Retech Technology Co., Limited

ARBN 615 153 332

Appendix 4E

Preliminary final report

for the year ended 31 December 2019

Hong Kong Company Registration Number 2374379

Retech Technology Co., Limited / www.retech-rte.com

CONTENTS

About Retech Technology Co., Limited

Retech Technology Co., Limited is a leading Chinese e-learning services and technology provider, based in Shanghai. Retech's products include e-learning solutions, learning analytics, customized and pre-prepared training courses, digital ESG reporting and training and online language learning solutions. Major customers include Bank of China, Ping An Insurance, Huawei and Mercedes Benz etc.

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

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

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

Reporting period	1 January 2019 to 31 December 2019
Previous period	1 January 2018 to 31 December 2018

2. **Results for announcement to the market**

Item	Reporting period RMB	Previous period RMB	Changes %
2.1 Revenue from ordinary activities	167,740,588	130,501,401	28.5%
2.2 Profit from ordinary activities after tax attributable to members	53,759,636	49,233,148	9.2%
2.3 Net profit for the period attributable to members	53,759,636	49,233,148	9.2%

2.4 The amount per security and franked amount per security of final and interim dividends or a statement that it is not proposed to pay dividends.

During FY2019 an unfranked dividend per security: A$0.005 was paid.

2.5 The record date for determining entitlements to the dividends (if any).

The record date of the dividend paid in FY2019 was 15 November 2019.

2.6 A brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood.

- **Revenue for FY2019 was RMB167.74m (A$34.91m), increasing by 28.5% compared to RMB130.50m (A$27.16m) in FY2018**. **Gross profit was RMB107.19m (A$22.31m), increased by 30.1% comparing to RMB82.40m (A$17.15m) in FY2018.** The gross margin was 64%, which was 63% in FY2018. Total Net Profit After tax for the period (NPAT) was RMB50.97m (A$10.60m) which increased by 5.6% comparing to RMB48.26m (A$10.04m) in FY2018.

- **Retech's traditional business of e-Learning maintained steady growth in 2019, with revenue of RMB162.89m (A$33.90m), a 29% increase from RMB126.39m (A$26.30m) in FY2018**. **Gross profit in FY2019 was RMB104.23m (A$21.69m), which increased by 33% from RMB78.44m (A$16.32m) in FY2018.** Gross profit margin in FY2019 was 64% which was 62% in FY2018.

- **In FY2019, we strategically started to invest in two business lines which are ESG (environment, social and governance) online business and AI English business.** **Due to increased investment in these emerging businesses, the overall net profit growth of the enterprise slowed down but still increased by 5.6%.** With emerging signs of good demand for our new ESG and online English products and services, the company expects to resume a faster pace of growth in the future.

- The administrative expenses increased 63.9% from RMB19.60m (A$4.08m) in FY2018 to RMB32.13m (A$6.68m) in FY2019. This is mainly caused by the increased expenses of two new business lines (ESG service and AI English), as well as the normal growth of general expenses. AI English and related activities started in FY2019 and its administrative expenses was RMB6.27m (A$1.30m) in FY2019. The administrative expenses of ESG business increased by RMB4.86m (A$1.01m) in the reporting period which business opened in Nov 2018. Other general expenses raised by RMB1.39m (A$0.29m) which was 7.6% growth comparing to FY2018.

- In addition, the income tax in FY2019 was RMB15.08m (A$3.13m), increased by 94.7% from RMB7.74m (A$1.61m) in FY2018. The significant increase is mainly due to the provision of withholding taxes (RMB3.56m, or A$0.74m) for distribution of dividend from a PRC subsidiary. The effective tax rate for FY2019 of 22.8% (2018: 13.8%) increased due to the impact of the withholding taxes in FY2019 and prior year tax adjustments (RMB1.40m, or A$0.38m) in FY2018. The effect of these items to effective tax rate is as follows:

	FY2019	FY2018
Effective tax rate	22.8%	13.8%
Adjusted effective tax rate (after excluding withholding taxes impact and prior year tax adjustments)	17.4%	16.5%

*Note:
1. Exchange rate: AUD/RMB = 4.8043, according to the FY2019 average rate from https://www.oanda.com
2. The figures are rounded down.

3. Consolidated statement of profit or loss and other comprehensive income
Please refer to page 14.

4. Consolidated statement of financial position
Please refer to page 15.

5. Consolidated statement of cash flows
Please refer to page 19.

6. Consolidated statement of changes in equity
Please refer to page 17.

7. Notes to the consolidated financial statements
Please refer to Page 21.

8. Details of individual and total dividends or distributions and dividend or distribution payments. The details must include the date on which each dividend or distribution is payable and (if known) the amount per security of foreign sourced dividend or distribution.

In the Company's Annual General Meeting on 13 June 2019, the shareholders approved a general mandate for the directors to declare dividend. The directors had proposed a special unfranked dividend of Australian dollars ("A$") 0.005 per share. The proposed dividends were subsequently approved by the Board of Directors on 26 August 2019. On 27 November 2019, total dividend of A$1.16m (RMB5.58m) was paid.

9. Details of any dividend or distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in any dividend or distribution reinvestment plan.

The Company has no dividend or distribution reinvestment plan during the reporting period.

10. Net Tangible Assets ("NTA")

	NTA as of 31 December 2019 RMB cents per share	NTA as of 31 December 2018 RMB cents per share
Net Tangible Assets ("NTA")	117.88	97.20
Ordinary shares in issue	232,912,633	230,750,944

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

During the reporting period, the Group completed the acquisition of a 51% equity interests in Aushen Group Pty. Ltd. from an independent third party, Suns Group Corporation Pty. Ltd. on 26 June 2019.

Aushen owns private tutoring operations in Australia which offers various education courses/programs in a classroom environment for students from grade 1 to grade 12. The acquisition will allow the Group to apply its e-learning solutions for online language training and enable the Group to offer high quality courses from Australia into China.

Full details of the transactions are set out in note 37 to the consolidated financial statements.

12. Details of associates and joint venture entities

Not applicable.

13. Other significant information

On 22 January 2020, Retech signed a Sale and Purchase Agreement to acquire 80% of the issued share capital of Shanghai Pantosoft Co., Ltd, by way of its acquisition of the holding company, Pantosoft International Limited.

Shanghai Pantosoft is a PRC registered software company based in Shanghai that has been in operation for more than 20 years. Shanghai Pantosoft provides digital solutions via self-developed software systems to support education management in secondary and vocational schools in China. Shanghai Pantosoft has approximately 3,000 vocational and secondary school clients, among which its major clients are located along coastal areas such as Guangdong, Shandong, and the Yangtze River Delta. According to China's Ministry of Education, there are approximately 11,700 vocational colleges in China serving 26.9 million students.

Driven by Chinese Government policy to integrate vocational education more effectively with industry, Retech is building Digital Media education centers and providing e-Learning courses into vocational and tertiary colleges. The acquisition of Shanghai Pantosoft will significantly accelerate this strategy.

This acquisition of 80% of Pantosoft will cost RMB76m and is an effective use of some of Retech's net cash holdings.

14. Accounting standards

The reports have been prepared under Hong Kong Financial Reporting Standards ("HKFRSs").

15. Commentary on the results

Highlight

- **COVID-19 strongly promotes the application of e-learning and online education，as a key player in this field the company will benefit from it.**

- **The new business "Ai English" has rapidly developed "Studio2Home" solution to ensure the off-line classes transferred to on-line classes at home. Since the outbreak of COVID-19, from Feb 3rd to the 26th, with about 20 new clients signed and 4,000+ new students have registered the foreign teachers have taught 1410 lessons and Chinese teachers with 656 lessons, with 2066 lessons in total.**

- **Ai Learning Solutions of Retech is listed in the white list of "e-learning solution providers" issued by Austrade, together with renowned online solution providers such as Alibaba cloud, China Telecom, Tencent, etc.**

- **In 2019, The Company has developed the live virtual classroom product named LVC with Huawei. LVC is a joint IP with Huawei's exclusive authorization. Further overseas cooperation is expected in 2020.**

<u>Operational Updates</u>

1) Corporate

Product:

- <u>LVC (live virtual classroom) real-time interactive educational platform:</u> This platform has been developed by Retech for remote real-time interaction between course instructors and students. LVC is now currently one of the leading real-time teaching platforms in China and can support simultaneous real-time interactions with 1,000 parties or more. The Company provides real-time interactive e-course services for Huawei's overseas customers with Huawei's exclusive authorization. This platform was developed and delivered for Huawei in 2019 and the software IP is owned by both parties.

- <u>E-learning platform— new upgrades released:</u> Our e-learning platform *Retechwing* has been upgraded from version 3.0 to the current 4.3 version. Further development of our intelligent learning platform *Ruizhi* 2.0 has also been achieved by upgrading our micro-server architecture to realize an ultra-large-scale concurrency, improved user experience, greater transparency and user controls.

- <u>E-courses—contemporary and digestible instructional design:</u> our industrial design team has developed various types of e-courses including short video (designed for social media Apps like TikTok etc), animation Html5, with systematic curriculum framework and vivid displays, attracting users of the young generation.

15. Commentary on the results (continued)

Business:

In terms of corporate e-learning, the Company focuses on providing professional technology and services to key customers in targeted industry verticals. The growth of especially well-known large customers provides strong driving force for business development. In 2019, only Ping An Group, Bank of China, Mercedes-Benz Group and Huawei signed more than RMB40m new contracts.

- Financial services: Retech has now successfully cooperated with three of China's four leading banks, and has signed contracts with 13 joint-stock banks in China. Since winning an exclusive bid for Bank of China (BOC) in 2016, the Company has continued to provide online learning platforms and e-course services for BOC's over 300,000 employees. We have also been providing online learning solutions for Ping An since 2015. In the previous 3 years, accumulated contract amounts from these two clients alone were above RMB30 million. We also provided online training services for urban commercial Banks such as Bank of Tangshan and Huaxia Bank.

- Industrials: with internet applications by industrial companies continuously growing in the past three years, demand for online training has maintained strong growth. In 2019, we continued to provide updated and enhanced training materials for more than 500 Mercedes Benz dealers across China, and in the past three years Mercedes Benz has contributed over 30million RMB of contracts.

- Retailing: following our experience providing online training materials for well-known retailing brands such as Sephora, Retech won recognition from new clients in 2019 such as Zara, Panasonic and Toys R Us.

- Other major customers: we continued our expansion in providing online education materials for the telecommunications sector. As an important e-learning partner of Huawei, Retech helped Huawei to build e-learning solutions for a number of its overseas companies and partners. By January 2020, projects in Cote d 'Ivoire and Zambia have been launched, and our current cooperation contracts with Huawei now exceed RMB10 million. Retech is also active in gaining other clients including VIVO and SF Express (China's leading logistics company), providing micro e-courses and staff training for them.

2) Vocational Education

The Chinese government is actively engaged in encouraging the expansion of the vocational training sector through integration with industry. Retech has focused on its own core areas of expertise, building "Digital Media Industry and Education Integration Solutions" for vocational schools.

This program aims to help secondary and higher vocational colleges build training systems that are closely aligned to the needs of digital media companies by introducing our own Company's true talent training systems. During H2 2019, we also began M&A discussions with Shanghai Pantosoft. This acquisition will greatly enhance Retech's product matrix capabilities, channel acquisition capabilities, and brand influence in vocational education.

15. Commentary on the results (continued)

Retech's integration of production-education targets our own core expertise in digital media. Our core talent development model is to form a new type of training program teaching our own digital media specialty, using up-to-date and market relevant software and skills, in vocational colleges across mainland China. In 2019, we established the Retech Digital Media Industry College to launch a production-education integration service for digital media professionals in vocational schools in mainland China.

Our overall solution includes four modules: teacher training platform, online teaching platform, project management platform, teaching evaluation platform. In addition, we are constructing a real life case database of over 100 real enterprise projects.

3) *ESG（Environment, Social and Governance）*

Product

- ESG online service platform: our subsidiary Prosage provides online training, intelligent reporting and data analysis services for listed companies, enterprises and intermediary institutions in green finance and ESG reporting.
- ESG digital IP tank: based on local regulatory requirements and ESG standards, we have completed the first phase of our content systems to provide training and reporting around the ESG requirements of the Hong Kong Stock Exchange.

Business:

- Retech's subsidy Prosage has provided ESG software, consulting and online services for clients such as Bank of Communications HK, Carbon Care Asia, Karrie International Holdings Limited and SOHO House. In order to actively promote the development of ESG compliance business, we carry out strategic cooperation with corporates, audit groups and distributors.
- In January 2020, Prosage signed a strategic cooperation agreement with Beijing Rongzhi Corporate Social Responsibility Institute ("Rongzhi"). Rongzhi is a state-owned professional institution in China that provides research and consultancy on social responsibility and sustainable development. Both sides will build a digital IP bank for corporate and social responsibility with an international vision and Chinese characteristics.
- In the second half of 2019, we started to cooperate with Shinco Electronics, a subsidiary of Singapore Technology Group. Shinco is a global technology company and a world-class technology integrated solution provider. Retech and Shinco will cooperate in ESG online services, vocational college education and Singapore corporate e-learning.

4) *Language Learning*

Following the completion of the acquisition of XJS Coaching School in June 2019, Retech launched the newly established native English education brand "Ai English". At present, it provides A-Teacher, After-School and other high-quality "Dual Teacher Classroom" services for training institutions, primary schools, and kindergartens in China, delivering high quality, native English programs from Australian tutors directly into China's heartlands.

15. Commentary on the results (continued)

Product

Ai English online platform: based on demand for online instruction by international teachers, the Company has developed a set of hardware-based and high resolution interactive live streaming class solutions, and is developing further functions of teaching management, human-computer interaction, AI teaching and evaluation systems.

Ai English digital curriculum system: under the leadership of renowned professor Zhou Jing, chairman of the committee World Pre-School Education of Science And Technology Organization (OMEP) of China, Retech is developing its own curriculum and materials to deliver in 4K real-time services through Ai English. In 2019 we also introduced Big English, the Longman series of English textbooks, and are developing a digital curriculum system specifically designed for 3-16 year olds.

In addition, Retech's Ai Learning Solutions is listed in the white list of "e-learning solution providers" issued by Australian Trade Commission of the federal government of Australia (Austrade). Under the influence of the 2019 coronavirus disease (COVID-19), educational establishments have been seriously affected. In particular, Chinese students studying in Australia have been unable to return to their universities on time to resume study. In order to minimize any adverse effects and assist students who remain in China, students can learn Australian school courses synchronously online. The Australian Trade Commission (Austrade) has recommended and released a white list of " e-learning solution providers" for Australian educational providers including Australian universities, in which "Ai learning" of Retech Group is listed among 10 other enterprises including world-class famous e-learning and technology solution providers such as Alibaba cloud, China Telecom, Tencent and other famous Chinese enterprises.

Business

In July 2019, Ai English signed a cooperation agreement with East China Normal University on the development of bilingual textbooks. From September to October, Ai English has expanded the service coverage by cooperation, including public kindergartens and primary schools (such as Beijing Jinqiao Primary School), private schools (such as Wuxi Foreign Language School), and franchisees of the well-known English training institution RISE in certain cities. In December 2019, Ai English jointly recruited students and launched a B2C business with institutions affiliated to the education bureau of several major Chinese cities (such as Zhenjiang Runzhou children's palace). In 2020, we signed a strategic agreement with Pearson to initiate cooperation in copyright licensing, teacher training, market resource sharing, and social learning platform co-construction.

Retech offers its sincerest condolences to all of those affected by the novel coronavirus COVID-19. To assist students under quarantine and affected by school closures, Ai English established a new teaching model *Studio2Home*, which was quickly launched in early February. Students receive live foreign tutoring at home, to ensure no interruption of classes. Using *Studio2Home*, we have offered online small classes to our teaching and educational customers (1 teacher v. 1 student, 1 teacher v. 4 students). We have also extended mixed class modes with small and large group interactive classes. In addition, we are offering our customers upgrades from Classroom to Studio learning, helping customers to maintain their courses.

15. Commentary on the results (continued)

5) Branding and Strategic Cooperation

- Ai Learning Solutions is listed on the whitelist released by Australian Government Australian Trade and investment Commission's "ONLINE DELIVERY SOLUTION PROVIDERS AUSTRALIAN EDUCATION IN CHINA" on Feb 26th 2020.
- In January 2020, we signed a cooperation framework with Pearson Education Publishing Asia Co., Ltd. Both sides will achieve deeper a cooperation in copyright authorization, vocational education, international teacher training, and jointly expand the global language online education career.
- "Excellent Platform Customization Service Provider" by China Enterprise Online Learning Conference (CEFE) -Boao Award in 2019.
- "Best Software Competitive Power" awarded by the Shanghai Software Industry Association (SSIA) in 2019.
- On 13 November, 2019, Retech co-hosted the Asia Education Technology Summit (AES) in Tokyo, as Sponsor, together with the Japan and Korea E-Learning Associations. AES is the most influential industry summit in Japan and the major industry event in East and Southeast Asia.

6) The significant impact of industry development on Retech

- China's 2019 novel coronavirus (COVID-19) strongly promotes the application of e-learning:
  - In the field of corporate training, a large number of enterprises and vocational colleges have increased the proportion of the online training in their budgets.
  - Retech's AI English business has won a large number of customers from offline educational institutions because of its complete online teaching solution and smooth 4K video teaching.
    - During the period 3 – 26th February 2020, we have added 20 new corporate clients and more than 4,000 new students have registered. Our international teachers have taught 1410 lessons and our Chinese teachers have taught 656 lessons, there are 2066 remote online classes in total.
    - Moreover, due to the impact of COVID-19, a large number of foreign teachers in China have been unable to return to their teaching jobs in China. This has increased the scarcity of English foreign teachers which is further expected to enhance demand for Ai English's trans-national tuition platform.

- China's e-learning consumption continues to grow strongly: Since 2019, China's per capita GDP has exceeded USD10,000. Based on the experience of other developed countries, increases in GDP per capita result in significant increases in the consumption of and investment in education. In November 2017, Sina released the "2017 Chinese Family Education Consumption White Paper". The white paper shows that Chinese families are very willing to spend money on education. Chinese education expenditure accounts for more than 50% of household disposable income, and the percentage of online education is expected to exceed 25%. Among them, 32.43% of preschool families choose online education, with 50% of parents spending RMB1,000 to 5,000 on online education.

15. Commentary on the results (continued)

- The rapid growth of paid education promotes the development of e-learning: Since 2015, Internet-based audio and video-delivered education has grown explosively. The number of users in 2019 paying for education is expected to reach 387 million people; this rapid growth in paid education has laid a more solid foundation for the development of online education.

- Technological innovation accelerates the improvement of user experience innovation in online education: The rapid development of big data, cloud services, 5G and artificial intelligence in the past three years has further accelerated the development of intelligent learning technologies in the field of online education. It is expected that in the next 3-5 years, with further increases in bandwidth and computing power, intelligent learning platforms and high-definition interactive digital resources will become the core applications of the entire online education field. Improvements in the user experience of online education will form the basis for the next level of rapid growth in online education adoption.

7) The company's future growth strategy

- Focus on the existing market: The Company is planning to increase its R&D investment in key areas such as big data, artificial intelligence and other technologies.

- Expand to new markets: Based on our competitive advantages, Retech has been actively exploring new market segments identified as having tremendous growth potential. At present, three new market segments, namely vocational education, ESG, and Ai English, have been developed.

- The introduction of cross-border resources and market development: Retech chose to list in Australia as it is a major destination for international education, providing high quality tuition to many international tertiary students. We believe that our listing on ASX, together with our Australian operations, enhances our product offering and brand.

- We continue to build international cooperation through ventures such as Ai English, as well as the AES organization with Japanese and South Korean online learning groups. Meanwhile, our international cooperation with leading groups such as Pearson and Singapore Technologies' Shinco Electronics expand our resources, products and services.

16. Statement as to the audit status

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

Disclaimer

Neither Retech nor any other person warrants or guarantees the future performance of Retech or any return on any investment made in Retech securities. Indications of, and guidance on, future financial position and performance and distributions, and statements regarding Retech's future developments and the market outlook, are also forward-looking statements. Any forward-looking statements contained in this document are not guarantees of future performance. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Retech and its directors, officers, employees and agents that may cause actual results to differ materially from those expressed or implied in such statements. Readers should not place undue reliance on forward-looking statements. Subject to applicable law (including the ASX Listing Rules), Retech disclaims any responsibility to update or revise any forward-looking statements to reflect any new information or any change in the events, conditions or circumstances on which a statement is based or to which it relates.

Consolidated financial statements

Retech Technology Co., Limited

For the year ended 31 December 2019

Contents

Expressed in Renminbi ("RMB")

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019

	Notes	2019 RMB (unaudited)	2018 RMB
Revenue	5 & 6	**167,740,588**	130,501,401
Cost of services		**(60,549,009)**	(48,092,222)
Gross profit		**107,191,579**	82,409,179
Other income	7	**12,298,646**	7,794,602
Fair value (loss)/gain on derivative financial instruments		**(1,974,310)**	1,290,086
Impairment losses on financial assets	9	**(5,907,270)**	(5,163,149)
Selling and distribution expenses		**(8,694,626)**	(7,139,935)
Administrative expenses		**(32,138,535)**	(19,606,195)
Finance costs	8	**(4,722,253)**	(3,574,072)
Profit before income tax	9	**66,053,231**	56,010,516
Income tax expense	11	**(15,080,814)**	(7,743,984)
Profit for the year		**50,972,417**	48,266,532
Other comprehensive expense			
Item that may be reclassified subsequently to profit or loss:			
Exchange loss on translation of financial statements of foreign operations		**(75,818)**	(7,165)
Total comprehensive income for the year		**50,896,599**	48,259,367
Profit for the year attributable to:			
Owners of the Company		**53,759,636**	49,233,148
Non-controlling interests		**(2,787,219)**	(966,616)
		50,972,417	48,266,532
Total comprehensive income/(expense) for the year attributable to:			
Owners of the Company		**53,717,217**	49,226,700
Non-controlling interests		**(2,820,618)**	(967,333)
		50,896,599	48,259,367
Earnings per share for profit attributable to the owners of the Company during the year			
Basic	13	**23.19 cents**	21.34 cents
Diluted	13	**23.19 cents**	20.76 cents

The Group had initially applied HKFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated.

The notes on pages 21 to 80 are an integral part of these consolidated financial statements.

Consolidated statement of financial position as at 31 December 2019

	Notes	2019 RMB (unaudited)	2018 RMB
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	**46,175,408**	695,531
Goodwill	15	**2,640,293**	-
Other intangible assets	16	**2,745,041**	2,296,452
Deposit paid	17	**73,700,000**	-
Deferred tax assets	18	**964,907**	203,458
		126,225,649	3,195,441
Current assets			
Trade and other receivables	19	**61,306,459**	30,756,577
Contract assets	20	**29,504,418**	19,044,518
Amount due from non-controlling shareholders	21(a)	**-**	11,411
Amount due from a non-controlling shareholder of a subsidiary	21(b)	**328,755**	439,000
Amounts due from related companies	21(c)	**12,901,840**	29,271,094
Loan to a related company	22	**12,347,019**	802,630
Derivative financial instruments	23	**9,733,410**	11,135,977
Short term bank deposits	24	**-**	112,486,040
Cash and cash equivalents	24	**185,088,747**	99,557,916
		311,210,648	303,505,163
Current liabilities			
Trade and other payables	26	**23,793,750**	18,718,343
Contract liabilities	20	**3,874,784**	4,721,383
Amount due to a non-controlling shareholder of a subsidiary	21(d)	**-**	436,670
Amount due to a related company	21(e)	**5,974**	6,174
Borrowings	27	**12,984,853**	-
Lease liabilities	28	**9,155,846**	-
Derivative financial instrument	23	**14,281,539**	13,617,235
Income tax payable		**21,086,803**	11,519,665
		85,183,549	49,019,470
Net current assets		**226,027,099**	254,485,693
Total assets less current liabilities		**352,252,748**	257,681,134
Non-current liabilities			
Borrowings	27	**4,888,326**	-
Convertible note	29	**32,781,619**	31,092,542
Contingent consideration liability	30	**1,607,522**	-
Lease liabilities	28	**32,448,233**	-
Deferred tax liability	18	**587,870**	-
		72,313,570	31,092,542
Net assets		**279,939,178**	226,588,592

Consolidated statement of financial position as at 31 December 2019 (Continued)

	Notes	2019 RMB (unaudited)	2018 RMB
EQUITY			
Share capital	31	**145,978,410**	141,905,974
Reserves	32	**(7,795,055)**	(7,752,636)
Retained profits		**142,704,142**	94,530,614
Equity attributable to owners of the Company		**280,887,497**	228,683,952
Non-controlling interests		**(948,319)**	(2,095,360)
Total equity		**279,939,178**	226,588,592

The Group had initially applied HKFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated.

The notes on pages 21 to 80 are an integral part of these consolidated financial statements.

RETECH

Consolidated statement of changes in equity for the year ended 31 December 2019

	Attributable to owners of the Company							
	Share capital RMB	Merger reserve* RMB (note 32.1)	Statutory reserve* RMB (note 32.2)	Translation reserve* RMB (note 32.3)	Retained profits RMB	Total RMB	Non-controlling interests RMB	Total equity RMB
At 1 January 2019	**141,905,974**	**(11,122,696)**	**3,376,508**	**(6,448)**	**94,530,614**	**228,683,952**	**(2,095,360)**	**226,588,592**
Issuance of share under Retech Incentive Plan (note 36)	**4,072,436**	**-**	**-**	**-**	**-**	**4,072,436**	**-**	**4,072,436**
Acquisition of a subsidiary (note 37)	**-**	**-**	**-**	**-**	**-**	**-**	**820,452**	**820,452**
Special dividend declared during the year (note 12)	**-**	**-**	**-**	**-**	**(5,586,108)**	**(5,586,108)**	**-**	**(5,586,108)**
Capital contribution from non-controlling interests of a subsidiary (note 25)	**-**	**-**	**-**	**-**	**-**	**-**	**3,147,207**	**3,147,207**
Transactions with owners	**4,072,436**	**-**	**-**	**-**	**(5,586,108)**	**(1,513,672)**	**3,967,659**	**2,453,987**
Profit for the year (unaudited)	**-**	**-**	**-**	**-**	**53,759,636**	**53,759,636**	**(2,787,219)**	**50,972,417**
Other comprehensive income for the year:								
Exchange loss on translation of foreign operation recognised (unaudited)	**-**	**-**	**-**	**(42,419)**	**-**	**(42,419)**	**(33,399)**	**(75,818)**
Total comprehensive income/(expense) for the year (unaudited)	**-**	**-**	**-**	**(42,419)**	**53,759,636**	**53,717,217**	**(2,820,618)**	**50,896,599**
At 31 December 2019 (unaudited)	**145,978,410**	**(11,122,696)**	**3,376,508**	**(48,867)**	**142,704,142**	**280,887,497**	**(948,319)**	**279,939,178**

* These equity accounts comprise the reserves of deficit of RMB7,795,055 (2018: deficit of RMB7,752,636) in the consolidated statement of financial position as at 31 December 2019.

Consolidated statement of changes in equity for the year ended 31 December 2019 (Continued)

	Attributable to owners of the Company							
	Share capital RMB	Merger reserve* RMB (note 32.1)	Statutory reserve* RMB (note 32.2)	Translation reserve* RMB (note 32.3)	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	-	45,423,974	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 operation 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

The notes on pages 21 to 80 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2019

	2019 RMB (unaudited)	2018 RMB
Cash flows from operating activities		
Profit before income tax	**66,053,231**	56,010,516
Adjustments for:		
Depreciation of property, plant and equipment	**3,857,226**	105,705
Amortisation of intangible assets	**1,929,413**	2,159,613
Expected credit loss on:		
- Trade receivables	**3,017,335**	187,387
- Contract assets	**2,889,275**	16,388
- Other receivables	**660**	-
- Amount due from a non-controlling shareholder	**-**	4,959,374
Share based employee compensation	**1,996,449**	-
Interest income	**(6,603,694)**	(5,510,287)
Interest expense	**4,722,253**	3,574,072
Fair value loss/(gain) on derivative financial instruments	**1,974,310**	(1,290,086)
Exchange loss	**769,676**	1,647,126
Operating profit before working capital changes	**80,606,134**	61,859,808
(Increase)/Decrease in trade and other receivables	**(33,221,469)**	4,724,574
Increase in contract assets	**(13,349,175)**	(3,277,580)
Increase in amount due from a related company	**(11,130,746)**	-
Increase in trade and other payables	**6,395,016**	4,312,983
Decrease in contract liabilities	**(846,599)**	(5,321,518)
Cash generated from operations	**28,453,161**	62,298,267
Income tax paid	**(6,299,305)**	(6,006,722)
Net cash generated from operating activities	**22,153,856**	56,291,545
Cash flows from investing activities		
Purchase of property, plant and equipment	**(4,978,316)**	(559,138)
Purchase of intangible assets	**(240,293)**	(668,644)
Acquisition of a subsidiary	**(1,413,386)**	-
Deposit paid for an acquisition	**(73,700,000)**	-
Loan to a related company	**(257,918,520)**	(117,136,562)
Repayment of loan to a related company	**273,874,131**	129,955,022
Decrease in amount due from a non-controlling shareholder of a subsidiary	**110,245**	468,785
Decrease in amount due from non-controlling shareholders	**11,411**	-
Increase in amounts due from related companies	**-**	(13,534,427)
Increase in short term bank deposits	**-**	(2,942,920)
Repayment of short term deposits	**112,486,040**	-
Interest received	**6,603,694**	4,857,211
Net cash generated from investing activities	**54,835,006**	439,327

Consolidated statement of cash flows for the year ended 31 December 2019 (Continued)

	2019 RMB (unaudited)	2018 RMB
Cash flows from financing activities		
Capital contribution from non-controlling interests	**3,147,207**	-
Dividend paid during the year	**(5,586,108)**	-
Payment of interests on convertible note	**(2,778,633)**	(2,630,295)
Drawdown of borrowings	**17,788,326**	-
Payment of interests on borrowings and lease liabilities	**(780,542)**	-
Payment of lease liabilities	**(2,712,637)**	-
(Decrease)/Increase in amount due to a non-controlling shareholder of a subsidiary	**(436,670)**	42,805
Decrease in amounts due to related companies	**(200)**	(4,640,153)
Net cash generated from/(used in) financing activities	**8,640,743**	(7,227,643)
Net increase in cash and cash equivalents	**85,629,605**	49,503,229
Effect of foreign exchange rate changes	**(98,774)**	(7,165)
Cash and cash equivalents at beginning of the year	**99,557,916**	50,061,852
Cash and cash equivalents at end of the year	**185,088,747**	99,557,916

The Group had initially applied HKFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated.

The notes on pages 21 to 80 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2019

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 are Room 1309, 13th Floor, Prince's Building, 10 Charter Road, Central, Hong Kong and Level 18, Block 2, Fudan Technology Park, 335 Guoding Road, Yangpu District, Shanghai, China, respectively. 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 e-learning solutions and related services, provision of referral and consultancy income and provision of online and offline language training. The Group's operations are based in the People's Republic of China (the "PRC"), Hong Kong and Australia. The principal activities of the subsidiaries are disclosed in note 25 to the consolidated financial statements.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as 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. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and their 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 and contingent consideration liability which are stated at fair values. The measurement bases are fully described in the accounting policies below.

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of consolidation (Continued)

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

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

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

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

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 as set out in note 38, subsidiaries are carried at cost less any impairment loss. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity in the acquiree (if any) over the net of the acquisition–date amounts of the identifiable assets acquired and liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value on the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as bargain purchase gain.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounting for within equity. Contingent consideration that is classified as a financial liability is remeasured at subsequent reporting dates at fair value with corresponding gain or loss being recognised in profit or loss.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Business combinations (Continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

2.4 Foreign currency translation

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

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e. only translated using the exchange rates at the transaction date).

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.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into RMB at the closing rates.

2.5 Property, plant and equipment

Property, plant and equipment (other than cost of right-of-use assets as described in note 2.15) 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 subsequently stated at cost less accumulated depreciation and accumulated impairment losses, if any.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment (Continued)

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

Buildings	Over lease term
Leasehold improvements	Over lease term
Computer and office equipment	$33^1/_3$%
Furniture and fittings	20% - $33^1/_3$%

Upon the application of HKFRS 16, accounting policy for depreciation of right-of-use assets is set out in note 2.15.

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

2.6 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of a subsidiary.

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Goodwill (Continued)

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2.8).

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

2.7 Other intangible assets (other than goodwill) and research and development activities

Other intangible assets (other than goodwill)

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

Intangible assets with indefinite useful lives (i.e. trademarks) are carried at cost less any subsequent accumulated impairment losses. The assets' amortisation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Intangible assets with finite and infinite useful lives are tested for impairment as described below in note 2.8.

Research and development costs

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Other intangible assets (other than goodwill) and research and development activities (Continued)

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.

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

The following assets are subject to impairment testing:

- Goodwill arising on acquisition of a subsidiary;
- Other intangible assets;
- Property, plant and equipment (including right-of-use assets); and
- The Company's interest in subsidiaries.

Goodwill and other intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets 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. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose and not be larger than an operating segment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment of non-financial assets (other than contract assets) (Continued)

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, 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.

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2.9 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 of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets

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 at amortised cost and FVTPL. The classification is determined by both of 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 impairment losses on financial assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial instruments (Continued)

Financial assets (Continued)

Subsequent measurement of financial assets

Debt investments

Financial assets at amortised cost

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 at bank and in hand fall into this category of financial instruments.

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.

Financial liabilities

Classification and measurement of financial liabilities

The Group's financial liabilities include borrowings, leases liabilities, trade and other payables, amounts due to related parties (including a non-controlling shareholder of a subsidiary and a related company), derivative financial instrument, convertible note and contingent consideration liability.

Financial liabilities (other than lease liabilities) are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at FVTPL.

Subsequently, financial liabilities (other than lease 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial instruments (Continued)

Financial liabilities (Continued)

Classification and measurement of financial liabilities (Continued)

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.

Accounting policies of lease liabilities are set out in note 2.15.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Convertible note

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial instruments (Continued)

Financial liabilities (Continued)

Classification and measurement of financial liabilities (Continued)

Derivative financial instrument and contingent consideration liability

Details of accounting policy of derivative financial instruments and contingent consideration liability are set out in note 2.11.

Trade and other payables and amounts due to related parties (including a non-controlling shareholder of a subsidiary and a related company)

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

2.10 Impairment of financial assets and contract assets

HKFRS 9's 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, 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)

2.10 Impairment of financial assets and contract assets (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 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.

To measure the ECL, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the ECL rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

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;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Impairment of financial assets and contract assets (Continued)

Other financial assets measured at amortised cost (Continued)

- 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.

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).

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.

2.11 Derivative financial instruments and contingent consideration liability

Derivative financial instruments and contingent consideration liability 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.

2.12 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2.18) 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 2.10 and are reclassified to receivables when the right to the consideration has become unconditional (see note 2.9).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2.18). 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 2.9).

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.

2.14 Financial guarantees contracts

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

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. 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 2.10 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)

2.15 Leases

Definition of a lease and the Group as a lessee

(Policy applicable from 1 January 2019)

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

For contracts that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

Except for those right-of-use assets meeting the definition of investment properties and those relating to a class of property, plant and equipment to which revaluation model was applied, the Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset (except for those meeting the definition of investment properties) for impairment when such indicator exists.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Leases (Continued)

Definition of a lease and the Group as a lessee (Continued)

(Policy applicable from 1 January 2019) (Continued)

Measurement and recognition of leases as a lessee (Continued)

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

On the consolidated statement of financial position, right-of-use assets that do not meet the definition of investment property have been included in "property, plant and equipment", the same line as it presents the underlying assets of the same nature that it owns.

Refundable rental deposits paid are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Leases (Continued)

Definition of a lease and the Group as a lessee (Continued)

(Policy applicable before 1 January 2019)

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 leases

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.

2.16 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.

2.17 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)

2.18 Revenue recognition

Revenue arises mainly from the rendering of e-learning solutions and related services, provision of referral and consultancy services and tuition and coaching fees from online and offline language training .

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.

Further details of the Group's revenue and other income recognition policies are as follows:

<u>Rendering of e-learning solutions and related services</u>

For e-learning solutions 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 input method, i.e. the cost incurred compared with the budget cost, which depict the Group's performance towards satisfying the performance obligation.

<u>Commission and consultancy income</u>

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Revenue recognition (Continued)

Tuition and coaching fees

The Group also provides online and offline language training, coaching and related services to their customers. Revenue from are recognised when the relevant services have been provided and the Group received the payment or the right to receive payment has been established.

Property management income

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

Interest income

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

2.19 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.

Government grants relating to income is presented in gross under "Other income" in the consolidated statement of profit or loss and other comprehensive income.

2.20 Employee benefits

Retirement benefits

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

The employees of the Group who 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.

The employees of the Group who operates in Hong Kong are required to participate in a defined contribution retirement benefit plan under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Employee benefits (Continued)

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.

Share-based employee compensation

The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the equity instruments awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

All share-based compensation is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the equity instruments granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in the "share option reserve" in equity. If vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

At the time when the share options are exercised, the amount previously recognised in "share option reserve" will be transferred to "share capital". After vesting date, when the vested share options are later forfeited or are still not exercised at the expiry date, the amount previously recognised in "share option reserve" will be transferred to "retained profits".

2.21 Borrowing costs

Borrowing costs are expensed when incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, 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 goodwill or from initial recognition (other than in a business combination) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Accounting for income taxes (Continued)

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.

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.

2.23 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 Group has identified the following reportable segments:

- E-learning solutions and related services
- Management consultancy services
- Language training and coaching services

Each of these operating segments is managed separately as each of these service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Segment reporting (Continued)

The measurement policies the Group used for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that the following items are not included in arriving at the operating results of the operating segment:

- expenses related to share-based payments;
- research and development costs;
- finance cost;
- income tax; and
- corporate income and expenses which are not directly attributable to the business activities of any operating segment.

Segment assets include all assets but trademarks and financial assets at FVTPL. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarter.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment. These include the borrowings undertaken specifically to fund the acquisition of these assets.

No asymmetrical allocations have been applied to reportable segments.

2.24 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Related parties (Continued)

(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.

3. ADOPTION OF NEW AND AMENDED HKFRSs

3.1 New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2019

In the current year, the Group has applied for the first time the following 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 2019:

HKFRS 16	Leases
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventues
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments

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.

HKFRS 16 "Leases"

HKFRS 16 "Leases" replaces HKAS 17 "Leases" along with three Interpretations (HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease", HK(SIC)-Int 15 "Operating Leases-Incentives" and HK(SIC)-Int 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease"). HKFRS 16 has been applied using the modified retrospective approach, with the cumulative effect of adopting HKFRS 16 being recognised in equity as an adjustment to the opening balance of retained profits for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from HKAS 17 and HK(IFRIC)-Int 4 and has not applied HKFRS 16 to arrangements that were previously not identified as lease under HKAS 17 and HK(IFRIC)-Int 4.

As a Lessee

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of HKFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of HKFRS 16.

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 2019 (Continued)

HKFRS 16 "Leases" (Continued)

As a Lessee (Continued)

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	RMB (unaudited)
Total operating lease commitments disclosed as at 31 December 2018 representing gross operating lease obligations at 1 January 2019	7,111,036
Discounting using the Group's weighted average incremental borrowing rate of 4.99%	(550,196)
Lease liabilities discounted at relevant incremental borrowing rates at 1 January 2019	6,560,840
Less: Foreign currency translation differences	(32,740)
Lease liabilities as at 1 January 2019	**6,528,100**
Classified as:	
Current lease liabilities	2,024,719
Non-current lease liabilities	4,503,381
Lease liabilities as at 1 January 2019	**6,528,100**

The following table summarises the impact of transition to HKFRS 16 on the Group's consolidated statement of financial position at 1 January 2019:

	Carrying amount under HKAS 17 at 31 December 2018 RMB	**Adjustments RMB (unaudited)**	**Carrying Amount under HKFRS 16 at 1 January 2019 RMB (unaudited)**
<u>Net assets</u>			
Right-of-use assets presented in property, plant and equipment	-	6,528,100	6,528,100
Prepayment	186,560	(186,560)	-
Lease liabilities	-	(6,528,100)	(6,528,100)
Deferred rent	(240,800)	240,800	-

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 2019 (Continued)

HKFRS 16 "Leases" (Continued)

As a Lessee (Continued)

Total impact arising from transition to HKFRS 16:

	2019 RMB (unaudited)
Consolidated profit or loss	
Increase in depreciation:	
- Included in administrative expenses	(2,967,204)
Decrease in operating lease expenses:	
- Included in administrative expenses	3,204,361
Increase in finance costs	(491,724)
Decrease in profit before income tax for the year	**(254,567)**
Decrease in profit before income tax for the year attributable to:	
Owners of the Company	(212,930)
Non-controlling interest	(41,637)
	(254,567)
Net cash from financing activities as extracted from the statement of cash flows	8,640,743
Decrease in payment of lease liabilities	2,712,637
Decrease in payment of interests on lease liabilities	491,724
Net cash from financing activities without adopting HKFRS 16 for illustrative purpose	**11,845,104**

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 17	Insurance Contracts
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]

[1] Effective for annual periods beginning on or after 1 January 2020

[2] Effective for annual periods beginning on or after 1 January 2021

[3] Effective date not yet determined

[4] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

3. ADOPTION OF NEW AND AMENDED HKFRSs (CONTINUED)

3.2 Issued but not yet effective HKFRSs (Continued)

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.

Amendments to HKFRS 3 "Definition of a business"

The amendments narrowed and clarified the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments:

- clarify that a business is considered as an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Guidance and illustrative examples are provided to help entities assess whether a substantive process has been acquired;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add an optional concentration test that permits simplified assessment of whether an acquired set of activities and assets is not a business; and
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs.

Amendments to HKFRS 3 is 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 these consolidated financial statements.

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 these 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 2019, the carrying amount of the Group's deferred tax assets was RMB964,907 (2018: RMB203,458).

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

The Group makes allowances on items subjects to ECL (including trade and other receivables, contract assets and other financial assets measured at amortised cost) 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 2.10. As at 31 December 2019, the aggregate carrying amounts of trade and other receivables, contract assets and other financial assets measured at amortised cost amounted to RMB58,892,778 (net of ECL allowance of RMB4,278,019), RMB29,504,418 (net of ECL allowance of RMB2,984,976) and RMB210,666,361 (net of ECL allowance of RMB4,960,034) respectively. Comparatively, the aggregate carrying amounts of trade and other receivables, contract assets and other financial assets as at 31 December 2018 amounted to RMB29,344,239 (net of ECL allowance of RMB1,260,684), RMB19,044,518 (net of ECL allowance of RMB95,701) and RMB242,567,091 (net of ECL allowance of RMB4,959,374) 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 23 to the consolidated financial statements, the derivative components of convertible note are measured at fair value. The Group engaged an independent valuer to determine the fair values of these derivative financial instruments. The determination was based on generally accepted valuation procedures and practices that rely extensively on numerous assumptions taking into consideration of many uncertainties, including discount rate and volatility of the Group's share price, some of which cannot be easily quantified or ascertained. Changes in subjective input assumptions can materially affect the fair value estimate. As at 31 December 2019, the net fair value of derivative financial instruments is RMB4,548,129 (2018: RMB2,481,258).

Fair value of contingent consideration liability

As described in note 30 to the consolidated financial statements, the contingent consideration liability is measured at fair value. The Group engaged an independent valuer to determine the fair values of this contingent consideration liability. The determination was rely extensively on probability-weighted estimated of the future net profit after tax of the coming 3 years to the Aushen Group Pty Ltd. ("Aushen"), numerous assumptions taking into consideration of many uncertainties including discount rate and management's estimation of the performance achieved, 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 2019, the net fair value of contingent consideration liability is RMB1,607,522 (2018: nil).

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 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. 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 solutions and related services, language training and coaching services and management consultancy services as reportable segments as described in note 2.23. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

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, Hong Kong and Australia. The principal assets of the Group were located in the PRC, Hong Kong and Australia during the year.

6. REVENUE

The Group's principal activities are disclosed in note 1 to the consolidated financial statements. There are included a new revenue generated from tuition and coaching fees during the year.

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

	2019 RMB (unaudited)	2018 RMB
Rendering of e-learning solutions and related services	**162,894,630**	126,398,197
Tuition and coaching fees	**2,089,987**	-
Commission and consultancy income	**2,755,971**	4,103,204
	167,740,588	130,501,401

7. OTHER INCOME

	2019 RMB (unaudited)	2018 RMB
Interest income from loan to a related company	**4,475,142**	3,278,877
Bank interests	**2,128,552**	2,231,410
Government subsidies income*	**2,158,044**	1,024,870
Property management income from:		
- A related company	**1,054,205**	-
- Non-controlling shareholder of a subsidiary	**1,054,204**	-
Sundry income	**225,390**	456,237
Exchange gain	**294,279**	803,208
Waiver of other payable	**908,830**	-
	12,298,646	7,794,602

* Government subsidies income represents discretionary grants received by subsidiaries of the Company and are recognised in profit or loss when received and no specific conditions have been required to fulfill.

8. FINANCE COSTS

	2019 RMB (unaudited)	2018 RMB
Interest charges on:		
- Borrowings	**373,671**	-
- Convertible notes (note 29)	**3,818,703**	3,574,072
Finance charges on lease liabilities	**491,724**	-
Total interest expense on financial liabilities not at FVTPL	**4,684,098**	3,574,072
Others	**38,155**	-
	4,722,253	3,574,072

9. PROFIT BEFORE INCOME TAX

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

	2019 RMB (unaudited)	2018 RMB
Depreciation:		
- Owned assets	**890,022**	105,705
- Right-of-use assets	**2,967,204**	-
Total depreciation	**3,857,226**	105,705
Amortisation of other intangible assets	**1,929,413**	2,159,613
Impairment losses on:		
- Trade receivables	**3,017,335**	187,387
- Contract assets	**2,889,275**	16,388
- Other receivables	**660**	-
- Amount due from a non-controlling shareholder	**-**	4,959,374
Total impairment losses on financial assets	**5,907,270**	5,163,149
Auditors' remuneration	**1,150,000**	1,050,000
Operating lease charges in respect of office premises	**-**	834,135
Net foreign exchange loss	**810,125**	3,057,436
Staff and related costs (including directors' remuneration)*	**31,650,418**	25,331,543

* There are staff cost of RMB12,559,392 (2018: RMB10,389,781) 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 Company Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Director) Regulation, is as follows:

	2019 RMB (unaudited)	2018 RMB
Directors' emoluments for services as directors of the Company and its subsidiary undertakings		
- Fees	**1,162,530**	1,216,770

11. INCOME TAX EXPENSE

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

	2019 RMB (unaudited)	2018 RMB
Current tax		
PRC		
- Current year	**11,362,287**	9,200,369
- Overprovision in respect of prior years	**-**	(1,482,108)
- Withholding tax on dividend from a PRC subsidiary	**3,567,556**	-
	14,929,843	7,718,261
Hong Kong and Australia		
- Current year	**912,420**	-
Deferred tax (note 18)	**(761,449)**	25,723
	15,080,814	7,743,984

(a) 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;

(b) From 1 January 2019 to 31 December 2021, under relevant PRC EIT Law, for PRC enterprises that qualifies for small enterprises with limited profitability are subject to two tiered profit tax regime, where the first RMB1 million taxable profits reduced to 25% for calculating taxable income and subject to preferential income tax rate of 20% (i.e. effective tax rate of 5%). For profits above RMB1 million and not exceeding RMB3 million, they shall be reduced to 50% for calculating taxable income and subject to preferential income tax rate of 20% (i.e. effective tax rate of 10%);

(c) PRC EIT law also require all retained profits of the PRC subsidiaries arising since 1 January 2008 and distributed and remitted as dividend to the overseas parents are subject to 5% or 10% withholding tax on the amount remitted. Withholding taxes have been provided for the profits that have been declared from a PRC subsidiary of the Group during the period. For the remaining retained profits, it is the intention of the management that the Group would reinvest these profits in the respective subsidiaries and therefore withholding tax would not be applicable for those profits;

11. INCOME TAX EXPENSE (CONTINUED)

(d) 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% (2018: 175%) 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% (2018: 75%) 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 2019.

(e) The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying entities are taxed at 8.25%, and the profits above HK$2 million are taxed at 16.5%. Hong Kong profits tax has not been provided for the year ended 31 December 2018 as the Group has no assessable profits for the year; and

(f) Under relevant tax regulations in Australia, local corporations are subject to corporate tax rate of 27.5% .

12. DIVIDENDS

Special dividends attributable to the previous financial period, approved and paid during the year:

	2019 RMB (unaudited)	2018 RMB
Special dividends in respect of the previous financial period, of Australian dollars ("A$") 0.005 per ordinary share	**5,586,108**	-

13. EARNINGS PER SHARE

	2019 RMB (unaudited)	2018 RMB
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**53,759,636**	49,233,148
Effect of dilutive potential ordinary shares:		
- Interest on convertible note	**-**	3,574,072
- Fair value gain on derivative financial instruments	**-**	(1,290,086)
Earnings for the purpose of diluted earnings per share	**53,759,636**	51,517,134
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**231,817,980**	230,750,944
Effect of dilutive potential ordinary shares:		
- Convertible note	**-**	17,362,642
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**231,817,980**	248,113,586

The calculation of diluted earnings per share for the year ended 31 December 2019 does not assume the exercise of the Company's outstanding convertible note which had anti-dilutive effect and would result in an addition in earnings per share. Therefore the diluted earnings per share is the same as the basic earnings per share for the year.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB	Computer and office equipment RMB	Leasehold Improvements RMB	Furniture and fittings RMB	Total RMB
At 1 January 2018					
Cost	-	299,253	-	-	299,253
Accumulated depreciation	-	(57,155)	-	-	(57,155)
Net book amount	-	242,098	-	-	242,098
Year ended 31 December 2018					
Opening net book amount	-	242,098	-	-	242,098
Additions	-	224,033	335,105	-	559,138
Depreciation	-	(105,705)	-	-	(105,705)
Closing net book amount	-	360,426	335,105	-	695,531
At 31 December 2018 and 1 January 2019					
Cost	-	523,286	335,105	-	858,391
Accumulated depreciation	-	(162,860)	-	-	(162,860)
Net book amount as at 31 December 2018	-	360,426	335,105	-	695,531
Adjustment from the adoption of HKFRS 16 (note 3)	6,528,100	-	-	-	6,528,100
Net book amount as at 1 January 2019, restated (unaudited)	6,528,100	360,426	335,105	-	7,223,631
Year ended 31 December 2019					
Opening net book amount as at 1 January 2019, restated	6,528,100	360,426	335,105	-	7,223,631
Additions	37,138,358	2,757,225	1,887,376	352,830	42,135,789
Depreciation	(2,967,204)	(512,090)	(377,932)	-	(3,857,226)
Exchange differences	657,128	6,774	9,312	-	673,214
Closing net book amount (unaudited)	**41,356,382**	**2,612,335**	**1,853,861**	**352,830**	**46,175,408**
At 31 December 2019					
Cost	44,359,807	3,291,047	2,237,760	352,830	50,241,444
Accumulated depreciation	(3,003,425)	(678,712)	(383,899)	-	(4,066,036)
Closing net book amount (unaudited)	**41,356,382**	**2,612,335**	**1,853,861**	**352,830**	**46,175,408**

As at 31 December 2019, buildings included in the net carrying amount of property, plant and equipment are right-of-use assets.

During the year ended 31 December 2019, the total additions to right-of-use assets included in property, plant and equipment amounting to RMB37,138,358. The details in relation to these leases are set out in note 28.

15. GOODWILL

During the year ended 31 December 2019, the Group acquired 51% equity interests in Aushen, in an entity incorporated in Australia in which RMB2,640,293 of goodwill was recognised. The detail of acquisition are set out in note 37.

16. OTHER INTANGIBLE ASSETS

	Trademarks RMB	Content distribution rights RMB	Capitalised software development RMB	Total RMB
1 January 2018				
Cost	-	3,584,906	-	3,584,906
Accumulated amortisations	-	(597,485)	-	(597,485)
Net carrying amount	-	2,987,421	-	2,987,421
Year ended 31 December 2018				
Opening net carrying amount	-	2,987,421	-	2,987,421
Additions	-	-	1,468,644	1,468,644
Amortisations	-	(1,792,452)	(367,161)	(2,159,613)
Closing net carrying amount	-	1,194,969	1,101,483	2,296,452
31 December 2018 and 1 January 2019				
Cost	-	3,584,906	1,468,644	5,053,550
Accumulated amortisations	-	(2,389,937)	(367,161)	(2,757,098)
Net carrying amount	**-**	**1,194,969**	**1,101,483**	**2,296,452**
Year ended 31 December 2019				
Opening net carrying amount	-	1,194,969	1,101,483	2,296,452
Additions	-	-	240,293	240,293
Acquisition of a subsidiary (note 37)	2,137,709	-	-	2,137,709
Amortisations	-	(1,194,969)	(734,444)	(1,929,413)
Closing net carrying amount (unaudited)	**2,137,709**	**-**	**607,332**	**2,745,041**
As at 31 December 2019				
Cost	**2,137,709**	**3,584,906**	**1,708,937**	**7,431,552**
Accumulated amortisations	**-**	**(3,584,906)**	**(1,101,605)**	**(4,686,511)**
Net carrying amount (unaudited)	**2,137,709**	**-**	**607,332**	**2,745,041**

Note

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

2) As disclosed in note 37, the Group 51% equity interests in Aushen which included the trademarks and have an indefinite useful life. There is no foreseeable limit to the period over which the trademark is expected to generate net cash inflows for the Group.

17. DEPOSIT PAID

	2019 RMB (unaudited)	2018 RMB
Purchase consideration paid in connection with acquisition of Pantosoft	**73,700,000**	-

On 18 November 2019, the Board approved the Group's proposed plan to acquire Shanghai Pantosoft Co., Ltd. ("Shanghai Pantosoft"). A deposit of RMB73,700,000 has been paid to secure the whole transaction on 28 November 2019. On 22 January 2020, the Group signed a sale and purchase agreement to acquire Pantosoft International Limited ("Pantosoft") and Shanghai Pantosoft for RMB76,000,000.

Pantosoft owns 80% equity interests, in Shanghai Pantosoft. Shanghai Pantosoft provides digital solutions via self-developed software systems to support education management in secondary and vocational schools in China. As of reporting date, the transaction has yet to be completed.

18. DEFERRED TAX

The movement during the year in the deferred tax assets/(liabilities) is as follows:

	2019 RMB (unaudited)	2018 RMB
At 1 January	**203,458**	229,181
Acquisition of a subsidiary (note 37)	**(587,870)**	-
Charged to profit or loss for the year (note11)	**761,449**	(25,723)
At 31 December	**377,037**	203,458

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

Deferred tax assets

	Unpaid accruals RMB	ECL allowance RMB	Total RMB
At 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 and 1 January 2019	-	203,458	203,458
Credited to profit or loss for the year	-	761,449	761,449
At 31 December 2019 (unaudited)	**-**	**964,907**	**964,907**

18. DEFERRED TAX (CONTINUED)

Deferred tax liabilities

	Tax liabilities on arising from acquisition of Aushen Group RMB (unaudited)
At 31 December 2018 and 1 January 2019	-
Acquisition of a subsidiary (note 37)	(587,870)
At 31 December 2019	**(587,870)**

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

	2019 RMB (unaudited)	2018 RMB
Deferred tax assets recognised in the consolidated statement of financial position	**964,907**	203,458
Deferred tax liabilities recognised in the consolidated statement of financial position	**(587,870)**	-
Net deferred tax assets	**377,037**	203,458

The Group has unrecognised tax losses of approximately RMB16,387,000 (2018: RMB 6,722,000) due to unpredictability of future profit streams, of which approximately RMB6,567,000 (2018: RMB5,489,000) will expire within 5 years and approximately RMB9,820,000 (2018: RMB1,233,000) with unlimited expiry date.

19. TRADE AND OTHER RECEIVABLES

	2019 RMB (unaudited)	2018 RMB
Trade receivables, gross	**58,580,709**	28,035,771
Less: ECL allowance	**(4,278,019)**	(1,260,684)
Trade receivables, net	**54,302,690**	26,775,087
Interest receivable	**-**	1,015,534
Other receivables and deposits paid net of ECL allowance	**4,590,088**	1,553,618
Financial assets at amortised cost	**58,892,778**	29,344,239
GST withholding tax received	**164,423**	-
Prepayments	**2,249,258**	1,412,338
	61,306,459	30,756,577

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.

20. CONTRACT ASSETS AND LIABILITIES

20.1 Contract assets

	2019 RMB (unaudited)	2018 RMB
Contract assets arising from unbilled revenue from e-learning contracts	**32,489,394**	19,140,219
Less: ECL allowance	**(2,984,976)**	(95,701)
	29,504,418	19,044,518

20.2 Contract liabilities

	2019 RMB (unaudited)	2018 RMB
Contract liabilities arising from billings in advance of performance		
- e-learning contracts	**2,901,432**	4,721,383
- tuition and coaching services	**973,352**	-
	3,874,784	4,721,383

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.

Contract liabilities outstanding at the beginning of the year accounting to RMB4,721,383 (2018: RMB10,042,901) have been recognised as revenue during the year.

21. 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) Amount due from non-controlling shareholders

	2019 RMB (unaudited)	2018 RMB
Lumina Looque Knowledge Hubs Pte Ltd ("Lumina")*	**4,959,374**	4,959,374
Less: ECL allowance	**(4,959,374)**	(4,959,374)
	-	-
Investorlink Securities Limited	**-**	11,411
	-	11,411

* Mr. Calvin Cheng ("Mr. Cheng") is a shareholder and Co-Chairman of the Company. Mr. Cheng is also a shareholder of Lumina.

The movement in the ECL allowance of the amount due from Lumina is as follows:

	2019 RMB (unaudited)	2018 RMB
Balance at the beginning of the year	**4,959,374**	-
ECL allowance recognised during the year (note)	**-**	4,959,374
Balance at the end of the year	**4,959,374**	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

	2019 RMB (unaudited)	2018 RMB
Hexon Consulting Limited	**328,755**	439,000

Hexon Consulting Limited has 9.2% equity interests in the Company's subsidiary, Prosage Development Limited. The amount is unsecured, interest free and repayable on demand.

21. 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 (unaudited)	2019 RMB (unaudited)	2018 RMB
Retech Digital Media Co.,Ltd*	**4,433,500**	**4,433,500**	-
Shanghai Retech Information Technology Co., Ltd ("Shanghai Retech IT") *	**51,209,431**	**8,468,340**	29,271,094
		12,901,840	29,271,094

* Mr. AI Shungang is the ultimate holding controlling shareholder and a Co-Chairman of the Company. He is also the ultimate controlling shareholder and a director of Retech Digital Media Co., Ltd and Shanghai Retech IT.

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

	2019 RMB (unaudited)	2018 RMB
Hexon Consulting Limited	**-**	436,670

(e) Amounts due to a related company

	2019 RMB (unaudited)	2018 RMB
Jiangsu Yunmei Digital Technology Co., Ltd. ("Jiangsu Yunmei")*	**5,974**	5,974
Shanghai Retech IT	**-**	200
	5,974	6,174

* Mr. AI Shungang being the ultimate controlling shareholder and Chairman of the Company is also a controlling shareholder and director at Jiangsu Yunmei.

22. LOAN TO A RELATED COMPANY

	Maximum balance during the year RMB (unaudited)	2019 RMB (unaudited)	2018 RMB
Jiangsu Retech Digital Information Industry Park Co., Ltd. ("Jiangsu Industry Park")	**169,100,265**	**12,347,019**	802,630

22. LOAN TO A RELATED COMPANY (CONTINUED)

The loan to a related company above is denominated in RMB and is interest-bearing and wholly repayable within twelve months from the reporting date. In addition, the loan has been personally guaranteed by Mr. Ai Shungang.

The director believe that the loan represents better use of the Group funds considering good repayment history from Jiangsu Industry Park and offers higher interest rate than the market.

23. DERIVATIVE FINANCIAL INSTRUMENTS

Management considers the convertible note (note 29) issued on 20 November 2017 as hybrid instruments with main debt contract and embedded derivatives options. As set out in note 29, 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.

24. CASH AND CASH EQUIVALENTS AND SHORT TERM BANK DEPOSITS

		2019 RMB (unaudited)	2018 RMB
Cash at bank and in hand		**185,088,747**	99,557,916
Fixed bank deposit	(a)	**-**	59,137,040
Pledged bank deposit	(b)	**-**	53,349,000
Short term bank deposits		**-**	112,486,040
		185,088,747	212,043,956

(a) During the year ended 31 December 2018, fixed bank deposit earns interest at fixed rate from 1.70% to 2.10% per annum and has an original maturity of one year.

(b) During the year ended 31 December 2018, pledged bank deposit earns interest at fixed rate of 1.95% per annum and has an original maturity of six months. The deposit has been pledged as financial guarantee to secure a working capital loan for a related company of the Group, Shanghai Retech Enterprise Management Group Co., Ltd.

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. Also the guarantee was released subsequently on 31 July 2019.

25. INTERESTS IN SUBSIDIARIES

Particulars of the subsidiaries at 31 December 2019 and 2018 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 2019 Direct	2019 Indirect	2018 Direct	2018 Indirect	Principal activities
Retech Holdings Co., Limited ("Retech Holdings")	Hong Kong	Limited liability company	HK$15,000,000	100%	-	100%	-	Investment holding
Shanghai Retech Digital Technology Co., Ltd ("Retech Digital") 上海睿泰数字科技有限公司	PRC	Limited liability company	RMB6,500,000	-	100%	-	100%	E-learning solutions and consultancy services
Shanghai Ruijian Information Technology Co., Ltd("Ruijian") 上海睿剑信息科技有限公司	PRC	Limited liability company	RMB26,000,000	-	100%	-	100%	Provision of software licensing services
Shanghai Ruipengcheng Technology Co., Ltd ("Ruipengcheng") 上海睿朋程科技有限公司	PRC	Limited liability company	RMB2,000,000	-	62.50%	-	62.50%	E-learning solutions and consultancy services
Shanghai Reunet Technology Network Co., Ltd ("Reunet") 上海睿鹄网络科技有限公司	PRC	Limited liability company	-	-	60.02%	-	60.02%	Provision of e-learning solutions
Prosage Sustainability Development Limited ("Prosage") (note (a)	Hong Kong	Limited liability company	HK$8,500,000 (2018: HK$5,000,000)	-	82.76% (note b)	-	90.00%	Provision of ESG related e-learning solutions and consultancy services
Aushen Group Pty. Ltd. (note 37)	Australia	Limited liability company	A$100	-	51.00%	-	-	Operation of language coaching school
Shanghai Paisiqi Information Technology Co., Ltd. 上海派施奇信息技术有限公司 ("Shanghai Paishiqi") (note c)	PRC	Limited liability company	-	-	82.76%	-	-	Technical consulting and development
Ai English Pty. Ltd. (note c)	Australia	Limited liability company	A$100	-	51.00%	-	-	Operation of language coaching school
Ai Chinese Pty. Ltd. (note c)	Australia	Limited liability company	-	-	100%	-	-	Operation of language coaching school
Wuxi Ai English Education Technology Co., Ltd. 无锡爱英语教育科技有限公司("Wuxi Ai Yingyu") (note c)	PRC	Limited liability company	-	-	51.00%	-	-	Provision of educational software development services

(a) During the year, there is an increase in the share capital of Prosage by non-controlling interest of HK$3,500,000, equivalent to RMB3,147,207.

(b) During 21 November 2019, Prosage issued 500,000 new shares to non-controlling interests for an amount of HK$3,500,000 (equivalent to RMB3,147,207). Aa a result, the Group shareholding in Prosage has reduced to 82.76% (2018: 90%).

(c) These subsidiaries of the Company are set up during the year.

26. TRADE AND OTHER PAYABLE

	2019 RMB (unaudited)	2018 RMB
Trade payables	**12,442,615**	4,974,516
Other payables		
- Accrued expenses	**2,515,537**	2,041,722
- Payable for acquisition of intangible asset	**800,000**	800,000
- Payroll payable	**2,262,656**	4,455,917
- Other liabilities	**4,001,542**	3,165,039
Trade and other payables as financial liabilities at amortised cost	**22,022,350**	15,437,194
Provision of other tax liabilities	**1,771,400**	3,040,349
Deferred rent	**-**	240,800
	23,793,750	18,718,343

The credit period of the Group is usually 15 to 60 days. All amounts are short term and the directors consider the carrying values of the Group's trade payables, accrued expenses and other payables are approximate to their fair values.

27. BORROWINGS

	2019 RMB (unaudited)	2018 RMB
Bank loans – secured (note a)	**12,984,853**	-
Private loan - unsecured (note b)	**4,888,326**	-
Total borrowings	**17,873,179**	-
Less: Amounts shown under current liabilities	**(12,984,853)**	-
	4,888,326	-

(a) Bank loans are denominated in RMB, wholly repayable in 12 months from the date of drawdown and interest bearing at fixed rate of 5.22% and variable rate of 5.34% respectively. These bank loans are secured against:

- Personal guarantees provided by Mr Ai Shungang and Ms. Kong Yan.; and
- Loan performance guarantee insurance purchased by the Group.

(b) It is a 3-year unsecured loan with principal amount of A$1,000,000 from Hong Kong Fu An Development Co., Limited and wholly repayable on 29 August 2022. The loan bears interest rate of 4.5% per annum which the interest is repayable every six months.

28. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities:

	2019 RMB (unaudited)	2018 RMB
Total minimum lease payments:		
Due within one year	10,617,609	
Due in the second to fifth years	31,964,063	-
Due after the fifth year	3,033,804	-
	45,615,476	-
Less: Future finance charges on lease liabilities	(4,011,397)	-
Present value of lease liabilities	41,604,079	-
Present value of minimum lease payments:		
Due within one year	9,155,846	-
Due in the second to fifth years	29,445,113	-
Due after the fifth year	3,003,120	-
	41,604,079	-
Less: Portion due within one year included under current liabilities	(9,155,846)	-
Portion due after one year included under non-current liabilities	32,448,233	-

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. Details for transitions to HKFRS 16 are set out in note 3.

As at 31 December 2019, lease liabilities amounting to RMB41,604,079 are effectively secured by the related underlying assets as the rights to the leased asset would be reverted to the lessor in the event of default by repayment by the Group.

During the year, total cash outflows for the principal and interests charges for leases liabilities are RMB2,712,637and RMB491,724 respectively.

As at 31 December 2019, the Group has entered into leases for various office spaces as follows:

Types of right-of-use assets	Financial statements items of right-of-use assets included in	Number of leases	Range of remaining lease term	Particulars
Office	Buildings carried at cost in "property, plant and equipment"	5	2 to 6 years	*Include 1 office lease commencing on 1 January 2020 to which the Group is committed to occupy.*

The directors consider that no extension option or termination option shall be exercised at the lease commencement date.

29. CONVERTIBLE NOTE

	2019 RMB (unaudited)	2018 RMB
Convertible note maturing on 2021	**32,781,619**	31,092,542

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") (Listed in Hong Kong Stock Exchange: 2277) 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.

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.

29. CONVERTIBLE NOTE (CONTINUED)

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.

	2019 RMB (unaudited)	2018 RMB
Liability component		
1 January	**31,092,542**	28,591,365
Accrued effective interest charges (note 8)	**3,818,703**	3,574,072
Interest paid	**(2,778,633)**	(2,630,295)
Exchange differences	**649,007**	1,557,400
31 December	**32,781,619**	31,092,542
Fair value of embedded derivative component in respect of the call option - financial assets		
1 January	**(11,135,977)**	(19,758,568)
Changes in fair value	**1,598,435**	9,016,260
Exchange differences	**(195,868)**	(393,669)
31 December	**(9,733,410)**	(11,135,977)
Fair value of embedded derivative component in respect of the conversion and put option - financial liabilities		
1 January	**13,617,235**	23,440,186
Changes in fair value	**375,875**	(10,306,346)
Exchange differences	**288,429**	483,395
31 December	**14,281,539**	13,617,235

As at 31 December 2019, the fair value of the liability component above is approximately RMB34,545,000 (2018: RMB33,460,000). 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.

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

	2019 RMB (unaudited)	2018 RMB
Time to maturity	**1.89 years**	2.89 years
Share price	**HK$2.27**	HK$2.37
HK$/A$ exchange rate	**5.467**	5.520
Conversion price (floating)	**HK$2.04**	HK$1.93
Spread	**6.90%**	6.74%
Expected share price volatility	**78%**	80%
Risk-free rate	**2.53%**	2.85%
Discount rate	**9.43%**	9.59%

30. CONTINGENT CONSIDERATION LIABILITY

	2019 RMB (Unaudited)
Contingent consideration at acquisition date	**1,541,259**
Change in fair value	**38,155**
Exchange differences	**28,108**
31 December 2019 (unaudited)	**1,607,522**

On 26 June 2019, the Group completed an acquisition of 51% equity interests in Aushen from an independent third party, Suns Group Corporation Pty Ltd ("Suns Group"). The acquisition includes a contingent consideration payable by the Group to Suns Group.

The Group is expected pay additional consideration up to A$418,000 on year 2022 depending upon the growth rate of the net profit after tax of Aushen for the years ended 30 June 2020, 2021 and 2022. The details are set out in note 37.

31. SHARE CAPITAL

	Notes	**Number of shares**	**RMB**
Issued and fully paid ordinary shares			
As at 1 January 2018, 31 December 2018 and 1 January 2019		230,750,944	141,905,974
Issued during the year (unaudited)	(a)	2,161,689	4,072,436
31 December 2019 (unaudited)		**232,912,633**	**145,978,410**

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 1 July 2019 and 12 September 2019, the Company issued 2,064,180 and 97,509 CDIs to certain employees with the fair values of RMB3,882,414 and RMB190,022 as under Retech Incentive Plan. Details of the plan have been set out in note 36.

32. RESERVES

32.1 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.

32.2 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.

32.3 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 2.4.

33. 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 2019 and 2018.

	Amounts due to related parties (note) RMB	Lease liabilities (current and non-current) RMB	Borrowings (current and non-current) RMB	Convertible note RMB	Dividend payable RMB	Total RMB
1 January 2019	442,844	-	-	31,092,542	-	31,535,386
Impact on initial application of HKFRS 16 (note 3)	-	6,528,100	-	-	-	6,528,100
1 January 2019 (Adjusted)	442,844	6,528,100	-	31,092,542	-	38,063,486
Cash flows:						
Proceeds	-	-	17,788,326	-	-	17,788,326
Repayments	(436,870)	*(3,204,361)	(288,818)	(2,778,633)	-	(6,708,682)
Dividend paid	-	-	-	-	(5,586,108)	(5,586,108)
Non-cash：						
Additions	-	37,138,358	-	-	5,586,108	42,724,466
Interest expenses	-	491,724	373,671	3,818,703	-	4,684,098
Exchange adjustments	-	650,258	-	649,007	-	1,299,265
31 December 2019 (unaudited)	**5,974**	**41,604,079**	**17,873,179**	**32,781,619**	**-**	**92,264,851**

* The total amount of RMB3,204,361 included lease principal of RMB2,712,637 and interest paid of RMB491,724, which included in other financing activities.

	Convertible note RMB	Amounts due to related companies (note) RMB	Total RMB
At 1 January 2018	28,591,365	5,040,192	33,631,557
Cash flows	(2,630,295)	(4,597,348)	(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	442,844	31,535,386

Note:

Amount due to related parties include amount due to related companies and amount due non-controlling shareholder of a subsidiary.

34. 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 year are as follows:

Name of related parties	Nature of transactions	2019 RMB (unaudited)	2018 RMB
Related companies			
Shanghai Retech IT (note (a))	Services income recharged	**26,725,799**	19,309,869
	Administrative expenses recharged	**627,262**	594,963
	Cost of services recharged	**5,441,541**	9,079,932
Jiangsu Industry Park (note (b))	Interest income received	**4,475,142**	3,278,877
	Purchase of equipment	**320,273**	-
Retech Digital Media Co., Ltd (note (c))	Rendering of e-learning solutions and related services	**4,433,500**	-
	Property management income	**1,054,205**	-
Shanghai Retech Enterprise Management Group Co., Ltd (note (c))	Services income received	**-**	2,163,545

34. RELATED PARTY TRANSACTIONS (CONTINUED)

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 21(c) to the consolidated financial statements.

On 1 January 2019, both parties have agreed to revise the fee to 100% of the revenue received by Shanghai Retech IT beginning 1 January 2019 to 30 August 2026.

(b) The transaction was enacted with Jiangsu Industry Park of which relationship with the Company is described in note 22 to the consolidated financial statements.

(c) Mr. AI Shungang is the ultimate controlling shareholder and a director of Retech Digital Media Co., Ltd. and Retech Enterprise Management.

Compensation of key management personnel

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.

35. COMMITMENT AND CONTINGENCIES

35.1 Lease commitment

As lessee

At the reporting date, the lease commitments for short-term leases (2018: total future minimum lease payments payable by the Group under non-cancellable operating leases) are as follows:

	2019 RMB (unaudited)	2018 RMB
Not later than one year	-	2,236,018
Later than one year but not later than 5 years	-	4,875,018
	-	7,111,036

At 31 December 2018, the Group leases office premises under operating lease. The lease run for an initial period two to six years with renewal option and renegotiate terms at the expiry dates or dates as mutually agreed between the Group and respective landlords. None of the leases include contingent rentals.

35.2 Capital commitment

	2019 RMB (unaudited)	2018 RMB
Contracted but not provided for:		
- Property, plant and equipment	-	629,926

36. SHARE BASED EMPLOYEE COMPENSATION

On 20 May 2019, the Board approved a share-based payment scheme for its employee remunerations called Retech Incentive Plan (the "Plan"). The Plan has both share options and CHESS Depository Interests ("CDIs") (with or without restrictions). The Group will award share options or CDIs to certain key employees of the Group as part of the reward for their past and future service to the Group.

Each share option represents an option to purchase CDIs of the Company, while each of the CDIs representing the right to receive one share and CDI of the Company at grant date for predetermined considerations. To be eligible, the participants of the Plan are required to be employed until the issuance of the shares options or CDIs. The share options or CDIs typically have vesting/restricted period of up to 24 months.

The Group recognised share-based employee compensation on the following manner:

(a) CDIs without restrictions - recognised over the period where the services are received; and

(b) Share options with vesting period or CDIs with restrictions – recognised over a straight-line basis over the vesting/restriction period with corresponding increase in employee compensation reserve.

36. SHARE BASED EMPLOYEE COMPENSATION (CONTINUED)

The fair value of CDIs with no restrictions is determined based on the fair value of the Company's share on grant date. All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

The movement of share options or CDIs and weighed average fair values per share are as follows:

	2019		2018	
	Number of shares (unaudited)	Weighted average fair value per share RMB (unaudited)	Number of shares	Weighted average fair value per share
CDIs without restrictions, grant and exercised during the year:				
- 24 June 2019	2,064,180	1.88	-	-
- 12 September 2019	97,509	1.95	-	-
31 December	**2,161,689**	**1.88**	-	-

37. ACQUISITION OF A SUBSIDIARY

On 26 June 2019, the Group completed an acquisition of 51% equity interests as business acquisition in Aushen from an independent third party, Suns Group.

Aushen owns private tutoring operations in Australia which offers various education courses/programs in classroom environment for students from grade 1 to grade 12. The acquisition will allow the Group to apply its e-learning solutions for online language training and enable the Group to offer high quality courses from Australia in China. The cash and contingent considerations are as follows:

		A$ (unaudited)	RMB (unaudited)
Fair value of considerations transferred			
Cash consideration		**408,000**	**1,952,974**
Contingent consideration	(a)	**320,924**	**1,541,259**
		728,924	**3,494,233**

37. ACQUISITION OF A SUBSIDIARY (CONTINUED)

(a) The acquisition includes a contingent consideration payable by the Group to Suns Group calculated as follows:

- Based on net profit after tax ("NPAT") of Aushen for the year ended 30 June 2019 ("FY2019), if the average annual growth rate of NPAT for years ended 30 June 2020, 2021 and 2022 ("FY2020, FY2021 and FY2022") is 5% or more compared to NPAT in FY2019, FY2020, FY2021, the Group is required to pay the Suns Group an amount calculated by NPAT of FY2019 times 8 times 51% and minusing A$408,000; or

- Based on NPAT for FY2019, if the average annual growth rate of the NPAT for FY2020, FY2021 and FY2022 is lower than 5% compared to FY2019, FY2020, FY2021, the Group is required to pay the Suns Group an amount calculated by NPAT of FY2019 times 8 times 51%, minusing A$408,000 and minusing the difference between the aggregate amount of the 5% growth NPAT target for FY2020, FY2021 and FY2022 and the aggregate amount of the actual NPAT for FY2020, FY2021 and FY2022.

During the year, both parties have agreed to replace the term NPAT for FY2019 with fixed amount of A$200,000 and therefore revised the maximum total consideration for the transaction to revised to A$816,000.

The contingent consideration is payable upon completion and issuance of the audited accounts for Aushen for FY2022. The fair value of the contingent consideration initially recognised represents the present value of Aushen's probability-weighted estimated of the future NPAT of FY2020, FY2021 and FY2022. It reflects management's estimate of 85% probability that the contingent consideration will be achieved and is discounted using an interest rate of 5%.

The Group has recognised the contingent consideration above as contingent consideration liability in the consolidated statement of financial position of the Group.

The fair values of the identifiable assets and liabilities acquired at the date of acquisition were as follows:

	RMB (unaudited)
Property, plant and equipment	**19,115**
Intangible assets	**2,137,709**
Cash and bank balance	**539,588**
Trade and other receivables	**346,408**
Trade and other payables	**(756,378)**
Deferred tax liabilities	**(587,870)**
Income tax payable	**(24,180)**
Total identifiable net assets acquired	**1,674,392**

37. ACQUISITION OF A SUBSIDIARY (CONTINUED)

Goodwill arising on acquisition

	RMB (unaudited)
Fair value of considerations transferred	**3,494,233**
Non-controlling interest	**820,452**
Fair value of identifiable net assets acquired	**(1,674,392)**
Goodwill arising on acquisition	**2,640,293**

The non-controlling interest recognised at the acquisition date was measured by reference to the proportionate share of the recognised amounts of the acquiree's identifiable net assets. Goodwill arose in the acquisition of Aushen as the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Aushen. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Net cash inflow on the acquisition above is as follows:

	RMB (unaudited)
Consideration paid in cash	**1,952,974**
Cash and cash equivalents acquired	**(539,588)**
	1,413,386

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2019 RMB (unaudited)	2018 RMB
ASSETS AND LIABILITIES			
Non-current asset			
Interest in a subsidiary	25	**13,394,380**	13,394,380
Current assets			
Prepayments		**113,129**	1,070,616
Amounts due from non-controlling shareholders		**-**	11,411
Amounts due from subsidiaries		**122,782,941**	137,714,809
Dividend receivables		**39,390,000**	-
Derivative financial instruments		**9,733,410**	11,135,977
Cash and cash equivalents		**4,272,422**	25,995
		176,291,902	149,958,808
Current liabilities			
Accruals and other payables		**456,782**	671,677
Amounts due to subsidiaries		**17,700**	655,153
Derivative financial instruments		**14,281,539**	13,617,235
		14,756,021	14,944,065
Net current assets		**161,535,881**	135,014,743
Total assets less current liabilities		**174,930,261**	148,409,123
Non-current liability			
Convertible note		**32,781,619**	31,092,542
Net assets		**142,148,642**	117,316,581
Equity			
Share capital		**145,978,410**	141,905,974
Accumulated losses (note)		**(3,829,768)**	(24,589,393)
Total equity		**142,148,642**	117,316,581

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

	RMB
At 1 January 2018	10,163,765
Loss for the year	14,425,628
At 31 December 2018 and 1 January 2019	24,589,393
Profit for the year (unaudited)	(26,345,733)
Special dividend declared and paid during the year (unaudited)	5,586,108
At 31 December 2019 (unaudited)	**3,829,768**

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