睿泰科技
RETECH TECHNOLOGY

Retech Technology Co., Limited

ARBN 615 153 332

Annual Report

for the year ended 31 December 2018

Hong Kong Company Registration Number 2374379
Retech Technology Co., Limited / www.retech-rte.com

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Company Overview

Part 1 Company Overview

About Retech

Retech Technology Co., Limited ("Retech" or the "Company"), is an investment holding company, incorporated in Hong Kong with its operating subsidiaries located in mainland China and Hong Kong.

Vision

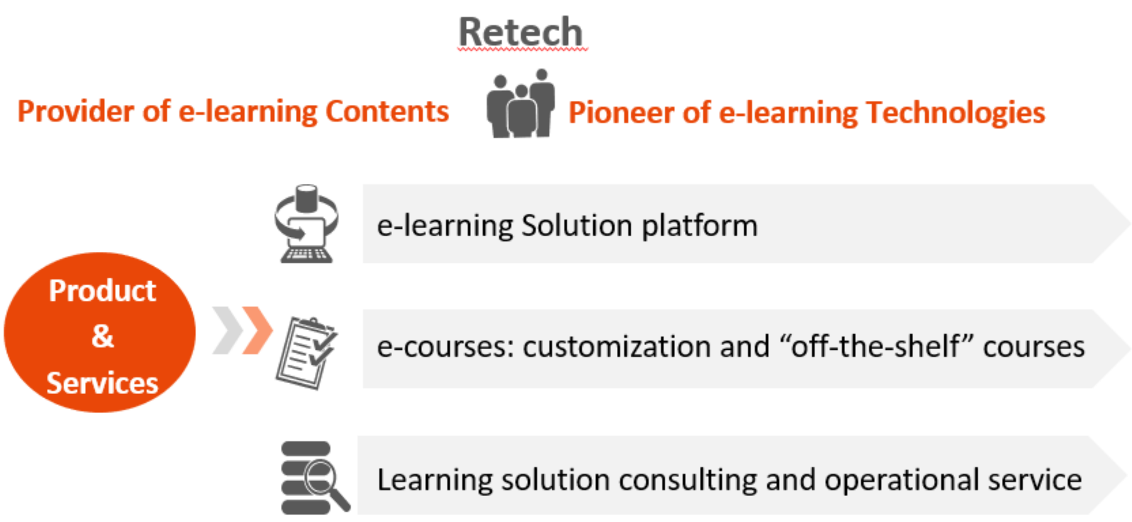
Retech's vision is to be one of the world's leading and foremost e-learning solutions providers. The Company's purpose is to deliver qualified online training solution by its software and platform technology and well-designed courses to make learning easily and efficiently.

The Company and its operating subsidiaries ("Retech Group" or "the Group") provide comprehensive e-learning solutions to the target clients as follow：

- Corporates in focused industries
- Vocational Schools
- Companies with ESG e-learning services demands
- Students engaged in language learning

Products & Services

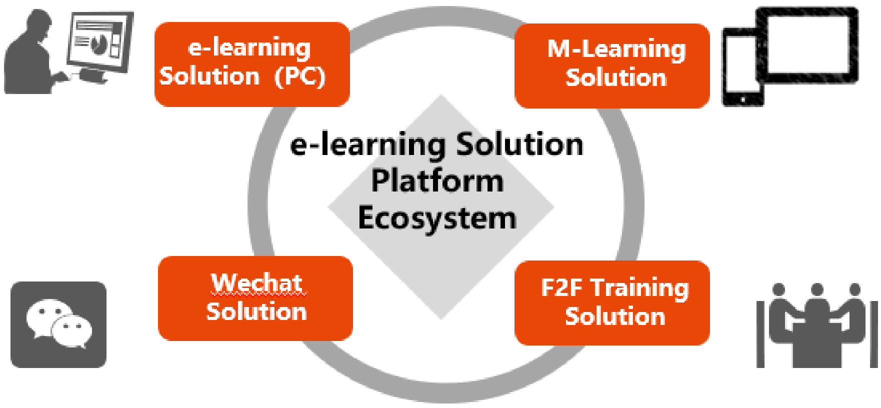
The Company's products and services include 3 main parts: e-learning platform, e-courses and e-learning solution consulting and operational Service. These enable clients to efficiently deliver their offline training content online through multiple channels or devices, such as the internet, mobile and social media platforms. Through our products and services, we can not only do we provide solutions that satisfy the changing e-learning technology trends, but also build a complete e-learning ecosystem integrated into our clients' training system. They are detailed in the following sections:



Products & Services (Continued)

1) E-learning solution platform

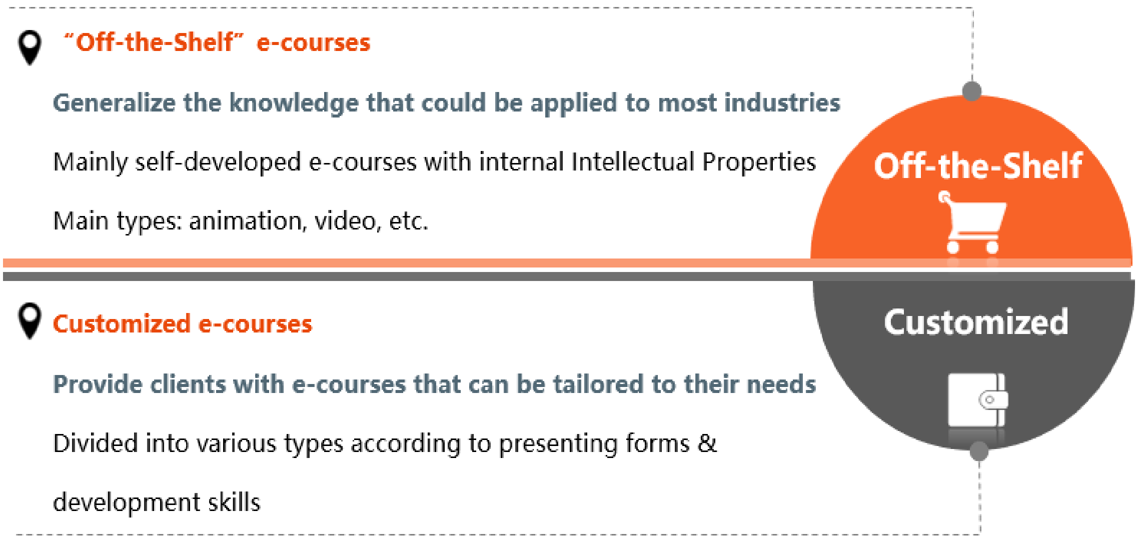
Retech provides comprehensive e-learning ecosystem solution that enables mass distribution and easy management of e-learning for its clients. The solutions are delivered via various channels including PC, M-Learning, WeChat and face-to-face training solution (“Blended-Learning”).



The Company’s platform is designed to meet the training and learning habits of specific clients, in order to make it user-friendly and keep the E-courses digestable. Moreover, the platform has functions such social learning, Q&A, video class to activate the learner’s interests and accelerate the internalization of the learning content.

2) E-courses: customization and “off-the-shelf” courses

The Company’s e-course services are divided into 2 types: “off-the-shelf” E-courses and customized E-courses. The core of developing these E-courses that meet diversified training demands of the clients is e-learning instructional design. Retech plays a leading role in instructional design and the according methodologies in e-learning market in China. The characters of the two type are presented as follow:



Products & Services (Continued)

3) E-learning solution consulting & operational service

The services of e-learning platform and e-courses usually respectively start with technology and industrial design consulting by expert team, providing clients with diversified e-learning solutions. In such way, customer's demands are precisely obtained in a short time, which will help to secure the contract and lower the cost of communication in implementation.

By accumulated consulting reputation in the pre-sales stage, the Company has expanded the operational services for customers, which also comprises a trendy service by the focused industry customers.

The product and services of the Company has been applied into the 4 divisions. The achievements in 2018 and the strategies in 2019 would be illustrated in the next section.

Strategy

Division	Vision	Goals
E-learning solutions in focused industries	*provide corporate customers with e-learning solutions*	• *Extend and strengthen existing contracts and services* • *Expand new partners* • *Upgrade products*
E-learning solutions in vocational Schools	*support vocational schools with e-learning solutions*	• *Extend and strengthen existing contracts and services* • *Acquire contracts and strategic cooperation* • *Enhance brand influence and reputation*
E-learning solutions in ESG services	*provide companies with ESG e-learning services demands*	• *Develop ESG online platform* • *Develop ESG online curriculum* • *Acquire broader market*
E-learning solutions in language learning	*provide students engaged in English/Chinese learning with e-learning solutions*	• *Acquire XJS Coaching School* • *Bring in Australia teaching resources to China via e-learning solutions*

Value

Retech has a competitive advantage and plays a leading role in China's e-learning for a number of years with vast experience in a number of industries in which its clients are based and through working with a number of long-term clients. The Company is dedicated to facilitating customers training and seamless connection by O2O, as well as bring advanced technology and internet solution to customers' learning and development.

2018 Operations and Financial Highlights

- Sales revenue in 2018 is RMB130.5 million (approximately A$27.4 million) and increased by RMB26.3 million (approximately $A5.5 million) compared to 2017 representing a year-on-year percentage growth of 25% with its stead growth in online e-learning solution service.
- Gross profit in 2018 is RMB82.4 million (approximately A$17.3 million) and increased by RMB17.1 million (approximately A$3.6 million) as of 26% growth rate comparing to the result of 2017.
- Net profit after tax ("NPAT") is RMB48.3 million (approximately A$10.1 million) and increased by RMB11.1 million (approximately A$2.3 million) or 30% in 2018 compared with 2017.
- The Company has upgraded its e-learning platform solution to Version 1.2 in 2018.
- The Company continuously focused in the following industries including finance, automobile, retail and high technology. Further cooperation with the long-term key customers in these industries such as Bank of China, Ping An Group, Mercedes-Benz, etc.
- Prosage Sustainability Development Limited ("ProSage") was established in 2018 as vehicle of ESG e-learning service development.
- Retech entered into a non-binding, conditional letter of intention to acquire the Victoria based XJS Coaching School. Strategic agreement signed with XJS Chinese and Culture Language School. Cooperation is expected for Chinese language training business opportunities in Australia.

3 Year Financial Summary

RMB '000	2018[1]	2017[2]	2016[3]
Revenue	130,501	104,202	44,548
EBIT[4]	59,585	45,484	16,630
EBITDA[5]	61,850	46,128	16,640
Gross profit ("GP")	82,409	65,301	29,919
GP margin %	63.15%	62.67%	67.16%
Basic **E**arnings **P**er **S**hare (cents) ("EPS")	21.34	19.23	20.30
Net profit after tax ("NPAT")	48,267	37,131	10,379
NPAT margin %	36.99%	35.63%	23.30%
Total Equity	226,589	178,293	23,914

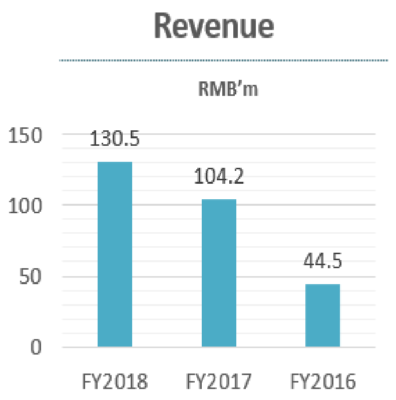
Legend:

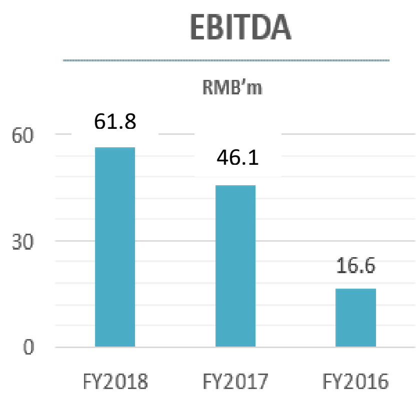
1. Year ended 31 December 2018.
2. Year ended 31 December 2017.
3. Period from 10 May 2016 (date of incorporation) to 31 December 2016.
4. EBIT refers to Earnings before Interests expenses and income taxes.
5. EBITA refers to Earnings before Interest expenses, income taxes, depreciations and amortisations

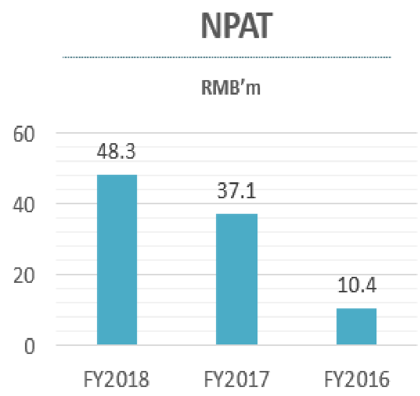
* Renminbi Yuan ("RMB") are translated to Australian dollars ("A$") at A$1.00 to RMB4.76 in the annual report.

2018 Operations and Financial Highlights (Continued)

3 Year Financial Summary (Continued)







Chairman's Letter

We are pleased to present to our CDI holders, partners, and other stakeholders, Retech Technology Co., Ltd.'s ("Retech") annual report for the financial year ending 31 December 2018.

In this year, Retech consolidated our position as China's leading technology company providing solutions to corporations wanting to train their employees on online and digital platforms. We have done so through a combination of expanding our existing operations, as well as through strategic acquisitions and joint ventures. This has allowed us to increase our revenues by 25%, our gross profit by 26%, and net profit after tax by 30% compared to the previous financial year.

Significant Developments in 2018

In 2018, Retech continued reinforcing our relationships with our key customers that bring us recurring business. These include the Bank of China, Ping An Insurance, and Mercedes Benz China, amongst others, which are some of the largest companies in China. We have also acquired new clients by upgrading our online technology products.

Two new developments need to be mentioned: The first is the establishment of a new joint-venture subsidiary in Hong Kong - ProSage. With a team of veterans who were formally part of one of the largest Environmental, Social and Corporate Governance ("ESG") compliance consulting companies in Hong Kong, Retech established ProSage to deliver ESG compliance training to listed companies in Hong Kong. This will be subsequently expanded to other securities exchanges that have ESG compliance as a key part of their corporate governance requirements.

The second important development was establishing an operational and strategic partnership with Australia's leading Chinese-language training school, XJS Coaching School ("XJS"). XJS has delivered Chinese language training for the last 26 years through 9 brick-and-mortar campuses in Melbourne, Australia. XJS will use Retech's training technology to enable them to scale more quickly and teach more students in Australia. Concurrently, XJS and Retech will deliver English-language training over online platforms, enabling Australian native-English speakers to instruct students in China. Significantly, Retech has also entered into a non-binding, conditional agreement to acquire XJS. We are optimistic this will bring Retech a new and important revenue stream for years to come.

Financial Results

Retech has continued delivering exceptional financial results in 2018.

Revenue for 2018 was RMB130.5 million (approximately A$27.4 million), an increase of RMB26.3 million (approximately A$5.5 million), or 25%, compared to 2017.

Gross profit for 2018 was RMB82.4 million (approximately $A3.6 million), an increase of RMB17.1 million (approximately A$3.6 million), or 26%, compared 2017.

Net Profit After Tax for 2018 was RMB48.3 million (approximately A$10.1 million), an increase of RMB11.1 million (approximately A$2.3 million), or 30%, compared to 2017.

These extraordinary results are a consequence of better revenue and gross profit, as well as more efficient cost-control.

Board Update

Retech appointed two new directors in 2018. These are Mr. Kang LI, an Australian resident with extensive relationships with Chinese investors in Australia, and Ms. MENG Xiaoshi, who will represent our significant shareholder City Savvy Limited, a wholly-owned subsidiary of Huarong Investment Stock Corporation ("Huarong", 2277.HK). She replaces Mr. MA Hok Wong who has since left Huarong.

They bring new experience and expertise, which will strengthen our Board.

Outlook and Appreciation

Retech continues to deliver strong financial results, including exceptional increases in profitability year-on year. We are confident that Retech will be able to achieve our vision of becoming Asia's leading technology company in the corporate training sphere.

On behalf of the Board, we would like to thank our management team and employees for their professionalism, dedication and passion. To our CDI holders, partners and other stakeholders, we would like to thank you for your ongoing support and confidence. We are confident that 2019 will be even better.

Yours sincerely,

Mr. AI Shungang
Co-Chairman

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Co-Chairman

Board of Directors

During the year and up to the date of this report, the Board of Directors of the Company and their backgrounds are as follows:

Mr. AI Shungang

Co-Chairman
Non-Executive Director

Mr. AI Shungang, as the founder of Retech Group, was appointed as the Non-executive Co-Chairman of Retech's Board. He controls the largest shareholder of Retech.

Mr. AI graduated from Nanjing University of Posts and Telecommunications and brings more than 14 years' practical experience in the fields of software development, consulting and online education services in China. In 2014, he was rewarded as the "Leading Talent of Digital Publishing" in China.

Mr. Calvin CHENG

Co-Chairman
Non-Executive Director

Mr. Calvin CHENG was appointed as the Non-executive Co-Chairman of Retech's Board. He was also an appointed Member of Parliament of Singapore in the Eleventh Parliament. He has served on various Ministerial advisory boards including the Media Literacy Council, the Singapore Media Festival, Screen Singapore and the Government Feedback REACH supervisory council.

Calvin graduated from the University of Oxford with a Master of Arts in Philosophy, Politics and Economics, and a Master of Science in Management. Calvin is also a Young Global Leader of the World Economic Forum at Davos.

Ms LIU Qing

Non-executive Director
Chairwoman of Nomination and Remuneration Committee
Member of Audit and Risk Management Committee

Ms LIU Qing was appointed as the Non-executive director of Retech's Board. She has over 20 years of experience in equity, securities and finance. Liu Qing was also the partner of OFC, the top 10 "Best Local Investment Institution" in China, with a management capital of RMB7 billion, over 100 investment projects and a number of projects listed or merged drop out. LIU Qing graduated from Huazhong University of Science and Technology with a master's degree in management. In 2009 Liu Qing was hired as an MBA part-time professor at Lanzhou University of Finance and Economics.

Mr. LU Jiuping

Non-executive Director
Member of Audit and Risk Management Committee

Mr. LU Jiuping was appointed as the Non-executive director of the Board. He has over years' expertise in software development, and used to serve as a senior manager in iSoftstone, WSN Group and Yungu Capital. From 2007 to 2012, he held the role as an elected member of Jiangsu Province at the Tenth National Committee of the Chinese people's Political Consultative Conference (CPPCC). He holds a Bachelor of Computer Science from the Central South University of China and an MBA from the University of Science and Technology, Beijing.

Mr. Ross BENSON

Non-executive Director
Chairman of Audit and Risk Management Committee
Member of Nomination and Remuneration Committee

Mr. Ross BENSON established financial services and advisory company, Investorlink Group in 1986 and is currently Executive Chairman of the Company. Mr. BENSON has also established associated business units in wealth management, private equity, property syndication and structured financial products. He brings more than 30 years' experience in the Australian financial services industry and has extensive expertise in securities, transaction advisory and business strategy. He has acted as lead negotiator for a number of medium to large enterprise divestment or acquisitions in both Australia and China.

Mr. Kang LI

Non-Executive Director

Mr. LI, as the CEO of Montgomery International Consultants, has been engaged in immigration, overseas study and investment consulting services in Australia for years. Mr. LI has obtained rich experience as a senior management executive, acquiring expertise in multi-areas such as marketing (for example, domestic and international market development, sales management, etc.), general management, financial management, relationship management, etc.

Ms. MENG Xiaoshi

Non-Executive Director

Ms. MENG has about 10 years' experience in investment and financing. Since 2009, she served as President in Beijing of the investment company, Zhongzhi Enterprise Group, engaged in culture and art investment. Ms. MENG has cross-border project operational experience in Hong Kong, Australia, U.S.A., Japan. She has successfully completed an Australia listed company acquisition, and acted as the director in 2016. She also completed the assets reorganization project of The Import-Export Bank of China.

Senior Management

Retech has agreed to employ an experienced management team. Senior management positions in the organization chart provided below are occupied by personnel with extensive experience in development, marketing, design and management. Details of key executive management team members are set out below.

LIU Cheng

Chief Executive Officer

Liu Cheng is responsible for company operations and management, and the execution of resolutions of the Board at Retech and developing, organizing, and implementing corporate strategy and targets, and reporting business operation status to the Board.

Liu Cheng has more than 10 years of experience and specializes in sales, marketing, business management and strategic management. He holds a Master degree in Business Management from Nanjing University of Posts and Telecommunications. He is also a member of Jiangsu Youth Federation.

LIN Yan

Chief Financial Officer

Lin Yan is responsible for accounting management, operation and financial reporting at Retech, including accounting, budgeting and planning, managing operational projects; cash flow management and tax planning, and improving finance systems.

Lin Yan, who is a qualified Certified Management Accountant (CMA) and holds a Master degree in Business Management from Shanghai Finance and Economy University, has over 10 years of experience in accounting, finance and business management.

WANG Gongshi

Vice President

Wang Gongshi has over 10 years of experience in the field of sales and marketing, now he is responsible for developing Retech's marketing plans and target achievements, managing the sales team and improving sales systems, promoting brand marketing and expanding market share, conducting analysis, research and study on clients.

Wang Gongshi graduated from Nanjing University of Posts and Telecommunications with a Bachelor degree in Marketing.

CHENG Hong

Design Director

Chen Hong is responsible for e-course customization project management at Retech including implementing solutions and development, problem solving, and training the design team. Chen Hong has over 15 years of working experience in corporate training, design, course development and project management. She graduated from Capital University of Economics and Business in 2002 with a master’s degree in Business Management.

The Company Secretary

The Company Secretary is Ms. Ji Hui. Ms. Ji Hui has worked for international law firms and represented a number of domestic and foreign clients in corporate listings services. She obtained the LL.M degrees in Shanghai Jiao Tong University, PRC and University of Nottingham, UK.

Her role of the Company Secretary includes advising the Board and its committees on governance matter, monitoring that Board and committee policy and procedures followed, coordinating the timely completion and dispatch of Board and committee reports, ensuring that the business at Board and committee meetings is accurately captured in the minutes and helping to organize and facilitate the induction and professional development of Directors.

02

PART

Directors' Report & Remuneration Report

Part 2 Directors' Report & Remuneration Report

Directors' Report

The directors of Retech Technology Co., Limited (the "Company") present their annual report and the audited consolidated financial statements for the Company and its subsidiaries (collectively the "Retech Group") for the year ended 31 December 2018.

Principal Activities

The principal activities of the Company and its subsidiaries (the "Group") include the provision of technology solutions and related services, including 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.

Business Review

(a) Financial and operating performance review

Summary of key financials data during the year are as follows:

RMB '000	2018[1]	2017[2]	Changes	%
Revenue	130,501	104,202	26,299	25.2%
Gross profit	82,409	65,301	17,108	26.2%
GP margin %	63.15%	62.67%	N/A	0.7%
Selling and distribution expenses	7,140	5,704	1,436	25.2%
Administrative expenses	24,769	18,774	5,995	31.9%
Profit before income tax	56,011	45,085	10,926	24.2%
Net profit after tax	48,267	37,131	11,136	30.0%
NPAT margin %	36.99%	35.60%	N/A	3.9%
EBIT	59,585	45,484	14,101	31.0%
EBITDA	61,850	46,128	15,722	34.1%
In Cents				
Basic EPS	21.34	19.23	1.54	11.0%
Diluted EPS	20.76	19.22	2.11	8.0%

1. Year ended 31 December 2018
2. Year ended 31 December 2017
3. Some sections of these commentaries include non-GAAP financial measures as we believe they provide useful information for readers to assist in understanding the Group's financial performance.

Business Review (Continued)

(a) Financial and operating performance review (Continued)

The Company had great achievements considering its financial performance in 2018. Revenue in 2018 was RMB130.5 million ($A27.4 million) and increased by RMB26.3 million ($A5.5 million) or 25% comparing to the result of 2017. Our e-learning solution has upgraded and more clients have chosen Retech as their online training service partner. Gross profit was RMB82.4 million ($A17.3 million) and increased by RMB17.1 million ($A3.6 million) or 26% comparing to the result of 2017. Net profit after tax was RMB48.3 million ($A10.1 million) and increased by RMB11.1 million ($A2.3 million) which is the final result of increased revenue and better controlled cost and expense in 2018.

Revenue from contracts with customers includes our providing of e-learning software platform and delivering of different E-courses. We are still focusing industries like Finance, Automobile, retail and high technology from which large and famous customers are continuously signing contracting with us.

The Company has upgraded its e-learning platform solution to Version 1.2 in 2018. The platform solution has now integrated the key functions and standard practice models in financial and Auto industries. Thus, management expects this to strengthen the Group's product offerings to potential future clients and our position in the e-learning market. In 2018 our cost for deploying e-learning software platform has been reduced. With the standardization our time and cost in customization of projects for future clients will be reduced as well.

The Company has expanded its sales and marketing and invested more in this function. The total sales and distribution expense was RMB7.1 million and increased around 25% comparing to last year. The general administration expense was RMB24.8 million and increased around 32%.

The NPAT for 2018 was RMB48.3 million and increased by RMB11.1 million which was 30% growth comparing to last year. It was mainly because of the increased revenue and better controlled cost. We are improving our expense structure in 2019 and expecting a more efficient management mechanism.

(b) Business risks

The risks presented below should not be considered to be exhaustive and may not be all of the risks that the Group may face. It is believed that these are the factors that could cause actual results to be different from expected and historical results.

Market position and business growth

The Group is in a strong competitive position as a result of the following factors: national footprint and reputation, customised content, multi-platform delivery capability, specialist digitisation capability, focus on upgrading its existing e-learning platforms and innovation, diverse client base, robust quality assurance systems, and a well-regarded management team.

Principle source of revenue of the Group is delivery of services of e-learning solutions, one of the product lines of the Group. The Group expects to continue generating steady revenue this product line.

Business Review (Continued)

(b) Business risks (Continued)

Capital Management

The Group funds its operations through cash flow generated by operations, borrowings and equity capital. The Group and the Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

Human Resources

As at 31 December 2018, the Group employed a total of 257 (2017: 234) staff. In the current period, the staff costs including directors' remuneration which amounted to RMB25,331,543 (2017: RMB26,879,208). The salaries and fringe benefits of the Group's employees remained competitive. The employees' incentives were reviewed and determined annually pursuant to the remuneration and bonus policies of the Group based on the performance of the employees. The Group also provided various other benefits to its employees.

The Group monitored closely the remuneration and fringe benefits of the employees and rewarded employees in accordance with the Group's business performance. In addition, training and development opportunities for the employees were also provided by the Group.

Our achievements and future strategies

1) Corporates in focused industries

The Company obtained more clients in its focused industries. Meanwhile, Retech Group has achieved further cooperation with the long-term key customers in its focused industries, such as Bank of China, Ping An, Mercedes-Benz, etc. We expect to continue focusing on these types of customers which expects to generate positive returns to the Group in the future.

- Longstanding RTE client Bank of China has launched its online training platform for use to support the training and development of its employees across China in 2018. This platform is featured as a learner-centered training system, which would meet diversified training demands from the staff. Moreover, it integrates social interactive functions such as Q&A, video class and score ranking board to activate the interest in training.

- Mercedes-Benz (Benz) continues to cooperate with Retech on both e-learning platform and E-courses. Through those E-courses, Retech and Benz will jointly improve talent building system and popularize compliance knowledge learning. Retech's long-lasting high-quality product and services also convinced the Benz's headquarter in Germany. The One Touch Learning（OTL）released in 2018 impressed Mercedes-Benz by OTL's flexible system design, multi-terminals compatibility, as well as the user-friendly functions. It is evaluated as a convenient, comprehensive and efficient intelligent training management and online learning platform.

2) Vocational Schools

As vocational schools increasingly prioritize online learning, the Company designed online learning solutions for them, integrating the off-line curriculums with online interactive courses. Both Shanghai Communications Polytechnic College and Shanghai Civil Aviation College signed contract with Retech for an advanced e-learning environment deployment and E-courses design.

Business Review (Continued)

Our achievements and future strategies (Continued)

3) Companies with ESG e-learning services demands

Prosage Sustainability Development Limited is a subsidiary established by Retech Holdings Co., Ltd in Hong Kong. Retech owns 90% interests in Prosage. Prosage is our vehicle to develop e-learning business for Environmental, Social and Corporate Governance compliance (“ESG”) training.

The ESG compliance training platform is under developing, which will enable Prosage’s clients and its employees to learn concepts of ESG and facilitate their ESG reporting. The Company anticipate ESG service line to present new growth opportunities to the Group in the future.

4) Students engaged in language learning

On 8 December 2018, Retech entered into a non-binding, conditional letter of intention to acquire 70% the Victoria based XJS Coaching School. XJS Coaching School is a private Chinese training institution with over 20 years history. It has a strong reputation in Chinese language training in Australia. The acquisition is strategic and will integrate Retech's e-learning solutions with an Australian based curriculum educator. Entry into a binding agreement remains subject to technical, legal and financial due diligence and compliance with the ASX Listing Rules.

Retech plans to cooperate with XJS Coaching School for Chinese language training business opportunities in Australia, as well as expanding business to the global Chinese education market. Meanwhile, by introducing overseas high-quality education resources, especially English teachers into China, the Company will provide premium English education services for the students with an immersive online learning context.

Results and appropriations

The results of the Group for the year ended 31 December 2018 and the financial position of the Group as at that date are set out in the consolidated financial statements on pages 28 to 100

The name and details of the Company’s directors during the financial year and until the date of this report are set out. Below are the directors that were in office for this entire period unless otherwise stated.

The directors do not recommend the payment of any dividend for the year ended 31 December 2018.

Share capital

There are no movements to the Company’s share capital during the year ended 31 December 2018.

Directors of the Company

During the year and up to the date of this report the Directors of Retech were as follows:

AI Shungang	
CHENG Ern Lee, Calvin ("Calvin CHENG")	
LIU Qing	
LU Jiuping	
Ross BENSON	
Kang LI	(appointed on 1 August 2018)
MENG Xiaoshi	(appointed on 18 Jan 2019)
MA Hok Wang	(resigned on 18 Jan 2019)
RYAN, Christopher John ("Chris RYAN")	(resigned on 16 Mar 2018)
IDE, Neville John ("Neville IDE")	(resigned on 16 Mar 2018)
ZHANG Jing	(resigned on 9 Feb 2018)

Appointment of new directors

Mr. Kang LI, was appointed as a second Australian resident Non-Executive independent director of the Board on 1 August 2018 following the appointment of Mr. Ross BENSON. Mr. LI is an experienced executive, having spent years as the CEO of Montgomery International Consultants, providing immigration, overseas study and investment consulting services. He has a background in successfully developing businesses in Australia and his skills and expertise will help the Company to identify and evaluate potential new opportunities in Australian markets.

To ensure the cooperation with City Savvy Limited ("City Savvy") and enhance the skills and experience on the board in guidance of the Company's business performance and operation, Ms. MENG Xiaoshi was appointed as a Non-Executive director of Retech on 18 Jan 2019 and a representative of City Savvy replace the outgoing director, Mr. MA Hok Wang. Ms. MENG has almost 10 years' experience in investment and financing. She accumulated cross-border project operational experience in Hong Kong, Australia, U.S.A., and Japan. She has successfully completed an Australia listed company acquisition, and acted as the director. She also completed the assets reorganization project of The Import-Export Bank of China. Ms. MENG will leverage off her experience to provide recommendations on capital management and bring new opportunities in capital markets to Retech as well.

Appointment of new directors (Continued)

Material terms of Mr. Kang LI's appointment are outlined below:

Remuneration: fixed director fee of RMB70,000 per annum. Should Mr. Kang LI be appointed as a chairman of any committee of the Board, he will be paid an additional fee of an amount to be agreed with the Board.

Term: Appointment commenced on 1 August 2018 without a fixed term.

Material terms of Ms. MENG Xiaoshi's appointment are outlined below:

Remuneration: fixed director fee of RMB70,000 per annum. Should MENG Xiaoshi be appointed as a chairman of any committee of the Board, he will be paid an additional fee of an amount to be agreed with the Board.

Term: Appointment commenced on 18 Jan 2019 without a fixed term.

In accordance with Article 21 of the Company's Articles of Association, the above directors shall retire at the upcoming annual general meeting and, being eligible, offer themselves for re-election.

Resignation of directors

Ms. Zhang Jing resigned as the Non-executive Director of the Company with effective from 9 Feb 2017, and Mr. Chris Ryan and Mr. Neville Ide resigned as the Non-executive Director of the Company's with effective from 16 March 2018 for their personal reasons. They have confirmed that they have no disagreement with the Board and nothing relating to the affairs of the Company needed to be brought to the attention of the shareholders if the Company.

Mr. Ma Hok Wang resigned as the Non-Executive Director of the Company and representative of City Savvy with effective from 18 Jan 2019 for personal reasons. He has confirmed that he has no disagreement with the Board and nothing relating to the affairs of the Company needed to be brought to the attention of the shareholders.

Directors of the Company's subsidiaries

Directors of the Company's subsidiaries during the year and up to the date of the report are detailed as follows:

Retech Holdings Co., Limited
LIN Yan

ProSage Sustainability Development Limited
LIU Cheng (appointed on 22 November 2018)
Roy FUNG (appointed on 22 November 2018)

Shanghai Retech Digital Technology Co., Ltd.
LIN Yan
LIU Yan

Shanghai Ruijian Information Technology Co., Ltd.
LIU Yan

Shanghai Ruipengcheng Technology Co., Ltd.
LIU Cheng
WANG Gongshi
GUO Mingmin
CHEN Yanqun
XU Shanshan

Shanghai Reunet Network **Technology Co., Ltd.**
WANG Gongshi
GUO Mingmin
KISHIDA Toru
SATO Hiroyuki
KISHIDA Susumu

Biography of the directors and senior management

The profile of the directors and senior management are set out in page 10 to page 12.

Directors' meetings

The number of Board meetings, Audit & Risk Committee and Nomination & Remuneration Committee meetings held and attended by each director during this report period is listed as follows:

Directors	Board Meeting[1]		Audit and Risk Management Committee Meeting[2]	
	Entitled	Attended	Entitled	Attended
AI Shungang	4	3	0	0
Calvin CHENG	4	4	0	0
LIU Qing	4	2	3	2
LU Jiuping	4	4	1	1
Ross BENSON	2	2	1	1
Kang LI	1	1	0	0
MENG Xiaoshi	0	0	0	0
MA Hok Wong	4	4	0	0
Chris RYAN	2	2	2	2
Nevile IDE	2	2	2	2
ZHANG Jing	1	0	0	0

Note:

1. Total of 4 Board meetings held during the year.
2. The Audit and Risk Management Committee had 3 meetings in the reporting period ending 31 December 2018, on 25/1/18 (Neville, Chris and LIU Qing attended 0), 23/2/18 (Neville, Chris attended) and 27/3/18 (Ross, LIU Qing and Mr. Lu attended).
3. The Nomination and Remuneration Committee had no meeting in the reporting period ending 31 December 2018. The meeting as scheduled in December 2018 was postponed due to unexpected commitment of the Committee members.

Directors' interests in transactions, arrangements or contracts

Other than those disclosed in note 18, 19 and 28 of the consolidated financial statements, there were no Directors' interests in transactions, arrangements or contracts as of the date of this report.

Management contracts

No other contracts, other than the contracts of service with the Directors or any person engaged in the full-time employment of the Company, by which a person undertakes the management and administration of the whole or any substantial part of the business of the Company during the period and up to the date of this report.

Directors' interests in the shares, underlying shares and debentures

The table below sets out the interests of the Directors of the Company as at the date of this report.

Director	Independence or affiliciated	Number of Shares and equivalent CDIs held directly	Number of Shares and equivalent CDIs held indirectly
AI Shungang[1]	Non-independent	Nil	54,901,594
Calvin CHENG	Non-independent	9,076,796	549,309
LIU Qing	Independent	Nil	Nil
LU Jiuping	Independent	Nil	Nil
Ross BENSON	Independent	Nil	Nil
Kang LI	Independent	Nil	Nil
MENG Xiaoshi	Independent	Nil	Nil

Notes:

1. AI Shungang holds 69.77% of Retech Investment Group Co.,Ltd, the largest Existing Holder. Having regard to section 608(3) of the Corporations Act, given AI Shungang holds more than 20% of Retech Investment Group Co. Ltd, AI Shungang is deemed to hold relevant interest in all of the shares held by Retech Investment Group Co., Ltd.

Other than the above, at no time during the year was the Company or its holding company or any of its subsidiaries or fellow subsidiaries was a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Equity-linked agreements

Details of the equity-linked agreements entered into during the year or subsisting at 31 December 2018 are set out below:

Convertible Note
Details of the Convertible Note issued by the Company are set out in note 24 to the consolidated financial statements. There are no other convertible notes issued by the Company during the year and up to the date of this report.

Permitted indemnity provision

During the year and up to the date of this Directors' Report, the permitted indemnity provision as defined in section 469 of the Hong Kong Companies Ordinance for the benefit of the directors of the Company was in force. The Company has arranged for appropriate insurance cover for the directors' liabilities in respect of legal actions against its directors arising out of corporate activities.

Significant changes in the state of affairs

Incorporation of ProSage Sustainability Development Limited (ProSage)

The Group established Prosage Sustainability Development Limited during 2018 and 90.00% interests in Prosage. Prosage is our vehicle to develop e-learning business for Environmental, Social and Corporate Governance compliance (“ESG”) training. In the future, Prosage will develop ESG online training platform for clients and its employees to learn concepts of ESG and facilitate their ESG reporting.

Potential Acquisition

On 8 December 2018, Retech entered into a non-binding, conditional letter of intention to acquire the Victorian based XJS Coaching School. XJS Coaching School is a private Chinese training institution with 6 campuses located in Australia. It has great reputation in Chinese language training in Australia. Retech plans to cooperate with XJS Coaching School for Chinese language training business opportunities in Australia.

Environmental issues

The Company and the Group’s business operations are not specifically regulated by any environmental regulations under the laws of the PRC, Hong Kong or Australia. However, the Company always maintains an environmental management philosophy to promote a sustainable working environment. For example, the Company encourages staff to print double-sided and recycle offices supplies and the office administrator is asked to order energy-saving facilities and equipment.

Events subsequent to the end of the financial year

There are no significant events occurring after the reporting period.

Auditor

The Company’s auditors, Grant Thornton Hong Kong Limited (“GT Hong Kong”), retire and, being eligible, offer themselves for re-appointment.

Non-audit Services

Grant Thornton Tax Services Limited, an affiliate of GT Hong Kong provides statutory tax compliances services for the Company and its subsidiary incorporated in Hong Kong for HK$18,000 (2017: HK$18,000).

Proceeding on the behalf of the Company

No proceedings on behalf of the Company have occurred up to the date of this report.

Remuneration Report

Key management personnel ("KMP")

The remuneration report details the key management personnel ("KMP") remuneration arrangements for the Company for the year ended 31 December 2018 and up to the date of the report, which includes directors listed as below:

Name	Type of KMP	Position
AI Shungang	Non-executive	Co-Chairman
Calvin CHENG	Non-executive	Co-Chairman
LIU Qing	Non-executive	Chairwoman of NRM Member of ARM
LU Jiuping	Non-executive	Member of ARM Member of NRM
Ross BENSON	Non-executive	Chairman of ARM Member of NRM
Kang LI	Non-executive	Member of the board
MENG Xiaoshi	Non-executive	Member of the board

Main principles of remuneration

The performance of the Company depends upon the quality of its directors. The remuneration policy for directors is designed to attract, motivate and retain highly skilled directors and executives to further promote superior performance and long term commitment to the Company.

The main principles are:

- Provide competitive rewards to attract high skilled directors.
- Executive's reward should be linked to shareholder value.
- Individual reward should be based on the performance evaluation criteria.

Remuneration policy

Remuneration for the directors consists of annual fixed cash remuneration. There are no incentive plans in operation for directors and the incentive plan will be considered by Board in the future.

Remuneration outcomes of directors for 2018

Below is a table detailing the amount of remuneration each director of Retech is entitled to receive per annum at the date of this report.

Remuneration outcomes of directors for 2018 (continued)

Name	Position	Amount per annum
AI Shungang	Non-executive Co-Chairman	RMB80,000
LIU Qing	Non-executive Chairwoman of NRM[1] Member of ARM[2]	RMB70,000 plus an additional RMB10, 000 as Chairwoman of NRM
Calvin CHENG	Non-executive Co-Chairman	A$100,000 (approximately RMB476,000)
LU Jiuping	Non-executive Member of ARM[2] Member of NRM[1]	RMB70,000
Ross BENSON	Non-executive Chairman of ARM[2] Member of NRM[1]	A$60,000[3]
Kang LI	Non-executive	RMB70,000[3]
MENG Xiaoshi	Non-executive	RMB70,000[3]
Ma Hok Wang	Non-executive	RMB70,000[3]
Chris Ryan	Non-executive	A$60,000[3] (approximately RMB285,600)
Neville Ide	Non-executive	A$70,000[3] (approximately RMB333,200)
Zhang Jing	Non-executive	RMB70,000*

Note:
1. NRM is the abbreviation of Nomination and Remuneration Management Committee.
2. ARM is the abbreviation of Audit and Risk Management Committee.
3. Directors' fees disclosed are based on their annual remuneration per their contract. In the event that the directors were appointed or resigned during the period, their fees will be apportioned according to their service period in that particular year.
4. RMB are translated to A$ at A$1 to RMB4.76.

Service agreements

On appointment to the board, all directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarizes the board policies and terms, including remuneration, vacation of office, service and responsibilities. Other terms of the employment for directors is also formalized in service agreements.

03

PART

Consolidated Financial Statements and Notes

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018

	Notes	2018 RMB	2017 RMB
Revenue	5 & 6	**130,501,401**	104,201,567
Cost of services		**(48,092,222)**	(38,900,333)
Gross profit		**82,409,179**	65,301,234
Other income	7	**7,794,602**	4,581,916
Fair value gain on derivative financial instruments		**1,290,086**	78,598
Selling and distribution expenses		**(7,139,935)**	(5,703,989)
Administrative expenses		**(24,769,344)**	(18,774,161)
Finance cost	8	**(3,574,072)**	(398,565)
Profit before income tax	9	**56,010,516**	45,085,033
Income tax expense	11	**(7,743,984)**	(7,954,275)
Profit for the year		**48,266,532**	37,130,758
Other comprehensive expense			
Item that may be reclassified subsequently to profit or loss:			
Exchange loss on translation of financial statements of foreign operations		**(7,165)**	-
Total comprehensive income for the year		**48,259,367**	37,130,758
Profit for the year attributable to:			
Owners of the Company		**49,233,148**	38,694,619
Non-controlling interests		**(966,616)**	(1,563,861)
		48,266,532	37,130,758
Total comprehensive income/(expense) for the year attributable to:			
Owners of the Company		**49,226,700**	38,694,619
Non-controlling interests		**(967,333)**	(1,563,861)
		48,259,367	37,130,758
Earnings per share for profit attributable to the owners of the Company during the year			
Basic	12	**21.34 cents**	19.23 cents
Diluted	12	**20.76 cents**	19.22 cents

The notes on pages 35 to 100 are an integral part of these consolidated financial statements.

Consolidated statement of financial position as at 31 December 2018

	Notes	2018 RMB	2017 RMB
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**695,531**	242,098
Intangible assets	14	**2,296,452**	2,987,421
Deferred tax assets	15	**203,458**	229,181
		3,195,441	3,458,700
Current assets			
Trade and other receivables	16	**30,756,577**	35,338,759
Contract assets	17	**19,044,518**	-
Amounts due from customers for contract works	17	**-**	15,862,639
Amounts due from non-controlling shareholders	18(a)	**11,411**	4,970,785
Amount due from a non-controlling shareholder of a subsidiary	18(b)	**439,000**	468,785
Amounts due from related companies	18(c)	**29,271,094**	15,736,667
Loan to a related company	19	**802,630**	13,621,090
Derivative financial instruments	20	**11,135,977**	19,758,568
Short term bank deposits	21	**112,486,040**	109,543,120
Cash and cash equivalents	21	**99,557,916**	50,061,852
		303,505,163	265,362,265
Current liabilities			
Trade and other payables	23	**18,718,343**	13,605,360
Contract liabilities	17	**4,721,383**	-
Amounts due to customers for contract works	17	**-**	10,042,901
Amount due to a non-controlling shareholder of a subsidiary	18(d)	**436,670**	393,865
Amounts due to related companies	18(e)	**6,174**	4,646,327
Derivative financial instruments	20	**13,617,235**	23,440,186
Income tax payable		**11,519,665**	9,808,126
		49,019,470	61,936,765
Net current assets		**254,485,693**	203,425,500
Total assets less current liabilities		**257,681,134**	206,884,200
Non-current liability			
Convertible note	24	**31,092,542**	28,591,365
Net assets		**226,588,592**	178,292,835

Consolidated statement of financial position as at 31 December 2018 (Continued)

	Notes	2018 RMB	2017 RMB
EQUITY			
Share capital	25	**141,905,974**	141,905,974
Reserves	26	**(7,752,636)**	(7,872,696)
Retained profits		**94,530,614**	45,823,418
Equity attributable to owners of the Company		**228,683,952**	179,856,696
Non-controlling interests		**(2,095,360)**	(1,563,861)
Total equity		**226,588,592**	178,292,835

Mr. Ai Shungang
Co-Chairman

Mr. Calvin Cheng
Co-Chairman

The notes on pages 35 to 100 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2018

	Attributable to owners of the Company							
	Share capital RMB	Merger reserve* RMB (note 26.1)	Statutory reserve* RMB (note 26.2)	Translation reserve* RMB (note 26.3)	Retained profits RMB	Total RMB	Non-controlling interests RMB	Total equity RMB
At 1 January 2018	**141,905,974**	**(11,122,696)**	**3,250,000**	**-**	**45,823,418**	**179,856,696**	**(1,563,861)**	**178,292,835**
Adjustment from the adoption of HKFRS 9 (note 3.1(i)**)	-	-	-	-	(399,444)	(399,444)	(3,166)	(402,610)
Adjusted balance at 1 January 2018	**141,905,974**	**(11,122,696)**	**3,250,000**	**-**	**45,423,974**	**179,457,252**	**(1,567,027)**	**177,890,225**
Capital contribution by a non-controlling shareholder of a subsidiary of the Company	-	-	-	-	-	-	439,000	439,000
Transfer to statutory reserve	-	-	126,508	-	(126,508)	-	-	-
Transactions with owners	**-**	**-**	**126,508**	**-**	**(126,508)**	**-**	**439,000**	**439,000**
Profit for the year	-	-	-	-	49,233,148	49,233,148	(966,616)	48,266,532
Other comprehensive income:								
Exchange loss on translation of foreign operations recognised	-	-	-	(6,448)	-	(6,448)	(717)	(7,165)
Total comprehensive income/(expense) for the year	**-**	**-**	**-**	**(6,448)**	**49,233,148**	**49,226,700**	**(967,333)**	**48,259,367**
At 31 December 2018	**141,905,974**	**(11,122,696)**	**3,376,508**	**(6,448)**	**94,530,614**	**228,683,952**	**(2,095,360)**	**226,588,592**

* These equity accounts comprise the reserves of RMB7,752,636 (2017: RMB7,872,696) in the consolidated statement of financial position as at 31 December 2018.

** The initial application of HKFRS 9 has led to adjustments of retained profits and non-controlling interests of RMB399,444 and RMB3,166 respectively.

Consolidated statement of changes in equity for the year ended 31 December 2018 (Continued)

	Attributable to owners of the Company							
	Share capital RMB	Merger reserve RMB (note 26.1)	Statutory reserve RMB (note 26.2)	Translation reserve RMB (note 26.3)	Retained profits RMB	Total RMB	Non-controlling interests RMB	Total equity RMB
At 1 January 2017	24,657,544	(11,122,696)	-	-	10,378,799	23,913,647	-	23,913,647
Issuance of new shares:								
- In connection of the listing of the Company's shares (note 25(a))	92,232,073	-	-	-	-	92,232,073	-	92,232,073
- A placement by an institutional investor (note 25(b))	35,088,077	-	-	-	-	35,088,077	-	35,088,077
Share issuance expenses:								
- In connection of the listing of the Company's shares (note 25(a))	(9,418,995)	-	-	-	-	(9,418,995)	-	(9,418,995)
- A placement by an institutional investor (note 25(b))	(652,725)	-	-	-	-	(652,725)	-	(652,725)
Transfer to statutory reserve	-	-	3,250,000	-	(3,250,000)	-	-	-
Transactions with owners	117,248,430	-	3,250,000	-	(3,250,000)	117,248,430	-	117,248,430
Profit and total comprehensive income for the year	-	-	-	-	38,694,619	38,694,619	(1,563,861)	37,130,758
At 31 December 2017	141,905,974	(11,122,696)	3,250,000	-	45,823,418	179,856,696	(1,563,861)	178,292,835

The notes on pages 35 to 100 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2018

	2018	2017
	RMB	RMB
Cash flows from operating activities		
Profit before income tax	**56,010,516**	45,085,033
Adjustments for:		
Depreciation of property, plant and equipment	**105,705**	46,627
Amortisation of intangible assets	**2,159,613**	597,485
Expected credit loss/Loss allowance on:		
- trade receivables	**187,387**	750,000
- contract assets	**16,388**	-
- amount due from a non-controlling shareholder	**4,959,374**	-
Interest income	**(5,510,287)**	(1,499,845)
Interest expense	**3,574,072**	398,565
Fair value gain on derivative financial instruments	**(1,290,086)**	(78,598)
Exchange loss/(gain)	**1,647,126**	(591,014)
Operating profit before working capital changes	**61,859,808**	44,708,253
Decrease/(Increase) in trade and other receivables	**4,724,574**	(29,990,808)
Increase in contract assets/amounts due from customers for contract works	**(3,277,580)**	(10,270,926)
Increase in trade and other payables	**4,312,983**	4,510,450
(Decrease)/Increase in contract liabilities/amounts due to customers for contract works	**(5,321,518)**	8,855,530
Cash generated from operations	**62,298,267**	17,812,499
Income tax paid	**(6,006,722)**	(4,626,120)
Net cash from operating activities	**56,291,545**	13,186,379
Cash flows from investing activities		
Purchase of property, plant and equipment	**(559,138)**	(166,275)
Purchase of intangible assets	**(668,644)**	(3,584,906)
Loan to a related company	**(117,136,562)**	(14,290,881)
Repayment of loan to a related company	**129,955,022**	12,696,142
Increase in amounts due from non-controlling shareholders	**-**	(2,357,848)
Decrease/(Increase) in amount due from a non-controlling shareholder of a subsidiary	**468,785**	(468,785)
Increase in amounts due from related companies	**(19,431,886)**	(5,732,816)
Decrease in amounts due from related companies	**5,897,459**	-
Increase in short term bank deposits	**(2,942,920)**	(109,543,120)
Interest received	**4,857,211**	147,572
Net cash from/(used in) investing activities	**439,327**	(123,300,917)

Consolidated statement of cash flows for the year ended 31 December 2018 (Continued)

	2018 RMB	2017 RMB
Cash flows from financing activities		
Proceeds from issue of shares	**-**	127,320,150
Proceeds from issue of convertible note	**-**	32,544,030
Payment of interests on convertible note	**(2,630,295)**	-
Share issuance expenses	**-**	(7,884,607)
Increase in amount due to a non-controlling shareholder of a subsidiary	**42,805**	393,865
Decrease in amounts due to related companies	**(5,501,210)**	-
Increase in amounts due to related companies	**861,057**	3,155,647
Net cash (used in)/from financing activities	**(7,227,643)**	155,529,085
Net increase in cash and cash equivalents	**49,503,229**	45,414,547
Effect of foreign exchange rate changes	**(7,165)**	-
Cash and cash equivalents at beginning of the year	**50,061,852**	4,647,305
Cash and cash equivalents at end of the year	**99,557,916**	50,061,852

The notes on pages 35 to 100 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2018

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 1309, 13th Floor, Prince's Building, 10 Charter Road, Central, Hong Kong. The Company's shares were listed on the Australian Securities Exchange ("ASX") since 22 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 and related services, 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").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below. The adoption of new or amended HKFRSs and the impacts on the Group's consolidated 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.

2.2 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of consolidation (Continued)

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 in note 32, 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.

2.3 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 (i.e. only translated using the exchange rates at the transaction date).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Foreign currency translation (Continued)

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into RMB.

Assets and liabilities have been translated into RMB at the closing rates at the reporting date. Income and expenses have been converted into the RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly.

Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

2.4 Property, plant and equipment

Property, plant and equipment (other than construction in progress as described below) are initially recognised at acquisition cost, including any cost directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by the Group's management. They are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Construction in progress is stated at cost less impairment losses (if any). Cost includes all construction expenditure and other direct costs attributable to such projects. Costs on completed construction works are transferred to the appropriate asset category. No depreciation is provided in respect of assets under construction until it is completed and available for use.

Depreciation on property, plant and equipment (other than construction in progress) 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	$33^1/_3$%

Estimates of residual value and useful life are reviewed, and adjusted if appropriate, at each reporting date.

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Property, plant and equipment (Continued)

All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

2.5 Intangible assets and research and development activities

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
Capitalised software development	2 years

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

Intangible assets with finite useful lives are tested for impairment as described below in note 2.6.

<u>Research and development costs</u>

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to development activities are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;
(ii) there is intention to complete the intangible asset and use or sell it;
(iii) the Group's ability to use or sell the intangible asset is demonstrated;
(iv) the intangible asset will generate probable economic benefits through internal use or sale;
(v) sufficient technical, financial and other resources are available for completion; and
(vi) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired intangible assets.

All other development costs are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Impairment of non-financial assets (other than contract assets)

Property, plant and equipment and intangible assets are subject to impairment testing. They are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risk specific to the asset.

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

Impairment losses are charged pro rata to the assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

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

2.7 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial instruments (Continued)

Financial assets

Policy applicable from 1 January 2018

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with HKFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss ("FVTPL"), plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of profit or loss and other comprehensive income.

Financial assets are classified into the following categories:
- amortised cost;
- FVTPL; or
- fair value through other comprehensive income ("FVOCI").

The classification is determined by both:
- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs or other income, except for expected credit losses ("ECL") of trade receivables which is presented within administrative expenses.

Subsequent measurement of financial assets

Debt investments

<u>Financial assets at amortised cost</u>

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):
- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in other income in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's trade and other receivables, amounts due from related parties (including non-controlling shareholders, a non-controlling shareholder of a subsidiary and related companies), loan to a related company, short term bank deposits and cash and cash equivalents fall into this category of financial instruments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Financial instruments (Continued)

Financial assets (Continued)

Policy applicable from 1 January 2018 (Continued)

Subsequent measurement of financial assets (Continued)

Debt investments (Continued)

Financial assets at FVTPL

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell' are categorised at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements under HKFRS 9 apply.

Policy applicable before 1 January 2018

The Group's accounting policies for financial assets 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)

2.7 Financial instruments (Continued)

Financial assets (Continued)

Policy applicable before 1 January 2018 (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. 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)

2.7 Financial instruments (Continued)

Financial liabilities

Classification and measurement of 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), derivative financial instruments and convertible note.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or fair value gain on derivative financial instruments.

<u>Trade and other payables, amount due to a non-controlling shareholder of a subsidiary and amounts due to related companies</u>

These are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

<u>Convertible note</u>

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)

2.7 Financial instruments (Continued)

Financial liabilities (Continued)

Classification and measurement of financial liabilities (Continued)

Derivative financial instruments

Details of accounting policy of derivative financial instruments are set out in note 2.9.

2.8 Impairment of financial assets and contract assets

Policy applicable from 1 January 2018

HKFRS 9's new impairment requirements use more forward-looking information to recognise ECL – the "ECL model". Instruments within the scope included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables and contract assets recognised and measured under HKFRS 15.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1") and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month ECL" are recognised for the Stage 1 category while "lifetime ECL" are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade receivables and contract assets

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment of financial assets and contract assets (Continued)

Policy applicable from 1 January 2018 (Continued)

Trade receivables and contract assets (Continued)

To measure the ECL, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

For trade receivables, the Group allows 0.1% for amounts that are neither past due nor impaired, 0.5% for amounts that are 1 to 90 days past due, 2.5% for amounts that are between 91 and 180 days past due, 10% for amounts that are amounts that are between 181 and 365 days and $33^1/_3$% for amounts more than 365 days past due.

For contract assets relate to unbilled work in progress, the Group allows 0.5% for amounts that are expected to be recovered within one year and $33^1/_3$% for that is expected to be recovered more than one year.

Other financial assets measured at amortised cost

The Group measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial assets at the reporting date with the risk of default occurring on the financial assets at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment of financial assets and contract assets (Continued)

Policy applicable from 1 January 2018 (continued)

Other financial assets measured at amortised cost (Continued)

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Detailed analysis of the ECL assessment of trade receivables, contract assets and other financial assets measured at amortised cost are set out in note 30.4.

Financial guarantee contracts

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the ECL is the present value of the expected payments to the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

Policy applicable before 1 January 2018

At each reporting date, financial assets other than at FVTPL, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment of financial assets and contract assets (Continued)

Policy applicable before 1 January 2018 (continued)

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:

Financial assets carried at amortised cost

The amount of the impairment 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 the carrying amount of the financial asset at the date of impairment is reversed, does not exceed what the amortised cost would have been had the impairment not been recognised.

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 are recognised at fair value at the end of each reporting period with gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for hedged accounting under HKFRS 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2.16) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2.8 and are reclassified to receivables when the right to the consideration has become unconditional (see note 2.7).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2.16). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2.7).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

2.12 Financial guarantee 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. The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instruments and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assessing the obligations. 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.

Subsequently, financial guarantees are measured at the higher of the amount determined in accordance with ECL under HKFRS 9 as set out in note 2.8 (applicable from 1 January 2018)/ HKAS 37 (before application of HKFRS 9 on 1 January 2018) and the amount initially recognised less, where appropriate, the cumulative amount of income recognised over the guarantee period.

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 profit or loss 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

Revenue arises mainly from the rendering of e-learning services, provision of referral and consultancy services, and licensing income from sales of e-learning content licenses.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer.
2. Identifying the performance obligations.
3. Determining the transaction price.
4. Allocating the transaction price to the performance obligations.
5. Recognising revenue when/as performance obligation(s) are satisfied.

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

<u>Rendering of e-learning services</u>

Policy applicable from 1 January 2018

For e-learning contracts (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), the services represent a single performance obligation over which control is considered to transfer over time. This is because the combined product is unique to each customer (has no alternative use) and the Group has an enforceable right to payment for the work completed to date.

Revenue for these performance obligations is recognised over time as the work is performed, using the cost-to-cost method to estimate progress towards completion. As costs are generally incurred uniformly as the work progresses and are considered to be proportionate to the Group’s performance, the cost-to-cost method provides a faithful depiction of the transfer of goods and services to the customer.

Policy applicable before 1 January 2018

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Revenue recognition (Continued)

Rendering of e-learning services (Continued)

Policy applicable before 1 January 2018 (Continued)

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.

Commission and consultancy income

The Group also provides referral and consultancy services to their customers. Revenue from referral and consultancy services are recognised when the relevant services have been provided and the Group received the payment or the right to receive payment has been established.

Licensing income

Revenue from licensing of e-courseware is recognised in accordance with the terms of agreement.

Interest income

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

2.17 Employee benefits

Retirement benefits

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

The employees of the Group's subsidiaries which operate in the PRC 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 year. 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.

2.18 Borrowing costs

Borrowing costs are expensed when incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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.

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average tax rates that are expected to apply to the taxable income of the periods in which the temporary differences are expected to reverse.

The determination of the average tax rates requires an estimation of (1) when the existing temporary differences will reverse and (2) the amount of future taxable profit in those years. The estimate of future taxable profit includes:

- income or loss excluding reversals of temporary differences; and
- reversals of existing temporary differences.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Taxation (Continued)

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.

2.20 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 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 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.

2.22 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.

3. ADOPTION OF NEW AND AMENDED HKFRSs

3.1 New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018

In the current period, the Group has applied for the first time the new and 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 2018.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
Amendments to HKFRS 1	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

Other than as noted below, the adoption of the new and amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

(i) 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 "ECL model" for the impairment of financial assets.

When adopting HKFRS 9, the Group has applied the standard retrospectively to items that existed at 1 January 2018 in accordance with the transitional requirement and also applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of HKFRS 9 in relation to classification, measurement, and impairment are recognised in retained profits.

There have been no changes to the classification or measurement of financial assets and financial liabilities as a result of the application of HKFRS 9. All financial assets and financial liabilities previously measured at amortised cost under HKAS 39 are continued to be measured at amortised cost under HKFRS 9. Derivative financial instruments previously measured at FVTPL under HKAS 39 are continued to be measured at FVTPL under HKFRS 9.

HKFRS 9 replaced the "incurred loss" model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECL earlier than under the "incurred loss" accounting model in HKAS 39.

3. ADOPTION OF NEW AND AMENDED HKFRSs (CONTINUED)

3.1 New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 (Continued)

(i) HKFRS 9 "Financial instruments" (Continued)

The Group applies the new ECL model to the following items:

- financial assets measured at amortised cost (including trade and other receivables, amounts due from non-controlling shareholders/a non-controlling shareholder of a subsidiary/related companies, loan to a related company, short term bank deposits and cash and cash equivalents); and
- contract assets as defined in HKFRS 15.

For contract assets arising from HKFRS 15 and trade receivables, the Group applies a simplified model of recognising lifetime ECL as these items do not have a significant financing component. For other financial assets, the Group applies a general approach of recognising ECL.

Upon the adoption of HKFRS 9, the Group recognised additional ECL on the Group's trade receivables and contract assets of RMB323,297 and RMB79,313, respectively, which resulted in a decrease in retained profits and non-controlling interests of RMB399,444 and RMB3,166, respectively, as at 1 January 2018.

The following table reconciles the provision of impairment determined in accordance with HKAS 39 as at 31 December 2017 with the opening ECL determined in accordance with HKFRS 9 as at 1 January 2018.

	RMB
Provision of impairment at 31 December 2017 under HKAS 39	**750,000**
Additional ECL recognised at 1 January 2018 on:	
- Trade receivables	**323,297**
- Contract assets recognised on adoption of HKFRS 15	**79,313**
ECL at 1 January 2018 under HKFRS 9	**1,152,610**

The details of new significant accounting policies are set out in notes 2.7 and 2.8.

(ii) HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 "Revenue from Contracts with Customers" and the related "Clarifications to HKFRS 15 Revenue from Contracts with Customers" (hereinafter referred to as "HKFRS 15") replace HKAS 18 "Revenue", HKAS 11 "Construction Contracts", and several revenue-related Interpretations.

The Group has elected to use the cumulative effect transition method, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained profits at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 18.

3. ADOPTION OF NEW AND AMENDED HKFRSs (CONTINUED)

3.1 New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 (Continued)

(ii) HKFRS 15 "Revenue from Contracts with Customers" (Continued)

In accordance with the transition guidance under HKFRS 15, the Group has only been applied to contracts that are incomplete as at 1 January 2018.

Summary of nature and effect of the changes on previous accounting policies are set out below:

i. Timing of revenue recognition

Previously, revenue arising from rendering of e-learning services was recognised on a time proportion basis over the period of the contract or when the relevant services have been rendered, whereas revenue from provision of referral and consultancy services and licensing income from sale of e-learning content licenses were generally recognised at a point in time when the services are rendered and on a time proportion basis over the license period.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

a. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
b. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced; or
c. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the Group recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from rendering of e-learning services.

ii. Presentation of contract assets and liabilities

Previously, contract balances relating to contracts in progress were presented in the consolidated statement of financial position under "amounts due from customers for contract works" or "amounts due to customers for contract works" respectively.

3. ADOPTION OF NEW AND AMENDED HKFRSs (CONTINUED)

3.1 New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 (Continued)

(ii) HKFRS 15 "Revenue from Contracts with Customers" (Continued)

ii. Presentation of contract assets and liabilities (Continued)

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 2.16) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue.

At the date of initial application of HKFRS 15, unbilled revenue of RMB15,862,639 arising from some of contracts are conditional and hence such balance was reclassified from amounts due from customers for contract works to contract assets. Besides, advances from customers of RMB10,042,901 in respect of e-learning contracts previously included in amounts due to customers for contract works were reclassified to contract liabilities for RMB10,042,901.

iii. Accounting for warranties

As set out in note 2.16, the Group are required to determine whether the warranties under e-learning service contracts are assurance-type warranties or service-type warranties under HKFRS 15. No significant impact on the consolidated financial statements as at date of initial application as all of the warranties included in the contracts are considered as assurance-type warranties, which are consistent with their previous accounting treatment.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amount under HKAS 18 at 31 December 2017 RMB	Reclassification RMB	Carrying amount under HKFRS 15 at 1 January 2018 RMB
Current assets			
Amounts due from customers for contract works	15,862,639	(15,862,639)	-
Contract assets	-	15,862,639	15,862,639
Current liabilities			
Amounts due to customers for contract works	10,042,901	(10,042,901)	-
Contract liabilities	-	10,042,901	10,042,901

3. ADOPTION OF NEW AND AMENDED HKFRSs (CONTINUED)

3.1 New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2018 (Continued)

(ii) HKFRS 15 "Revenue from Contracts with Customers" (Continued)

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in accordance with HKFRS 15 (A) RMB	Hypothetical amounts under HKASs 11 and 18 (B) RMB	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A) - (B) RMB
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:			
Amounts due from customers for contract works	-	19,140,219	(19,140,219)
Contract assets	19,044,518	-	19,044,518
Total current assets	**19,044,518**	**19,140,219**	**(95,701)**
Amounts due to customers for contract works	-	(4,721,383)	4,721,383
Contract liabilities	(4,721,383)	-	(4,721,383)
Total current liabilities	**(4,721,383)**	**(4,721,383)**	**-**
Net current assets	**14,323,135**	**14,418,836**	**(95,701)**
Total assets less current liabilities	**14,323,135**	**14,418,836**	**(95,701)**
Net assets	**14,323,135**	**14,418,836**	**(95,701)**

The adoption of HKFRS 15 does not have a significant impact on Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

3.2 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 16	Leases[1]
HKFRS 17	Insurance Contract[3]

3. ADOPTION OF NEW AND AMENDED HKFRSs (CONTINUED)

3.2 Issued but not yet effective HKFRSs (Continued)

Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after 1 January 2020
[3] Effective for annual periods beginning on or after 1 January 2021
[4] 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. 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.

<u>HKFRS 16 "Leases"</u>
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 lease liability and 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.

3. ADOPTION OF NEW AND AMENDED HKFRSs (CONTINUED)

3.2 Issued but not yet effective HKFRSs (Continued)

HKFRS 16 "Leases" (Continued)

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases of office premises 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 and other comprehensive income over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. Accordingly, the Group's rental contracts disclosed in note 29, which will expire after 4 years, will continue to be accounted for as a lease arrangement.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 on 1 January 2019 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information will not be restated. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets and not to perform a full review of existing leases and apply HKFRS 16 only to new contracts. As disclosed in note 29, as at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to RMB7,111,036 for office premises, the majority of which is payable between 1 to 5 years after the reporting date.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's consolidated financial statement from 2019 onwards.

Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments clarify the definition of material and state that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". Materiality depends on nature or magnitude of information or both.

The amendments also:

- introduce the concept of obscuring information when considering materiality and provide some examples of circumstances that may result in material information being obscured;

3. ADOPTION OF NEW AND AMENDED HKFRSs (CONTINUED)

3.2 Issued but not yet effective HKFRSs (Continued)

Amendments to HKAS 1 and HKAS 8 "Definition of Material" (Continued)

- clarify that materiality assessment will need to take into account how primary users could reasonably be expected to be influenced in making economic decisions by replacing the threshold "could influence" with "could reasonably be expected to influence" in the definition of material; and
- clarify that materiality assessment will need to take into account of information provided to primary users of general purpose financial statements (i.e. existing and potential investors, lenders and other creditors that rely on general purpose financial statements for much of the financial information they need).

Amendments to HKAS 1 and HKAS 8 are effective for annual reporting period beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted. The directors expect that the amendments have no material impact on the Group's consolidated financial statements.

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 2018, the carrying amount of the Group's deferred tax assets was RMB203,458 (2017: RMB229,181).

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

Key sources of estimation uncertainty (Continued)

Estimation of impairment of trade and other receivables, contract assets and other financial assets within the scope of ECL upon application of HKFRS 9

Since the initial adoption of HKFRS 9, the Group makes allowances on items subjects to ECL (including trade and other receivables, contract assets and other financial assets) based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period as set out in note 2.8. As at 31 December 2018, the aggregate carrying amounts of trade and other receivables, contract assets and other financial assets amounted to RMB29,344,239 (net of ECL allowance of RMB1,260,684), RMB19,044,518 (net of ECL allowance of RMB95,701) and RMB242,129,091 (net of ECL allowance of RMB4,959,374) respectively.

Before the adoption of HKFRS 9, the Group assesses at the end of each reporting period whether there is any objective evidence that trade and other receivables and other financial assets are impaired. In determining whether there is objective evidence of impairment, the Group takes into consideration the ageing status and the likelihood of collection by reference to the background and repayment history of the debtors and the occurrence of any default or disputes. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on factors such as repayment plans committed by debtors and subsequent collections. An impairment loss is made for trade receivables of which the present values of future cash flows are less than their carrying amount. As at 31 December 2017, the aggregate carrying amount of trade and other receivables and other financial assets amounted to RMB33,407,348 (net of loss allowance of RMB750,000) and RMB194,402,299 respectively.

When the actual future cash flows are different from expected, such difference will impact the carrying amount of trade receivables and other items within the scope of ECL upon application of HKFRS 9/other financial instruments before application of HKFRS 9 and credit losses in the periods in which such estimate has been changed.

Fair value of derivative financial instruments

As described in note 24 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 2018, the net fair value of derivative financial instruments is RMB2,481,258 (2017: RMB3,681,618).

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

Significant accounting judgement

Revenue from contracts for service

The Group recognises contract revenue on the rendering of e-learning 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 the consolidated financial statements.

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

	2018 RMB	2017 RMB
Rendering of e-learning services	**126,398,197**	87,985,221
Commission income	**3,759,296**	11,991,061
Licensing income	**-**	2,988,679
Consultancy income	**343,908**	1,236,606
	130,501,401	104,201,567

For the year ended 31 December 2018

Disaggregation of revenue from contracts with customers

The Group derives revenue from rendering of e-learning services and revenue from referral and consultancy services over time and at a point in time in the following major geographical market:

	For the year ended 31 December 2018		
	Rendering of e-learning services RMB	**Commission income RMB**	**Consultancy income RMB**
Timing of revenue recognition			
- At a point in time	-	3,759,296	343,908
- Over time	126,398,197	-	-
Total	**126,398,197**	**3,759,296**	**343,908**
Geographical markets			
- PRC	126,398,197	3,759,296	159,433
- Hong Kong	-	-	184,475
Total	**126,398,197**	**3,759,296**	**343,908**
Type of customers			
- Corporate	117,173,065	3,759,296	343,908
- Vocational schools	9,225,132	-	-
Total	**126,398,197**	**3,759,296**	**343,908**

Unsatisfied e-learning service contracts

All of e-learning service contracts are expected to be completed and billed within one year or less. Therefore, the transaction price allocated to the remaining unsatisfied or partially satisfied performance obligations of these contracts are not disclosed as permitted under HKFRS 15.

6. SEGMENT REPORTING

In the current year, 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.

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. Accordingly, no analysis by geographical segment is provided.

7. OTHER INCOME

	2018	2017
	RMB	RMB
Interest income from loan to a related company	**3,278,877**	989,815
Bank interests	**2,231,410**	510,030
Government subsidy income *	**1,024,870**	425,145
Sundry income	**456,237**	15,117
Exchange gain	**803,208**	2,641,809
	7,794,602	4,581,916

* 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

	2018 RMB	2017 RMB
Interest on convertible note (note 24)	**3,574,072**	398,565

9. PROFIT BEFORE INCOME TAX

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

	2018 RMB	2017 RMB
Auditor's remuneration	**1,050,000**	1,050,000
Depreciation of property, plant and equipment	**105,705**	46,627
Amortisation of intangible assets	**2,159,613**	597,485
ECL/Loss allowance on:		
- Trade receivables	**187,387**	750,000
- Contract assets	**16,388**	-
- Amount due from a non-controlling shareholder	**4,959,374**	-
Operating lease charges in respect of office premises	**834,135**	671,830
Other listing expenses	**-**	2,447,124
Staff and related costs (including directors' remuneration) *	**25,331,543**	26,879,208

* There are staff cost RMB10,389,781 (2017: RMB10,201,015) being included as research and development costs in the cost of services for the respective projects.

10. DIRECTORS' REMUNERATION

The emoluments of the directors, who are also considered as the key management personnel of the Company, 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:

	2018 RMB	2017 RMB
Directors' emoluments for services as directors of the Company and its subsidiary undertakings		
- Fees	**1,216,770**	1,430,906
Other emoluments in connection with the management of the affairs of the Company and its subsidiary undertakings	**-**	-
	1,216,770	1,430,906

11. INCOME TAX EXPENSE

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

	2018 RMB	2017 RMB
Current tax – PRC		
- Current year	**9,200,369**	7,819,516
- Overprovision in respect of prior years	**(1,482,108)**	-
	7,718,261	7,819,516
Deferred tax (note 15)	**25,723**	134,759
	7,743,984	7,954,275

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 Company was qualified as a HNTE in November 2017 and the HNTE certificate is valid until November 2020.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at 16.5%. Hong Kong profits tax has not been provided for the years ended 31 December 2018 and 2017 as the Group has no assessable profits for the years.

11. INCOME TAX EXPENSE (CONTINUED)

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

	2018 RMB	2017 RMB
Profit before income tax	**56,010,516**	45,085,033
Tax at the PRC enterprise income tax rate of 25% (2017: 25%)	**14,002,629**	11,271,258
Tax effect of different tax rates of entities operating in other jurisdictions	**999,588**	236,982
Tax effect of non-deductible expenses		
- Listing expenses	**-**	403,775
- Other non-deductible expenses	**1,968,491**	747,455
Tax effect of non-taxable revenue	**(567,644)**	(842,690)
Tax effect of tax losses not recognised	**760,216**	983,735
Tax incentives on research and development expenses*	**(1,170,409)**	-
Utilisation of tax losses previously not recognised	**(168,308)**	-
Overprovision in respect of prior years	**(1,482,108)**	-
Effect of tax concession and lower tax rate for a PRC subsidiary	**(6,598,471)**	(4,991,816)
Effect on opening deferred tax balances arising from reduction in tax rates during the year	**-**	145,576
Income tax expense	**7,743,984**	7,954,275

* According to relevant laws and regulations promulgated by the State Administration of Tax of the PRC effective from 2008 onwards, PRC enterprises engaging in research and development activities are entitled to claim 175% (2017: 150%) of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year ("Super Deduction"). The additional deduction of 75% (2017: 50%) of qualified research and development expenses is subject to the approval from the relevant tax authorities in the annual CIT filling. The Group has made its best estimate for the Super Deduction to be claimed in ascertaining the assessable profits for the year ended 31 December 2018.

12. EARNINGS PER SHARE

	2018 RMB	2017 RMB
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**49,233,148**	38,694,619
Effect of dilutive potential ordinary shares:		
- Interest on convertible note	**3,574,072**	398,565
- Fair value gain on derivative financial instruments	**(1,290,086)**	(78,598)
Earnings for the purpose of diluted earnings per share	**51,517,134**	39,014,586
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**230,750,944**	201,176,542
Effect of dilutive potential ordinary shares:		
- Convertible note	**17,362,642**	1,837,988
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**248,113,586**	203,014,530

13. PROPERTY, PLANT AND EQUIPMENT

	Computer and office equipment RMB	Construction in progress RMB	Total RMB
Cost			
At 1 January 2017	132,978	-	132,978
Additions	166,275	-	166,275
At 31 December 2017 and 1 January 2018	299,253	-	299,253
Additions	224,033	335,105	559,138
At 31 December 2018	**523,286**	**335,105**	**858,391**
Accumulated depreciation			
At 1 January 2017	10,528	-	10,528
Charge for the year	46,627	-	46,627
At 31 December 2017 and 1 January 2018	57,155	-	57,155
Charge for the year	105,705	-	105,705
At 31 December 2018	**162,860**	**-**	**162,860**
Net carrying amount			
At 31 December 2018	**360,426**	**335,105**	**695,531**
At 31 December 2017	242,098	-	242,098

14. INTANGIBLE ASSETS

	Content distribution rights RMB	Capitalised software development RMB	Total RMB
Cost			
At 1 January 2017	-	-	-
Additions	3,584,906	-	3,584,906
At 31 December 2017 and 1 January 2018	3,584,906	-	3,584,906
Additions	-	1,468,644	1,468,644
At 31 December 2018	**3,584,906**	**1,468,644**	**5,053,550**
Accumulated amortisation			
At 1 January 2017	-	-	-
Charge for the year	597,485	-	597,485
At 31 December 2017 and 1 January 2018	597,485	-	597,485
Charge for the year	1,792,452	367,161	2,159,613
At 31 December 2018	**2,389,937**	**367,161**	**2,757,098**
Net carrying amount			
At 31 December 2018	**1,194,969**	**1,101,483**	**2,296,452**
At 31 December 2017	2,987,421	-	2,987,421

The amortisation charge for the year is included in "cost of services" in the consolidated statement of profit or loss and other comprehensive income.

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:

	2018 RMB	2017 RMB
At 1 January	**229,181**	363,940
Charged to profit or loss for the year (note11)	**(25,723)**	(134,759)
At 31 December	**203,458**	229,181

Deferred tax assets

	Temporary differences on accruals RMB	Allowance for doubtful debts RMB	Total RMB
At 1 January 2017	363,940	-	363,940
(Charged)/Credited to profit or loss for the year	(247,259)	112,500	(134,759)
At 31 December 2017 and 1 January 2018	116,681	112,500	229,181
(Charged)/Credited to profit or loss for the year	(116,681)	90,958	(25,723)
At 31 December 2018	**-**	**203,458**	**203,458**

The Group has unrecognised tax losses of approximately RMB6,722,000 (2017: RMB3,935,000) due to unpredictability of future profit streams, of which approximately RMB5,489,000 (2017: RMB3,935,000) will expire within 5 years and RMB1,233,000 (2017: nil) with unlimited expiry date.

16. TRADE AND OTHER RECEIVABLES

	2018 RMB	2017 RMB
Trade receivables, gross	**28,035,771**	32,981,849
Less: ECL allowance/loss allowance	**(1,260,684)**	(750,000)
Trade receivables, net	**26,775,087**	32,231,849
Interest receivable	**1,015,534**	362,458
Other receivables and deposits paid	**1,553,618**	813,041
Financial assets at amortised cost/Loan and receivables	**29,344,239**	33,407,348
Prepayments	**1,412,338**	1,931,411
	30,756,577	35,338,759

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

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.

Included in the Group's trade receivables, net of ECL allowance (2017: loss allowance) with the following aging analysis based on the invoice date as of the end of the reporting period:

	2018 RMB	2017 RMB
0 - 90 days	**16,281,288**	25,344,639
91 - 180 days	**3,016,675**	4,272,210
181 - 365 days	**4,739,000**	-
Over 365 days	**2,738,124**	2,615,000
	26,775,087	32,231,849

The Group generally allows a credit period 15 to 60 days (2017: 15 to 60 days) to its trade customers.

The movement in the ECL allowance (2017: loss allowance) of trade receivables is as follows:

	2018 RMB	2017 RMB
Balance at the beginning of the year	**750,000**	-
Adoption of HKFRS 9	**323,297**	-
Adjusted balance at the beginning of the year	**1,073,297**	-
ECL allowance/loss allowance recognised during the year	**187,387**	750,000
Balance at the end of the year	**1,260,684**	750,000

No ECL allowance (2017: loss allowance) has been provided for other receivables during the year (2017: nil).

Details of the credit risk and provision of ECL allowance/loss allowance are set out in note 30.4.

17. CONTRACT ASSETS AND LIABILITIES/AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORKS

17.1 Contract assets

	2018 RMB	2017 RMB
Contract assets arising from unbilled revenue from e-learning contracts	**19,140,219**	-
Less: ECL allowance	**(95,701)**	-
	19,044,518	-

The Group has initially applied HKFRS 9 and HKFRS 15 using the cumulative effect transition method and adjusted the opening balances as at 1 January 2018.

Upon the adoption of HKFRS 15, amounts previously included under "Amounts due from customers for contract work" were reclassified to contract assets.

The movement in the ECL allowance (2017: loss allowance) of contract assets is as follows:

	2018 RMB	2017 RMB
Balance at 1 January calculated under HKAS 39	**-**	-
Amounts restated through opening retained profits	**79,313**	-
Adjusted balance at 1 January calculated under HKFRS 9	**79,313**	-
ECL/Loss allowance recognised during the year	**16,388**	-
Balance at 31 December	**95,701**	-

At 31 December 2018, all contract assets were expected to be recovered within one year.

17.2 Contract liabilities

	2018 RMB	2017 RMB
Contract liabilities arising from e-learning contracts from billings in advance of performance	**4,721,383**	-

The Group has initially applied HKFRS 9 and HKFRS 15 using the cumulative effect transition method and adjusted the opening balances as at 1 January 2018.

Upon the adoption of HKFRS 15, amounts previously included under "Amounts due to customers for contract work" were reclassified to contract liabilities.

17. CONTRACT ASSETS/(LIABILITIES)/AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORKS (CONTINUED)

17.2 Contract liabilities (Continued)

The contract liabilities represented the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied as of the end of the reporting period. The Group expects the transaction price allocated to the unsatisfied performance obligations will be recognised as revenue when the Group transfers good or service to the customers. All of the Group's performance obligations for contracts with customers are for periods of one year or less. As a practical expedient as permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Movements in contract liabilities are as follows:

	2018 **RMB**
Balance at 1 January (upon adoption of HKFRS 15)	**10,042,901**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(10,042,901)**
Increase in contract liabilities as a result of billing in advance of performance	**4,721,383**
Balance at 31 December	**4,721,383**

17.3 Amounts due from/(to) customers for contract works

	2018 **RMB**	2017 RMB
Contracts in progress at the end of the reporting period:		
Contract cost incurred plus recognised attributable profit or loss to date	-	55,207,598
Less: Progress billings	-	(49,387,860)
	-	5,819,738
Recognised and included in the consolidated statement of financial position:		
Amounts due from customers for contract works	-	15,862,639
Amounts due to customers for contract works	-	(10,042,901)
	-	5,819,738

All amounts due from customers for contract works are 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

	Maximum balance during the year RMB	2018 RMB	2017 RMB
Lumina Looque Knowledge Hubs Pte. Ltd. ("Lumina") *	**4,959,374**	**4,959,374**	4,959,374
Less: ECL allowance		**(4,959,374)**	-
		-	4,959,374
Investorlink Securities Limited		**11,411**	11,411
		11,411	4,970,785

* During the years ended 31 December 2018 and 2017, Mr. Calvin Cheng ("Mr. Cheng") is a shareholder of the Company and Lumina. Mr. Cheng was also a common director of the Company and Lumina from 1 January to 30 December 2017.

The movement in the ECL allowance (2017: loss allowance) of the amount due from Lumina is as follows:

	2018 RMB	2017 RMB
Balance at the beginning of the year	**-**	-
ECL allowance recognised during the year (note)	**4,959,374**	-
Balance at the end of the year	**4,959,374**	-

Note: During the year ended 31 December 2018, the management has taken several follow-up actions but remains unable to recover the long-aged receivable from Lumina. In this regard, the management considers there is a significant decrease in Lumina's ability to repay the amount and thus an increase in credit risk. Accordingly, ECL allowance has been recognised in full during the year.

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

	2018 RMB	2017 RMB
Hexon Consulting Limited	**439,000**	-
Shanghai Xinpengcheng Information Technology Co., Ltd ("Xinpengcheng")	**-**	468,785
	439,000	468,785

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

(c) Amounts due from related companies

	Maximum balance during the year RMB	2018 RMB	2017 RMB
Shanghai Retech Information Technology Co., Ltd ("Shanghai Retech IT") *	**29,271,094**	**29,271,094**	12,734,710
Shanghai Retech Enterprise Management Group Co., Ltd. ("Retech Enterprise Management") *	**2,000,000**	**-**	2,000,000
Jiangsu Retech Digital Industry Park Co., Ltd. ("Jiangsu Industry Park") #	**1,001,957**	**-**	1,001,957
		29,271,094	15,736,667

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

\# Mr. Ai Shungang is also a shareholder and a director of Jiangsu Industry Park.

In view of the undertakings given by Jiangsu Industry Park and Mr. Ai Shungang and having considered the financial conditions of Jiangsu Industry Park, the directors are of the opinion that credit risks of the amounts due from related companies and loan to a related company (note 19) are low and thus ECL allowance (2017: loss allowance) is considered immaterial.

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

	2018 RMB	2017 RMB
Xinpengcheng	**-**	393,865
Hexon Consulting Limited	**436,670**	-
	436,670	393,865

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

(e) Amounts due to related companies

	2018	2017
	RMB	RMB
Jiangsu Yunmei Digital Technology Co., Ltd. ("Jiangsu Yunmei") *	**5,974**	-
Retech Enterprise Management	**-**	4,002,708
Shanghai Retech IT	**200**	643,619
	6,174	4,646,327

* Mr. Ai Shungang is the ultimate controlling shareholder and a common director of the Company and Jiangsu Yunmei.

19. LOAN TO A RELATED COMPANY

	Maximum balance during the year	**2018**	2017
	RMB	**RMB**	RMB
Jiangsu Industry Park	**87,241,295**	**802,630**	13,621,090

The loan to a related company is denominated in RMB and is unsecured, interest-bearing at fixed rate of 8% (2017: 8%) per annum and wholly repayable within twelve months from the reporting date. The carrying amount of the loan approximates its fair value.

20. DERIVATIVE FINANCIAL INSTRUMENTS

Management considers the convertible note (note 24) issued on 20 November 2017 as hybrid instruments with main debt contract and embedded derivatives options. As set out in note 24, 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 and therefore designated them as derivatives financial instruments in current assets and current liabilities measured at fair value through profit or loss.

Details of the fair value measurements of the derivative financial instruments are set out in note 30.6.

21. CASH AND CASH EQUIVALENTS AND SHORT TERM BANK DEPOSITS

		2018 RMB	2017 RMB
Cash at bank and in hand		**99,557,916**	50,061,852
Fixed bank deposit (note 30.2)	(a)	**59,137,040**	56,194,120
Pledged bank deposit	(b)	**53,349,000**	53,349,000
Short term bank deposits		**112,486,040**	109,543,120
	(c)	**212,043,956**	159,604,972

(a) Fixed bank deposit carries interest at the fixed rates ranged from 1.70% to 2.10% (2017: 1.70%) per annum and has a maturity of one year.

(b) Pledged bank deposit carries interest at a fixed rate of 1.95% (2017: 1.65%) per annum and has a maturity of one year. The deposit has been pledged as financial guarantee to secure a working capital loan for a related company of the Group, Retech Enterprise Management.

Under the financial guarantee contract, the Group would be liable to pay the bank if the bank is unable to recover the outstanding amount owed by Retech Enterprise Management in the said bank facility above.

The amount above represents the Group's maximum exposure under the financial guarantee contract. No provision for the Group's obligation under the financial guarantee contract has been made as the directors considered that it was not probable that the repayment of the loan would be in default.

(c) Included in cash and cash equivalents and short term bank deposits of the Group of RMB152,447,341 (2017: RMB97,609,016) as at 31 December 2018 is bank balances denominated in RMB placed with banks in the PRC. RMB is not a freely convertible currency. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

22. INTERESTS IN SUBSIDIARIES

Particulars of the subsidiaries at 31 December 2018 and 2017 are as follows:

Name of company	Country/Place and date of incorporation/ establishment	Type of legal entity	Issued and paid in capital	Percentage of ownership interests held by the Company 2018 Direct	2018 Indirect	2017 Direct	2017 Indirect	Principal activities
Retech Holdings Co., Limited ("Retech Holdings")	Hong Kong	Limited liability company	Hong Kong dollars ("HK$") 15,000,000	**100%**	**-**	100%	-	Investment holding
Shanghai Retech Digital Technology Co., Ltd ("Retech Digital") (note 1)	PRC	Limited liability company	RMB6,500,000	**-**	**100%**	-	100%	E-learning solutions and consultancy services
Shanghai Ruijian Information Technology Co., Ltd ("Ruijian") (note 2)	PRC	Limited liability company	RMB26,000,000	**-**	**100%**	-	100%	Provision of software licensing services
Shanghai Ruipengcheng Technology Co., Ltd ("Ruipengcheng") (note 3)	PRC	Limited liability company	RMB28,000 (2017: nil)	**-**	**62.50%**	-	62.50%	E-learning solutions and consultancy services
Shanghai Reunet Technology Network Co., Ltd ("Reunet") (note 4)	PRC	Limited liability company	-	**-**	**60.02%**	-	60.02%	Provision of e-learning service
ProSage Sustainability Development Limited	Hong Kong	Limited liability company	HK$5,000,000 (2017: nil)	**-**	**90.00%**	-	-	Provision of ESG related e-learning solutions and consultancy services

Notes:

1. As at 31 December 2018 and 2017, Retech Holdings subscribed for RMB50,000,000 registered capital of Retech Digital, representing 100% of its total registered capital.

2. As at 31 December 2018 and 2017, Retech Holdings subscribed for RMB40,000,000 registered capital of Ruijian, representing 100% of its total registered capital.

3. As at 31 December 2018 and 2017, Retech Digital subscribed for RMB2,000,000 registered capital of Ruipengcheng, representing 62.50% of its total registered capital of RMB3,200,000.

4. As at 31 December 2018 and 2017, Retech Digital subscribed for RMB5,000,000 registered capital of Reunet, representing 60.02% of its total registered capital of RMB8,330,000.

In accordance with PRC corporation laws, the subscribers have to pay in respective amounts of subscribed 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 2018 and 2017, all of the registered capital of Reunet and partial of the registered capital of Retech Digital, Ruijian and Ruipengcheng have not been paid up in full.

22. INTERESTS IN SUBSIDIARIES (CONTINUED)

The Group includes two subsidiaries (2017: one subsidiary) with material non-controlling interests ("NCI"), the details and the summarised financial information before intra-group eliminations, are as follows:

	Ruipengcheng 2018 RMB	Ruipengcheng 2017 RMB	**Reunet 2018 RMB**	Reunet 2017 RMB
Proportion of ownership interests and voting rights held by the NCI	**37.50%**	37.50%	**39.98%**	39.98%
Current assets	**5,963,954**	3,300,403	**1,273,799**	-
Non-current assets	**71,170**	92,797	**1,101,483**	-
Current liabilities	**(9,703,744)**	(7,457,134)	**(4,733,890)**	(99,765)
Net liabilities	**(3,668,620)**	(4,063,934)	**(2,358,608)**	(99,765)
Carrying amount of NCI	**(1,386,233)**	(1,523,975)	**(942,971)**	(39,886)
Revenue	**8,765,577**	2,466,799	**943,396**	-
Total expenses	**(8,389,819)**	(6,530,733)	**(3,202,239)**	(99,765)
	375,758	(4,063,934)	**(2,258,843)**	(99,765)
Profit/(Loss) and total comprehensive income/(expense) for the year	**375,758**	(4,063,934)	**(2,258,843)**	(99,765)
Profit/(Loss) and total comprehensive income/(expense) for the year attributable to NCI	**140,909**	(1,523,975)	**(903,085)**	(39,886)
Net cash from/(used in) operating activities	**238,450**	(3,090,156)	**(2,367,151)**	-
Net cash used in investing activities	**(2,209,096)**	-	**(301,483)**	-
Net cash from financing activities	**1,967,769**	3,537,791	**2,918,881**	-
Net (decrease)/increase in cash and cash equivalents	**(2,877)**	447,635	**250,247**	-

23. TRADE AND OTHER PAYABLES

	2018 RMB	2017 RMB
Trade payables	**4,974,516**	5,097,533
Other payables:		
- Accrued expenses	**2,041,722**	869,724
- Payable for acquisition of intangible asset	**800,000**	-
- Payroll payable	**4,455,917**	4,441,149
- Other liabilities	**3,165,039**	999,629
Trade and other payables as financial liabilities at amortised cost	**15,437,194**	11,408,035
Provision of other tax liabilities	**3,040,349**	2,197,325
Deferred rent	**240,800**	-
	18,718,343	13,605,360

The credit period of the Group is usually 15 to 60 days. All amounts are short term and hence the carrying values of the Group's trade payables, accrued expenses and other payables are considered to be a reasonable approximation of their fair values.

24. CONVERTIBLE NOTE

	2018 RMB	2017 RMB
Convertible note maturing on 2021	**31,092,542**	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 ("City Savvy"), 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. Ai Shungang.

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 Clearing House Electronic Subregister System ("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 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 Holders' Conversion Option.

24. 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 Executive Officer, Ms. 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 Holders' 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.

	2018 RMB	2017 RMB
Liability component		
Balance at the beginning of the year/ Fair value at inception	**28,591,365**	29,250,605
Issuing costs	**-**	(536,120)
Accrued effective interest charges (note 8)	**3,574,072**	398,565
Interest paid	**(2,630,295)**	-
Exchange differences	**1,557,400**	(521,685)
Balance at the end of the year	**31,092,542**	28,591,365
Fair value of embedded derivative component in respect of the call option - financial assets		
Balance at the beginning of the year/ Fair value at inception (note 30.6(b))	**(19,758,568)**	(13,207,029)
Changes in fair value	**9,016,260**	(6,884,680)
Exchange differences	**(393,669)**	333,141
Balance at the end of the year	**(11,135,977)**	(19,758,568)
Fair value of embedded derivative component in respect of the conversion and put option - financial liabilities		
Balance at the beginning of the year/ Fair value at inception (note 30.6(b))	**23,440,186**	17,036,574
Changes in fair value	**(10,306,346)**	6,806,082
Exchange differences	**483,395**	(402,470)
Balance at the end of the year	**13,617,235**	23,440,186

24. CONVERTIBLE NOTE (CONTINUED)

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

	2018	2017
	RMB	RMB
Time to maturity	**2.89 years**	3.89 years
Share price	**HK$2.37**	HK$2.90
HK$/A$ exchange rate	**5.520**	6.102
Conversion price (floating)	**HK$1.93**	HK$2.51
Spread	**6.74%**	8.31%
Expected share price volatility	**80%**	144%
Risk-free rate	**2.85%**	3.75%
Discount rate	**9.59%**	12.27%

As at 31 December 2018, the fair value of the liability component above is approximately RMB33,460,000 (2017: RMB29,196,000). The fair values of the liability component and embedded derivative components above are based on a valuation performed by an independent professional valuer using discounted cash flow method and Monte Carlo Simulation Model, respectively, and are classified within Level 3 of the fair value hierarchy. Details of the fair value measurements of the embedded derivative components are set out in note 30.6(b).

25. SHARE CAPITAL

	Notes	**Number of shares**	**RMB**
Issued and fully paid ordinary shares			
As at 1 January 2017		180,000,000	24,657,544
Issue of shares in connection with the listing of the Company's shares	(a)	35,750,944	82,813,078
Issue of shares upon a placement by an institutional investor	(b)	15,000,000	34,435,352
As at 31 December 2017 and 1 January 2018 and 31 December 2018		**230,750,944**	**141,905,974**

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) 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 RMB9,418,995 were credited to the Company's share capital account.

(b) On 20 November 2017, the Company issued 15,000,000 shares to City Savvy 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 RMB652,725 were credited to the Company's share capital account.

26. RESERVES

26.1 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.

26.2 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.

26.3 Translation reserve

The translation reserve has been set up and is dealt with in accordance with the accounting policy for foreign currency translation as stated in note 2.3.

27. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities

The table below set out the reconciliation of liabilities arising from financing activities for the years ended 31 December 2018 and 2017.

	Convertible note RMB	Amount due to a non-controlling shareholder of a subsidiary RMB	Amounts due to related companies RMB	Total RMB
At 1 January 2017	-	-	1,490,680	1,490,680
Cash flows	32,544,030	393,865	3,155,647	36,093,542
Non-cash changes				
Derivative components on initial recognition	(3,829,545)	-	-	(3,829,545)
Interest expense	398,565	-	-	398,565
Exchange adjustments	(521,685)	-	-	(521,685)
At 31 December 2017 and 1 January 2018	28,591,365	393,865	4,646,327	33,631,557
Cash flows	(2,630,295)	42,805	(4,640,153)	(7,227,643)
Non-cash changes				
Interest expense	3,574,072	-	-	3,574,072
Exchange adjustments	1,557,400	-	-	1,557,400
At 31 December 2018	**31,092,542**	**436,670**	**6,174**	**31,535,386**

28. 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	**2018** RMB	2017 RMB
Related companies			
Shanghai Retech IT (note (a))	Services income recharged	**19,309,869**	39,647,442
	Administrative expenses recharged	**594,963**	1,963,908
	Cost of services recharged	**9,079,932**	9,171,448
Jiangsu Industry Park (note (b))	Interest income received	**3,278,877**	989,815
Retech Enterprise Management (note (c))	Services income received	**2,163,545**	4,000,000
Zhenjiang Retech Asset Management Co., Ltd ("Zhenjiang Retech") (note (d))	Cost of services charged	**-**	5,458,251

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) The transaction was enacted with Jiangsu Industry Park of which relationship with the Company is described in note 18(c) to the consolidated financial statements.

(c) The transaction was enacted with Retech Enterprise Management of which relationship with the Company is described in note 18(c) to the consolidated financial statements.

(d) Zhenjiang Retech is a wholly owned subsidiary of Jiangsu Industry Park and Mr. Ai Shungang is also the ultimate controlling shareholder and a director of Jiangsu Industry Park.

<u>Compensation of key management personnel</u>

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

29. COMMITMENT AND CONTINGENCIES

29.1 Operating lease commitment

The Group has entered into commercial leases for office premises. The lease run for an initial period 2 to 5 years (2017: 2 years) with no renewal option included in the contract. There were no restrictions placed on the Group by entering into these leases. None of the leases include contingent rentals.

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

	2018	2017
	RMB	RMB
Not later than one year	**2,236,018**	333,549
Later than one year but not later than 5 years	**4,875,018**	-
	7,111,036	333,549

29.2 Capital commitment

	2018	2017
	RMB	RMB
Contracted but not provided for		
- Property, plant and equipment	**629,926**	-

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The board of directors reviews and agrees policies and procedures for the management of these risks, which are executed by the directors.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

The following sections provide details regarding the Group's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

30.1 Categories of financial assets and liabilities

	2018 RMB	2017 RMB
Financial assets		
Financial assets measured at fair value through profit or loss:		
Derivative financial instruments	**11,135,977**	19,758,568
Financial assets at amortised cost:		
Trade and other receivables	**29,344,239**	-
Amounts due from non-controlling shareholders	**11,411**	-
Amount due from a non-controlling shareholder of a subsidiary	**439,000**	
Amounts due from related companies	**29,271,094**	-
Loan to a related company	**802,630**	-
Short term bank deposits	**112,486,040**	-
Cash and cash equivalents	**99,557,916**	-
Loans and receivables:		
Trade and other receivables	**-**	33,407,348
Amounts due from non-controlling shareholders	**-**	4,970,785
Amount due from a non-controlling shareholder of a subsidiary	**-**	468,785
Amounts due from related companies	**-**	15,736,667
Loan to a related company	**-**	13,621,090
Short term bank deposits	**-**	109,543,120
Cash and cash equivalents	**-**	50,061,852
	283,048,307	247,568,215
Financial liabilities		
Financial liabilities measured at fair value through profit or loss:		
Derivative financial instruments	**13,617,235**	23,440,186
Financial liabilities at amortised cost:		
Trade and other payables	**15,437,194**	11,408,035
Amount due to a non-controlling shareholder of a subsidiary	**436,670**	393,865
Amounts due to related companies	**6,174**	4,646,327
Convertible note	**31,092,542**	28,591,365
	60,589,815	68,479,778

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

30.2 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposures to currency risk mainly arise from the Group's funding activities in Hong Kong and Australia which are primarily denominated in HK$, A$ and United States dollar ("US$"). These are not the functional currency of the Group's entities to which these transactions relate. The management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

Foreign currency denominated financial assets and liabilities, translated into RMB at the closing rates, are as follows:

	A$	**HK$**	**US$**
At 31 December 2018			
Amount due from a non-controlling shareholder of a subsidiary	**-**	**439,000**	**-**
Derivative financial instruments (assets)	**-**	**11,135,977**	**-**
Fixed bank deposits (note 21)	-	-	**59,137,040**
Cash and cash equivalents	**16,827**	**402,692**	**36,524**
Trade and other payable	**-**	**(2,174,495)**	**-**
Amount due to a non-controlling shareholder of a subsidiary	**-**	**(436,670)**	**-**
Derivative financial instruments (liabilities)	**-**	**(13,617,235)**	**-**
Convertible note	**-**	**(31,092,542)**	**-**
Gross exposure arising from recognised financial assets and liabilities	**16,827**	**(35,343,273)**	**59,173,564**

	A$	HK$	US$
At 31 December 2017			
Derivative financial instruments (assets)	-	19,758,568	-
Fixed bank deposits (note 21)	-	-	56,194,120
Cash and cash equivalents	5,298,816	72	45,031
Derivative financial instruments (liabilities)	-	(23,440,186)	-
Convertible note	-	(28,591,365)	-
Gross exposure arising from recognised financial assets and liabilities	5,298,816	(32,272,911)	56,239,151

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

30.2 Foreign currency risk (Continued)

The following table illustrates the sensitivity of the Group's profit after income tax for the year and equity as at 31 December 2018 and 2017 in regards to an appreciation in the functional currency of respective entities in the Group against foreign currencies above. The sensitivity rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rate.

		2018			2017	
Currencies	**A$**	**HK$**	**US$**	A$	HK$	US$
Sensitivity rate	**5%**	**5%**	**5%**	5%	5%	5%
Increase/(decrease) in profit after income tax	**703**	**(1,475,582)**	**2,470,496**	221,226	(1,347,394)	2,347,985
Increase/(decrease) in equity	**703**	**(1,475,582)**	**2,470,496**	221,226	(1,347,394)	2,347,985

30.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Group's fair value interest rate risk arises primarily from loan to a related company, short term bank deposits and convertible note. The Group's loan to a related company, short term bank deposits and convertible note are at fixed rates. The Group therefore does not have significant exposure to cash flow interest rate risk at the reporting date.

30.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposures to credit risk mainly arise from granting credit to customers and related parties in the ordinary course of its operations and from its investing activities.

The Group's maximum exposures to credit risk on recognised financial assets are limited to the carrying amount as at 31 December 2018 and 2017 as summarised in note 30.1.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

30.4 Credit risk (Continued)

Effective on 1 January 2018

(i) Trade receivables and contract assets

Credit risk on trade and other receivables and contract assets are minimised as the Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually or collectively at the end of each reporting period to ensure that adequate ECL allowance is made for irrecoverable amounts.

In addition, as set out in note 2.8, the Group assesses ECL under HKFRS 9 on trade receivables and contract assets based on provision matrix, the expected loss rates are based on the payment profile for sales in the past 24 months as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

Trade receivables and contract assets are written off (i.e. derecognised) when there is no reasonable expectation of recovery. Failure to make payments within credit terms and failure to engage with the Group on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery.

The Group's concentration of credit risk by geographical locations is mainly in PRC, which accounted for 100% (2017: 100%) of the total receivables as at 31 December 2018.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

30.4 Credit risk (Continued)

Effective on 1 January 2018 (Continued)

(i) Trade receivables and contract assets (Continued)

On the above basis, the ECL for trade receivables as at 31 December 2018 and 1 January 2018 was determined as follows:

	Current RMB	1-90 days past due RMB	91-180 days past dues RMB	181-365 days past due RMB	More than 365 days past due RMB	Total RMB
31 December 2018						
ECL rate	0.1%	0.5%	2.5%	10%	$33^{1}/_{3}\%$	
Gross carrying amount - trade receivables	16,297,586	-	5,453,000	4,230,000	2,055,185	28,035,771
Lifetime ECL	16,298	-	136,325	423,000	685,061	1,260,684

	Current RMB	1-90 days past due RMB	91-180 days past due RMB	181-365 days past due RMB	More than 365 days past due RMB	Total RMB
1 January 2018						
ECL rate	0.1%	0.5%	2.5%	10%	50%	
Gross carrying amount - trade receivables	22,744,639	2,887,656	3,984,554	1,865,000	1,500,000	32,981,849
Lifetime ECL	22,745	14,438	99,614	186,500	750,000	1,073,297

On the above basis, the ECL for contract assets as at 31 December 2018 and 1 January 2018 was determined as follows:

	Recovered within 1 year RMB	Recovered more than 1 year RMB	Total RMB
31 December 2018			
ECL rate	0.5%	$33^{1}/_{3}\%$	
Gross carrying amount – contract assets	19,140,219	-	19,140,219
Lifetime ECL	**95,701**	**-**	**95,701**
1 January 2018			
ECL rate	0.5%	$33^{1}/_{3}\%$	
Gross carrying amount – contract assets	15,862,639	-	15,862,639
Lifetime ECL	79,313	-	79,313

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

30.4 Credit risk (Continued)

Effective on 1 January 2018 (Continued)

(ii) Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables, amounts due from related parties (including non-controlling shareholders, a non-controlling shareholder of a subsidiary and related companies), loan to a related company, short term bank deposits and cash and cash equivalents. In order to minimise the credit risk of other receivables, the management would make periodic collective and individual assessment on the recoverability of other receivables based on historical settlement records and past experience as well as current external information. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In these regards, the credit risk of other receivables are considered to be low.

As detailed in note 18(c), in view of the financial undertakings given by Jiangsu Industry Park and Mr. Ai Shungang and the current financial condition of Jiangsu Industry Park, the management is of the opinion that the credit risk of the amount due from Shanghai Retech IT (note 18(c)) and loan to Jiangsu Industry Park (note 19) is insignificant and the balances are fully recoverable.

Short term bank deposits and cash and cash equivalents are placed at financial institutions that have sound credit rating and the Group considers the credit risk to be insignificant.

Besides, the management is of opinion that there is no significant increase in credit risk on these financial assets since initial recognition as the risk of default is low after considering the factors as set out in note 2.8 and, thus, ECL recognised is based on 12-month ECL and the impact of ECL is insignificant.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

30.5 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities. The Group's operations are financed mainly through equity. The directors are satisfied that funds are available to finance the operations of the Group.

Analysis of financial instruments by remaining contractual maturities

The table below summaries the maturity profile of the Group's financial assets and liabilities at the reporting date based on contractual undiscounted repayment obligations.

	Within 1 year or on demand RMB	Over 1 year but within 5 years RMB	Total undiscounted amount RMB	Carrying amount RMB
As at 31 December 2018				
Non-derivative financial liabilities				
Trade and other payables	**15,437,194**	**-**	**15,437,194**	**15,437,194**
Amount due to a non-controlling shareholder of a subsidiary	**436,670**	**-**	**436,670**	**436,670**
Amounts due to related companies	**6,174**	**-**	**6,174**	**6,174**
Convertible note	**2,769,381**	**39,788,266**	**42,557,647**	**31,092,542**
	18,649,419	**39,788,266**	**58,437,685**	**46,972,580**
Financial guarantee to a related company				
- Maximum amount (note 21(b))	**50,000,000**	**-**	**50,000,000**	**-**
As at 31 December 2017				
Non-derivative financial liabilities				
Trade and other payables	11,408,035	-	11,408,035	11,408,035
Amount due to a non-controlling shareholder of a subsidiary	393,865	-	393,865	393,865
Amounts due to related companies	4,646,327	-	4,646,327	4,646,327
Convertible note	2,650,205	40,721,695	43,371,900	28,591,365
	19,098,432	40,721,695	59,820,127	45,039,592
Financial guarantee to a related company				
- Maximum amount (note 21(b))	50,000,000	-	50,000,000	-

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

30.6 Fair value measurements of financial instruments

(a) Fair value hierarchy

Financial assets and liabilities measured at fair value in the consolidated statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurements, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The financial assets and liabilities measured at fair value in the consolidated statement of financial position on a recurring basis are grouped into the fair value hierarchy as follows:

	As at 31 December 2018			
	Level 1 RMB	**Level 2 RMB**	**Level 3 RMB**	**Total RMB**
Financial assets				
- Derivative financial instruments (note 30.6(b))	-	-	11,135,977	11,135,977
Financial liabilities				
- Derivative financial instruments (note 30.6(b))	-	-	(13,617,235)	(13,617,235)
Net fair value	**-**	**-**	**(2,481,258)**	**(2,481,258)**

	As at 31 December 2017			
	Level 1 RMB	Level 2 RMB	Level 3 RMB	Total RMB
Financial assets				
- Derivative financial instruments (note 30.6(b))	-	-	19,758,568	19,758,568
Financial liabilities				
- Derivative financial instruments (note 30.6(b))	-	-	(23,440,186)	(23,440,186)
Net fair value	-	-	(3,681,618)	(3,681,618)

There were no transfers between the levels of the fair value hierarchy during the years ended 31 December 2018 and 2017.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

30.6 Fair value measurements of financial instruments (Continued)

(a) Fair value hierarchy (Continued)

The fair values of the derivative financial instrument are based on a valuation performed by an independent professional valuer.

There were also no changes made to any of the valuation techniques applied as at 31 December 2018 and 2017. The methods and valuation techniques used for the purpose of measuring fair values categorised in Level 3 are described below.

(b) Information about Level 3 fair value measurements

	Valuation technique	Significant unobservable inputs	Sensitivity relationship of unobservable inputs to fair value
Financial assets			
Issuer's Call Option	Monte Carlo Simulation Model method	Discount rate: 9.59% (2017: 12.27%)	The higher the discount rate, the lower the fair value, and vice versa.
		Volatility: 80% (2017: 144%)	The higher of the volatility, the higher of the fair value, and vice versa.
Financial liabilities			
Holder's Conversion and Put Option	Monte Carlo Simulation Model method	Discount rate: 9.59% (2017: 12.27%)	The higher the discount rate, the lower the fair value, and vice versa.
		Volatility: 80% (2017: 144%)	The higher of the volatility, the higher of the fair value, and vice versa.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

30.6 Fair value measurements of financial instruments (Continued)

(b) Information about Level 3 fair value measurements (Continued)

The reconciliation of the carrying amounts of the Group's derivative financial instruments classified within Level 3 of the fair value hierarchy is as follows:

	Issuer's Call Option RMB	Holder's Conversion and Put Options RMB	Total RMB
At 1 January 2017	-	-	-
Issuance of convertible note (note 24)	13,207,029	(17,036,574)	(3,829,545)
Fair value gain/(loss) recognised in profit or loss	6,884,680	(6,806,082)	78,598
Exchange (loss)/gain recognised in profit or loss	(333,141)	402,470	69,329
At 31 December 2017 and 1 January 2018	19,758,568	(23,440,186)	(3,681,618)
Fair value (loss)/gain recognised in profit or loss	(9,016,260)	10,306,346	1,290,086
Exchange gain/(loss) recognised in profit or loss	393,669	(483,395)	(89,726)
At 31 December 2018	**11,135,977**	**(13,617,235)**	**(2,481,258)**

Other than those disclosed in note 24, the Group considers the carrying amounts of financial assets and financial liabilities recognised in the consolidated statement of financial position approximate to their fair values.

31. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and net current asset position in order to support its business and maximise shareholder value. The capital structure of the Group comprises issued share capital and retained profits.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the financial year ended 31 December 2018. The Group is not subject to any externally imposed capital requirements.

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2018 RMB	2017 RMB
ASSETS AND LIABILITIES			
Non-current asset			
Interest in a subsidiary	22	**13,394,380**	13,394,380
Current assets			
Prepayments		**1,070,616**	1,903,411
Amounts due from non-controlling shareholders		**11,411**	4,757,225
Amounts due from subsidiaries		**137,714,809**	140,744,411
Amount due from a related company		**-**	1,018,560
Derivative financial instruments		**11,135,977**	19,758,568
Cash and cash equivalents		**25,995**	5,594,104
		149,958,808	173,776,279
Current liabilities			
Accruals and other payables		**671,677**	419,724
Amounts due to subsidiaries		**655,153**	849,042
Amounts due to related companies		**-**	2,128,133
Derivative financial instruments		**13,617,235**	23,440,186
		14,944,065	26,837,085
Net current assets		**135,014,743**	146,939,194
Total assets less current liabilities		**148,409,123**	160,333,574
Non-current liability			
Convertible note		**31,092,542**	28,591,365
Net assets		**117,316,581**	131,742,209
Equity			
Share capital		**141,905,974**	141,905,974
Accumulated losses (note)		**(24,589,393)**	(10,163,765)
Total equity		**117,316,581**	131,742,209

Mr. Ai Shungang
Co-Chairman

Mr. Calvin Cheng
Co-Chairman

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

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

	RMB
At 1 January 2017	8,203,099
Loss for the year	1,960,666
At 31 December 2017 and 1 January 2018	10,163,765
Loss for the year	14,425,628
At 31 December 2018	**24,589,393**

Directors' Declaration

In accordance with the resolution of the directors, the directors of Retech Technology Co., Limited declare that:

In the opinion of the Directors:

a) The consolidated financial statements and the notes are in accordance with the Hong Kong Financial Reporting Standards as stated in note 2 to the consolidated financial statements, and give a true and fair view of the Group's consolidated financial position as at 31 December 2018 and of its consolidated performance and consolidated cash flows for the year ended on that date;

b) The consolidated financial statements are also in compliance with the Hong Kong Companies Ordinance; and

c) There are reasonable grounds to believe that the Company and the Group will be able to pay its debts as and when they become due and payable.

On behalf of

Mr. AI Shungang	Mr. Calvin CHENG
Co-Chairman	Co-Chairman

29 March 2019

Grant Thornton
致同

Auditor's Independence Declaration

To the directors of Retech Technology Co., Limited

As the auditor of Retech Technology Co., Limited and in relation to the audit for the year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been no contraventions of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants.

Grant Thornton Hong Kong Ltd

Grant Thornton Hong Kong Limited

Calvin Chiu
Partner

29 March 2019

Hong Kong

Grant Thornton
致同

Independent auditor's report

To the members of Retech Technology Co., Limited
(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Retech Technology Co., Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 28 to 100, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matter

Key audit matter are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The Key Audit Matter	*How the matter was addressed in our audit*
Revenue from rendering of e-learning services *Refer to notes 2.16, 4 and 5 to the consolidated financial statements*	
One of the revenue earned by the Group is from rendering of e-learning services to customers. In the current year, revenue from rendering of e-learning services of approximately RMB126,398,000 was recognised in profit or loss. Recognition of such revenue involves assessment of the stage of completion of contract works as well as the total outcome of each contract. Assessment of the stage of completion involves significant estimates and judgment over cost allocations, estimate of total costs, and progressive assessment of actual and final outcome of each contract. We have identified the revenue recognition from contracts with customers as a key audit matter considering significance of the amount and the extent of management judgment exercised.	To address these areas of estimate and judgment, we performed, among others, below audit procedures: - review of the contract terms and conditions, including any terms of contingent or adjustable income, reimbursement of costs on a sample basis; - analysis of cost allocation basis including staff cost and overheads; - comparison of the budgeted contract costs with the actual costs incurred to assess if there were any material differences on sample basis; - examination of project documentation and discussion of the status of those projects in progress with management, finance, and project managers of the Group on a sample basis; - review and inquiry of project profit margin with project managers for any exception; and - inquiry of management's judgment of final outcome of each project.

Key Audit Matter	*How the matter was addressed in our audit*
Recoverability of trade receivables and contract assets *Refer to notes 2.7, 2.8, 2.11, 4, 16, 17 and 30.4 to the consolidated financial statements*	
As at 31 December 2018, the Group's trade receivables and contract assets net of expected credit loss ("ECL") allowance (notes 16 and 17) were approximately RMB26,775,000 and RMB19,045,000 respectively. Management applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at the end of the reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment. We consider recoverability of trade receivables and contract assets as a key audit matter considering significance of the amounts and the extent of management judgment exercised.	To address these areas of estimate and judgement, we performed, among others, below audit procedures: - understood and discussed the Group's credit control procedures including controls over granting of credits to customers, debt collection and estimate of ECL; - verified the balances of trade receivables by requesting and receiving confirmations on a sample basis; - tested aging of trade receivable balances at year end on a sample basis; - obtained a list of long outstanding receivables and contract assets and identified any debtors with financial difficulties through discussion with management; - assessed the recoverability of these outstanding receivables and contract assets through our discussion with management and latest correspondences with customers; and - Challenged the information used to determine the ECL by considering cash collection performance against historical trends.

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Key Audit Matter	*How the matter was addressed in our audit*
Recoverability of loan to and amounts due from related parties *Refer to notes 2.7, 2.8, 4, 18, 19 and 30.4 to the consolidated financial statements*	
The provision policy for ECL allowance of amounts due from related parties (note 18) and loan to a related company (note 19) are based initially on 12-month ECL and subsequently on lifetime ECL if there is an significant increase in the credit risk of these receivables since initial recognition. 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 Jiangsu Industry Park and the ultimate controlling shareholder of the Company. If the financial conditions of these related parties, including Jiangsu Industry Park, or the ultimate controlling shareholder were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required. We consider the above as a key audit matter considering significance of the amount and the extent of management judgment exercised.	To address these areas of estimate and judgement, we performed, among others, below audit procedures: - verified the balances of these loan to and amounts due from related parties by requesting and receiving confirmations; - assessed the recoverability of these amounts due through our discussion with management; and - assessed the recoverability by reference to the indemnification provided and the latest available financial information of Jiangsu Industry Park.

Key Audit Matter	*How the matter was addressed in our audit*
Valuation of derivative financial instruments *Refer to notes 2.7, 2.9, 4, 20, 24 and 30.6 to the consolidated financial statements* As described in note 24 to the consolidated financial statements, the derivative components of convertible note are measured at fair value. As at 31 December 2018, the net fair value of derivative financial instruments was RMB2,481,000. 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. We consider the valuation of the convertible note as a key audit matter, given the magnitude of these positions and the complexity of the valuation model applied.	To address these areas of estimate and judgement, we performed, among others, below audit procedures: - assessing the experience, competence, capability, independence and objectivity of the valuer; - evaluating the reasonableness of the valuation methodology used by the valuer by comparing the methodology used for similar instruments; - discussing the valuations with the valuer in a separate private session and challenging key estimates adopted in the valuations; and - testing the inputs to the fair value calculation. With respect to the discount rates used and inputs for the valuation of the derivative element, this included independently sourcing the external and internal data on a sample basis.

Other information

The directors are responsible for the other information. The other information comprises all the information in the 2018 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors assisted by the Audit and Risk Management Committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Risk Management Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Risk Management Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

From the matters communicated with the Audit and Risk Management Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Grant Thornton Hong Kong Ltd

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

29 March 2019

Chiu Wing Ning
Practising Certificate No.: P04920

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Other Information

ASX Additional Investor Information

Additional information required by the Australian Securities Exchange and not shown elsewhere in this Annual Report is as follows. The information is current as of 27 March 2019.

Issued capital

As at 27 March 2019, the Company has 230,750,944 ordinary fully paid shares on issue, of which 230,750,944 are held by Chess Depositary Nominees Pty Ltd ("CDN"). CDN has issued 230,750,944 CHESS Depositary Interests ("CDIs") in relation to these shares. CDN holds the legal title to shares on behalf of holders of CHESS Depositary Receipts. Pursuant to the ASX Settlement Operating Rules, CDI holders receive all of the economic benefits of actual ownership of the underlying shares.

CDIs are traded in a manner similar to shares of Australian companies listed on ASX. CDIs will be held in uncertificated form and settled/transferred through CHESS. No share certificates will be issued to CDI holders. Shareholders cannot trade their Shares on ASX without first converting their Shares into CDIs. There are no shares/CDIs that are currently under trading restrictions. There is currently no on-market buyback in place.

None of Retech's CDIs are currently subject to any form of ASX imposed or voluntary restrictions.

Distribution of Shareholders / CDI Holders

There were 219 Shareholders / CDI Holders at 27 March 2019. Each Shareholder/CDI Holder is entitled to one vote for each security held.

Distribution of Shareholders / CDI Holders (continued)

Spread of holdings	Number of holders	Number of units	%
1-1,000	6	1,261	**0.00%**
1,001-5,000	129	500,224	**0.22%**
5,001-10,000	25	182,000	**0.08%**
10,001-100,000	22	1,120,942	**0.48%**
100,001 and above	37	228,946,517	**99.22%**
Total	**219**	**230,750,944**	**100**.00%

There are 6 CDI holders who hold less than a marketable parcel as at 27 March 2019.

Voting Rights

(a) The voting rights are that each CDI holder is entitled to 1 vote per CDI at a meeting of members, provided that a CDI Holder undertakes the following steps.

(b) Instructing CDN as the legal owner to vote the shares underlying in a particular manner. A voting instruction form will be sent to CDI holders with the notice of meeting and this must be completed and returned to the share registry prior to the meeting.

(c) Informing the Company that they wish to nominate themselves or another person to be appointed as CDN's proxy with respect to their shares underlying the CDIs for the purposes of attending and voting at the general meeting ; or

(d) Converting their CDIs into a holding of these shares and voting these shares at the meeting.

Substantial Shareholders / CDI holders

The substantial holders of Share/CDI are the following Share/CDI holders listed below who have notified the Company that they are a substantial holder under the Corporations Act 2001 in Australia. In general, under the Corporations Act (Australia), a person who holds a relevant interest in Shares/CDIs of more than 5% of the Company's issued share capital is a substantial holder.

Holder	Number of Shares and equivalent CDIs	% of issued capital notified to ASX
Retech Investment Group Co., Ltd.	78,689,400	**34.10%**
City Savvy Limited	27,700,700	**12.00%**
Vickers Venture Fund Iv Lp	15,651,011	**6.78%**
Retech Management Co., Ltd.	14,451,000	**6.26%**
Miao Shi Investment Group Co., Ltd.,	12,700,700	**5.50%**
Fame Best International Ltd.	12,000,000	**5.20%**
Total	**161,192,811**	**69.84%**

On market buy-back

There is no current on market buy-back.

Top 20 Share/CDIs as at 27 March 2019

Rank	Name	Shares/CDIs	% of issued capital
1	Retech Investment Group Co., Ltd.	78,689,400	**34.10%**
2	City Savvy Limited	27,700,700	**12.00%**
3	Vickers Venture Fund Iv Lp	15,651,011	**6.78%**
4	Retech Management Co., Ltd.	14,451,000	**6.26%**
5	Miao Shi Investment Group Co., Ltd.,	12,700,700	**5.50%**
6	Fame Best International Ltd.	12,000,000	**5.20%**
7	Hengying Fuquan Co., Ltd.	10,079,450	**4.37%**
7	Xu Shi Technology Investment	10,079,450	**4.37%**
9	Calvin Cheng Ern Lee	9,076,796	**3.93%**
10	Citicorp Nominees Pty Limited	6,729,445	**2.92%**
11	J P Morgan Nominees Australia Pty Limited	5,277,495	**2.29%**
12	Thiam Soon David See	4,549,676	**1.97%**
13	Lumina Looque Knowledge Hubs Pte Ltd	2,854,324	**1.24%**
14	Mr. Shengdong Pang	2,804,746	**1.22%**
15	Mr. Yue WANG	2,043,945	**0.89%**
16	Nebula Limited	2,000,000	**0.87%**
17	HSBC Custody Nominees (Australia) Limited	1,416,393	**0.61%**
18	Qiubing Cheng	1,340,736	**0.58%**
19	Ms. Man LI	1,318,024	**0.57%**
20	Dingshan International Co Ltd	1,000,000	**0.43%**
21	Lan Kong	1,000,000	**0.43%**
	Total	222,763,291	**96.54%**

Use of cash consistent with business objectives

The Company confirms that, between 31 December 2017 and 31 December 2018, it has used cash and other assets readily convertible to cash that it held at time of admission, in a way consistent with its business objectives.

The Company's place of incorporation

As the Company is incorporated in Hong Kong and not established in Australia, its corporate activities (apart from the offering of securities in Australia) are not regulated by the Corporations Act of the Commonwealth of Australia or by the Australian Securities and Investments Commission but instead are regulated by the Hong Kong Companies Ordinance and the Hong Kong Securities and Futures Commission. The Company is not subject to Chapters 6,6A, 6B and 6C of the Corporations Act 2001 in Australia.

The following information is provided on an annual basis to comply with the conditions on listing on ASX.

Takeovers

The Hong Kong Code on Takeovers and Mergers (the "Takeovers Code") regulates takeovers and mergers in Hong Kong and applies to public companies in Hong Kong. The Takeovers Code provides that when a person, or two or more persons acting in concert collectively:

(a) acquire 30% or more of the voting rights of a company; or

(b) hold not less than 30% but not more than 50% of the voting rights of the Company and acquires more than 2% of the voting rights of a company from the lowest percentage holding of that person or persons collectively within a 12-month period, then a general offer must be made to all other shareholders of the Company.

Compulsory acquisition

Part 13 of the Hong Kong Companies Ordinance sets out the right to buy out minority shareholders. If within four months of making an offer to buy shares, a company has acquired 90% in value of the shares, the acquiring company may give notice to the remaining shareholders that it desires to acquire their shares. Provided that notice is given within five months of the original offer, the acquiring company is entitled and bound to acquire those shares on the same terms as the offer.

Substantial share / CDI holder notices

Part XV of the Hong Kong Securities and Futures Ordinance requires the disclosure by substantial shareholders, directors, shadow directors and chief executives of a listed corporation (collectively "Corporate Insiders") of their interests in the securities of a listed corporation when their interests reach the notifiable percentage level. The notifiable percentage level is an interest in shares of an aggregate nominal value of 5% or more of the relevant shares in the listed corporation.

Corporate Governance

The Corporate Governance Statement of the Company for the reporting period ending 31 December 2018 has been prepared based on the 3rd edition of the Australian Securities Exchange's ('ASX') Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council ('ASX Principles and Recommendations') pursuant to ASX Listing rule 4.10.3.

The Board of the Company is committed to principles of best practice in corporate governance and is responsible for ensuring the existence of an effective corporate governance environment to safeguard the interests of the Company, its Shareholders and other stakeholders.

ASX Listing rule 4.10.3. requires the Company to disclose the extent to which it has followed the recommendations during the financial year, including reasons where the Company has not followed a recommendation and details of any related alternative governance practice adopted.

This Corporate Governance Statement has been separately provided. The Corporate Governance Statement together with the Appendix 4G be accessed at http://retech-rte.com/Announcement/CorporateGovernanceStatement.pdf.

Corporate Governance Plan will be updated and the relevant contents are available at http://retech-rte.com/CorporateGovernancePlan.html.

Corporate Directory

Company – Hong Kong Registered Office & Headquarters
Retech Technology Co., Limited
Room 1803, 18th Floor, Hutchison House,
10 Harcourt Road,
Central, Hong Kong
Phone: +852 2692 3999

Company – PRC Office & Headquarters
Retech Technology Co., Limited
Level 18, Building 2, No.355,
Guoding Road, Yangpu District, Shanghai.
Phone: +86 21 5566 6166

Company - Australian Registered Office
Investorlink Corporate Limited
Level 26, 56 Pitt Street, Sydney
New South Wales 2000 Australia
Phone: +61 2 9276 2000

Company Secretary
Ms. Ji Hui

Auditor
Grant Thornton Hong Kong Limited
Level 12, 28 Hennessy Road
Wanchai, Hong Kong.

Share Registry
Computershare Investor Services Pty Ltd.
452 Johnston Street
Abbotsford, Victoria 3067
Phone: (Australia) 1300 555 159 or (Overseas) +61 3 9415 4062

ASX Code
RTE

Website
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For further information contact:
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Retech Technology Co., Limited

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