,635
Selling and distribution expenses		<b>(5,703,989)</b>	(1,362,398)
Administrative expenses		<b>(18,024,161)</b>	(12,462,771)
Fair value gain on derivative financial instruments		<b>78,598</b>	-
Finance cost	8	<b>(398,565)</b>	-
<b>Profit before income tax</b>	9	<b>45,835,033</b>	16,629,589
Income tax expense	11	<b>(8,066,775)</b>	(6,250,790)
<b>Profit and total comprehensive income for the year/period</b>		<b>37,768,258</b>	10,378,799
<b>Profit and total comprehensive income for the year/period attributable to:</b>			
Owners of the Company		<b>39,332,119</b>	10,378,799
Non-controlling interests		<b>(1,563,861)</b>	-
		<b>37,768,258</b>	10,378,799
<b>Earnings per share for profit attributable to the owners of the Company during the year/period</b>			
Basic	12	<b>19.55 cents</b>	22.30 cents
Diluted	12	<b>19.52 cents</b>	22.30 cents

The notes on pages 13 to 48 are an integral part of these consolidated financial statements.

## Consolidated statement of financial position as at 31 December 2017

	Notes	2017 RMB (Unaudited)	2016 RMB
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Equipment	13	242,098	122,450
Intangible assets	14	2,987,421	-
Deferred tax assets	15	116,681	363,940
		<b>3,346,200</b>	<b>486,390</b>
<b>Current assets</b>			
Trade and other receivables	16	36,088,759	7,922,606
Amounts due from customers for contract works	17	15,862,639	5,591,713
Amounts due from non-controlling shareholders	18(a)	4,970,785	2,612,937
Amount due from a non-controlling shareholder of a subsidiary	18(b)	468,785	-
Amounts due from related companies	18(c)	15,736,667	10,003,851
Loan to a related company	19	13,621,090	11,036,536
Derivative financial instruments	20	19,758,568	-
Short term bank deposits		109,543,120	-
Cash and cash equivalents		50,061,852	4,647,305
		<b>266,112,265</b>	<b>41,814,948</b>
<b>Current liabilities</b>			
Trade and other payables	22	13,605,360	9,094,910
Amounts due to customers for contract works	17	10,042,901	1,187,371
Amount due to a non-controlling shareholder of a subsidiary	18(d)	393,865	-
Amounts due to related companies	18(e)	4,646,327	1,490,680
Derivative financial instruments	20	23,440,186	-
Income tax payable		9,808,126	6,614,730
		<b>61,936,765</b>	<b>18,387,691</b>
<b>Net current assets</b>		<b>204,175,500</b>	<b>23,427,257</b>
<b>Total assets less current liabilities</b>		<b>207,521,700</b>	<b>23,913,647</b>
<b>Non-current liability</b>			
Convertible note	23	28,591,365	-
<b>Net assets</b>		<b>178,930,335</b>	<b>23,913,647</b>

**Consolidated statement of financial position  
as at 31 December 2017 (Continued)**

	<b>Notes</b>	<b>2017 RMB (Unaudited)</b>	<b>2016 RMB</b>
<b>EQUITY</b>			
Share capital	24	<b>141,905,974</b>	24,657,544
Reserves	25	<b>38,588,222</b>	(743,897)
<b>Equity attributable to owners of the Company</b>		<b>180,494,196</b>	23,913,647
<b>Non-controlling interests</b>		<b>(1,563,861)</b>	-
<b>Total equity</b>		<b>178,930,335</b>	23,913,647

The notes on pages 13 to 48 are an integral part of these consolidated financial statements.



## Consolidated statement of changes in equity for the year ended 31 December 2017

	Attributable to owners of the Company					Non-controlling interests RMB	Total equity RMB
	Share capital RMB	Merger reserve RMB	Statutory reserve RMB	Retained profits RMB	Total RMB		
	(Unaudited)	(note 25.1) (Unaudited)	(note 25.2) (Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>At 1 January 2017</b>	24,657,544	(11,122,696)	-	10,378,799	23,913,647	-	23,913,647
<u>Issuance of new shares:</u>							
- In connection of the listing of the Company's shares (note 24(d))	92,232,073	-	-	-	92,232,073	-	92,232,073
- A placement by an institutional investor (note 24(e))	35,088,077	-	-	-	35,088,077	-	35,088,077
<u>Share issuance expenses:</u>							
- In connection of the listing of the Company's shares (note 24(d))	(9,418,995)	-	-	-	(9,418,995)	-	(9,418,995)
- A placement by an institutional investor (note 24(e))	(652,725)	-	-	-	(652,725)	-	(652,725)
Transfer to statutory reserve	-	-	3,250,000	(3,250,000)	-	-	-
<b>Transactions with owners</b>	117,248,430	-	3,250,000	(3,250,000)	117,248,430	-	117,248,430
<b>Profit and total comprehensive income for the year</b>	-	-	-	39,332,119	39,332,119	(1,563,861)	37,768,258
<b>At 31 December 2017</b>	141,905,974	(11,122,696)	3,250,000	46,460,918	180,494,196	(1,563,861)	178,930,335

**Consolidated statement of changes in equity  
for the year ended 31 December 2017 (Continued)**

	Attributable to owners of the Company					Non- controlling interests RMB	Total equity RMB
	Share capital RMB	Merger reserve RMB (note 25.1)	Statutory reserve RMB (note 25.2)	Retained profits RMB	Total RMB		
<u>Issuance of new shares:</u>							
- On incorporation (note 24(a))	8,403	-	-	-	8,403	-	8,403
- During the period (notes 24(b) & (c))	24,649,141	(11,122,696)	-	-	13,526,445	-	13,526,445
Transactions with owners	24,657,544	(11,122,696)	-	-	13,534,848	-	13,534,848
Profit and total comprehensive income for the period	-	-	-	10,378,799	10,378,799	-	10,378,799
At 31 December 2016	24,657,544	(11,122,696)	-	10,378,799	23,913,647	-	23,913,647

The notes on pages 13 to 48 are an integral part of these consolidated financial statements.

## Consolidated statement of cash flows for the year ended 31 December 2017

	Notes	Year ended 31 December 2017 RMB (Unaudited)	Period from 10 May 2016 (date of incorporation) to 31 December 2016 RMB
<b>Cash flows from operating activities</b>			
Profit before income tax		45,835,033	16,629,589
Adjustments for:			
Depreciation of equipment	13	46,627	10,528
Amortisation of intangible assets	14	597,485	-
Equity settled share-based payment expenses	9	-	8,511,380
Interest income		(1,499,845)	(7,294)
Interest expense		398,565	-
Fair value gain on derivative financial instruments		(78,598)	-
Exchange (gain)/loss		(591,014)	215,015
Operating profit before working capital changes		44,708,253	25,359,218
Increase in trade and other receivables		(29,990,808)	(5,735,493)
Increase in amounts due from customers for contract works		(10,270,926)	(5,591,713)
Increase in trade and other payables		4,510,450	9,094,910
Increase in amounts due to customers for contract works		8,855,530	1,187,371
<b>Cash generated from operations</b>		17,812,499	24,314,293
Income tax paid		(4,626,120)	-
<i>Net cash flows generated from operating activities</i>		13,186,379	24,314,293
<b>Cash flows from investing activities</b>			
Purchase of equipment	13	(166,275)	(132,978)
Purchase of intangible assets	14	(3,584,906)	-
Loan to a related company		(14,290,881)	(11,030,000)
Repayment of loan to a related company		12,696,142	-
Increase in amounts due from non-controlling shareholders		(2,357,848)	-
Increase in amount due from a non-controlling shareholder of a subsidiary		(468,785)	-
Increase in amounts due from related companies		(5,732,816)	(10,003,851)
Increase in short term bank deposits		(109,543,120)	-
Interest received		147,572	758
<i>Net cash flows used in investing activities</i>		(123,300,917)	(21,166,071)

**Consolidated statement of cash flows**  
**for the year ended 31 December 2017 (Continued)**

	Notes	Year ended 31 December 2017  RMB	Period from 10 May 2016 (date of incorporation) to 31 December 2016 RMB
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	24	127,320,150	8,403
Proceeds from issue of convertible note	23	32,544,030	-
Share issuance expenses		(7,884,607)	-
Increase in amount due to a non-controlling shareholder of a subsidiary		393,865	-
Increase in amounts due to related companies		3,155,647	1,490,680
<i>Net cash flows generated from financing activities</i>		<b>155,529,085</b>	<b>1,499,083</b>
<b>Net increase in cash and cash equivalents</b>		<b>45,414,547</b>	<b>4,647,305</b>
Cash and cash equivalents at beginning of the year/date of incorporation		4,647,305	-
<b>Cash and cash equivalents at end of the year/period</b>		<b>50,061,852</b>	<b>4,647,305</b>

The notes on pages 13 to 48 are an integral part of these consolidated financial statements.

## **Notes to the consolidated financial statements for the year ended 31 December 2017**

### **1. GENERAL INFORMATION**

Retech Technology Co., Limited (the “Company”) was incorporated in Hong Kong on 10 May 2016 as a limited liability company. The address of the registered office and principal place of business of the Company is Room 1405A, 14/F, Lucky Centre, 165-171 Wanchai Road, Wanchai, Hong Kong. The Company’s shares were listed on the Australian Securities Exchange (“ASX”) since 26 June 2017.

The directors consider Retech Investment Group Co., Ltd, a limited liability company incorporated in the British Virgin Islands, is the immediate and ultimate holding company of the Company.

The principal activities of the Company and its subsidiaries (the “Group”) include the provision of technology solutions to, and building e-learning platforms and e-courseware for corporate customers and training providers, enabling them to deliver their offline training content online. The Group’s operations are based in the People’s Republic of China (the “PRC”). The principal activities of the subsidiaries are disclosed in note 22 to the consolidated financial statements.

The consolidated financial statements represented in Renminbi (“RMB”), the currency of the primary economic environment in which the Company and its subsidiaries operate (the functional currency of the Company and its subsidiaries).

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

#### **2.1 Basis of preparation**

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all 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. These consolidated financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance (the “HKCO”).

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below. The adoption of new or amended HKFRSs and the impacts on the Group’s financial statements, if any, are disclosed in note 3.

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments which are stated at fair values. The measurement bases are fully described in the accounting policies below.

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

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

During the process of group restructuring implemented in 2016 (the “Group Restructuring”), certain transfers of controlling interests only involved inserting new holding companies and has not resulted in any change of economic substances, the consolidated financial statements for the period have been presented as a continuation of the existing companies using the pooling of interests method as if these transfers had been completed at the date of incorporation of the Company. Details of the Group Restructuring were set out in “The Restructure”, section 3.9 to the Prospectus by the Company dated 27 January 2017, which is available to the public on the Company’s website and website of ASX.

### **2.2 Non-statutory financial statements**

These financial statements contained in this annual report do not constitute the Company’s statutory consolidated financial statements for the year ended 31 December 2017 (the “statutory financial statements”) but is derived from those financial statements. Further information relating to the statutory financial statements required to be disclosed in accordance with section 436 of the HKCO is as follows:

The Company will deliver the statutory financial statements for the period to the Registrar of Companies of Hong Kong as required by section 662(3) of, and Part 3 of Schedule 6 to, the HKCO.

The Company’s auditor has reported on the statutory financial statements for the year. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis; and did not contain a statement under either sections 406(2), 407(2) or 407(3) of the HKCO.

### **2.3 Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group 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 Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the Group ceases to control the subsidiary.

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

### **2.3 Basis of consolidation (Continued)**

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

In the Company's statement of financial position, subsidiary is carried at cost less any impairment loss. Cost also includes direct attributable costs of investment.

The results of subsidiaries 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **2.4 Foreign currency translation**

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

### **2.5 Equipment**

Depreciation on equipment is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Computer and office equipment	3 years
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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 Group 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.

### **2.6 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:

Content distribution rights	2 years
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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in profit or loss.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

### **2.8 Financial assets**

The Group's accounting policies for financial assets other than investments in subsidiaries are set out below.

Financial assets are classified into the following category:

- financial assets at fair value through profit or loss
- 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 Group 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.

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

### **2.8 Financial assets (Continued)**

#### Financial assets at fair value through profit or loss

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or
- the assets are part of a group of financial assets which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or
- the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Group's policies in note 2.16 to these consolidated financial statements.

The Group has designated its embedded derivatives separated from its convertible debt securities as financial assets at fair value through profit or loss as they were not closely related to the host debt contract.

#### 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)**

### **2.8 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 Group 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; and
- The disappearance of an active market for that financial asset because of financial difficulties.

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 any such evidence exists, the impairment loss is measured and recognised as follows:

- i) Financial assets carried at amortised cost  
If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments 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 profit or loss of the period 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 profit or loss of the period in which the reversal occurs.

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

### **2.8 Financial assets (Continued)**

#### ***Impairment of 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 Group 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 profit or loss.

### **2.9 Derivative financial instruments**

Derivative financial instruments, in individual contracts or separated from hybrid financial instruments, are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value. Derivatives that are not designated as hedging instruments are accounted for as financial assets or financial liabilities at fair value through profit or loss. Gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

### **2.10 Cash and cash equivalents**

Cash and cash equivalents include cash at bank and in hand, which are subject to an insignificant risk of changes in value.

### **2.11 Financial guarantees contracts**

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

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

### **2.12 Financial liabilities**

The Group's financial liabilities include trade and other payables, amounts due to related parties (including a non-controlling shareholder of a subsidiary and related companies), convertible note and derivatives.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see note 2.19).

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

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 and amounts due to related parties

Trade and other payables and amounts due to related parties are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

#### Convertible note

Compound financial instruments issued by the Group comprise convertible note that can be converted to share capital at the option of the holder, and the number of shares to be issued varies with changes in the share price of the Company.

They are accounted for as hybrid instruments consisting of embedded derivatives and a host debt contract. At initial recognition, the embedded derivatives of the convertible note are accounted for as derivative financial instruments and measured at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability under the contract. Transaction costs that relate to the issue of the convertible note are allocated to the liability under the contract.

The derivative component is subsequently carried at fair value and changes in fair value are recognised in profit or loss. The liability under the contract is subsequently carried at amortised cost calculated using the effective interest method until extinguished on conversion or maturity.

When the convertible note are converted the carrying amount of the liability under the contract together with the fair value of the relevant derivative component at the time of conversion are transferred to share capital as consideration for the shares issued. When the convertible note are redeemed, any difference between the redemption amount and the carrying amounts of both components are recognised in profit or loss.

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

### **2.13 Leases**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group 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.

Assets that are held by the Group under leases which transfer to the Group 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 Group are classified as operating leases.

#### Operating lease charges as the lessee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets.

### **2.14 Provisions and contingent liabilities**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### **2.15 Share capital**

Ordinary shares are classified as equity. Share capital is recognised at the amount of consideration of shares issued, after deducting any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

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

### **2.16 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 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. Consultancy income is recognised when the services are rendered. Commission income is recognised in the period in which the services are rendered by reference to completion of the specific transaction.

### **2.17 Contracts for e-learning 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 recognised 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 recognised 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 amounts due from customers for contract works. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amounts due to customers for contract works.

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

### **2.18 Employee benefits**

#### Retirement benefits

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

The employees of the Group are required to participate in a central pension scheme operated by the local municipal government. This subsidiary 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 period. The Group'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.

### **2.19 Borrowing costs**

Borrowing costs are expensed when incurred.

### **2.20 Taxation**

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal 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.

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 consolidated 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, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.



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

### **2.20 Taxation (Continued)**

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group 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 or 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 Group 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 Group 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 either:
  - (i) the same taxable entity; or
  - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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

### **2.21 Segment reporting**

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors of the Company for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major service lines.

The executive directors of the Company, being the chief operating decision maker, regard the Group's business of provision of e-learning platforms and e-courseware services as a single operating segment and assesses the operating performance and allocates the resources of the Group as a whole.

### **2.22 Related parties**

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

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

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.

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

### 2.23 Government grants and subsidies

Government grants and subsidies are recognised at their fair value where there is reasonable assurance that the grants and subsidies will be received and all attaching conditions will be complied with. When the grants and subsidies relate to an expense item, they are deferred and recognised as income, over the periods necessary to match the grants and subsidies on a systematic basis with the costs that they are intended to compensate. Where the grants and subsidies relate to an asset, they are presented as deferred revenue and are released to the profit or loss on a straight line basis over the expected useful life of the relevant asset.

### 2.24 Equity settled share-based payment

#### Share-based payment for service

Shares issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the shares issued. The fair values of the services received are recognised as expenses, with a corresponding increase in equity (share capital), when the counterparties render services, unless the services qualify for recognition as assets.

## 3. ADOPTION OF NEW AND AMENDED HKFRSs

### New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2017

In the current year, the Group has applied for the first time all amended HKFRSs issued by the HKICPA, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2017. The adoption of the amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented. However, additional disclosure has been included in note 26 to satisfy the new disclosure requirements introduced by the amendments to HKAS 7 "Statement of Cash Flows: Disclosure Initiative", which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

### Issued but not yet effective HKFRSs

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

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers and the related Amendments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
HKFRS 17	Insurance Contract <sup>3</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>

### 3. **ADOPTION OF NEW AND AMENDED HKFRSs (Continued)**

#### **Issued but not yet effective HKFRSs (Continued)**

Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures <sup>2</sup>
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle <sup>1</sup>
Amendments to HKAS 40	Transfers of Investment Property <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle <sup>2</sup>
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>4</sup> Effective date not yet determined

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncement. Management is currently assessing the possible impact of these amendments of the Group's results and financial position in the first year of application. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSs are not expected to have a material impact on the Group's consolidated financial statements.

#### **HKFRS 9 "Financial instruments"**

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement". It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an "expected credit loss" model for the impairment of financial assets.

HKFRS 9 also contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

The directors have identified the following areas that are expected to be most impacted by the application of HKFRS 9:

- the impairment of financial assets applying the expected credit loss model. This will apply to the Group's trade receivables, amounts due from related parties (including non-controlling shareholders, a non-controlling shareholder of a subsidiary and related companies) and loan to a related company. For contract assets arising from HKFRS 15 and trade receivables, the Group applies a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing components.

### 3. **ADOPTION OF NEW AND AMENDED HKFRSs (Continued)**

#### **Issued but not yet effective HKFRSs (Continued)**

##### **HKFRS 15 “Revenue from Contracts with Customers”**

HKFRS 15 and the related clarification to HKFRS 15 (hereinafter referred to as “HKFRS 15”) presents new requirements for the recognition of revenue, replacing HKAS 18 “Revenue”, HKAS 11 “Construction Contracts”, and several revenue-related Interpretations. HKFRS 15 establishes a single comprehensive model that applies to contracts with customers and two approaches to recognising revenue; at a point in time or overtime. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2018. Based on the assessment completed to date, the directors do not consider that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting period.

##### **HKFRS 16 “Leases”**

HKFRS 16 will replace HKAS 17 “Leases” and three related Interpretations.

As disclosed in note 2.13, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee would recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group’s accounting as a lessee of leases of land and buildings and other assets which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit or loss over the period of the lease. As disclosed in note 28, as at 31 December 2017, the Group’s future minimum lease payments under non-cancellable operating leases amount to HK\$333,549 for office premises, all of which is payable within 1 year after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

#### **4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND SIGNIFICANT ACCOUNTING JUDGEMENT**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### **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 Group 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 Group. Such changes are reflected in the assumptions when they occur.

##### Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations.

Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered. As at 31 December 2017, the carrying amount of the Group's deferred tax assets was HK\$116,681 (2016: HK\$363,940).

##### Impairment of trade receivables

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of customers to make the required payments. The Group bases the estimates on the aging of the receivable balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual impairment losses would be higher than estimated. The carrying amount as at the end of the reporting period is approximately RMB32,981,849 (2016: RMB5,285,446).

##### Impairment of amounts due from related parties (including non-controlling shareholders, a non-controlling shareholder of a subsidiary and related companies) and loan to a related company

The provision policy for impairment of amounts due from non-controlling shareholders (note 18(a)), a non-controlling shareholder of a subsidiary (note 18(b)), related companies (note 18(c)) and loan to a related company (note 19) are based on the evaluation of collectability of the amounts due. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including their current creditworthiness, past collection history, financial condition and indemnification from the ultimate holding company. If the financial conditions of these entities or the ultimate holding company were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

#### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY AND SIGNIFICANT ACCOUNTING JUDGEMENT (Continued)

##### Key sources of estimation uncertainty (Continued)

###### Fair value of derivative financial instruments

As described in note 23 to the consolidated financial statements, the derivative components of convertible note are measured at fair value. The Group engaged an independent valuer to determine the fair values of these derivative financial instruments. The determination was based on generally accepted valuation procedures and practices that rely extensively on numerous assumptions taking into consideration of many uncertainties, including discount rate and volatility of the Group's share price, some of which cannot be easily quantified or ascertained. Changes in subjective input assumptions can materially affect the fair value estimate. As at 31 December 2017, the net fair value of derivative financial instruments is RMB3,682,000 (2016: nil).

##### Significant accounting judgement

###### Revenue from contracts for service

The Group 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 to the estimated total contract costs to be incurred under the transaction. Significant assumptions and judgements, such as the budgeted staff hours, 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. Because of the nature of the industry the Group entered into, management will make adjustments, where appropriate, to the amounts of contract revenue and/or cost based on regular review of contract work progress and estimated contract revenue and costs.

#### 5. REVENUE

The Group's principal activities are disclosed in note 1 to these consolidated financial statements.

The Group's revenue recognised during the year/period is as follows:

	Year ended 31 December 2017 RMB	Period from 10 May 2016 (date of incorporation) to 31 December 2016 RMB
Rendering of services	87,985,221	38,765,199
Licensing and commission income	14,979,740	4,886,792
Consultancy income	1,236,606	895,836
	<b>104,201,567</b>	<b>44,547,827</b>

## 6. SEGMENT REPORTING

In the current year/period, the executive directors of the Company, being the chief operating decision maker, regard the Group's business of provision of e-learning platforms and e-courseware services as a single operating segment and assess the operating performance and allocate the resources of the Group as a whole. The only operating segment is monitored and strategic decisions are made on the basis of the results of the Group as a whole. Accordingly, no segment analysis information is presented.

### Information about major customers

There is no single customer contributing over 10% of total sales of the Group for the year/period.

### Geographic information

The Group's revenue and results from operations are mainly derived from activities in the PRC. The principal assets of the Group were located in the PRC during the year/period. Accordingly, no analysis by geographical segment is provided.

## 7. OTHER INCOME

	Year ended 31 December 2017 RMB	Period from 10 May 2016 (date of incorporation) to 31 December 2016 RMB
Interest income from loan to a related company	989,815	6,536
Bank interests	510,030	758
Government subsidy income	425,145	522,000
Sundry income	15,117	6,341
Exchange gain	2,641,809	-
	<b>4,581,916</b>	<b>535,635</b>

Government subsidy income received by a subsidiary of the Company is recognised in profit or loss when received and no specific conditions have been required to fulfill.

## 8. FINANCE COST

	Note	Year ended 31 December 2017 RMB	Period from 10 May 2016 (date of incorporation) to 31 December 2016 RMB
Interest on convertible note	23	398,565	-



## 9. PROFIT BEFORE INCOME TAX

Profit before income tax for the year/period is arrived at after charging/(crediting):

	Year ended 31 December 2017 RMB	Period from 10 May 2016 (date of incorporation) to 31 December 2016 RMB
Auditor's remuneration	1,050,000	400,000
Depreciation	46,627	10,528
Amortisation of intangible assets	597,485	-
Operating lease charges in respect of office premises	671,830	425,813
Equity settled share-based payment expenses (listing expenses)	-	8,511,380
Other listing expenses	2,447,124	-
Exchange (gain)/loss	(2,641,809)	215,015
Staff and related costs (including directors' remuneration)	26,879,208	10,286,349

## 10. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

	Year ended 31 December 2017 RMB	Period from 10 May 2016 (date of incorporation) to 31 December 2016 RMB
Directors' emoluments for services as directors of the Company and its subsidiary undertakings		
- Fees	1,430,906	52,521
Other emoluments in connection with the management of the affairs of the Company and its subsidiary undertakings	-	-
	1,430,906	52,521

## 11. INCOME TAX EXPENSE

The major components of income tax expense recognised in profit or loss were:

	Year ended 31 December 2017 RMB	Period from 10 May 2016 (date of incorporation) to 31 December 2016 RMB
Current tax		
- PRC Enterprise Income Tax	7,819,516	6,614,730
Deferred tax (note 15)	247,259	(363,940)
	<b>8,066,775</b>	<b>6,250,790</b>

Under the Law of the People's Republic of China on Enterprise Income Tax and implementation Regulation of the Enterprise Income Tax Law (the "EIT Law"), other than those disclosed below, all PRC subsidiaries are subject to PRC enterprise income tax of 25%. The PRC EIT Law also allows enterprises to apply for the certificates of "High and New Technology" ("HNTE") which entitled qualified companies to enjoy a preferential income tax rate of 15%. Shanghai Retech Digital Technology Co., Ltd, a PRC subsidiary of the Group was qualified as a HNTE in 2017 and valid until 2019.

No provision for Hong Kong Profits Tax has been made as the group companies did not generate any assessable profits arising in Hong Kong during the year and the prior period.

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

	Year ended 31 December 2017 RMB	Period from 10 May 2016 (date of incorporation) to 31 December 2016 RMB
Profit before income tax	45,835,033	16,629,589
Tax at the PRC enterprise income tax rate of 25% (2016: 25%)	11,458,758	4,157,397
Tax effect of different tax rates of entities operating in other jurisdictions	236,982	736,545
Tax effect of non-deductible expenses		
- Listing expenses	403,775	1,331,462
- Other non-deductible expenses	240,871	-
Tax effect of non-taxable revenue	(817,304)	-
Tax effect of tax losses not recognised	1,464,933	25,386
Effect of tax concession and lower tax rate for a PRC subsidiary	(5,066,816)	-
Effect on opening deferred tax balances arising from reduction in tax rates during the year	145,576	-
Income tax expense	<b>8,066,775</b>	<b>6,250,790</b>

## 12. EARNINGS PER SHARE

	Year ended 31 December 2017	Period from 10 May 2016 (date of incorporation) to 31 December 2016
<u>Earnings</u>	<b>RMB</b>	<b>RMB</b>
Earnings for the purpose of basic earnings per share (profit/period for the year attributable to owners of the Company)	<b>39,332,119</b>	10,378,799
Effect of dilutive potential ordinary shares: Interest on convertible note (net of tax)	<b>298,924</b>	-
Earnings for the purpose of diluted earnings per share	<b>39,631,043</b>	10,378,799
<u>Number of shares</u>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>201,176,542</b>	46,546,610
Effect of dilutive potential ordinary shares: Convertible note	<b>1,837,988</b>	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>203,014,530</b>	46,546,610

### 13. EQUIPMENT

	Computer and office equipment RMB
<b>Cost</b>	
Additions	132,978
At 31 December 2016 and 1 January 2017	132,978
Additions	166,275
<b>At 31 December 2017</b>	<b>299,253</b>
<b>Accumulated depreciation</b>	
Charge for the period	10,528
At 31 December 2016 and 1 January 2017	10,528
Charge for the year	46,627
<b>At 31 December 2017</b>	<b>57,155</b>
<b>Net carrying amount</b>	
<b>At 31 December 2017</b>	<b>242,098</b>
At 31 December 2016	122,450

### 14. INTANGIBLE ASSETS

	Content distribution rights RMB
<b>Cost</b>	
At 31 December 2016 and 1 January 2017	-
Additions	3,584,906
<b>At 31 December 2017</b>	<b>3,584,906</b>
<b>Accumulated amortisation</b>	
At 31 December 2016 and 1 January 2017	-
Charge for the year	597,485
<b>At 31 December 2017</b>	<b>597,485</b>
<b>Net carrying amount</b>	
<b>At 31 December 2017</b>	<b>2,987,421</b>
At 31 December 2016	-

## 15. DEFERRED TAX ASSETS

The following is the deferred tax assets recognised in the consolidated statement of financial position and the movements thereon during the year/period:

	2017 RMB	2016 RMB
At 1 January/10 May (date of incorporation)	363,940	-
Credited to profit or loss for the year/period	(247,259)	363,940
<b>At 31 December</b>	<b>116,681</b>	<b>363,940</b>

### Deferred tax assets

	Temporary differences on accruals RMB	Others RMB	Total RMB
Recognised in profit or loss for the period	363,940	-	363,940
At 31 December 2016 and 1 January 2017	363,940	-	363,940
Recognised in profit or loss for the year	(363,940)	116,681	(247,259)
<b>At 31 December 2017</b>	<b>-</b>	<b>116,681</b>	<b>116,681</b>

The Group has unrecognised tax losses of approximately RMB7,005,141 (2016: RMB153,851) due to unpredictability of future profit streams, of which approximately RMB3,934,940 (2016: nil) will expire within 5 years and approximately RMB3,070,201 (2016: RMB153,851) with unlimited expiry date.

## 16. TRADE AND OTHER RECEIVABLES

	2017 RMB	2016 RMB
Trade receivables	32,981,849	5,285,446
Interest receivable	362,458	-
Other receivables	813,041	450,047
Trade and other receivables as financial assets - loan and receivables	34,157,348	5,735,493
Prepayments	1,931,411	2,187,113
	<b>36,088,759</b>	<b>7,922,606</b>

The directors of the Group consider that the fair values of trade and other 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. Overdue balances are reviewed regularly by senior management.

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

	2017 RMB	2016 RMB
Contracts in progress at the end of the reporting period:		
Contract cost incurred plus recognised attributable profits or losses to date	55,207,598	44,797,129
Less: Progress billings	(49,387,860)	(40,392,787)
	<b>5,819,738</b>	<b>4,404,342</b>
Recognised and included in the consolidated statement of financial position:		
Amounts due from customers for contract works	<b>15,862,639</b>	5,591,713
Amounts due to customers for contract works	<b>(10,042,901)</b>	(1,187,371)
	<b>5,819,738</b>	<b>4,404,342</b>

All amounts due from customers for contract works is expected to be recovered within one year.

## 18. AMOUNTS DUE FROM/(TO) NON-CONTROLLING SHAREHOLDERS/A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY/RELATED COMPANIES

The amounts due are unsecured, interest-free and repayable on demand.

### (a) Amounts due from non-controlling shareholders

	2017 RMB	2016 RMB
Lumina Looque Knowledge Hubs Pte Ltd	<b>4,959,374</b>	2,612,937
Investorlink Securities Limited	<b>11,411</b>	-
	<b>4,970,785</b>	<b>2,612,937</b>

### (b) Amount due from a non-controlling shareholder of a subsidiary

	2017 RMB	2016 RMB
Shanghai Xinpengcheng Information Technology Co., Ltd ("Xinpengcheng")	<b>468,785</b>	-

# **18. AMOUNTS DUE FROM/(TO) NON-CONTROLLING SHAREHOLDERS/A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY/RELATED COMPANIES (Continued)**

## **(c) Amounts due from related companies**

	<b>2017 RMB</b>	2016 RMB
Shanghai Retech Information Technology Co., Ltd ("Shanghai Retech IT")	<b>12,734,710</b>	10,003,851
Shanghai Retech Enterprise Management Group Co., Ltd. ("Retech Enterprise Management")	<b>2,000,000</b>	-
Jiangsu Retech Digital Industry Park Co., Ltd. ("Jiangsu Industry Park")	<b>1,001,957</b>	-
	<b>15,736,667</b>	10,003,851

The ultimate controlling shareholder, being a director at the same time, of the Company, Mr. Ai Shungang is also the ultimate controlling shareholder and a director of Shanghai Retech IT, Retech Enterprise Management and Jiangsu Industry Park.

## **(d) Amount due to a non-controlling shareholder of a subsidiary**

	<b>2017 RMB</b>	2016 RMB
Xinpengcheng	<b>393,865</b>	-

## **(e) Amounts due to related companies**

	<b>2017 RMB</b>	2016 RMB
Retech Enterprise Management	<b>4,002,708</b>	1,490,680
Shanghai Retech IT	<b>643,619</b>	-
	<b>4,646,327</b>	1,490,680

# **19. LOAN TO A RELATED COMPANY**

	<b>2017 RMB</b>	2016 RMB
Jiangsu Industry Park	<b>13,621,090</b>	11,036,536

The loan to a related company is denominated in RMB and is unsecured, interest-bearing at fixed rates of 8% (2016: 6%) per annum and wholly repayable within twelve months from the reporting date. The carrying amount of the loan approximates its fair value.

The ultimate controlling shareholder, being a director at the same time, of the Company, Mr. Ai Shungang is also a shareholder and a director of the related company.

## 20. DERIVATIVE FINANCIAL INSTRUMENTS

Management considers the convertible note (note 23) issued during the year as hybrid instruments with main debt contract and embedded derivatives options. As mentioned in note 23, the Issuer's Call Option, the Holders' Conversion and Put Option are considered by management not to be directly linked to the risk and economic characteristic of the debt host contract in accordance with HKAS 39 and therefore designated them as derivatives financial instruments in current assets and current liabilities measured at fair value through profit or loss.

## 21. INTERESTS IN SUBSIDIARIES

Particulars of the subsidiaries at 31 December 2017 and 2016 are as follows:

Name of company	Country/Place and date of incorporation/ establishment	Type of legal entity	Issued and paid in capital/ registered capital	Percentage of ownership interests held by the Company				Principal activities
				2017		2016		
				Direct	Indirect	Direct	Indirect	
Retech Holdings Co., Ltd	Hong Kong	Limited liability company	Hong Kong dollars ("HK\$") 15,251,910	100%	-	100%	-	Investment holding
Shanghai Retech Digital Technology Co., Ltd ("Retech Digital")	PRC	Limited liability company	RMB50,000,000	-	100%	-	100%	E-learning solutions and consultancy services
Shanghai Ruijian Information Technology Co., Ltd	PRC	Limited liability company	RMB40,000,000	-	100%	-	100%	Provision of software licensing services
Shanghai Ruipengcheng Technology Co., Ltd ("Ruipengcheng") (note(a))	PRC	Limited liability company	-	-	62.50%	-	62.50%	E-learning solutions and consultancy services
Shanghai Reunet Technology Network Co., Ltd ("Reunet") (note(b))	PRC	Limited liability company	-	-	60.02%	-	-	Inactive

Notes:

- (a) As at 31 December 2017 and 2016, Retech Digital subscribed for RMB2,000,000 registered share capital of Ruipengcheng, representing 62.50% of its total registered share capital of RMB3,200,000.
- (b) As at 31 December 2017, Retech Digital subscribed for RMB5,000,000 registered share capital of Reunet at representing 60.02% of its total registered share capital of RMB8,330,000.

In accordance with PRC corporation laws, the subscribers have to pay in respective amounts of subscribed share capital in prescribed schedule or when those amounts fall due. The subscribers are liable to any liabilities of the underlying entity up to the respective amounts subscribed. At 31 December 2017, all of the registered share capital of Ruipengcheng and Reunet has not been paid up.



## 21. INTERESTS IN SUBSIDIARIES (Continued)

The Group includes a subsidiary with material non-controlling interests ("NCI"), the details and the summarised financial information in relation to Ruipengcheng, before intra group eliminations, are as follows:

	2017 RMB
Proportion of ownership interests and voting rights held by the NCI	37.50%
Current assets	3,300,403
Non-current assets	92,797
Current liabilities	(7,457,134)
Net liabilities	(4,063,934)
Carrying amount of NCI	(1,523,975)
Revenue	2,466,799
Total expenses	(6,530,733)
Loss and total comprehensive expense	(4,063,934)
Loss and total comprehensive expense attributable to NCI	(1,523,975)
Net cash flows used in operating activities	(3,090,156)
Net cash flows from financing activities	3,537,791
Net increase in cash and cash equivalents	447,635

The directors do not consider that the NCI of Reunet has a material impact on the Group's results for the year or formed a substantial portion of the net assets of the Group as at 31 December 2017.

## 22. TRADE AND OTHER PAYABLES

	2017 RMB	2016 RMB
Trade payables	678,194	1,022,000
Accrued expenses	5,289,063	1,961,135
Other payables	5,440,778	4,112,864
Trade and other payables as financial liabilities at amortised cost	11,408,035	7,095,999
Receipts in advance	–	40,500
Provision of other tax liabilities	2,197,325	1,958,411
	13,605,360	9,094,910

All amounts are short term and hence the carrying values of the Group's trade payables, accrued expenses, other payables, and receipts in advance approximate their fair values.

## 23. CONVERTIBLE NOTE

	2017 RMB	2016 RMB
Convertible note maturing on 2021	28,591,365	–

On 20 November 2017, the Company has issued a Convertible Note ("CN") with principal amount of HK\$39,000,000 to City Savvy Limited (the "Investor"), a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Huarong Investment Stock Corporation ("Huarong") (2277:HK) to fund its strategic expansion, research and development costs and working capital. The CN carries coupon rate of 8% per annum payable quarterly in arrears and secured by personal guarantee from Mr. Al Shungang, the controlling shareholder of the Company, a director and the Chairman of the Group.

The Company has an option to early redeem the CN at early redemption amount which equals to an amount which gives rise to 12% internal rate of return ("IRR") to the holder of the CN, the option hereby referred as the Issuer's Call Option.

The CN is convertible into CHESS Depository Interests ("CDIs") of the Company at the discretion of the holders at anytime between 18 months after the date of issue of the CN and their maturity date on 19 November 2021. The CN can be converted at a conversion price that equals to 10% discount to the five-day simple average closing price of the Company's CDIs in Australian Stock Exchange ("ASX") prior to the date of conversion (excluding the conversion day) and subject to a limit of 17,362,642 CDIs. The conversion option is hereby referred as the Holder's Conversion Option.

## 23. CONVERTIBLE NOTE (Continued)

The CN will be redeemed if not redeemed or converted prior to their maturity date. The CN cannot be redeemed early unless upon the occurrence of one of the following events:

- Audited net profit after tax of the Company is less than RMB20 million for any year of the four years' period of the CN;
- The Company's Chairman, Mr. Ai Shungang, or Chief Operating Officer, Liu Cheng, is no longer director or employee of the Company.

In the circumstances above, the CN can be redeemed early at the discretion of the holders at Early Redemption Amount. The redemption option above is hereby referred as the Holder's Put Option.

On initial recognition, the fair value of the liability component, included in the convertible note, was calculated using a market interest rate of 12.12% for an equivalent non-convertible note. The residual amount of the fair value of the proceeds received, representing the fair value of the derivative components including the Issuer's Call Option, the Holders' Conversion and Put Option are included as derivative financial instruments measured at fair value in current assets and current liabilities respectively.

The liability component is classified as non-current liabilities and carried at amortised cost using the effective interest method. The derivative components are measured at fair value using the Monte Carlo Simulation Model method. The fair value changes were recognised in profit or loss.

	Note	RMB
Fair value of convertible note		32,544,030
Derivative components:		
-Derivative instruments (assets)		13,207,029
-Derivative instruments (liabilities)		(17,036,574)
Liability component on initial recognition		28,714,485
Interest expense	8	398,565
Exchange difference		(521,685)
<b>Liability component at 31 December 2017</b>		<b>28,591,365</b>

The key inputs used for the calculation of the fair value of the derivative financial components of convertible note are as follows:

	At 31 December 2017 RMB	At 20 November 2017 RMB
Time to maturity	<b>3.89 years</b>	4.00 years
Share price	<b>HK\$2.90</b>	HK\$2.95
HK\$/A\$ exchange rate	<b>6.102</b>	5.897
Conversion price (floating)	<b>HK\$2.51</b>	HK\$2.69
Spread	<b>8.31%</b>	8.54%
Expected share price volatility	<b>144%</b>	73%
Risk-free rate	<b>3.75%</b>	3.73%
Discount rate	<b>12.27%</b>	12.06%

## 24. SHARE CAPITAL

	Notes	Number of shares	RMB
<b>Issued and fully paid ordinary shares</b>			
Issue of shares on incorporation	(a)	1,000,000	8,403
Equity settled share-based payment for services	(b)	54,000,000	10,597,781
Issue of shares in exchange for acquisition of a subsidiary during restructuring	(c)	125,000,000	14,051,360
As at 31 December 2016 and 1 January 2017		180,000,000	24,657,544
Issue of shares in connection with the listing of the Company's shares	(d)	35,750,944	82,813,078
Issue of shares upon a placement by an institutional investor	(e)	15,000,000	34,435,352
<b>As at 31 December 2017</b>		<b>230,750,944</b>	<b>141,905,974</b>

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

- (a) The Company allotted 1,000,000 shares to the founder members on incorporation date, 10 May 2016.
- (b) On 12 October 2016, the Company issued 54,000,000 shares to Lumina Looque Knowledge Hubs Pte. Ltd in exchange for professional services in relation to share listing project of the Company. The fair value of those professional services were estimated as RMB10,597,781 on that date and is treated as consideration received by the Company for the shares allotted.
- (c) On 11 November 2016, the Company issued 125,000,000 shares to certain then existing shareholders of the Company in exchange for all outstanding shares of Retech Holdings Co., Ltd.
- (d) On 16 June 2017, the Company issued a total 35,750,944 new shares by way of initial public offering at Australian Dollars ("A\$") 0.50 each. The gross proceeds of A\$17,875,472 (equivalent to RMB92,232,073) less listing costs directly attributable to the issue of shares of approximately RMB9,418,995 were credited to the Company's share capital account. The Company has completed its listing of its shares on ASX on 21 June 2017.
- (e) On 20 November 2017, the Company issued 15,000,000 shares to City Savvy Company Limited, a wholly owned subsidiary of Huarong Investment Stock Corporation Limited (2277.HK) at A\$0.4662 each. The gross proceeds of A\$6,993,000 (equivalent to RMB35,088,077) less transaction costs directly attributable to the issue of shares of approximately RMB652,725 were credited to the Company's share capital account.

## 25. RESERVES

### 25.1 MERGER RESERVE

Merger reserve represents the difference between the share capital of the Company issued as consideration and the aggregate net assets value of the companies, now comprising the Group, transferred in the group restructuring (note 2.1).

### 25.2 STATUTORY RESERVE

In accordance with the Company Law of the PRC, each of the subsidiaries of the Company that was registered in the PRC is required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with the PRC Generally Accepted Accounting Principles, to the statutory reserve until the balance of the reserve funds reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of the registered capital.

## 26. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Reconciliation of liabilities arising from financing activities

The table below set out the reconciliation of liabilities arising from financing activities for the year ended 31 December 2017 and 2016.

	Convertible note RMB	Amount due to a non- controlling shareholder RMB	Amounts due to related companies RMB	Total RMB
<b>At date of incorporation</b>				
Cash flows	-	-	1,490,680	1,490,680
<b>At 31 December 2016 and 1 January 2017</b>	-	-	1,490,680	1,490,680
<b>Changes from financing cash flows:</b>				
Cash flows	32,544,030	393,865	3,155,647	36,093,542
<i>Non-cash changes</i>				
Derivative components on initial recognition (note 23)	(3,829,545)	-	-	(3,829,545)
Interest expense (note 8)	398,565	-	-	398,565
Exchange adjustments (note 23)	(521,685)	-	-	(521,685)
<b>At 31 December 2017</b>	<b>28,591,365</b>	<b>393,865</b>	<b>4,646,327</b>	<b>33,631,557</b>

## 27. RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the consolidated financial statements, the following significant transactions between the Group and related parties took place at terms agreed between the parties during the financial period are as follows:

Name of related parties	Nature of transactions	Year ended	Period from
		31 December 2017	10 May 2016
		RMB	(date of incorporation) to 31 December 2016
<b>Related companies</b>			
Shanghai Retech IT (note (a))	Services income		
	Recharged	39,647,442	30,644,720
	Administrative expenses recharged	1,963,908	1,207,857
	Services fee recharged	9,171,448	5,832,981
Zhenjiang Retech Asset Management Co., Ltd ("Zhenjiang Retech") (note (b))	Services fee charged	5,458,251	-
Jiangsu Industry Park (note (a))	Interest income	989,815	6,536

Notes:

- (a) Pursuant to service agreement signed between the Company and a related company, Shanghai Retech IT ("the Service Agreement"), Shanghai Retech IT has appointed the Company 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 the Service Agreement, the services provided by the Company will be charged at a fee equal to 100% of the revenue received by Shanghai Retech IT during the Service Period and at a fee equal to 95% of the revenue received by Shanghai Retech IT during the Subsequent Service Period. Costs and operating expenses will be recharged on a reimbursement basis. The relationship with Shanghai Retech IT is described in note 18(c) to the consolidated financial statements.
- (b) Zhenjiang Retech is a wholly owned subsidiary of Jiangsu Industry Park and the ultimate controlling shareholder, being a director at the same time, of the Company, Mr. Al Shungang is also the ultimate controlling shareholder and a director of Jiangsu Industry Park.
- (c) The transaction was enacted with Jiangsu Industry Park of which relationship with the Company is described in note 19 to the consolidated financial statements.

### Compensation of key management personnel

The key management personnel of the Group consists only directors of the Company and certain directors of its subsidiaries. Compensation to these directors is disclosed in note 10.

## 28. COMMITMENT AND CONTINGENCIES

### Operating lease commitment

The Group has entered into commercial leases for office premises. The lease has a life of 2 years with no renewal option included in the contract. There were no restrictions placed on the Group by entering into these leases.

Future minimum rental payable under non-cancellable operating lease as at the end of reporting period is as follows:

	2017 RMB	2016 RMB
Not later than one year	333,549	500,324
Later than one year but not later than 5 years	-	333,549
	<b>333,549</b>	<b>833,873</b>

### Contingent liability

The Group does not have any significant contingent liability at the end of the year and the prior period.

## 29. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year presentation.

### 30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2017 RMB	2016 RMB
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current asset</b>			
Interest in a subsidiary	21	14,312,160	14,312,160
<b>Current assets</b>			
Prepayments		1,903,411	2,187,113
Amounts due from non-controlling shareholders		4,757,225	2,612,937
Amounts due from subsidiaries		139,826,631	-
Amount due from a related company		1,018,560	-
Derivative financial instruments		19,758,568	-
Cash and cash equivalents		5,594,104	9,156
		<b>172,858,499</b>	<b>4,809,206</b>
<b>Current liabilities</b>			
Accruals and other payables		419,724	2,666,921
Amounts due to subsidiaries		849,042	-
Amount due to related companies		2,128,133	-
Derivative financial instruments		23,440,186	-
		<b>26,837,085</b>	<b>2,666,921</b>
<b>Net current assets</b>		<b>146,021,414</b>	<b>2,142,285</b>
<b>Total assets less current liabilities</b>		<b>160,333,574</b>	<b>16,454,445</b>
<b>Non-current liability</b>			
Convertible note		28,591,365	-
<b>Net assets</b>		<b>131,742,209</b>	<b>16,454,445</b>
<b>Equity</b>			
Share capital		141,905,974	24,657,544
Accumulated losses (note)		(10,163,765)	(8,203,099)
<b>Total equity</b>		<b>131,742,209</b>	<b>16,454,445</b>

Note:

The movement of the Company's accumulated losses is as follows:

	RMB
At 10 May 2016 (date of incorporation)	-
Loss for the period	8,203,099
At 31 December 2016 and 1 January 2017	8,203,099
Loss for the year	1,960,666
<b>At 31 December 2017</b>	<b>10,163,765</b>