RETECH

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Appendix 4E

Preliminary final report

for the year ended 31 December 2020

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

RETECH

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 2020 to 31 December 2020**
Previous period	1 January 2019 to 31 December 2019

2. Results for announcement to the market

Item	**Reporting period RMB**	**Previous period RMB**	**Changes %**
2.1 Revenue from ordinary activities	195,755,508	167,740,588	17%
2.2 Profit from ordinary activities after tax attributable to members	54,394,895	53,759,636	1%
2.3 Net profit for the period attributable to members	54,394,895	53,759,636	1%

Item	**Reporting period AUD**	**Previous period AUD**	**Changes %**
2.1 Revenue from ordinary activities	41,119,924	34,914,678	18%
2.2 Profit from ordinary activities after tax attributable to members	11,426,059	11,189,900	2%
2.3 Net profit for the period attributable to members	11,426,059	11,189,900	2%

*Exchange rate: AUD/RMB = 4.7606 (FY2020), AUD/RMB = 4.8043 (FY2019), from https://www.oanda.com

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.

Not applicable.

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

Not applicable.

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 FY2020 was RMB195.76m (A$41.12m), an increase of RMB28.02m (A$6.21m), or 17% compared to RMB167.74m (A$34.91m) in FY2019. Despite the impact of COVID-19 in early 2020, we achieved steady growth in traditional corporate E-learning this year. Meanwhile, our new growth engine, cross-border interactive language training service "Ai English", is also developing rapidly. In addition, with the acquisition of Shanghai Pantosoft Co., Ltd ("Pantosoft"), our vocational school business was deeply involved in developing job-ready education programs providing cutting-edge industry training.

- Gross profit was RMB113.98m (A$23.94m), an increase of 6.79m (A$1.63m), or 6% compared to RMB107.19m (A$22.31m) in FY2019. The gross margin was 58%, (64% in FY2019). With the impact of COVID-19, our customers especially large enterprises, increased the online portion of their internal training budget. Correspondingly, we provided more comprehensive e-learning solutions including infrastructure construction, course design and platform development. There was an increase of operating cost in supporting this new and important solution as the new growth engine in our e-learning business line. Ai English service has a comparatively lower gross margin level compared to the E-Learning business. It is however expected to grow exponentially.

- Selling and distribution expenses were RMB10m (A$2.1m), an increase of 1.31m (A$0.29m), or 15% compared to RMB8.69m (A$1.81m) in FY2019. Administrative expenses were RMB47.79m (A$10.04m), an increase of 15.65m (A$3.35m), or 49% compared to RMB32.14m (A$6.69m) in FY2019. Research and development expenses were RMB6.32m (A$1.33m) for Ai English (2019: nil). The increase of above expenses was mainly caused by the development of our new growth engine, Ai English language training business. In 2019, we had relatively small startup costs as the business was still new. However, with the rapid expansion of Ai English, our expenses also increased commensurately. Our staff expenses alone increased by RMB8.50m (A$1.79m), while its depreciation expenses increased by RMB7.02m (A$1.48m) as a new house rental agreement started in the end of 2019, which was recognized as right-of-use asset. As a result, FY2020 had higher administrative expenses.

- Other operational expenses and income resulted in gain of RMB2.04m (A$0.43m), while in 2019 it was loss of RMB0.31m (A$0.06m). The change was RMB2.35m (A$0.49m). One main reason was that the fair value gain on the derivative component of convertible note increased by RMB4.53m (A$0.95m), caused by the beneficial HKD exchange rate. Another reason was that finance costs increased by RMB2.35m (A$0.51m), for increased interest charges. Net profit before tax was RMB51.92m (A$10.91m), a decrease of 14.13m (A$2.84m), or 21% compared to RMB66.05m (A$13.75m) in FY2019. Income tax expenses were RMB11.40m (A$2.39m), a decrease of 3.68m (A$0.75m), or 24% compared to RMB15.08m (A$3.14m) in FY2019. The effective tax rate was 22%, (23% in FY2019).

- Total Net Profit After tax for the period (NPAT) was RMB40.52m (A$8.51m), a decrease of RMB10.45m (A$2.1m), or 21% compared to RMB50.97m (A$10.61m) in FY2019. While net profit for the period attributable to members was RMB54.39m (A$11.43m), an increase of RMB0.63m (A$0.24m), or 1% compared to RMB53.76m (A$11.19m) in FY2019. This was mainly because of the negative non-controlling interests in Ai English. As Ai English is still in early development stage, it has not yet reached breakeven. The net loss of Ai English was RMB32.96m (A$6.92m), of which was 51% attributed to the group, and 49% to non-controlling shareholders.

- To sum up, the traditional corporate E-learning business achieved steady growth despite the impact of COVID-19 in early 2020. The revenue in 2020 was RMB166.18m (A$34.91m), an increase of 7% compared to RMB155.61m (A$32.39m) in 2019. The gross profit was RMB103.71m (A$21.79m), an increase of 1% compared with RMB102.24(A$21.28m) in FY2019. While our new business Ai English achieved a revenue of RMB15.12m (A$3.18m) and a net loss of RMB32.96m (A$6.92m), resulting in a decrease in the group's total net profit.

3. Consolidated statement of profit or loss and other comprehensive income
Please refer to page 12.

4. Consolidated statement of financial position
Please refer to page 13.

5. Consolidated statement of cash flows
Please refer to page 17.

6. Consolidated statement of changes in equity
Please refer to page 15.

7. Notes to the consolidated financial statements
Please refer to Page 19.

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.
Not applicable.

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 2020 RMB cents per share	NTA as of 31 December 2019 RMB cents per share
Net Tangible Assets ("NTA")	99.55	117.88
Ordinary shares in issue	232,912,633	232,912,633

	NTA as of 31 December 2020 AUD cents per share	NTA as of 31 December 2019 AUD cents per share
Net Tangible Assets ("NTA")	20.91	24.54
Ordinary shares in issue	232,912,633	232,912,633

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 80% equity interests in Shanghai Pantosoft Co., Ltd ("Pantosoft") from an independent third party, Pantosoft International Limited. The date of acquisition is 7 October 2020.

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 500+ vocational and secondary school clients in the PRC, 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 11,520 vocational colleges in China serving 26.9 million students.

Driven by the Chinese Government's policy to ensure that all education programs create job-ready graduates, 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.

Full details of the transactions are set out in note 35 to the consolidated financial statements.

12. Details of associates and joint venture entities
Not applicable.

13. Other significant information
Not applicable.

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

15. Commentary on the results
Highlight

- **Strong expansion of the financial services industry business segment. Retech continues to provide services to four of the five major state-owned banks and eight of the twelve large national joint-stock banks. In 2020, the head office of the Agricultural Bank of China was added to our customer list.**
- **New milestones in automobile industry. The courseware developing services for Mercedes Benz was further enhanced; Retech was included in BMW's vendor list .**
- **Further expansion into the Energy Industry. Retech successfully provided its services to the State Power Investment Corporation Ltd, and won a bid to provide services to Smartac Group (Zhejiang).**
- **Completed the acquisition of Pantosoft in the end of 2020. Pantosoft brought 500+ vocational schools customer relationships and mature educational management platform to Retech's vocational education business ecosystem.**
- **Vocational Education Business segment. Due to our vast experience in the digital media field from our collaboration with vocational schools, Retech was able to build solutions for media industry training (digital media studies), in order to focus on producing job-ready graduates. As of the end of 2020, Retech has worked with vocational schools located in Shanghai, Gansu province, Jiangsu province, Zhejiang province, Hunan province and Guangdong province etc.**
- **Rapid development in our start-up subsidiary Ai English. In 2020, Ai English had started an extensive partnership with Pearson and East China Normal University. More customers in different areas including Rise English, Youxuetang, Jiahe Education and Yaruki Switch Group etc. have started to use Ai English,**
- **Ai English launched a new business product, I-School. The Company developed a series of teaching materials such as the BIG series with Pearson and the <Wonderful Minds>with Meihuishu, etc. to resolve the problems existing in offline education institutions like the shortage of high-quality foreign teacher resources, limited teaching and research ability, and high labor cost.**

15. Commentary on the results (continued)

Operational Updates

1) Corporate

Product:

- LVC (live virtual classroom) real-time interactive educational platform: This platform has been developed by Retech from 2016 and the Company provides real-time interactive e-course services for Huawei's overseas customers with Huawei's exclusive authorization. Retech jointly owns the intellectual property rights. In late of 2020, Retech sent a technical team to Cote d'Ivoire to support this platform building for the national education commission.
- E-courses—contemporary and digestible instructional design: The Company launched different new types of training operation services including the whole operation system of activity planning, face-to-face training, courseware production, promotion and publicity to provide better training experience for customers. Also, the Company developed more courseware with 3D modeling designing and one new courseware in the form of podcasts which have proved very popular online.

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 a strong driving force for business development. More customers have also included Retech into their vendor lists.

- Financial Services: In the Financial Services industry, Retech keeps on providing services to our existing customers: Bank of China, Ping An Bank, China Minsheng Bank, Shanghai Pudong Developing Bank and Bank of Communications, etc. In 2020, Retech started to provide new services to customers like Wenzhou Bank, Chouzhou Bank and Hangzhou Bank. Also, Retech has also started providing e-courses to financial industry associations and other organisations, such as China Capital Market Institute and Beijing Bankers Association.
- Industrials: In this business area, Retech has a focus on automobile, military and manufacturing industries. In the automobile industry, Mercedes Benz is a long-term customer that has been affected by the COVID-19 pandemic this year and has been forced to close some of its auto factories. However, due to the improvement of the epidemic situation in China, Mercedes Benz investment in China has relatively increased, and Mercedes Benz continued to choose Retech as a key supplier for online learning services. Among new customers, Panasonic, and Beijing Aerospace Intelligent Manufacturing Technology Development Co., Ltd. both confirmed their contracts with Retech. In 2020, Retech successfully entered BMW’s courseware service providers list and will provide courses developing services for BMW in the further 3 years.
- Retail: Our long-term customer Sephora continues to expand their business relationship with us. New customers include Fuji Xeros, Panasonic, Toys R US to whom we provide online learning materials for their brands.
- Energy: Retech saw expanded demand from energy sector companies this year. Due to Retech’s successful cooperation with Shanghai Nuclear Engineering Research & Design Institute Co., Ltd., Retech signed on a new customer State Power Investment Corporation, and won a bid to provide services to Smartac Group (Zhejiang).
- Live Training: Some customers who increase live training in 2020 include Ping An Bank and Bank of China (BOC). For example, BOC platform uploaded more than 11,000 online courses, 16,000,000+ students, 5000+ online examinations,

15. Commentary on the results (continued)

6,200,000 participants and 4000+ live broadcasts using Retech's solution as of the end of 2020.

- Other major customers: The Company continued to provide SF express training for internal trainers, including live training, content extraction and postproduction of video courses as well as helping them to enhance the industry competition capability.

2) Vocational Education

- Retech finished the acquisition of Pantosoft at the end of 2020. Pantosoft brought 500+ vocational schools customer relationships and mature educational management platform to Retech's vocational education business ecosystem.
- Pantosoft won the bid of the smart classroom construction project of Yunnan Communications Vocational and Technical College. This project is to develop a platform with basic digital data base, data analysis system and data interface which includes the multimedia interactive screen, intelligent central control, recording and broadcasting fixtures, and face recognition devices, etc. This smart classroom will connect different 1+X certificate skills training applications; 1+X certificate is the new national education commission policy started in the late of 2019.
- Started to provide professional services to Zhenjiang Vocational Technical College, especially in the Animation and Game major. This includes the development of professional teaching materials and related digital resources, construction of an online and offline teaching service platform, the introduction of international teaching resources, and deployment of a practical training resource platform, etc. 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 real-world talent training systems.
- Provided teachers training and student internships for Shanghai Publishing and Printing College, Lanzhou University of Arts and Science, Xi'an Eurasia University and other schools.

3) ***Language Learning***

Product

From February 2020, during lockdowns imposed under the COVID-19 pandemic in China, Retech adjusted its teaching models into three categories: "studio2home", "studio2classroom" and "blended class modes". *Concurrently, our new product I-School was also launched.*

- <u>Studio2home:</u> At the beginning of February, the new mode of 'studio2home' was rapidly launched. International teachers live-streamed into the homes of students.
- <u>Studio2home (1v1, 1v4):</u> Based on the above model, Retech has developed 1v1, 1v4 and other small online classes, and expanded to after school family learning;
- <u>Blended Class:</u> Based on the studio2home mode and to adjust to the temporary pausing of live junior and middle school teaching, Ai English extended its blended class mode to small class interaction and large class live broadcast;
- <u>I-School:</u> In August 2020, the Company launched a new teaching product, I-School and the first learning center of I-school started in Nantong Bowen training school, and the first students were enrolled;
- <u>New courses launched:</u> In July 2020, the English courses <Wonderful Mind> for 3-6 years old children developed by Ai English was launched. In September 2020, Ai

15. Commentary on the results (continued)

English and Playbox Drama agreed to jointly create English drama courses. This cooperation aims to make English classroom more efficient and interesting, and let children love to learn English through games, and tap artistic potential in performance;

- Big English: After introducing Pearson's BIG English and Longman's English series teaching materials into the curriculum, the Company updated digital resources and developed online courses for dual-teacher classroom environments. Retech has also extended its relationship with Pearson to further collaborate with Pearson in digitalising their published books. We have developed online classes for BIG English and Ai English Reading courses, which are English programs mainly for 3-16 year olds. The Ai English team continues to develop additional learning products and courses to bring better learning experiences for our customers.

Business

- Agreement with RISE English (NASDAQ: REDU) headquarters: Retech has reached the agreement to provide live online teaching services to RISE + centres all over China, providing live broadcast classes and online boutique small class after school classes. This helps to develop our business through RISE centres.
- Entry into the Japanese market: August 2020, Retech reached an agreement with Yaruki Switch Group, which is the largest training institute in K12 education in Japan. The agreement was to launch a live simultaneous co-teacher classroom for young Japanese children. This will give a boost to Retech's plans to enter the Japanese market.

  More customers have signed up with Ai English: Ai English has acquired more new customers in this whole year, including Shane English, Montessori, Changchang QiMeng English, Maria Montessori in Kunshan city and China-Hongkong English School located in Zhongshan city, etc. The credibility of Ai English has thus been validated by the market.

4) Awards and Recognition

- On 11th November 2020, Ai English earned the GOLD PRIZE in "AES GLOBAL AWARD 2020", which is a Japan online education summit forum and held online because of COVID-19 this year.
- In December 2020, the 7th Smart Show 2020 (an international education show in China) was held in Beijing National Conference Center. Our English teaching solution from Tangshan Yingcai International School, which was provided by Ai English Dual-teacher solution, won the "2020 Excellent case Award of Good Solutions for China Campus".
- In November 2020, on the 12th China E-learning Forum & Exhibition (CEFE), Retech won the "Excellent Learning Operation Service Provider" of the BOOAOO Awards, which was known as the "Oscar of Enterprise E-learning Industry".
- On November 13, 2020, the English edition of "Wonderful Minds" was released in Shanghai International Children's Book Exhibition. This series of books are the early picture book English Course and is based on the inculcation of traditional Chinese culture, which was created by Retech together with East China Normal University Press.

5) Impact of COVID-19 on Retech

- COVID-19 has impacted our business in H1 2020, our partners and our customers, restricting our business growth, affecting communication with our customers and

15. Commentary on the results (continued)

partners, and restricting travel between our offices in China as well as in Melbourne and Hong Kong. Retech rose to the challenge, especially given our expertise in online resources, and we recovered in H2 2020.

- In H1 2020, our team established a "special online group" to stay connected to our customers 24 hours a day to ensure a timely, smooth and accurate response to customer queries via telephone conference, voice conference and video conference. And due to the lockdown in early 2020, the lack of travel and the need for social distancing, many of our corporate customers have increased their budgets for e-learning. Consequently, in the second half of 2020, not only did business from our existing customers recover, we also acquired new customers.

- In recent years, the Internet has been extended to many rural areas in China, the number of online users is increasing. Consequently, the number of internet users is increasing. Ai English's target market is these newly developed internet markets, which would include second, third and fourth-tier cities.

- COVID-19 has accelerated the integration of online to offline OMO business models. This is also the future of education and training. Retech is well-poised to take advantage of the accelerated digitisation of education and training that the pandemic has brought about.

16. Statement as to the audit status

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

Consolidated financial statements

Retech Technology Co., Limited

For the year ended 31 December 2020

Contents

Expressed in Renminbi ("RMB")

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020

	Notes	2020 RMB (unaudited)	2019 RMB
Revenue	5 & 6	**195,755,508**	167,740,588
Cost of services		**(81,772,245)**	(60,549,009)
Gross profit		**113,983,263**	107,191,579
Other income	7	**11,606,102**	12,298,646
Fair value gain/(loss) on derivative financial instruments		**2,563,737**	(1,974,310)
Fair value loss on contingent consideration payable		**(172,601)**	(38,155)
Impairment losses on financial assets		**(4,928,922)**	(5,907,270)
Selling and distribution expenses		**(9,999,306)**	(8,694,626)
Research and development expenses		**(6,317,218)**	-
Administrative expenses		**(47,789,110)**	(32,138,535)
Finance costs	8	**(7,026,483)**	(4,684,098)
Profit before income tax	9	**51,919,462**	66,053,231
Income tax expense	11	**(11,395,019)**	(15,080,814)
Profit for the year		**40,524,443**	50,972,417
Other comprehensive expense			
Item that may be reclassified subsequently to profit or loss:			
Exchange loss on translation of financial statements of foreign operations		**(410,290)**	(75,818)
Total comprehensive income for the year		**40,114,153**	50,896,599
Profit for the year attributable to:			
Owners of the Company		**54,394,895**	53,759,636
Non-controlling interests		**(13,870,452)**	(2,787,219)
		40,524,443	50,972,417
Total comprehensive income/(expense) for the year attributable to:			
Owners of the Company		**54,181,006**	53,717,217
Non-controlling interests		**(14,066,853)**	(2,820,618)
		40,114,153	50,896,599
Earnings per share for profit attributable to the owners of the Company during the year			
Basic	13	**23.35 cents**	23.19 cents
Diluted	13	**22.51 cents**	23.19 cents

The notes on pages 16 to 79 are an integral part of these consolidated financial statements.

Consolidated statement of financial position as at 31 December 2020

ASSETS AND LIABILITIES	Notes	**2020 RMB (unaudited)**	2019 RMB
Non-current assets			
Property, plant and equipment	14	**42,854,192**	46,175,408
Goodwill	15	**94,476,882**	2,640,293
Other intangible assets	16	**12,142,739**	2,745,041
Deposit paid	17	**-**	73,700,000
Deferred tax assets		**1,202,332**	964,907
		150,676,145	126,225,649
Current assets			
Inventories	18	**2,041,565**	-
Trade and other receivables	19	**71,897,229**	61,306,459
Contract assets	20	**85,006,490**	29,504,418
Amount due from a non-controlling shareholder of a subsidiary	21(a)	**-**	328,755
Amounts due from related companies	21(b)	**8,629,001**	12,901,840
Loan to a related company	22	**31,748,709**	12,347,019
Derivative financial instruments	23	**2,616,139**	9,733,410
Cash and cash equivalents	24	**205,816,383**	185,088,747
		407,755,516	311,210,648
Current liabilities			
Trade and other payables	26	**44,678,945**	23,793,750
Contract liabilities	20	**6,560,496**	3,874,784
Amount due to a related company	21(d)	**-**	5,974
Amount due to a director	21(e)	**578,588**	-
Borrowings	27	**49,825,517**	12,984,853
Lease liabilities	28	**8,816,410**	9,155,846
Derivative financial instrument	23	**4,469,311**	14,281,539
Income tax payable		**32,683,271**	21,086,803
Convertible note	29	**32,437,927**	-
		180,050,465	85,183,549
Net current assets		**227,705,051**	226,027,099
Total assets less current liabilities		**378,381,196**	352,252,748
Non-current liabilities			
Borrowings	27	**10,062,400**	4,888,326
Convertible note	29	**-**	32,781,619
Contingent consideration liability	30	**1,781,055**	1,607,522
Lease liabilities	28	**27,471,540**	32,448,233
Deferred tax liability		**587,870**	587,870
		39,902,865	72,313,570
Net assets		**338,478,331**	279,939,178

Consolidated statement of financial position as at 31 December 2020 (Continued)

	Notes	2020 RMB (unaudited)	2019 RMB
EQUITY			
Share capital	31	**145,978,410**	145,978,410
Reserves	32	**(8,008,944)**	(7,795,055)
Retained profits		**197,099,037**	142,704,142
Equity attributable to owners of the Company		**335,068,503**	280,887,497
Non-controlling interests		**3,409,828**	(948,319)
Total equity		**338,478,331**	279,939,178

The notes on pages 16 to 79 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2020

	Attributable to owners of the Company							
	Share capital RMB	Merger reserve* RMB	Statutory reserve* RMB	Translation reserve* RMB	Retained profits RMB	Total RMB	Non-controlling interests RMB	Total equity RMB
At 1 January 2020	**145,978,410**	**(11,122,696)**	**3,376,508**	**(48,867)**	**142,704,142**	**280,887,497**	**(948,319)**	**279,939,178**
Acquisition of a subsidiary (unaudited)	-	-	-	-	-	-	18,425,000	18,425,000
Transactions with owners (unaudited)	-	-	-	-	-	-	18,425,000	18,425,000
Profit for the year (unaudited)	-	-	-	-	54,394,895	54,394,895	(13,870,452)	40,524,443
Other comprehensive income for the year:								
Exchange loss on translation of foreign operation recognised (unaudited)	-	-	-	(213,889)	-	(213,889)	(196,401)	(410,290)
Total comprehensive income/(expense) for the year (unaudited)	-	-	-	(213,889)	54,394,895	54,181,006	(14,066,853)	40,114,153
At 31 December 2020 (unaudited)	**145,978,410**	**(11,122,696)**	**3,376,508**	**(262,756)**	**197,099,037**	**335,068,503**	**3,409,828**	**338,478,331**

* These equity accounts comprise the reserves of deficit of RMB8,008,944 (2019: deficit of RMB7,795,055) in the consolidated statement of financial position as at 31 December 2020.

Consolidated statement of changes in equity for the year ended 31 December 2020 (Continued)

	Attributable to owners of the Company							
	Share capital RMB	Merger reserve* RMB	Statutory reserve* RMB	Translation reserve* RMB	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	4,072,436	-	-	-	-	4,072,436	-	4,072,436
Acquisition of a subsidiary, Aushen Pty Ltd.	-	-	-	-	-	-	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	-	-	-	-	-	-	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	-	-	-	-	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	-	-	-	(42,419)	-	(42,419)	(33,399)	(75,818)
Total comprehensive income/(expense) for the year	-	-	-	(42,419)	53,759,636	53,717,217	(2,820,618)	50,896,599
At 31 December 2019	145,978,410	(11,122,696)	3,376,508	(48,867)	142,704,142	280,887,497	(948,319)	279,939,178

The notes on pages 16 to 79 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2020

	2020 RMB (unaudited)	2019 RMB
Cash flows from operating activities		
Profit before income tax	**51,919,462**	66,053,231
Adjustments for:		
Depreciation of property, plant and equipment	**12,872,616**	3,857,226
Amortisation of intangible assets	**2,323,808**	1,929,413
Expected credit loss on:		
- Trade receivables	**1,466,708**	3,017,335
- Contract assets	**2,940,234**	2,889,275
- Other receivables	**-**	660
- Amount due from non-controlling shareholder of a subsidiary	**521,980**	-
Share based employee compensation	**-**	1,996,449
Interest income	**(5,114,776)**	(6,603,694)
Interest expense	**7,026,483**	4,684,098
Fair value (gain)/loss on derivative financial instruments	**(2,563,737)**	1,974,310
Unrealised exchange (gain)/loss	**(2,200,019)**	769,676
Fair value gain on contingent consideration payable	**172,601**	38,155
Waiver of other payables	**(942,449)**	(908,830)
COVID-19-related rent concessions	**(383,656)**	-
Operating profit before working capital changes	**68,039,255**	79,697,304
Increase in inventories	**(2,041,565)**	-
Increase in trade and other receivables	**(3,767,136)**	(33,221,469)
Increase in contract assets	**(56,023,073)**	(13,349,175)
Increase in trade and other payables	**(1,925,456)**	7,303,846
Increase/(Decrease) in contract liabilities	**2,685,712**	(846,599)
Cash generated from operations	**6,967,737**	39,583,907
Income tax paid	**(35,976)**	(6,299,305)
Net cash generated from operating activities	**6,931,761**	33,284,602
Cash flows from investing activities		
Purchase of property, plant and equipment	**(7,822,169)**	(4,978,316)
Purchase of intangible assets	**(11,389,207)**	(240,293)
Acquisition of a subsidiary, net of cash and cash equivalent acquired	**168,151**	(1,413,386)
Deposit paid for an acquisition	**-**	(73,700,000)
Loan to a related company	**(207,461,690)**	(257,918,520)
Repayment of loan to a related company	**188,060,000**	273,874,131
(Increase)/Decrease in amount due from a non-controlling shareholder of a subsidiary	**(193,225)**	110,245
Decrease/(Increase) in amounts due from related companies	**4,272,839**	(11,130,746)
Decrease in amount due from non-controlling shareholders	**-**	11,411
Repayment of short term deposits	**-**	112,486,040
Interest received	**5,114,776**	6,603,694
Net cash (used in)/generated from investing activities	**(29,250,525)**	43,704,260

Consolidated statement of cash flows for the year ended 31 December 2020 (Continued)

	2020	2019
	RMB	RMB
	(unaudited)	
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	**(2,775,202)**	(2,778,633)
Drawdown of borrowings	**54,396,292**	17,788,326
Repayment of borrowings	**(12,900,000)**	-
Payment of interests on borrowings	**(1,024,895)**	(288,818)
Payment of interests on lease liabilities	**(1,147,019)**	(491,724)
Payment of lease liabilities	**(6,084,594)**	(2,712,637)
Decrease in amount due to a non-controlling shareholder of a subsidiary	**-**	(436,670)
Decrease in amounts due to related companies	**(5,974)**	(200)
Increase in amount due to a director	**578,588**	-
Other financing activities	**13,000,000**	-
Net cash generated from financing activities	**44,037,196**	8,640,743
Net increase in cash and cash equivalents	**21,718,432**	85,629,605
Effect of foreign exchange rate changes	**(990,796)**	(98,774)
Cash and cash equivalents at beginning of the year	**185,088,747**	99,557,916
Cash and cash equivalents at end of the year	**205,816,383**	185,088,747

The notes on pages 16 to 79 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2020

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 Parks, 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 major subsidiaries operate (the functional currency of the Company and its major 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 applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the accounting principles generally accepted in Hong Kong. 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 2.16) 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% - $33^1/_3$%
Motor vehicle	20%

Accounting policy for depreciation of right-of-use assets is set out in note 2.16.

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:

Curriculum development expenditure	3 years
Content distribution rights	2 years
Capitalised software development	2 years

Intangible assets with indefinite useful lives (i.e. acquired 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)

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial instruments (Continued)

Financial assets (Continued)

Classification and initial measurement of financial assets (Continued)

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.

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 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, a related company and a director), derivative financial instrument, convertible note and contingent consideration liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial instruments (Continued)

Financial liabilities (Continued)

Classification and measurement of financial liabilities (Continued)

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.

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 2.16.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial instruments (Continued)

Financial liabilities (Continued)

Classification and measurement of financial liabilities (Continued)

Convertible note (continued)

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 is 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 is redeemed, any difference between the redemption amount and the carrying amounts of both components are recognised in profit or loss.

Derivative financial instrument and contingent consideration liability

Details of accounting policy of derivative financial instruments and contingent consideration liability are set out in note 2.12.

Trade and other payables and amounts due to related parties (including a non-controlling shareholder of a subsidiary, a director 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Impairment of financial assets and contract assets (Continued)

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.

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.

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)

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 regularoty business, financial, economic, or technological environment conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Impairment of financial assets and contract assets (Continued)

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 Inventories

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

2.12 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.

2.13 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.

2.14 Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2.19) 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 2.19). 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 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)

2.16 Leases

Definition of a lease and the Group as a lessee

At inception of a contract, 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)

2.16 Leases (Continued)

Definition of a lease and the Group as a lessee (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.

The Group remeasures lease liabilities whenever:

- there are changes in lease term or in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments changes due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

For lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of modification. The only exception is any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 "Leases". In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Leases (Continued)

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

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.

2.17 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.

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

2.18 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)

2.19 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>Provision of education management system solutions and related services</u>

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Revenue recognition (Continued)

Consultancy income

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

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.

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

2.21 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Employee benefits (Continued)

Retirement benefits (continued)

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Borrowing costs

Borrowing costs are expensed when incurred.

2.23 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)

2.23 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.

2.24 Segment reporting

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Related parties

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

(a) the party is a person or a close member of that person's family and if that person:
- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

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

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

3. ADOPTION OF NEW AND AMENDED HKFRSs

3.1 New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2020

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 2020:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendments to HKAS 1 and HKAS 8	Definition of Material

In addition, on 1 January 2020, the Group has early applied the Amendments to HKFRS 16 "Covid-19-Related Rent Concessions" which will be effective for the Group for financial year beginning on or after 1 June 2020.

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.

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.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group do not have any acquisition that affected by the new definition.

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 2020 (Continued)

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;
- 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).

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group do not have any disclosure or adjustments that affected by the new definition.

Amendments to HKFRS 16 "Covid-19-Related Rent Concessions"

Amendments to HKFRS 16 only apply to lessee accounting and have no effect on lessor accounting. The amendments provide a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 ("COVID-19-Related Rent Concessions") are lease modification and, instead, account for those rent concessions as if they were not lease modifications.

The practical expedient is only applicable to COVID-19-Related Rent Concessions and only if all of the following conditions are met:

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
(b) any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
(c) there is no substantive change to other terms and conditions of the lease.

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 2020 (Continued)

Amendments to HKFRS 16 "Covid-19-Related Rent Concessions" (Continued)

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-Related Rent Concessions granted to the Group during the year.

Consequently, rent concessions received have been recognised in "Other income" in profit or loss in the period in which the event or condition that triggers those payments occurred.

3.2 Issued but not yet effective HKFRSs

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

HKFRS 17	Insurance Contracts and related amendments[5]
Amendments to HKFRSs	Annual Improvements to HKFRS Standards 2018-2020[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[4]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[2]
Amendments to HKFRS 16	Covid-19-Related Rent Concessions[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[6]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[5]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[3]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[3]
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combination[4]

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

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

[3] Effective for annual periods beginning on or after 1 January 2022

[4] Effective for business combination/common control combination for which the acquisition/combination date is on or after the beginning of the first annual period beginning on or after 1 January 2022

[5] Effective for annual periods beginning on or after 1 January 2023

[6] Effective date not yet determined

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 HKAS 1 "Classification of Liabilities as Current or Non-current"

The amendments provide further guidance to clarify how to classify debt and other liabilities as current or non-current which are summarised as follows:

- It clarifies that a liability is non-current if an entity has a right (instead of unconditional right as stated before the amendments) to defer settlement of the liability for at least twelve months from the end of the reporting period. This right has to be existed at the end of the reporting period, regardless of whether the lender tests for compliance at that date or at a later date;
- Any expectations about events after the reporting period do not impact the assessment made at the end of the reporting period as to the classification of the liability; and
- "Settlements" are newly defined as a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of cash, other economic resources (e.g. goods or services), or entity's own equity instruments. Thus, if the counterparty conversion option is classified as liability under HKAS 32, the transfer of equity instruments by exercising the conversion option constitute settlement of liability for the purpose current or non-current classification of liabilities. One exception to the definition is that if the counterparty conversion option is classified as equity in accordance with HKAS 32, the transfer of equity instruments by exercising the conversion option does not constitute settlement of liability and would be disregarded when determining whether the liabilities is current or non-current.

Amendments to HKAS 1 is effective for annual reporting period beginning on or after 1 January 2023 and apply retrospectively. Earlier application is permitted. The directors of the Group expect that the amendments have no material impact on these consolidated financial statements.

3. ADOPTION OF NEW AND AMENDED HKFRSs (CONTINUED)

3.2 Issued but not yet effective HKFRSs (Continued)

Amendments to HKAS 37 "Onerous Contracts - Cost of Fulfilling a Contract" (Continued)

The amendments clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g. direct labour and materials) and an allocation of other costs that relate directly to fulfilling contracts (e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

Amendments to HKAS 37 are effective for annual period beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual period in which the amendments are first applied (i.e. date of initial application). Earlier application is permitted. The directors of the Group expect that the amendments have no material impact on the 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.

<u>Estimation of goodwill impairment</u>

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates about future cash flows and discount rates. In the process of estimating expected future cash flows management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. Details of the estimates of the recoverable amounts of cash generating units containing goodwill are disclosed in annual report.

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

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 2020, the aggregate carrying amounts of trade and other receivables, contract assets and other financial assets measured at amortised cost amounted to RMB51,088,286 (net of ECL allowance of RMB3,644,727), RMB85,006,490 (net of ECL allowance of RMB5,925,210) and RMB249,194,098 (net of ECL allowance of RMB5,482,014) respectively.

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 (Continued)

Comparatively, the aggregate carrying amounts of trade and other receivables, contract assets and other financial assets as at 31 December 2019 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.

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 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 2020, the net fair value of derivative financial assets and liabilities are RMB2,616,139 and RMB4,469,311 (2019: RMB9,733,410 and RMB14,281,539) respectively.

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 relying 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 2020, the fair value of contingent consideration liability is RMB1,781,055 (2019: RMB1,607,522).

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

Key sources of estimation uncertainty (Continued)

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 2020, the carrying amount of the Group's deferred tax assets was RMB1,202,332 (2019: RMB964,907).

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 as a single operating segment and assess the operating performance and allocate the resources of the Group as a whole. The only operating segment is monitored and strategic decisions are made on the basis of the results of the Group as a whole. Accordingly, no segment analysis information is presented.

Information about major customers

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

Geographic information

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

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 provision of education management system solutions and related services during the year.

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

	2020 RMB (unaudited)	2019 RMB
Rendering of e-learning solutions and related services	**169,879,349**	160,064,441
Provision of education management system solutions and related services	**10,247,512**	-
Tuition fees and related income from coaching schools	**9,901,333**	2,089,987
Consultancy income	**-**	1,340,877
Commission income	**509,389**	4,245,283
Other service revenue	**5,217,925**	-
	195,755,508	167,740,588

7. OTHER INCOME

	2020 **RMB** **(unaudited)**	2019 RMB
Interest income from loan to a related company	**4,637,290**	4,475,142
Bank interests income	**477,486**	2,128,552
Government subsidies income (note (a))	**3,164,535**	2,158,044
Property management income from:		
- A related company	**1,614,920**	1,054,205
- Non-controlling shareholder of a subsidiary	**-**	1,054,204
Sundry income	**385,766**	225,390
Exchange gain	**-**	294,279
Waiver of other payables	**942,449**	908,830
COVID-19-related rent concessions (note (b))	**383,656**	-
	11,606,102	12,298,646

(a) 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.

(b) The Group received COVID-19 related rent concessions for some of its office leases as part of relief measures negotiated with landlords during 2020.

8. FINANCE COSTS

	2020 **RMB** **(unaudited)**	2019 RMB
Interest charges on:		
- Borrowings	**1,378,223**	373,671
- Convertible note	**4,501,241**	3,818,703
Finance charges on lease liabilities	**1,147,019**	491,724
Total interest expense on financial liabilities not at FVTPL	**7,026,483**	4,684,098

9. PROFIT BEFORE INCOME TAX

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

	2020 RMB (unaudited)	2019 RMB
Depreciation:		
- Owned assets	**3,474,787**	890,022
- Right-of-use assets	**9,397,829**	2,967,204
Total depreciation	**12,872,616**	3,857,226
Amortisation of other intangible assets	**2,323,908**	1,929,413
Impairment losses on:		
- Trade receivables	**1,466,708**	3,017,335
- Contract assets	**2,940,234**	2,889,275
- Other receivables	**-**	660
- Amount due from non-controlling shareholder of a subsidiary	**521,980**	-
Total impairment losses on financial assets	**4,928,922**	5,907,270
Auditors' remuneration	**1,220,000**	1,150,000
Net foreign exchange loss	**360,382**	810,125
Staff and related costs (including directors' remuneration)	**46,413,433**	31,650,418

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:

	2020 RMB (unaudited)	2019 RMB
Directors' emoluments for services as directors of the Company and its subsidiary undertakings		
- Fees	**1,218,707**	1,162,530

11. INCOME TAX EXPENSE

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

	2020 RMB (unaudited)	2019 RMB
PRC		
Current tax		
- Current year	**11,974,011**	11,362,287
- Overprovision in respect of prior years	**(372,174)**	-
- Withholding tax on dividend from a PRC subsidiary	**-**	3,567,556
Deferred tax credit	**(206,818)**	-
	11,395,019	14,929,843
Hong Kong and Australia		
- Current year	**-**	912,420
Deferred tax credit	**-**	(761,449)
	11,395,019	15,080,814

(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%. Some of the Group's PRC subsidiaries are qualified as a HNTE;

(b) From 1 January 2019 to 31 December 2021, under relevant PRC EIT Law, PRC enterprises that qualifies for small enterprises and thin-profit enterprises with an annual taxable income of RMB1 million or less are applicable to the effective rate of 5%. Where their annual taxable income exceeds RMB1 million but does not exceed RMB3 million, the RMB1 million portion will be subject to an effective rate of 5%, whereas the excess portion will be subject to the effective 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% 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% 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 2020.

(e) The provision for Hong Kong Profits Tax for 2020 is calculated at 16.5% (2019: 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 years ended 31 December 2020 and 2019 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. DIVIDEND

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

	2020 RMB (unaudited)	2019 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

	2020 RMB (unaudited)	2019 RMB
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**54,394,895**	53,759,636
Effect of dilutive potential ordinary shares:		
- Interest on convertible note	**4,501,241**	-
- Fair value gain on derivative financial instruments	**(2,563,737)**	-
Earnings for the purpose of diluted earnings per share	**56,332,399**	53,759,636
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**232,912,633**	231,817,980
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	**250,275,275**	231,817,980

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	Motor vehicles RMB	Total RMB
At 1 January 2019						
Cost	6,528,100	523,286	335,105	-	-	7,386,491
Accumulated depreciation	-	(162,860)	-	-	-	(162,860)
Net book amount	6,528,100	360,426	335,105	-	-	7,223,631
Year ended 31 December 2019						
Opening net book amount	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	41,356,382	2,612,335	1,853,861	352,830	-	46,175,408
At 31 December 2019 and 1 January 2020						
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)
Net book amount as at 31 December 2019	41,356,382	2,612,335	1,853,861	352,830	-	46,175,408
Year ended 31 December 2020 (unaudited)						
Opening net book amount	41,356,382	2,612,335	1,853,861	352,830	-	46,175,408
Additions	1,768,831	4,058,638	3,610,713	152,818	-	9,591,000
Acquisition of a subsidiary (Note 35)	-	24,334	7,873	5,079	126,498	163,784
Depreciation	(9,397,829)	(1,720,879)	(1,718,584)	(19,728)	(15,596)	(12,872,616)
Disposals	-	(117,320)	(404,393)	-	-	(521,713)
Exchange differences	423,762	(29,267)	(76,166)	-	-	318,329
Closing net book amount	34,151,146	4,827,841	3,273,304	490,999	110,902	42,854,192
At 31 December 2020						
Cost	46,128,638	7,374,019	5,856,346	510,727	126,498	59,996,228
Accumulated depreciation	(11,977,492)	(2,546,178)	(2,583,042)	(19,728)	(15,596)	(17,142,036)
Net book amount as at 31 December 2020	**34,151,146**	**4,827,841**	**3,273,304**	**490,999**	**110,902**	**42,854,192**

As at 31 December 2020, buildings included in the net carrying amount of property, plant and equipment are right-of-use assets.

During the year ended 31 December 2020, the total additions to right-of-use assets included in property, plant and equipment amounting to RMB1,768,831 (2019: RMB37,138,358).

15. GOODWILL

The main changes in the carrying amounts of goodwill result from the completion of acquisition of Shanghai Pantosoft Co., Ltd. The net carrying amount of goodwill can be analysed as follows:

	2020 RMB (unaudited)	2019 RMB
Net carrying amount at 1 January	**2,640,293**	-
Acquisition of a subsidiary (note)	**91,836,589**	2,640,293
Net carrying amount at 31 December 2020	**94,476,882**	2,640,293

Note:
During the year ended 31 December 2020, the Group completed the acquisition of 80% equity interests in Shanghai Pantosoft Co., Ltd. ("Shanghai Pantosoft"), an entity incorporated in PRC which RMB91,836,589 was recognized as goodwill. Shanghai Pantosoft provides self-developed digital solutions to support education management in secondary and vocational schools in the PRC.

A full detail of the transaction is further disclosed in note 35.

No impairment loss has been recognised as at 31 December 2020 and 2019.

Impairment test on goodwill
The recoverable amount of goodwill is determined from value in use calculations using cash flow projections based on financial budget approved by management covering five-year period with average revenue growth rate of 8%, zero growth rate is applied to extrapolate the cash flows beyond five-year period during the year ended 31 December 2020. This growth rate is based on the history experience to forecast. The discount rate applied to the cash flow projections is 5%. Other key assumptions for the value in use calculation related to the estimation of cash inflows and outflows which include budgeted revenue and budgeted net profit margin. This estimation is determined based on the past performance and management's expectation for the market development.

16. OTHER INTANGIBLE ASSETS

	Trademarks RMB	Curriculum development expenditure RMB	Capitalised software development RMB	Content distribution rights RMB	Total RMB
1 January 2019					
Cost	-	-	1,468,644	3,584,906	5,053,550
Accumulated amortisations	-	-	(367,161)	(2,389,937)	(2,757,098)
Net carrying amount (net)	**-**	**-**	**1,101,483**	**1,194,969**	**2,296,452**
Year ended 31 December 2019					
Opening net carrying amount	-	-	1,101,483	1,194,969	2,296,452
Additions	-	-	240,293	-	240,293
Acquisition of a subsidiary	2,137,709	-	-	-	2,137,709
Amortisations	-	-	(734,444)	(1,194,969)	(1,929,413)
Closing net carrying amount	2,137,709	-	607,332	-	2,745,041
31 December 2019 and 1 January 2020					
Cost	2,137,709	-	1,708,937	3,584,906	7,431,552
Accumulated amortisations	-	-	(1,101,605)	(3,584,906)	(4,686,511)
Net carrying amount	**2,137,709**	**-**	**607,332**	**-**	**2,745,041**
Year ended 31 December 2020 (unaudited)					
Opening net carrying amount	2,137,709	-	607,332	-	2,745,041
Additions	-	11,389,207	-	-	11,389,207
Amortisations	-	(1,838,845)	(484,963)	-	(2,323,808)
Exchange differences	-	332,299	-	-	332,299
Closing net carrying amount	**2,137,709**	**9,882,661**	**122,369**	**-**	**12,142,739**
As at 31 December 2020 (unaudited)					
Cost	**2,137,709**	**11,389,207**	**1,708,937**	**3,584,906**	**18,820,759**
Accumulated amortisations	-	(1,506,546)	(1,586,868)	(3,584,906)	(6,678,020)
Net carrying amount	**2,137,709**	**9,882,661**	**122,369**	**-**	**12,142,739**

Note:

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

17. DEPOSIT PAID

	2020 RMB (unaudited)	2019 RMB
Purchase consideration paid in connection with acquisition of Shanghai Pantosoft	-	73,700,000

In prior year, the Group paid a deposit of RMB73,700,000 to secure the acquisition of Shanghai Pantosoft. The amount has been derecognised upon completion of the acquisition transaction.

18. INVENTORIES

	2020 RMB (unaudited)	2019 RMB
Merchandise for sale	**2,041,565**	-

19. TRADE AND OTHER RECEIVABLES

	2020 RMB (unaudited)	2019 RMB
Trade receivables, gross	**45,574,694**	58,580,709
Less: ECL allowance	**(3,644,727)**	(4,278,019)
Trade receivables, net	**41,929,967**	54,302,690
Other receivables and deposits paid, net of ECL allowance	**9,111,581**	4,590,088
Financial assets at amortised cost	**51,041,548**	58,892,778
GST withholding tax received	**46,738**	164,423
Prepayments	**20,808,943**	2,249,258
	71,897,229	61,306,459

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.

19. TRADE AND OTHER RECEIVABLES (CONTINUED)

The aging analysis of the Group's trade receivables (net of ECL allowance) based on the invoice date as of the end of the reporting period is as follows:

	2020 RMB (unaudited)	2019 RMB
0 - 90 days	**28,027,975**	38,467,208
91 - 180 days	**3,853,621**	5,596,867
181 - 365 days	**6,047,279**	9,178,723
Over 365 days	**3,768,538**	1,059,892
Over 720 days	**232,553**	-
	41,929,967	54,302,690

The Group generally allows a credit period 15 to 60 days (2019: 15 to 60 days) to its trade customers.

The movement in the ECL allowance of trade receivables is as follows:

	2020 RMB (unaudited)	2019 RMB
1 January	**4,278,019**	1,260,684
Recognised in profit or loss	**1,466,708**	3,017,335
Write off	**(2,100,000)**	-
31 December	**3,644,727**	4,278,019

No ECL allowance has been provided for other receivables during the year (2019: RMB660).

20. CONTRACT ASSETS AND LIABILITIES

20.1 Contract assets

	2020 RMB (unaudited)	2019 RMB
Contract assets arising from unbilled revenue contracts	**90,931,700**	32,489,394
Less: ECL allowance	**(5,925,210)**	(2,984,976)
	85,006,490	29,504,418

The movement in the ECL allowance of contract assets is as follows:

	2020 RMB (unaudited)	2019 RMB
1 January	**2,984,976**	95,701
ECL recognised during the year	**2,940,234**	2,889,275
31 December	**5,925,210**	2,984,976

At 31 December 2020, all contract assets were expected to be recovered after more than one year is RMB3,298,149.

20.2 Contract liabilities

	2020 RMB (unaudited)	2019 RMB
Contract liabilities arising from billings in advance of performance		
- E-learning contracts	**3,755,691**	2,901,432
- Tuition and coaching services	**2,839,045**	973,352
31 December	**6,550,496**	3,874,784

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 amounting to RMB3,874,784 (2019: RMB4,721,383) have been recognised as revenue during the year.

21. AMOUNTS DUE FROM/(TO) A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY/RELATED COMPANIES/A NON-CONTROLLING SHAREHOLDER /A DIRECTOR

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

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

	2020 RMB (unaudited)	2019 RMB
Hexon Consulting Limited	**521,980**	328,755
Less: ECL allowance	**(521,980)**	-
	-	328,755

Hexon Consulting Limited has 9.2% equity interests in the Company's subsidiary, Prosage Development Limited.

(b) Amounts due from related companies

	Maximum balance during the year RMB (unaudited)	**2020 RMB (unaudited)**	2019 RMB
Retech Digital Media Co., Ltd*	5,403,361	5,403,361	4,433,500
Shanghai Retech Information Technology Co., Ltd ("Shanghai Retech IT") *	21,529,278	3,225,640	8,468,340
		8,629,001	12,901,840

* 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.

The amounts above have been undertaken by Jiangsu Retech Digital Information Industry Park Co., Ltd. ("Jiangsu Industry Park") and Mr. Ai Shungang. In the event of default, both parties will indemnify the Group of any losses with regard to the amount outstanding above.

In view of the undertakings given by Jiangsu Industry Park and Mr. Ai Shungang and having considered the financial conditions of Jiangsu Industry Park, the directors are of the opinion that credit risks of the amounts due from related companies and loan to a related company (note 22) are low and thus no ECL allowance is provided (2019: nil).

21. AMOUNTS DUE FROM/(TO) NON-CONTROLLING SHAREHOLDERS/A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY/ A NON-CONTROLLING SHAREHOLDER/A DIRECTOR (CONTINUED)

(c) Amount due from a non-controlling shareholder

	2020 RMB (unaudited)	2019 RMB
Lumina Looque Knowledge Hubs Pte Ltd ("Lumina")*	**4,959,374**	4,959,374
Less: ECL allowance	**(4,959,374)**	(4,959,374)
	-	-

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

(d) Amount due to a related company

	2020 RMB (unaudited)	2019 RMB
Jiangsu Yunmei Digital Technology Co., Ltd. ("Jiangsu Yunmei")*	**-**	5,974
	-	5,974

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

(e) Amount due to a director

	2020 RMB (unaudited)	2019 RMB
Kang Li	**578,588**	-

* Mr. Kang Li is an executive director of the Company. He is also a director of the subsidiary of the Company, Ai English Pty. Ltd.

22. LOAN TO A RELATED COMPANY

	Maximum balance during the year RMB (unaudited)	2020 RMB (unaudited)	2019 RMB
Jiangsu Industry Park	**172,514,374**	**31,748,709**	12,347,019

Mr. Ai Shungang being the ultimate controlling shareholder and Co-chairman of the Company. He is also a shareholder and a director of Jiangsu Industry Park.

The loan to a related company above is denominated in RMB and is unsecured, interest-bearing at fixed rates of 10% (31 December 2019: 8%) per annum and wholly repayable within twelve months from the reporting date. At 31 December 2020, the carrying amount of the loan approximates its fair value.

The directors are of the opinion that the loan to a related party is conducted on normal commercial forms at arm's length basis. The loan has been undertaken by Mr. Ai Shungang. In the event of default, he will indemnify the Group for any losses with regard to the amount outstanding above.

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.

Details of the fair value measurements of the derivative financial instruments are set out in note 36.

24. CASH AND CASH EQUIVALENTS

	2020 RMB (unaudited)	2019 RMB
Cash at bank and in hand	**205,816,383**	185,088,747

25. INTERESTS IN SUBSIDIARIES

Particulars of the subsidiaries at 31 December 2020 and 2019 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 2020		2019		Principal activities
				Direct	**Indirect**	Direct	Indirect	
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")	Hong Kong	Limited liability company	HK$8,500,000	**-**	**82.76%**	-	82.76%	Provision of ESG related e-learning solutions and consultancy services
Aushen Group Pty Ltd.	Australia	Limited liability company	A$100	-	**51.00%**	-	51.00%	Operation of language coaching school
Shanghai Paisiqi Information Technology Co., Ltd. ("Shanghai Paishiqi") 上海派施奇信息技术有限公司	PRC	Limited liability company	RMB2,000,000	**-**	**82.76%**	-	82.76%	Technical consulting and development
Ai English Pty. Ltd.	Australia	Limited liability company	A$3,060,000 (2019:A$100)	**-**	**51.00%**	-	51.00%	Operation of language coaching school
Ai Chinese Pty. Ltd.	Australia	Limited liability company	AUD100	**-**	**51.00%**	-	51.00%	Operation of language coaching school
Wuxi Ai English Education Technology Co., Ltd. ("Wuxi Ai English") 无锡爱英语教育科技有限公司	PRC	Limited liability company	USD1,010,000	**-**	**51.00%**	-	51.00%	Provision of educational software development services
Shanghai Pantosoft Co., Ltd. 上海鹏达计算机系统开发有限公司 (note 35)	PRC	Limited liability company	RMB14,322,500	**-**	**80.00%**	-	**-**	Provision of education management system solutions and related services

26. TRADE AND OTHER PAYABLE

	2020 RMB (unaudited)	2019 RMB
Trade payables	**6,977,942**	12,442,615
Other payables		
- Accrued expenses	**3,885,830**	2,515,537
- Payable for acquisition of intangible asset	**-**	800,000
- Payroll payable	**4,169,150**	2,262,656
- Other liabilities	**23,800,525**	4,001,542
Trade and other payables as financial liabilities at amortised cost	**38,833,447**	22,022,350
Provision of other tax liabilities	**5,845,498**	1,771,400
	44,678,945	23,793,750

The credit period of the Group is usually 15 to 60 days (2019: 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 approximation of their fair values.

27. BORROWINGS

	2020 RMB (unaudited)	2019 RMB
Secured bank loan (note a)	**20,000,000**	-
Guarantee bank loans (note b)	**22,900,000**	12,900,000
Unsecured corporate loans (note c)	**10,817,080**	4,888,326
Unsecured personal loans (note d)	**5,710,412**	-
Accrued interest charges	**460,125**	84,853
Total borrowings	**59,887,917**	17,873,179
Less: Amounts shown under current liabilities	**(49,825,517)**	(12,984,853)
	10,062,400	4,888,326

(a) Secured bank loans are denominated in RMB, wholly repayable in 12 months from the date of drawdown and interest bearing at fixed rates of 5.75%. The bank loan is secured against:

- Two properties located in Zhenjiang City owned by Jiangsu Industry Park pledged as collateral to the bank; and
- Corporate guarantee provided by Shanghai Retech Enterprise Management Group Co., Ltd.

27. BORROWINGS (CONTINUED)

(b) Guarantee bank loans are denominated in RMB, wholly repayable in 12 months from the date of drawdown and interest bearing at fixed rates of 4.67% and variables rates of 4.5% respectively. These bank loans are secured against:

- personal guarantees provided by Mr Ai Shungang and his spouse, Ms. Kong Yan.; and
- loan performance guarantee insurance purchased by the Group.

(c) They represent unsecured corporate loan from:
- Hong Kong Fu An Development Co., Limited with loan principal amount of A$2,000,000 (2019: A$1,000,000) and wholly repayable on 2022. The loan bears fixed rate of 4.5% per annum which the interest is repayable every six months.; and
- Zhengshi Investment Company Limited and wholly repayable in 12 months from the date of drawdown.

(d) It is an unsecured personal loan with principal amount of A$1,135,000 provided by a third party investor, Mr. Lu Hua. The loan is interest free and repayable within 12 months from the date of drawdown.

28. LEASE LIABILITIES

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

	2020 RMB (unaudited)	2019 RMB
Total minimum lease payments:		
Due within one year	**9,681,485**	10,617,609
Due in the second to fifth years	**28,613,148**	31,964,063
Due after the fifth year	**-**	3,033,804
	38,294,633	45,615,476
Less: Future finance charges on lease liabilities	**(2,006,683)**	(4,011,397)
Present value of lease liabilities	**36,287,950**	41,604,079
Present value of minimum lease payments:		
Due within one year	**8,816,410**	9,155,846
Due in the second to fifth years	**27,471,540**	29,445,113
Due after the fifth year	**-**	3,003,120
	36,287,950	41,604,079
Less: Portion due within one year included under current liabilities	**(8,816,410)**	(9,155,846)
Portion due after one year included under non-current liabilities	**27,471,540**	32,448,233

As at 31 December 2020, lease liabilities amounting to RMB27,457,335 (2019: 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 interest charges for leases liabilities are RMB4,737,433 and RMB1,147,019 (2019: RMB2,712,637 and RMB491,724) respectively.

28. LEASE LIABILITIES (CONTINUED)

As at 31 December 2020, 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
Office	Buildings carried at cost in "property, plant and equipment"	6	2 to 6 years

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

29. CONVERTIBLE NOTE

	2020 RMB (unaudited)	2019 RMB
Convertible note maturing on 2021 under current liabilities	**32,437,927**	-
Convertible note maturing on 2021 under non-current liabilities	**-**	32,781,619
	32,437,927	32,781,619

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.

29. CONVERTIBLE NOTE (CONTINUED)

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

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

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

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

The liability component is 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.

	2020 RMB (unaudited)	2019 RMB
Liability component		
1 January	**32,781,619**	31,092,542
Accrued effective interest charges (note 8)	**4,501,241**	3,818,703
Interest paid	**(2,775,202)**	(2,778,633)
Exchange differences	**(2,069,731)**	649,007
31 December	**32,437,927**	32,781,619
Fair value of embedded derivative component in respect of the call option - financial assets		
1 January	**(9,733,410)**	(11,135,977)
Changes in fair value	**6,913,187**	1,598,435
Exchange differences	**204,084**	(195,868)
31 December	**(2,616,139)**	(9,733,410)
Fair value of embedded derivative component in respect of the conversion and put option - financial liabilities		
1 January	**14,281,539**	13,617,235
Changes in fair value	**(9,476,924)**	375,875
Exchange differences	**(335,304)**	288,429
31 December	**4,469,311**	14,281,539

29. CONVERTIBLE NOTE (CONTINUED)

As at 31 December 2020, the fair value of the liability component above is approximately RMB35,425,000 (2018: RMB34,545,000). The fair values of the liability component and embedded derivative components above are based on a valuation performed by an independent professional valuer using discounted cash flow method and Monte Carlo Simulation Model, respectively, and are classified within Level 3 of the fair value hierarchy. Details of the fair value measurements of the embedded derivative components are set out in the note 36 to the consolidated financial statements.

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

	2020 RMB (unaudited)	2019 RMB
Time to maturity	**0.89 years**	1.89 years
Share price	**HK$1.79**	HK$2.27
HK$/A$ exchange rate	**5.976**	5.467
Conversion price (floating)	**HK$1.61**	HK$2.04
Spread	**7.20%**	6.90%
Expected share price volatility	**55%**	78%
Risk-free rate	**2.69%**	2.53%
Discount rate	**9.89%**	9.43%

30. CONTINGENT CONSIDERATION LIABILITY

	2020 RMB (unaudited)	2019 RMB
Contingent consideration at beginning of the year	**1,607,522**	1,541,259
Change in fair value	**172,601**	38,155
Exchange differences	**932**	28,108
At the end of the year	**1,781,055**	1,607,522

In prior year, the Group acquired of 51% equity interests in Aushen Group Pty Ltd. 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 contingent consideration liability is measured at fair value and details of fair value measurements are set out in note 36.

31. SHARE CAPITAL

	Notes	Number of shares	RMB
Issued and fully paid ordinary shares			
As at 1 January 2019		230,750,944	141,905,974
Issuance of shares under Retech Incentive Plan		2,161,689	4,072,436
31 December 2019, 1 January 2020 and 31 December 2020 (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.

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. 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	2020 RMB (unaudited)	2019 RMB
Related companies			
Shanghai Retech IT (note (a))	Services income recharged	**26,000,323**	26,725,799
	Other income received	**26,633**	-
	Service costs reimburse	**5,648,352**	5,441,541
	Administrative expenses recharged	-	627,262
Jiangsu Industry Park (note (b))	Interest income received	**4,637,290**	4,475,142
	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	**1,614,920**	1,054,205

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 January 2019 to 30 August 2026. 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. Costs and operating expenses will be recharged on a reimbursement basis. The relationship with Shanghai Retech IT is described in note 21(b) to the consolidated financial statements.

(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 Shanghai Retech Enterprise Management Group Co., Ltd.

Compensation of key management personnel

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

34. SHARE BASED EMPLOYEE COMPENSATION

In prior year, the Board approved a share-based payment scheme for its employee remunerations called Retech Incentive Plan (the "Plan"). The Plan allows eligible employees to be granted options and CDIs. The Group will award options or CDIs to certain key employees of the Group as part of the reward for their past and future service provided to the Group.

The Plan allows eligible employees to be granted CDIs under a free grant. The participant will be entitled to receive an allocation of CDIs with or without consideration and specified in the offer letter. Options represents each option granted under the Plan to eligible employees for and be allotted one CDI. The exercise price payable of an option is for acquiring the underlying CDIs and predetermined at grant date. To be eligible, the participants of the Plan are required to be employed until the issuance of the options or CDIs.

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

(a) CDIs – recognised over the period when the services are received; and

(b) Options with vesting period – recognised over a straight-line basis over the vesting period with corresponding increase in employee compensation reserve.

The fair value of options with vesting period and CDIs are 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 CDIs. The movement of options of underlying CDIs and CDIs and weighed average fair values per share are as follows:

	2020		2019	
	Number of shares	Weighted average fair value per share RMB	Number of shares	Weighted average fair value per share RMB
	(unaudited)			
CDIs, grant and exercised during the year:				
- 24 June 2019	-	-	2,064,180	1.88
Options of underlying CDIs, grant and exercised during the year:				
- 12 September 2019	-	-	97,509	1.95
Total	-	-	2,161,689	

During the year ended 31 December 2020, there are no grant and exercise of both CDIs and options of underlying CDIs.

35. ACQUISITION OF A SUBSIDIARY, SHANGHAI PANTOSOFT

	Principal activities	Date of acquisition RMB	Proportion of interest acquired %	Consideration transferred RMB
Shanghai Pantosoft Co., Ltd.	Provision of education management solutions and related services	7 October 2020	80.00	73,700,000

During the year, the Group completed the acquisition of Shanghai Pantosoft. Shanghai Pantosoft provides digital solution via self-developed software systems to support education management to secondary and vocational schools in PRC.

Assets acquired and liabilities recognised at the date of acquisition

	Consideration transferred RMB (unaudited)
Property, plant and equipment	163,785
Cash and bank balance	168,151
Trade and other receivables	8,290,342
Contract assets	2,419,233
Trade and other payables	(10,753,100)
	288,411

Goodwill arising on acquisition

	RMB (unaudited)
Consideration transferred	73,700,000
Non-controlling interest	18,425,000
Fair value of identifiable net assets acquired	(288,411)
	91,836,589

Goodwill arose in the acquisition of Shanghai Pantosoft 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 Shanghai Pantosoft. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

35. ACQUISITION OF A SUBSIDIARY, SHANGHAI PANTOSOFT (CONTINUED)

Net cash outflow on acquisition of subsidiaries

	Total RMB (unaudited)
Deposit paid in November 2019	73,700,000
Cash and cash equivalent acquired	(168,151)
	73,531,849

The net cash inflow for the year ended 31 December 2020 is RMB168,151 after excluding the considerations paid in prior year.

Shanghai Pantosoft contributed revenue of RMB10,247,511 and net profit of RMB3,873,284 to the Group for the period of acquisition date to 31 December 2020. Had Shanghai Pantosoft been consolidated from 1 January 2020, the Group would show an increase in proforma revenue by RMB6,483,507 and decrease in proforma loss by RMB3,285,873. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2020, nor is it intended to be a projection of future results.

36. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

This note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments since the last annual financial report.

Fair value hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and not using significant unobservable inputs.
- Level 3: unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement. The financial assets and liabilities measured at fair value in the unaudited consolidated statement of financial position on a recurring basis are grouped into the fair value hierarchy as follows:

	Level 1 RMB	Level 2 RMB	Level 3 RMB	Total RMB
As at 31 December 2020 (Unaudited)				
Financial assets				
Derivative financial instruments (i)		**-**	**2,616,139**	**2,616,139**
Financial liabilities				
Derivative financial instruments (i)	**-**	**-**	**(4,469,311)**	**(4,469,311)**
Contingent consideration liability (ii)	**-**	**-**	**(1,781,055)**	**(1,781,055)**
		-	**(6,250,366)**	**(6,250,366)**
Net fair value		**-**	**(3,634,227)**	**(3,634,227)**
As at 31 December 2019				
Financial assets				
Derivative financial instruments (i)		-	9,733,410	9,733,410
Financial liabilities				
Derivative financial instruments (i)		-	(14,281,539)	(14,281,539)
Contingent consideration liability (ii)			(1,607,522)	1,607,522)
			(15,889,061)	(15,889,061)
Net fair value		-	(6,155,651)	(6,155,651)

36. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

There were no transfers between level 1 and level 2 of the fair value hierarchy during the years ended 31 December 2020 and 2019.

(i) The fair values of the derivative financial instrument are based on a valuation performed by an independent professional valuer; and

(ii) The fair value of contingent consideration liability is based on the probability-weighted estimated of Aushen's performance between FY2020 to FY2022.

The fair values of the derivative financial instruments are based on a valuation performed by an independent professional valuer. The methods and valuation techniques used for the purpose of measuring fair values categorised in Level 3 are described below.

Information about Level 3 fair value measurements

	Valuation technique	Significant unobservable inputs	Sensitivity relationship of unobservable inputs to fair value
Financial assets			
Issuer's Call Option	Monte Carlo Simulation Model method and discounted cash flow method	Discount rate: 9.89% (2019: 9.43%)	The higher the discount rate, the lower the fair value, and vice versa.
		Volatility: 55% (2019: 78%)	The higher of the volatility, the higher of the fair value, and vice versa.
Financial liabilities			
Holder's Conversion and Put Option	Monte Carlo Simulation Model method and discounted cash flow method	Discount rate: 9.89% (2019: 9.43%)	The higher the discount rate, the lower the fair value, and vice versa.
		Volatility: 55% (2019: 78%)	The higher of the volatility, the higher of the fair value, and vice versa.
Contingent consideration liability	Discounted cash flow method and probability-weighted estimated	Discount rate: 5% (2019: 5%)	The higher the discount rate, the lower the fair value, and vice versa.
		Probability: 85% (2019: 85%)	The higher the probability-weighted estimate, the higher of the fair value, and vice versa.

36. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	Issuer's Call Option RMB	Holder's Conversion and Put Options RMB	Contingent consideration liability RMB	Total RMB
At 1 January 2019	**11,135,977**	**(13,617,235)**	**-**	**(2,481,258)**
Acquisition of a subsidiary	-	-	(1,541,259)	(1,541,259)
Fair value loss recognised in profit or loss	(1,598,435)	(375,875)	(38,155)	(2,012,465)
Exchange gain/(loss) recognised in profit or loss	195,868	(288,429)	(28,108)	(120,669)
At 31 December 2019 and 1 January 2020	**9,733,410**	**(14,281,539)**	**(1,607,522)**	**(6,155,651)**
Fair value (loss)/gain recognised in profit or loss	(6,913,187)	9,476,924	(172,601)	(2,391,136)
Exchange gain/(loss) recognised in profit or loss	(204,084)	335,304	(932)	130,288
At 31 December 2020 (unaudited)	**2,616,139**	**(4,469,311)**	**(1,781,055)**	**3,634,227**

Other than those disclosed in note 23 and note 29, the Group considers the carrying amounts of financial assets and financial liabilities recognised in the consolidated statement of financial position approximate to their fair values.

37. CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the financial year ended 31 December 2020. The Group is not subject to any externally imposed capital requirements.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2020 RMB (unaudited)	2019 RMB
ASSETS AND LIABILITIES			
Non-current asset			
Interest in a subsidiary	25	**13,394,380**	13,394,380
Current assets			
Prepayments		-	113,129
Loan to a subsidiary		**14,540,425**	-
Amounts due from subsidiaries		**109,245,038**	122,782,941
Amount due from related companies		**969,861**	-
Dividend receivables		**39,390,000**	39,390,000
Derivative financial instruments		**2,616,139**	9,733,410
Cash and cash equivalents		**2,832,282**	4,272,422
		169,593,745	176,291,902
Current liabilities			
Accruals and other payables		**536,001**	456,782
Amounts due to subsidiaries		**17,700**	17,700
Derivative financial instruments		**4,469,311**	14,281,539
Borrowings		**5,710,412**	-
Convertible note		**32,437,927**	-
		43,171,351	14,756,021
Net current assets		**126,422,394**	161,535,881
Total assets less current liabilities		**139,816,774**	174,930,261
Non-current liability			
Convertible note		**-**	32,781,619
Net assets		**139,816,774**	142,148,642
Equity			
Share capital		**145,978,410**	145,978,410
Accumulated losses (note)		**(6,161,636)**	(3,829,768)
Total equity		**139,816,774**	142,148,642

Mr. Ai Shungang
Co-Chairman

Mr. Calvin Cheng
Co-Chairman

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

Note:

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

	RMB
At 1 January 2019	24,589,393
Profit for the year	(26,345,733)
Special dividend declared and paid during the year	5,586,108
At 31 December 2019 and 1 January 2020	3,829,768
Loss for the year (unaudited)	2,331,868
At 31 December 2020 (unaudited)	6,161,636

Disclaimer

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