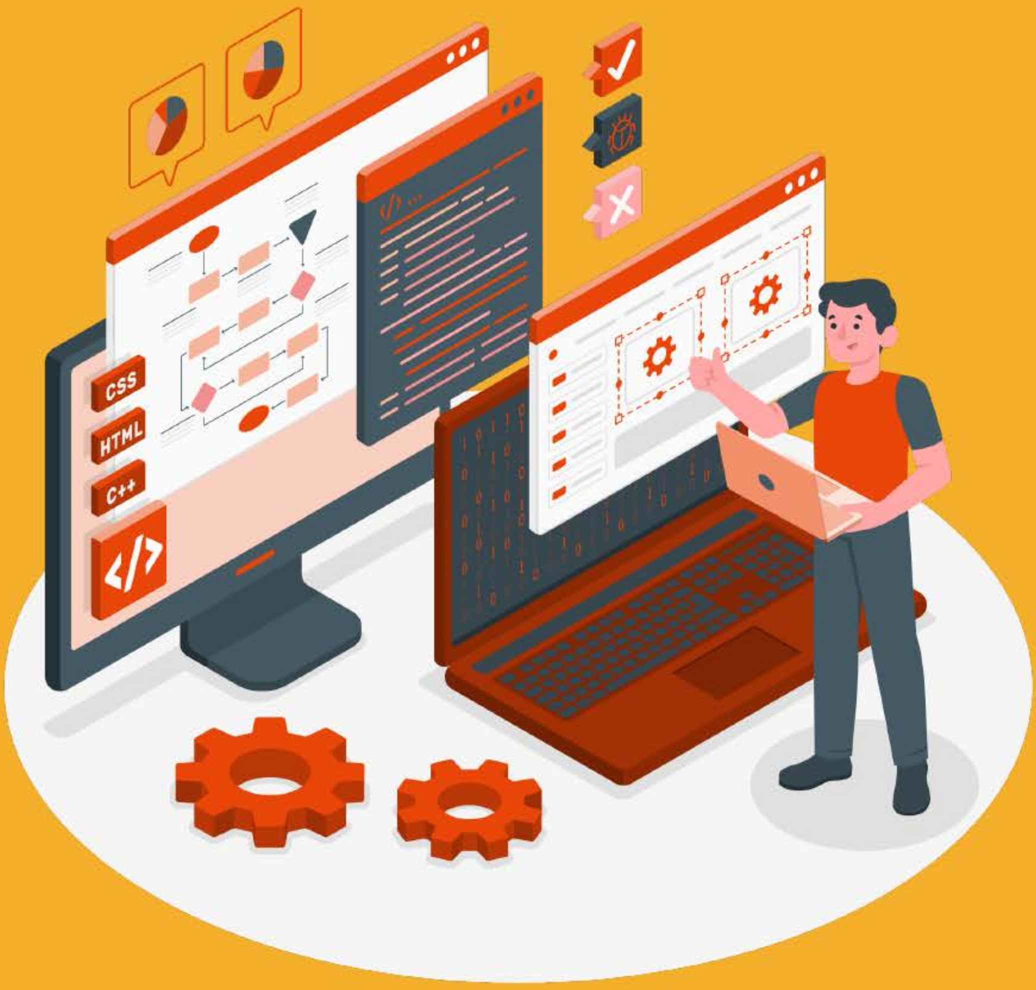
# Retech

# Technology Co., Limited

ARBN 615 153 332




# Annual Report

for the year ended

31 December 2020

RETECH
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Hong Kong Company Registration Number 2374379

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

# Contents

# PART 1

## Company Overview

# Part 1 Group Overview

## 1. 2020 Operation and Financial Highlights

With the COVID-19 pandemic raging for most of 2020, online education and training boomed globally, out of necessity. As a result, Retech was a beneficiary:

- 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 when China went into lockdown, we achieved steady growth this year.

- 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%, lower than 64% in FY2019. This is due to contribution of language training and provision of education management system solutions which have slightly lower margin, which we feel will pay off in the new pandemic normal.

- Net profit for the period attributable to members was RMB54.4m (A$11.43m), an increase of RMB0.64m (A$0.24m), or 1% compared to RMB53.76m (A$11.19m) in FY2019. Our operational expenses increased, due to an expansion of our new businesses, especially in Ai English.

- In 2020, Retech had more business from existing clients, like Bank Of China, PingAn Bank, Mercedes-Benz Group, etc. Meanwhile, Retech successfully joined BMW's courseware service providers list, and will provide courses developing services for BMW in the next 3 years. Among new customers, Panasonic and Beijing Aerospace Intelligent Manufacturing Technology Development Co., Ltd. both confirmed their contracts with Retech.

- Retech completed the acquisition of 80% interests in Shanghai Pantosoft in 2020 and it brought more than 500 potential customers and established education managements system solutions to the Group. Upon consolidation into the Group, it contributed RMB3.46m (A$0.73m) of net profit to the Group. In addition, Shanghai Pantosoft also enhance the Group's customers base and product offering.

- At the end of 2020, Retech applied for Shanghai's pilot enterprise for the combination of education and production, and got approved in the early of March, 2021. In 2020, Retech 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.

- Ai English signed more new customers in this year, including Shane English, Montessori, Changchang QiMeng English, Maria Montessori in Kunshan city and China-Hongkong English School located in Zhongshan city etc.

# 2. Chairman's Letter

The year 2020 will live on in our history books, as a global pandemic gripped the world.

It was a year where many suffered, and the world had to re-organise societies and lives. Most countries in the world went into lockdown, and offices and schools shut.

The global pandemic created many victims, but businesses that operated in the digital world prospered, as physical contact became challenging. Retech was one of these fortunate beneficiaries.

Whilst many companies in tourism, aviation, f&b, physical retail suffered, online businesses such as Retech boomed. Schools and companies were shuttered, and training and education had to move online. We were very fortunate that amidst a sea of red, Retech's profits not only remained secure, but increased.

The digitisation of the world was not new, but the pandemic has accelerated it. There is no going back now, as COVID-19 is now endemic in our world. These changes are not temporary but permanent.

Retech thus increased investment in our new business lines, especially in Ai English. Ai English in particular benefited from the departure of many expat teachers from China, and our live-streamed English lessons from Australia, into schools in China, were in great demand. We expanded Ai English amidst the pandemic, which explains why even though our revenues grew by 17%, our attributable net profit only grew by 1%. We are however confident that these investments will pay off magnificently as the digitisation of education and training, and the border restrictions, will continue for some time yet.

2021 will see some light at the end of the tunnel for humanity, as vaccinations are rolled-out. This will however take time. We expect that many of the ways that our lives have changed will become permanent.

Amidst this revolution, Retech stands ready to take advantage of the opportunities that the digitisation of education and training will offer.

The future is bright for humanity. The future is bright for Retech.

Stay safe.

Yours sincerely,

Mr. AI Shungang
Co-Chairman

Mr. Calvin CHENG
Co-Chairman

# 3. Vision, Strengths and Strategies

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

## Vision

Retech Technology is positioned as a "knowledge service provider" with a vision to become a "learning technology leader" worldwide. The Company's purpose is to deliver high quality online training solutions through its software and platform technology. We create well-designed courses for leading corporate customers to make learning easily and efficiently. We also use our expertise to enable offline education providers to deliver a high-quality online education.

- ✧ We commit to promote the optimal allocation of learning resources through the Internet and using eLearning technologies, helping learners to access high-quality educational resources anytime, anywhere, and achieve educational equity.
- ✧ We commit to help learners realize the humanization of the learning experience, the transparency of processes, and the controllability of results through learning technologies.
- ✧ We integrate technologies of big data and artificial intelligence to provide each learner with the most suitable learning solution to achieve "teaching according to his aptitude". We assist employers to deliver essential training to their staff, and to help them raise the quality of their output through.

## Strategies and Strengths

Retech aims to become a leading EdTech company in the e-learning industry. Retech will always be technology-oriented, but we will also aim to enhance our market position by providing content in key areas:

- ➢ "Technology + IP": we will develop high quality IP based on our eLearning expertise and provide a unique content ecosystem in the fields of corporate training, language education, and digital media education.
- ➢ "Technology + Teachers": through our international education, we will bring in high-quality education from international teachers using advanced online learning technology, and facilitate the growth of our cross-border language education services.

Focusing on the field of online education for more than 10 years, we have accumulated the following strengths:

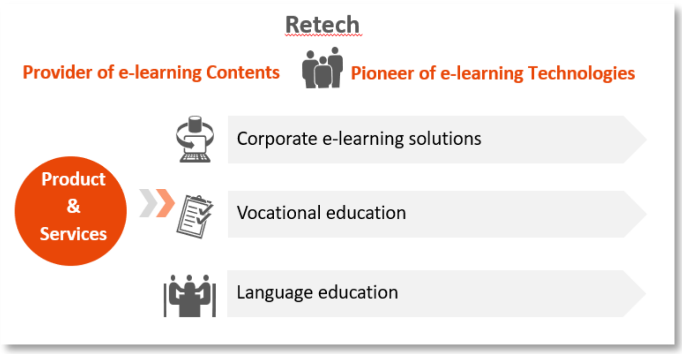
- ➢ **Stable, committed core team:** our core team has accompanied Retech's growth and we continuously strengthen our team's cohesion and commitment through effective talent acquisition.
- ➢ **Great brand influence:** after many years of designing the industry's leading digital education platforms, we have a deeply cultivated and sound reputation in our target industries: financial services, autos, retail and technology. We are expanding this presence to becoming a leading provider of services to the education sector.
- ➢ **High customer stickiness by product matrix:** Our recurring customer rate continues to increase year by year. We have built a deep understanding of our customers' needs during the

implementation of our products and services. As a result, our product matrix includes learning platforms, digital content and services, with the accumulation of technology and materials for customer solutions.

- **Leading intelligent platform technology**: Retech's online learning platforms have withstood the test of more than 10 million people. Through technical cooperation with internationally renowned companies such as Netlearning, the largest E-learning company in Japan, technology such as big data analysis, and artificial intelligence has been introduced and further enhanced the transparency and flexibility of our learning platforms.
- **Instructional design standard maker:** Retech has helped customers to develop digital education content such as video, animation, H5, AR & VR, etc., and accumulated a rich experience in online instructional design and techniques.
- **International resources:** international resources have been obtained. We are listed and have established businesses in Australia; we jointly established the AES with leading Japanese and South Korean industry partners; we work with leading universities from China to Australia; and we have strategic cooperation with leading groups such as the UK's Pearson and Singapore Technologies Electronics.

# 4. Company Overview

The Company and its operating subsidiaries ("Retech Group" or "the Group") provide products and services as comprehensive e-learning solution packages shown in this chart：




Through our products and services, we not only provide solutions that satisfy changing e-learning technology demand but also build a complete e-learning ecosystem integrated into our clients' training systems. With leading instructional design capabilities and strong digital courseware development capabilities, we provide our customers with a total online education solution.

## Corporate e-learning solutions

### 1) Corporates e-learning platform

Our online learning platform is the key channel for Retech to deliver learning modules, comprising complete blended electronic distribution through a PC, mobile, social media apps, and face-to-face live-streaming tools. These platforms have functions such as Q&A, social learning, and interactive videos to keep the program user-friendly and simultaneously accelerate the learning process.

- **Platform products features**

RTE focuses on building a comprehensive technology-driven platform that integrates the latest concepts of advanced system planning.

- ✧ Big data collection and analysis. Course learning can be carried out at any time through various forms. Data is collected and analyzed at key learning nodes for report drilling and intelligent mapping.
- ✧ Multi terminal adaptation and synchronization of courseware content, including PC, mobile phone (IOS and Android), via e-book, WeChat, game, HTML5, etc.
- ✧ Systematic and modular training management function design. By providing training management, test and benchmarking organization, score statistics, performance evaluation and promotion, Retech is able to meet the training needs of the most demanding corporate customers.
- ✧ Large scalability. We help our customers to grow, providing many kinds of learning and training solutions combined with multi-channel transmission to enable their staff to unlock their potential. additional online training management modules and solutions.
- ✧ Upgrading with new solutions. Taking into account advances in technology and usability, we enable our customers to continuously upgrade their learning services.
- ✧ Flexible and secure LMS integration. Services provided by Retech are based on the configuration of independent functions.
- ✧ Social and gamified learning. We can provide social learning through social media APPs such as WeChat, with modular content that can be obtained anytime, anywhere.

➢ **LVC (live virtual classroom) real-time interactive educational platform**

Our Live Virtual Classroom was developed by Retech with Huawei for remote real-time interaction between course instructors and students. LVC is now one of the leading real-time teaching platforms in China and can support simultaneous real-time interactions with 1,000 parties or more. With Huawei's exclusive authorization, Retech provides real-time e-course services for Huawei's overseas customers. This platform was developed and delivered for Huawei in 2019 and the software IP is owned by both parties.

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

Retech’s e-course services are divided into 2 types: “off-the-shelf” e-courses and customized e-courses. The core of developing successful e-courses that meet the diverse training needs of our clients is effective e-learning instructional design. Retech plays a leading role in research and implementation of instructional design for e-learning market in China.

➢ **E-course features:**

✧ **The establishment of courseware standards**

When designing customized e-learning content for our customers, Retech uses performance-oriented online learning concepts as the basis of teaching design. Using a modular structure and design enables students to have a high sense of interactivity and participation.

Our courseware is developed in accordance with international standards, such as SCORM (Sharable Content Object Reference Model) and AICC (The Aviation Industry Computer-based training Committee). Our courseware follows international standard designs, so it can be easily integrated into the various training platforms of customers. This also makes Retech’s courseware a first choice for most enterprises.

- **Standardized development process**

  Retech has standardized online course design with our own quality management system (QMS). Each project has a project manager (PM), who organizes a team of experts, supervises delivery of the project, controls the progress, and controls the delivery and cost of the project. Retech's experts control the quality of online learning solutions at all stages of project planning and execution. Through this practice, Retech not only has the advantages of courseware design and delivery, but also manages the profit of each project well.

- **High level courseware design team**

  Retech has a team of experienced experts who are responsible for the educational design of our e-learning content, focused on efficient learning methodologies and absorbing the latest teaching design concepts. Since 2012, Retech has jointly established teaching design laboratories with five top domestic universities, namely, Beijing Normal University, Capital Normal University, East China Normal University, Central China Normal University and Shanghai International Studies University. Our team develops new methods to prepare updated, user-oriented e-learning content based on research and courseware design models from cooperation with our research teams. Through the implementation of new technologies, such as 3D, AR (Augmented Reality) and VR (Virtual Reality), courseware provided by Retech is appreciated by our customers and is at the forefront of the industry technological development.

- **Diversified courseware types to meet different customer requirements**

  Retech provides clients with courseware that can be tailored to their needs. Retech may take existing instructional content from our customers and then develop new content and content from our own library of resources to produce optimal, customized content. Each module is divided into various categories depending on the progress of the user and is presented in different forms, i.e. gamification, video, or interactive text, etc.

## Vocational education

Our current products and services for vocational education are as follows:

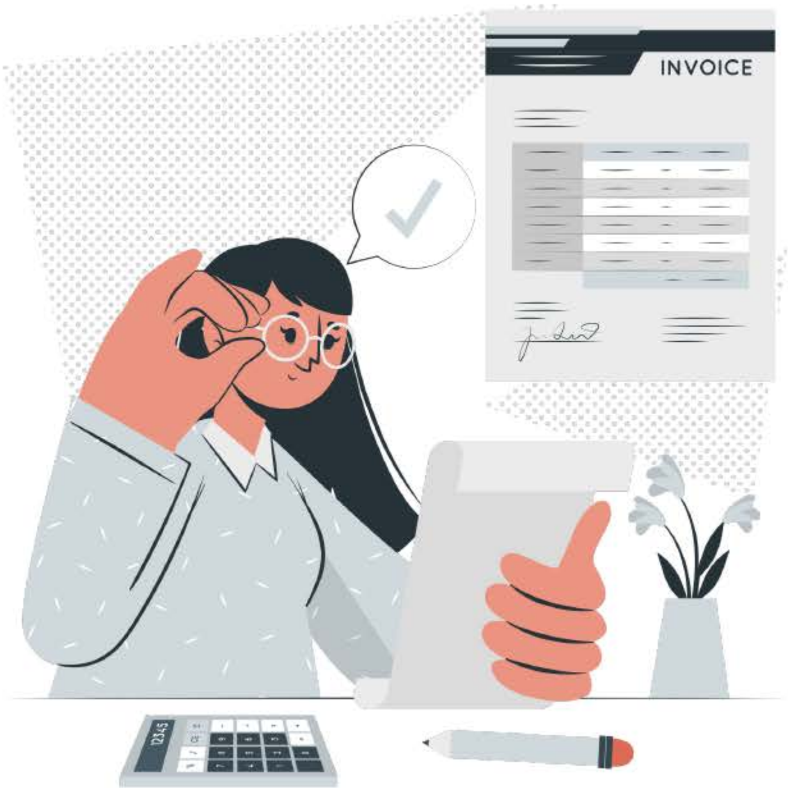
- Digital resource research and development.
- Educational administration management systems for student credits.
- Products on digital campus/ smart campus.
- Platform for teaching resource management and online teaching.
- Consulting and education management services for digital campus/ smart campus construction
- The combination of education and production solution in digital media major: including four modules of teacher training, an online teaching platform, a project management platform, a teaching evaluation platform, and a case library of 100 real enterprise projects and update each year.
- Technical and maintenance support services for software products that are up-to-date and actively used in modern e-courseware design.

## Language Education

Ai English provides students in China (3-16 years old) the opportunity to learn English from native English teachers, livestreamed from **Retech's Australia-based studios,** delivering courses in a "dual teacher" mode. Our teachers and technologies provide a live webcast from international teachers in Australia, supported by the school's own teacher locally in the classroom in China.

**Key features are:**

- ✧ **Full-time & dedicated Australian, native English-speaking, qualified teachers with TESOL/ TEFL certificates** to teach interactive, high quality lessons into China.
- ✧ **Dual teacher model:** the local teacher assists in the classroom while students enjoy lessons live-streamed from our international teachers.
- ✧ **Time zone and quality advantages in Australia:** Australian native English-speaking teachers command a premium over other regional English teachers (e.g. Philippines) and have significant time zone advantages compared to other established online education providers based in e.g. the US or the UK.
- ✧ **Academic cooperation** with Federation University and Monash University. Significant cooperation with Rise Education in China, China's largest dedicated after-school English tutors.
- ✧ **Various class size:** Studio2home (1V1、1V4), Studio2classroom (1V25), Blended Mode (Studio2home+ Studio2classroom).
- ✧ **A-School business model:** Ai English team provides the studio and customized teaching service to K12 schools, English training institutions. This service includes two modes: class live broadcast to one classroom (In Class) and to families (Home Lesson).
- ✧ **I-School business model:** Provides services of School-within-School, jointly operation, operation for the after-school class and joint campus for K12 schools, primary and secondary English training institutions and non-English training centers.
- ✧ **4K live-streaming platform** allows "real size" tutors to teach with <40 milliseconds of delay.




# PART 2

## Operating and Financial Reviews, Future Development

# Part 2 Operation, Financial Review and Future Developments

## 1. Operation Performance Review

### 1) Corporate E-Learning

- E-learning platform

  E-learning platform—The technical team continued to provide the services to clients and the Ruizhi Platform Version 3.0 is going to be launched in June, 2021.

- LVC (live virtual classroom) real-time interactive educational platform

  In 2020, the LVC product team developed an important customer-Cote d'Ivoire education commission. In the late 2020, Retech sent a technical team to Cote d'Ivoire to support this platform.

- E-courses

  The Company launched different new types of training operation services including the whole operation system for activity planning, face-to-face training, courseware production, promotion and publicity as well as developed more courseware with 3D modeling design and one new courseware type in the form of podcasts which have been proved very popular online.

***Clients and new development***

In terms of corporate e-learning, Retech focuses on providing professional technology and services to key customers in targeted industry verticals. The success and growth of our well-known large customers provides a strong driving force for our business development.

In 2020, Retech has got more business opportunities from existing clients, like Bank Of China, Ping An Bank, Mercedes-Benz Group, etc. Meanwhile, developing in financial, auto, retails industries are still Retech's main business directions.

The following are the updates from our target industries:

- Financial services: Retech keeps on providing services to our existing customers including Bank of China, Ping An Bank, China Minsheng Bank, Shanghai Pudong Development 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.
- Autos and Industrials: In the auto industry, Mercedes Benz is our long-term customer that business has been affected by the COVID-19 pandemic and was forced to close some of its auto factories. This year, Retech successfully entered BMW's courseware service providers list and will provide courses developing services for BMW in the further 3 years. Among new customers, Panasonic and Beijing Aerospace Intelligent Manufacturing Technology Development Co., Ltd. both confirmed their contracts with Retech.
- 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.
- 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.

Famous Brandings from our clients:

## 2) Vocational Education

Based on Retech's rich experience in the field of digital media and the dividend of China's policies, Retech focuses on cooperating with vocational colleges in the digital media professional group and is committed to regional professional talent training. Retech and Shanghai Publishing and Printing College (SPPC) jointly built a student training and practice base named "SPPC-Retech Digital Media Industry College" center, which has finished the start up phase and will be used in 2021. Retech also has jointly developed 100+ training teaching cases with vocational college teachers which will be used in students daily studying and these cases will be updated every year. In cooperation with foreign advanced VR technology providers, Retech is applying for the project of national virtual simulation laboratory.

Retech finished the acquisition of Pantosoft and based on the Board's decision, Shanghai Pantosoft's financial statement will be merged into Retech's statement from 7 October, 2020. Pantosoft brought 500+ vocational schools customer relationships and mature educational management platform to Retech's vocational education business ecosystem.

At the end of 2020, Retech applied for Shanghai pilot enterprise for the combination of education and production and got approved in the early of March, 2021.

In 2020, Retech 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. You may find more in the following schools.

## 3) Language Learning

From February 2020, during lockdowns imposed under the COVID-19 pandemic in China, Retech adjusted the product and business models as well as developed new models for strategy plan.

***<u>Products of Language Learning:</u>***

- <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 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. As well as the learning abilities difference between ages, Ai English involved more Chinese elements into the courses, such as the traditions in Chinese New Year, the story of <Journey to the West>, the introduction of Chinese traditional holidays, etc.


- <u>Big English:</u> 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 years old. The Ai English team continues to develop additional learning products and courses to bring better learning experiences for our customers and the main partners are shown in the following icons.

- I-School: In August 2020, the Company launched a new teaching product and business model, I-School, and the first learning center of I-school started in Nantong Bowen training school.

***Clients and new development***

- Agreement with RISE English (NASDAQ: REDU) headquarters: Retech has reached the agreement to provide live online teaching services to RISE + centers all over China, providing live broadcast classes and online boutique small class after school classes. This helps to develop our business through RISE centers.
- 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 and will give a boost to Retech's plans to enter the Japanese market.
- More customers have signed up with Ai English: Ai English has signed 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 Strategic Cooperation

- On the 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 13th November 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.

## 2. Financial Performance Review

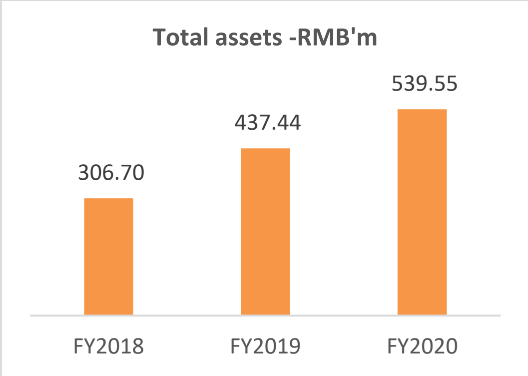
- Revenue for FY2020 was RMB195.76m (A$41.12m), an increase of RMB28.02m (A$6.21m), or 17% compared to RMB167.74m (A$34.91m) in FY2019. Despite the impact of COVID-19 in early 2020, we achieved steady growth in traditional corporate E-learning solution business this year. Meanwhile, our new growth engine, 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 started up in the combination of education and production programs providing cutting-edge industry training.

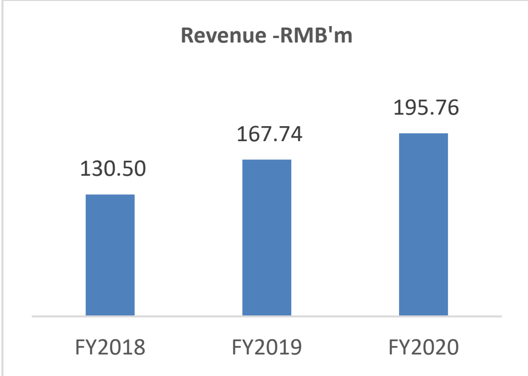
- Gross profit was RMB113.98m (A$23.94m), an increase of RMB6.79m (A$1.63m), or 6% compared to RMB107.19m (A$22.31m) in FY2019. The gross margin was 58%, which was 64% in FY2019. With the impact of COVID-19, our customers especially large enterprises, increased the online portion of their internal training budget and they have comprehensive demands for this part. Correspondingly, we provided more sophisticated e-learning solutions including infrastructure construction, course design and platform development to them. There was an increase of operating cost in supporting this new and important solution. More importantly, Ai English service has a comparatively lower gross margin level compared to the E-Learning business. It is expected to grow exponentially in the coming year.

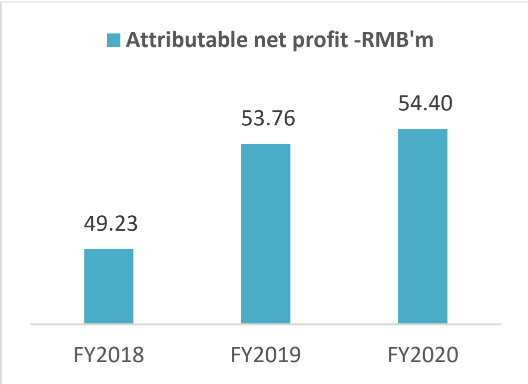
- Selling and distribution expenses were RMB10.00m (A$2.10m), an increase of RMB1.31m (A$0.29m), or 15% compared to RMB8.69m (A$1.81m) in FY2019. Administrative expenses were RMB57.50m (A$12.08m), an increase of RMB25.36m (A$5.39m), or 79% compared to RMB32.14m (A$6.69m) in FY2019. The increased expenses were mainly caused by the development of our new growth engine, Ai English language training business. Other operational income and expenses resulted in gain of RMB5.00m (A$1.05m), while in 2019 it was loss of RMB0.31m (A$0.06m). The change was positive RMB5.31m(A$1.11m). The 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.

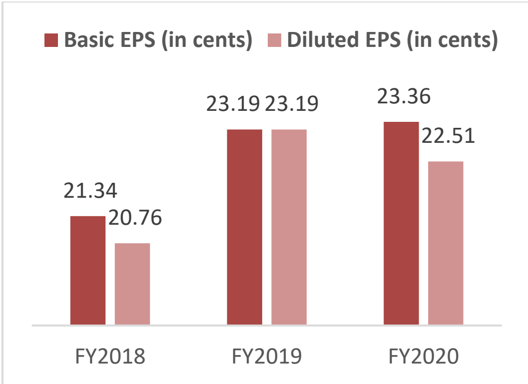
- Net profit before tax was RMB51.49m (A$10.82m), a decrease of RMB14.56m (A$2.93m), or 22% compared to RMB66.05m (A$13.75m) in FY2019. Income tax expenses were RMB11.51m (A$2.42m), a decrease of RMB3.57m (A$0.72m), or 24% compared to RMB15.08m (A$3.14m) in FY2019. The effective tax rate was 22%, which was 23% in FY2019.

- Total Net Profit After tax for the period (NPAT) was RMB39.98m (A$8.40m), a decrease of RMB10.99m (A$2.21m), or 22% compared to RMB50.97m (A$10.61m) in FY2019. While net profit for the period attributable to members was RMB54.40m (A$11.43m), an increase of RMB0.64m (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 language training business, which is still in early development stage and has not yet reached breakeven. The net loss of language training business was RMB32.91m (A$6.91m), of which 51% attributed to the group and 49% attributed to non-controlling shareholders.




| '000s | FY2020 RMB | FY2019 RMB | change % | FY2020 A$ | FY2019 A$ |
|---|---|---|---|---|---|
| **Revenue** | 195,756 | 167,741 | 17% | 41,120 | 34,915 |
| **Gross profit** | 113,983 | 107,192 | 6% | 23,943 | 22,312 |
| **GP margin %** | 58% | 64% | \ | 58% | 64% |
| **EBITDA** | 73,456 | 76,524 | -4% | 15,430 | 15,928 |
| **EBIT** | 58,627 | 70,737 | -17% | 12,315 | 14,724 |
| **Profit before income tax** | 51,491 | 66,053 | -22% | 10,816 | 13,749 |
| **Net profit after tax** | 39,979 | 50,972 | -22% | 8,398 | 10,610 |
| **NPAT margin %** | 20% | 30% | \ | 20% | 30% |
| **Attributable net profit** | 54,404 | 53,760 | 1% | 11,428 | 11,190 |
| **Basic EPS (in cents)** | 23.36 | 23.19 | 1% | 4.91 | 4.83 |
| **Diluted EPS (in cents)** | 22.51 | 23.19 | -3% | 4.73 | 4.83 |
| **Total assets** | 539,554 | 437,436 | 23% | 113,337 | 91,051 |

Legend:

1. EBITDA refers to Earnings before Interest expenses, income taxes, depreciations and amortization.
2. EBIT refers to Earnings before Interest expenses and income taxes.
3. The above EBITDA and EBIT are non-GAAP financial measures. We disclose them as we believe they provide useful information for shareholders to assist in understanding the Group's financial performance.
4. Exchange rate: AUD/RMB = 4.7606 (FY2020), AUD/RMB = 4.8043 (FY2019)
5. "RMB'm" refers to RMB million.

# 3. Future Growth and Development

- Investment in R&D: Based on the developing of our e-learning and Ai English business in 2020, Retech is planning to increase the R&D expenditure in key areas such as big data, artificial intelligence and other technologies in 2021.

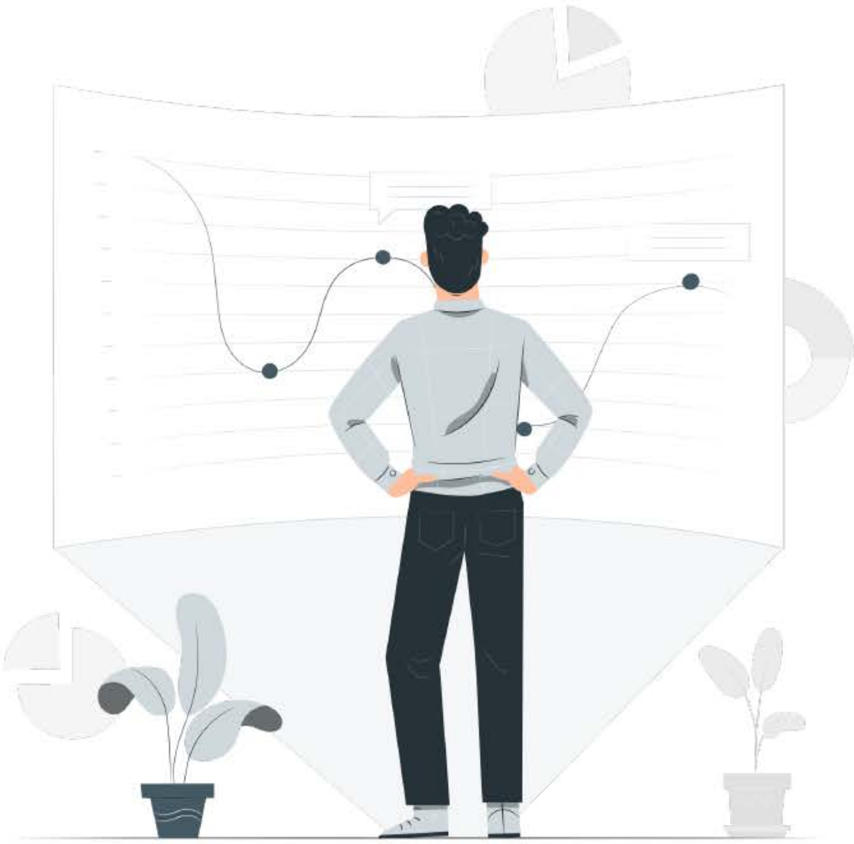
- Developing "Digital Media Industry and Education Combination Solutions": Based on the good start in 2019 and 2020, Retech plans to put more effort in vocational schools' services, which is also a resolution happening in China education area.

- Focus on the existing e-Learning markets: We continue to increase investment in key industries currently serving and focus on providing industry solutions. Retech will put the main emphasis in the existing markets and develop more professional to provide better services to the loyal clients.

- IP development: We will focus on the IP developing of Ai English and continue to develop the "Mei Hui Shu" (Beautiful and intelligent tree) English teaching ecosystem, and Ai Play English drama courses, AI Culture European and American culture courses, AI Reading and other series courses, covering the Chinese mainland's kindergarten, primary school and middle school stages.

- International market development: In 2021, Ai English will continue to expand Southeast Asian markets such as Japan to be new growth point for this business.

- We continue to build international cooperation in Ai English, e-Learning and vocational schools and the partners will be mainly located in Australia, Singapore, Denmark and etc.



# PART 3

## Directors' Report

# Part 3 Directors’ Report

Based on the operating and financial reviews, the directors of Retech Technology Co., Limited (the “Company”) present their annual report and the audited consolidated financial statements for the Company and its subsidiaries (collectively the “Retech Group”) for the year ended 31 December 2020.

## 1. Our Business

### Principal Activities and Business Review

The principal activities of the Company and its subsidiaries (the “Group”) include the provision of e-learning solutions and related services, provision of education management system solutions and provision of online 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 26 to the consolidated financial statements. There were no significant changes in the nature of the Group’s principal activities during the year. Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group’s business, can be found in the Part 2 Operation, Financial Review and Future Developments set out on pages 15 to 17 of this Annual Report. This discussion forms part of this Directors’ Report.

The analysis of the principal activities and geographical locations of the operations of the Group are set out in note 6 to the consolidated financial statements.

### Results and Appropriations

The results of the Group for the year ended 31 December 2020 and the financial position of the Group as at that date are set out in the consolidated financial statements on pages 29 to 112.

### Share Capital

Details of movements to the Company’s share capital during the year ended 31 December 2020 are set out in note 32 of the consolidated financial statements.

# 2. Board of Directors

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

### Mr. AI Shungang

Co-Chairman

Non-Executive Director

founder of Retech Group, and controls the largest shareholder of Retech

more than 14 years' practical experience in the fields of software development, consulting and online education services in China

2014 "Leading Talent of Digital Publishing" in China

Nanjing University of Posts and Telecommunication

### Mr. Calvin CHENG

Co-Chairman

Non-Executive Director

has served on various Ministerial advisory boards including the Media Literacy Council, the Singapore Media Festival, Screen Singapore and the Government Feedback REACH supervisory council

an appointed Member of Parliament of Singapore in the Eleventh Parliament

University of Oxford

### Ms. LIU Qing

Non-executive Director
Chairwoman of NRM[1]

Member of ARM[2]

over 20 years of experience in equity, securities and finance

partner of OFC, the top 10 "Best Local Investment Institution" in China, with a management capital of RMB 7 billion, over 100 investment projects and a number of projects listed or merged drop out

Huazhong University of Science and Technology

### Mr. LU Jiuping

Non-executive Director

Member of ARM

Member of NRM

rich experience in software development

an elected member of Jiangsu Province at the Tenth National Committee of the Chinese people's Political Consultative Conference (CPPCC) in 2007-2012

Central South University of China, and University of Science and Technology, Beijing

### Mr. Ross BENSON

Non-Executive Director
Chairman of ARM
Member of NRM

more than 30 years' experience in the Australian financial services industry and has extensive expertise in securities, transaction advisory and business strategy

lead negotiator for a number of medium to large enterprise divestment or acquisitions in both Australia and China

prior to the formation of Investorlink Group in 1986, he established associated business units in wealth management, private equity, property syndication and structured financial products

### Mr. LI Kang

Executive Director

has been engaged in immigration, overseas study and investment consulting services in Australia for years

rich experience as a senior management executive, acquiring expertise in multi-areas such as marketing (for example, domestic and international market development, sales management, etc.), general management, financial management, relationship management, etc.

CEO of Montgomery International Consultants

### Mr. LI Guo

Non-Executive Director

over five years' experience in cross-border M&A, asset restructuring and cross-border financing in Hong Kong

possesses the qualification of Certified Alternative Investment Analyst ("CAIA")

currently in charge of the Director of Asset Management Department of Huarong Investment Stock Co., Ltd ("Huarong", Stock Code:2277.HK)

Renmin University of China

### Mr. Lapto YAU

Non-Executive Director

was Board Secretary of Hailiang Education group from 2017, one of China's largest K-12 education groups

served as the Vice President of Zhejiang CHINT Astronergy Technology responsible for the company's IT projects from 2011 to 2012

Chief Information Officer in Suntech Power from 2007 to 2010

Edith Cowan University,

Sunderland University (UK), and Fudan University (Shanghai, China).

Notes:
1. NRM is the abbreviation of Nomination and Remuneration Management Committee.
2. ARM is the abbreviation of Audit and Risk Management Committee.

# 3. The Company Secretary

The Company Secretary is changed to Mr. WON Chik Kee from 29 May, 2020. Mr. WON Chik Kee has over 25-year experience in auditing (including IPOs), accounting, taxation and consulting services. Qualified at Deloitte, Mr. Won served various listed companies as senior executives and consultants prior to establishing his own practice in 2001. Mr. Won holds a Bachelor of Business from Monash University, Australia, and is a full member of CPA Australia and a fellow member of the Association of Chartered Certified Accountants and is a practising member of the Hong Kong Institute of Certified Public Accountants.

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

# 4. Directors of the Company

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

AI Shungang

CHENG Ern Lee, Calvin
("Calvin CHENG")

LIU Qing

LU Jiuping

Ross BENSON

LI Kang

LI Guo

Lapto YAU

## Directors of the Company's Subsidiaries

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

**Retech Holdings Co., Limited**

LIN Yan

**Aushen Group Pty Ltd.**

AI Shungang
LI Kang
SUN Haoliang

**Shanghai Retech Digital Technology Co., Ltd.**

WANG Gongshi

**Shanghai Ruijian Information Technology Co., Ltd.**

LIU Cheng
WANG Gongshi
LIU Yan

**Shanghai Ruipengcheng Technology Co., Ltd.**

LIU Cheng
WANG Gongshi
GUO Mingmin
CHEN Yanqun
XU Shanshan

**Shanghai Reunet Network Technology Co., Ltd.**

AI Shungang

LIU Cheng
YU Yangjun
WANG Gongshi
KISHIDA Toru
SATO Hiroyuki
LEE JAE BUM

**Ai English Pty Ltd**
SUN Haoliang
LI Kang
AI Shungang

**Wuxi Ai English Education Technology Co., Ltd.**
LI Man

**Shanghai Pantosoft Co., Ltd.**

| | |
|---|---|
| LONG Qun | (appointed on 7 October 2020) |
| LIU Bochuan | (appointed on 7 October 2020) |
| XU Ying | (appointed on 7 October 2020) |

**Jiangsu Ruizhixing Information Technology Co., Ltd**

| | |
|---|---|
| PENG Guo Ming | (appointed on 10 December 2020) |

## Directors' Meetings

The number of Board meetings, Audit & Risk Committee and Nomination & Remuneration Committee meetings held and attended by each director ended 31 December 2020 are listed as follows:

| Directors | Board Meeting | | Audit and Risk Management Committee Meeting | | Nomination and Remuneration Committee Meeting | |
|---|---|---|---|---|---|---|
| | Entitled | Attended | Entitled | Attended | Entitled | Attended |
| AI Shungang | 3 | 3 | 0 | 0 | 0 | 0 |
| Calvin CHENG | 3 | 3 | 0 | 0 | 0 | 0 |
| LIU Qing | 3 | 3 | 3 | 3 | 1[3] | 1[3] |
| LU Jiuping | 3 | 3 | 3 | 3 | 1[3] | 1[3] |
| Ross BENSON | 3 | 3 | 3 | 3 | 1[3] | 1[3] |
| LI Kang | 3 | 3 | 0 | 0 | 0 | 0 |
| LI Guo | 3 | 3 | 0 | 0 | 0 | 0 |
| Lapto YAU | 3 | 3 | 0 | 0 | 0 | 0 |

Note:

1. Total of 3 Board meetings held in the reporting period ending 31 December 2020.
2. The Audit and Risk Management Committee had 3 meetings in the reporting period ending 31 December 2020.
3. The Nomination and Remuneration Committee had 1 meeting on 20 January 2020.

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

| Director | Independence or affiliated | Number of Shares and equivalent CDIs held directly | Number of Shares and equivalent CDIs held indirectly |
|---|---|---|---|
| **AI Shungang**[1] | Non-independent | Nil | 54,901,594 |
| **Calvin CHENG** | Independent | 9,076,796 | 549,172 |
| **LIU Qing** | Independent | Nil | Nil |
| **LU Jiuping** | Independent | Nil | Nil |
| **Ross BENSON** | Independent | Nil | Nil |
| **LI Kang** | Non-independent | Nil | Nil |
| **LI Guo** | Non-independent | Nil | Nil |
| **Lapto YAU** | Independent | Nil | Nil |

Notes:

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

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

## Equity-linked Agreements

Details of the equity-linked agreements entered into during the year or subsisting at 31 December 2020 are set out below:

Convertible Note

Details of the Convertible Note issued by the Company are set out in note 30 to the consolidated financial statements. There are no other convertible notes issued by the Company during the year and up to the date of this report.

## Permitted Indemnity Provision

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

## Significant Changes in the State of Affairs

Please refer to note 39 to the consolidated financial statements for more details.

## Environmental Issues

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

## Events Subsequent to the End of the Financial Year

Please refer to note 43 to the consolidated financial statements for more details.

## Auditor

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

## Non-audit Services

Grant Thornton Tax Services Limited, an affiliate of GT Hong Kong provides statutory tax compliances services for the Company and its subsidiary incorporated in Hong Kong for HK$25,000 (2019: HK$20,000).

## Proceeding on the Behalf of the Company

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

# 5. Remuneration Report

## Key Management Personnel ("KMP")

The remuneration report details the key management personnel ("KMP") remuneration arrangements for the Company for the year ended 31 December 2020 and up to the date of the report, which includes directors listed as below:

| Name | Type of KMP | Position |
| --- | --- | --- |
| **Calvin CHENG** | Non-executive director | Co-Chairman |
| **AI Shungang** | Non-executive director | Co-Chairman |
| **LU Jiuping** | Non-executive director | Member of ARM<br>Member of NRM |
| **LIU Qing** | Non-executive director | Chairwoman of NRM<br>Member of ARM |
| **Ross BENSON** | Non-executive director | Chairman of ARM<br>Member of NRM |
| **LI Kang** | Executive director | Member of the board |
| **LI Guo** | Non-executive director | Member of the board |
| **Lapto YAU** | Non-executive director | Member of the board |

Note: Remuneration of resigned directors are not disclosed.

## Main Principles of Remuneration

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

The main principles are:

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

## Remuneration Policy

Remuneration for the directors consists of annual fixed cash remuneration. Currently there are no incentive plans in operation for directors of the Company.

## Remuneration Outcomes of Directors for 2020

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

| Name | Position | Amount per annum |
| --- | --- | --- |
| **Calvin CHENG** | Co-Chairman | A$100,000 (RMB476,060) |
| **AI Shungang** | Co-Chairman | RMB80,000 |
| **LU Jiuping** | Member of ARM<br>Member of NRM | RMB70,000 |

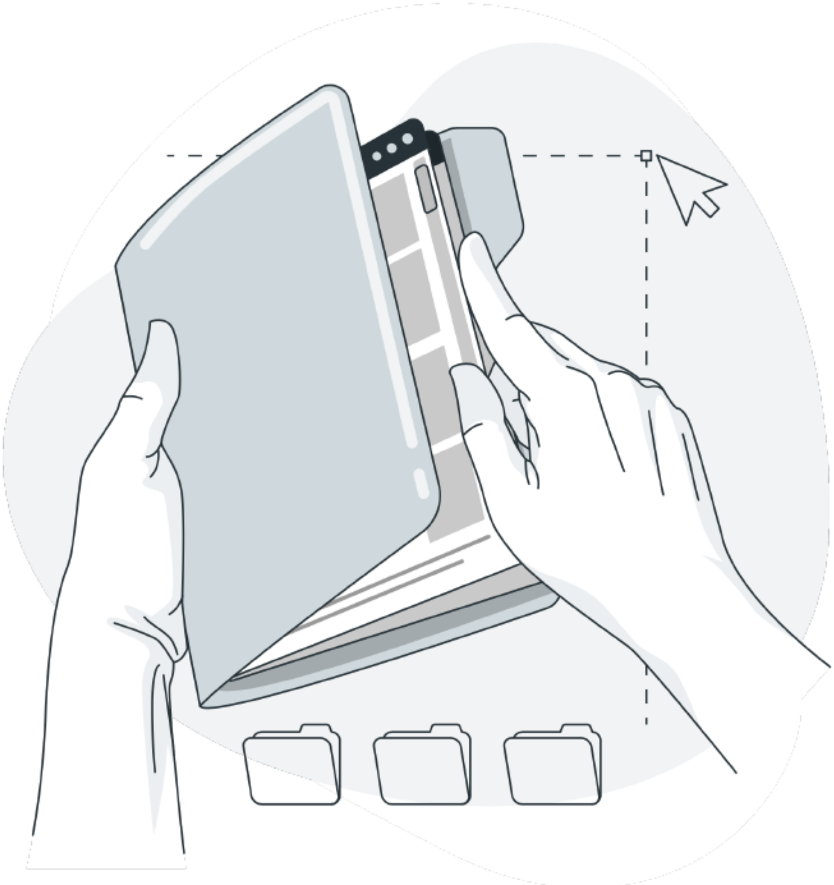
| Name | Position | Amount per annum |
|---|---|---|
| **LIU Qing** | Chairwoman of NRM<br>Member of ARM | RMB80,000 |
| **Ross BENSON** | Chairman of ARM<br>Member of NRM | A$60,000 (RMB285,636) |
| **LI Kang** | Member of the board | RMB70,000 |
| **LI Guo** | Member of the board | RMB70,000 |
| **Lapto YAU** | Member of the board | RMB70,000 |

Note:

1. NRM is the abbreviation of Nomination and Remuneration Management Committee.
2. ARM is the abbreviation of Audit and Risk Management Committee.
3. Directors' fees disclosed are based on their annual remuneration per their contract. In the event that the directors were appointed or resigned during the period, their fees will be apportioned according to their service period in that particular year.
4. Exchange rate: A$/RMB = 4.7606, according to the FY2020 average rate from https://www.oanda.com.
5. Remuneration of resigned directors are not disclosed.

## Service Agreements

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



# PART 4

## Consolidated Financial Statements and Notes

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

| | Notes | 2020 RMB | 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 | **14,540,344** | 12,298,646 |
| Fair value gain/(loss) on derivative financial instruments | | **2,563,737** | (1,974,310) |
| Fair value loss on contingent consideration payable | | **(35,762)** | (38,155) |
| Impairment losses on financial assets | | **(4,928,922)** | (5,907,270) |
| Selling and distribution expenses | | **(9,999,306)** | (8,694,626) |
| Administrative expenses | | **(57,496,811)** | (32,138,535) |
| Finance costs | 8 | **(7,135,321)** | (4,684,098) |
| **Profit before income tax** | 9 | **51,491,222** | 66,053,231 |
| Income tax expense | 11 | **(11,512,514)** | (15,080,814) |
| **Profit for the year** | | **39,978,708** | 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 | | **(667,271)** | (75,818) |
| **Total comprehensive income for the year** | | **39,311,437** | 50,896,599 |
| **Profit for the year attributable to:** | | | |
| Owners of the Company | | **54,404,058** | 53,759,636 |
| Non-controlling interests | | **(14,425,350)** | (2,787,219) |
| | | **39,978,708** | 50,972,417 |
| **Total comprehensive income/(expense) for the year attributable to:** | | | |
| Owners of the Company | | **54,059,110** | 53,717,217 |
| Non-controlling interests | | **(14,747,673)** | (2,820,618) |
| | | **39,311,437** | 50,896,599 |
| **Earnings per share for profit attributable to the owners of the Company during the year** | | | |
| Basic | 13 | **23.36 cents** | 23.19 cents |
| Diluted | 13 | **22.51 cents** | 23.19 cents |

The notes on pages 36 to 112 are an integral part of these consolidated financial statements.

# Consolidated statement of financial position as at 31 December 2020

| | Notes | **2020 RMB** | 2019 RMB |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **36,333,372** | 46,175,408 |
| Goodwill | 15 | **62,295,231** | 2,640,293 |
| Other intangible assets | 16 | **31,967,650** | 2,745,041 |
| Other receivables | 20 | **2,083,817** | - |
| Deposit paid | 17 | **-** | 73,700,000 |
| Deferred tax assets | 18 | **1,202,332** | 964,907 |
| | | **133,882,402** | 126,225,649 |
| **Current assets** | | | |
| Inventories | 19 | **2,041,565** | - |
| Trade and other receivables | 20 | **69,813,413** | 61,306,459 |
| Contract assets | 21(a) | **85,006,490** | 29,504,418 |
| Amount due from a non-controlling shareholder of a subsidiary | 22(a) | **-** | 328,755 |
| Amounts due from related companies | 22(b) | **8,629,001** | 12,901,840 |
| Loan to a related company | 23 | **31,748,709** | 12,347,019 |
| Derivative financial instruments | 24 | **2,616,139** | 9,733,410 |
| Cash and cash equivalents | 25 | **205,816,383** | 185,088,747 |
| | | **405,671,700** | 311,210,648 |
| **Current liabilities** | | | |
| Trade and other payables | 27 | **45,061,928** | 23,793,750 |
| Contract liabilities | 21(b) | **6,560,496** | 3,874,784 |
| Amount due to a related company | 22(d) | **-** | 5,974 |
| Amount due to a director | 22(e) | **578,588** | - |
| Borrowings | 28 | **49,365,092** | 12,984,853 |
| Lease liabilities | 29 | **8,542,224** | 9,155,846 |
| Derivative financial instrument | 24 | **4,469,311** | 14,281,539 |
| Income tax payable | | **32,874,309** | 21,086,803 |
| Convertible note | 30 | **32,437,927** | - |
| | | **179,889,875** | 85,183,549 |
| **Net current assets** | | **225,781,825** | 226,027,099 |
| **Total assets less current liabilities** | | **359,664,227** | 352,252,748 |
| **Non-current liabilities** | | | |
| Borrowings | 28 | **10,062,400** | 4,888,326 |
| Convertible note | 30 | **-** | 32,781,619 |
| Contingent consideration liability | 31 | **1,692,299** | 1,607,522 |
| Lease liabilities | 29 | **21,586,040** | 32,448,233 |
| Deferred tax liability | 18 | **3,561,607** | 587,870 |
| | | **36,902,346** | 72,313,570 |
| **Net assets** | | **322,761,881** | 279,939,178 |

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

| | Notes | 2020 RMB | 2019 RMB |
|---|---|---|---|
| **EQUITY** | | | |
| Share capital | 32 | **145,978,410** | 145,978,410 |
| Reserves | 33 | **(8,140,003)** | (7,795,055) |
| Retained profits | | **197,108,200** | 142,704,142 |
| **Equity attributable to owners of the Company** | | **334,946,607** | 280,887,497 |
| Non-controlling interests | | **(12,184,726)** | (948,319) |
| **Total equity** | | **322,761,881** | 279,939,178 |

The notes on pages 36 to 112 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 (note 39) | - | - | - | - | - | - | 3,511,266 | 3,511,266 |
| **Transactions with owners** | - | - | - | - | - | - | 3,511,266 | 3,511,266 |
| Profit for the year | - | - | - | - | 54,404,058 | 54,404,058 | (14,425,350) | 39,978,708 |
| Other comprehensive income for the year: | | | | | | | | |
| Exchange loss on translation of foreign operation recognised | - | - | - | (344,948) | - | (344,948) | (322,323) | (667,271) |
| **Total comprehensive income/(expense) for the year** | - | - | - | (344,948) | 54,404,058 | 54,059,110 | (14,747,673) | 39,311,437 |
| **At 31 December 2020** | **145,978,410** | **(11,122,696)** | **3,376,508** | **(393,815)** | **197,108,200** | **334,946,607** | **(12,184,726)** | **322,761,881** |

* These equity accounts comprise the reserves of deficit of RMB8,140,003 (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 36 to 112 are an integral part of these consolidated financial statements.

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

| | Note | 2020<br>RMB | 2019<br>RMB |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | **51,491,222** | 66,053,231 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | **12,015,012** | 3,857,226 |
| Amortisation of intangible assets | | **2,814,215** | 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 | | **(5,114,775)** | (6,603,694) |
| Property, plant and equipment written off | | **521,713** | - |
| Interest expense | | **7,135,321** | 4,684,098 |
| Loss on modification of lease | | **8,032** | - |
| Fair value (gain)/loss on derivative financial instruments | | **(2,563,737)** | 1,974,310 |
| Unrealised exchange (gain)/loss | | **(2,992,273)** | 769,676 |
| Fair value loss on contingent consideration payable | | **35,762** | 38,155 |
| Waiver of other payables | | **(942,449)** | (908,830) |
| Gain on termination of lease | | **(95,123)** | - |
| Covid-19-related rent concessions | | **(1,005,598)** | - |
| Operating profit before working capital changes | | **66,236,244** | 79,697,304 |
| Increase in inventories | | **(2,041,565)** | - |
| Increase in trade and other receivables | | **(4,215,614)** | (33,221,469) |
| Increase in contract assets | | **(56,023,073)** | (13,349,175) |
| (Decrease)/Increase in trade and other payables | | **(2,715,647)** | 7,303,846 |
| Increase/(Decrease) in contract liabilities | | **2,685,712** | (846,599) |
| Cash generated from operations | | **3,926,057** | 39,583,907 |
| Income tax paid | | **-** | (6,299,305) |
| *Net cash generated from operating activities* | | **3,926,057** | 33,284,602 |

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

| | Note | 2020 RMB | 2019 RMB |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(7,822,169)** | (4,978,316) |
| Purchase of intangible assets | | **(11,389,328)** | (240,293) |
| Acquisition of a subsidiary, net of cash and cash equivalent acquired | 39 | **168,152** | (1,413,386) |
| Deposit paid for an acquisition | | - | (73,700,000) |
| Loan to a related company | | **(264,665,000)** | (257,918,520) |
| Repayment of loan to a related company | | **245,263,310** | 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 | | **5,114,775** | 6,603,694 |
| *Net cash (used in)/generated from investing activities* | | **(29,250,646)** | 43,704,260 |
| **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 | | **(1,378,224)** | (288,818) |
| Payment of interests on lease liabilities | | **(495,377)** | (491,724) |
| Payment of lease liabilities | | **(4,406,157)** | (2,712,637) |
| Decrease in amount due to a non-controlling shareholder of a subsidiary | | **-** | (436,670) |
| Decrease in amounts due to a related company | | **(5,974)** | (200) |
| Increase in amount due to a director | | **547,469** | - |
| Deposit received for potential investment | 27 | **13,000,000** | - |
| *Net cash generated from financing activities* | | **45,982,827** | 8,640,743 |
| **Net increase in cash and cash equivalents** | | **20,658,238** | 85,629,605 |
| Effect of foreign exchange rate changes | | **69,398** | (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 36 to 112 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 2901, 29th Floor, Shui On Centre, 6-8 Harbour Road, Wan Chai 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 education management system solutions and related services 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 26 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 (i.e. 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 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 consolidated 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 44, 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 vehicles | 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

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. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. 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:

| | |
|---|---|
| Customer list | 10 years |
| Software | 5 years |
| 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)

Research and development costs (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 subsidiaries;
- 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 in profit or loss.

***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 a non-controlling shareholder, 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/loss on derivative financial instruments or fair value loss on contingent consideration payable.

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 related company and a director)

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.

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 regulatory 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 40.4 to the consolidated 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).

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 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.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

## 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 education management system solutions and related services, provision of 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:

Rendering of e-learning solutions and related services

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.

Provision of education management system solutions and related services

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 consultancy services to their customers. Revenue from 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.

Sales of digital media products

The Group also sells digital media products to their customers. Revenue are recognised at single point in time upon delivery of the digital media when a customer is provided with a right to use the digital media.

Property management income

Property management income is recognised when service have been provided.

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 a 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 lapsed 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 Amended HKFRSs that are effective for annual periods beginning on or after 1 January 2020

In the current year, the Group has applied for the first time the following 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 amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

<u>Amendments to HKFRS 3 "Definition of a business"</u>

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 Amended HKFRSs that are effective for annual periods beginning on or after 1 January 2020 (Continued)

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

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.

There is no impact on the opening balance of equity at 1 January 2020.

## 3. ADOPTION OF NEW AND AMENDED HKFRSs (CONTINUED)

### 3.2 Issued but not yet effective HKFRSs

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

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

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

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

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

[4] Effective date not yet determined

[5] 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

## 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 of 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 are 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”

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 Company anticipate that the application of HKAS 37 in the future may have a material impact on the amounts reported and disclosures made in the Group’s consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKAS 37 until the Group performs a detailed review.

## 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.

Estimation of goodwill impairment

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 note 15.

As at 31 December 2020, the carrying amount of goodwill was RMB62,295,231 (2019: RMB2,640,293). As of to date, the Group did not incurred any impairment loss on goodwill during the years ended 31 December 2020 and 2019.

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

The Group makes allowances on items subjects to ECL (including trade and other receivables, contract assets and other financial assets measured at amortised cost) based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period as set out in Note 2.10 and Note 40.4. As at 31 December 2020, the aggregate carrying amounts of trade and other receivables, contract assets and other financial assets measured at amortised cost amounting to RMB51,088,287 (net of ECL allowance of RMB3,644,727), RMB85,006,490 (net of ECL allowance of RMB5,925,210) and RMB246,194,093 (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 under 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 under HKFRS 9 and credit losses in the periods in which such estimate has been changed.

Fair value of derivative financial instruments

As described in note 24 to the consolidated financial statements, the derivative components of convertible note are measured at fair value. The Group engaged an independent valuer to determine the fair values of these derivative financial instruments. The determination was based on generally accepted valuation procedures and practices that rely extensively on numerous assumptions taking into consideration of many uncertainties, including discount rate and volatility of the Group's share price, some of which cannot be easily quantified or ascertained. Changes in subjective input assumptions can materially affect the fair value estimate. As at 31 December 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 31 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 the 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 RMB1,692,299 (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 treatments of such transactions are 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 services

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. The details are as follows.

Specified non-current assets

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| The PRC | **94,555,927** | 93,085,571 |
| Australia | **35,984,344** | 27,229,380 |
| Hong Kong | **55,982** | 4,945,791 |
| | **130,596,253** | 125,260,742 |

## 6. REVENUE

The Group's principal activities are disclosed in note 1 to the consolidated financial statements. There are included two new revenue streams generated from provision of education management system solutions and related services and sales of digital media products revenue during the year.

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

| | 2020<br>RMB | 2019<br>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 and coaching fees | **9,901,333** | 2,089,987 |
| Consultancy income | **509,389** | 1,340,877 |
| Commission income | **-** | 4,245,283 |
| Sales of digital media products | **5,217,925** | - |
| | **195,755,508** | 167,740,588 |

## 6. REVENUE (CONTINUED)

Disaggregation of revenue from contracts with customers

The Group derives revenue from rendering of e-learning services, education management system solutions, tuition and coaching fees and consultancy services over time and at a point in time in the following major geographical market:

| | For the year ended 31 December 2020 | | | | |
|---|---|---|---|---|---|
| | Rendering of e-learning solutions and related services RMB | Provision of education management system solutions and related services RMB | Tuition and coaching fees RMB | Consultancy income RMB | Sales of digital media products RMB |
| **Timing of revenue recognition** | | | | | |
| - At a point in time | - | - | 2,357,760 | 509,389 | 5,217,925 |
| - Over time | 169,879,349 | 10,247,512 | 7,543,573 | - | - |
| **Total** | 169,879,349 | 10,247,512 | 9,901,333 | 509,389 | 5,217,925 |
| **Geographical markets** | | | | | |
| - PRC | 169,879,349 | 10,247,512 | 9,006,744 | 6,792 | 5,217,925 |
| - Hong Kong | - | - | - | 502,597 | - |
| - Australia | - | - | 894,589 | - | - |
| **Total** | 169,879,349 | 10,247,512 | 9,901,333 | 509,389 | 5,217,925 |
| **Type of customers** | | | | | |
| - Corporate | 166,174,507 | 6,855,314 | - | 509,389 | 5,217,925 |
| - Schools and training institutions | 3,704,842 | 3,392,198 | 9,006,744 | - | - |
| - Individuals | - | - | 894,589 | - | - |
| **Total** | 169,879,349 | 10,247,512 | 9,901,333 | 509,389 | 5,217,925 |

| | For the year ended 31 December 2019 | | | |
|---|---|---|---|---|
| | Rendering of e-learning solutions and related services RMB | Tuition and coaching fees RMB | Commission income RMB | Consultancy income RMB |
| **Timing of revenue recognition** | | | | |
| - At a point in time | - | - | 4,245,283 | 1,340,877 |
| - Over time | 160,064,441 | 2,089,987 | - | - |
| **Total** | 160,064,441 | 2,089,987 | 4,245,283 | 1,340,877 |
| **Geographical markets** | | | | |
| - PRC | 155,630,941 | 300,728 | 4,245,283 | 92,327 |
| - Hong Kong | 4,433,500 | - | - | 1,184,844 |
| - Australia | - | 1,789,259 | - | 63,706 |
| **Total** | 160,064,441 | 2,089,987 | 4,245,283 | 1,340,877 |
| **Type of customers** | | | | |
| - Corporate | 151,325,546 | - | 4,245,283 | 1,340,877 |
| - Schools and training institutions | 8,738,895 | 300,728 | - | - |
| - Individuals | - | 1,789,259 | - | - |
| **Total** | 160,064,441 | 2,089,987 | 4,245,283 | 1,340,877 |

## 6. REVENUE (CONTINUED)

Unsatisfied e-learning service contracts

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

## 7. OTHER INCOME

| | **2020** | 2019 |
|---|---|---|
| | **RMB** | RMB |
| Interest income from loan to a related company | **4,637,290** | 4,475,142 |
| Bank interest income | **477,485** | 2,128,552 |
| Government subsidies income (note (a)) | **3,164,536** | 2,158,044 |
| Property management income from: | | |
| - A related company | **1,024,997** | 1,054,205 |
| - Non-controlling shareholder of a subsidiary | **589,923** | 1,054,204 |
| Exchange gain | **2,312,301** | 294,279 |
| Waiver of other payables | **942,449** | 908,830 |
| Gain on termination of lease | **95,123** | - |
| Covid-19-related rent concessions (note (b)) | **1,005,598** | - |
| Sundry income | **290,642** | 225,390 |
| | **14,540,344** | 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** | 2019 |
|---|---|---|
| | **RMB** | RMB |
| Interest charges on: | | |
| - Borrowings | **1,378,224** | 373,671 |
| - Convertible note (note 30) | **4,501,241** | 3,818,703 |
| Finance charges on lease liabilities | **1,255,856** | 491,724 |
| | **7,135,321** | 4,684,098 |

## 9. PROFIT BEFORE INCOME TAX

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

| | **2020** **RMB** | 2019 RMB |
|---|---|---|
| Depreciation: | | |
| - Owned assets | **3,474,787** | 890,022 |
| - Right-of-use assets | **8,540,225** | 2,967,204 |
| Total depreciation | **12,015,012** | 3,857,226 |
| | | |
| Amortisation of other intangible assets | **2,814,215** | 1,929,413 |
| Write off of property, plant and equipment | **521,713** | - |
| Research and development costs included in: | | - |
| - Cost of services | **10,231,464** | 12,559,392 |
| - Administrative expenses | **6,317,218** | - |
| | | |
| 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 | **1,171,753** | 1,150,000 |
| Net foreign exchange (gain)/loss | **(2,312,301)** | 810,125 |
| Staff and related costs (including directors' remuneration)* | **48,758,039** | 31,650,418 |

* There are staff cost of RMB10,231,464 (2019: RMB12,559,392) being included as research and development costs in the cost of services for the respective projects.

## 10. Directors' remuneration

The emoluments of the directors, who are also considered as the key management personnel of the Company, disclosed pursuant to section 383(1) of the Hong Kong Company Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Director) Regulation, is as follows:

| | **2020** **RMB** | 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 | 2019 RMB |
|---|---|---|
| PRC | | |
| *Current tax* | | |
| - Current year | **12,195,656** | 11,362,287 |
| - Over provision in respect of prior years | **(372,174)** | - |
| - Withholding tax on dividend from a PRC subsidiary | **-** | 3,567,556 |
| Deferred tax | **(310,968)** | - |
| | **11,512,514** | 14,929,843 |
| Hong Kong and Australia | | |
| Current year | **-** | 912,420 |
| Deferred tax | **-** | (761,449) |
| | **11,512,514** | 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 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 Corporate Income Tax ("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) Up to date, in respect of the acquisition (note 39) completed, the Group has not yet file any tax returns on behalf of the seller to the PRC tax authority in respect of its acquisition in the PRC. The PRC tax authority has a right to levy penalty for any late filing of tax returns. The amount of such potential penalty cannot be reliably estimated as the range of which is wide. Pursuant to the executed sales and purchase agreement, both the Group and the seller have agreed to bear and pay their own tax liability. In addition, the seller has undertaken to indemnify the Group for any tax liability arising from the above late filing of tax returns prior to the completion date of the acquisition;

(f) 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

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

## 11. INCOME TAX EXPENSE (CONTINUED)

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

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| Profit before income tax | **51,491,222** | 66,053,231 |
| Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned | **12,872,807** | 16,513,310 |
| Tax effect of different tax rates of entities operating in other jurisdictions | **118,097** | 654,135 |
| Effect of 15% for HNTE entities | **(8,561,941)** | (7,813,677) |
| Effect of tax concession and lower rate tax for PRC subsidiaries | **(1,860,121)** | (844,994) |
| Withholding tax on dividend from a PRC subsidiary | **-** | 3,567,556 |
| Tax effect of non-deductible expenses | **1,902,969** | 2,026,719 |
| Tax effect of non-taxable revenue | **(490,096)** | (248,350) |
| Tax effect of temporary differences and tax losses not recognised | **9,698,219** | 2,836,252 |
| Utilisation of tax losses previously not recognised | **(644,206)** | (197,206) |
| Super deduction of research and development expenses | **(1,151,040)** | (1,412,931) |
| Over provision in respect of prior years | **(372,174)** | - |
| Income tax expense | **11,512,514** | 15,080,814 |

## 12. DIVIDEND

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

| | **2020** | 2019 |
|---|---|---|
| | **RMB** | 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** | 2019 |
|---|---|---|
| | **RMB** | RMB |
| Earnings | | |
| Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company) | **54,404,058** | 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 | **56,341,562** | 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 that year ended 31 December 2019.

## 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** | | | | | | |
| Opening net book amount | 41,356,382 | 2,612,335 | 1,853,861 | 352,830 | - | 46,175,408 |
| Additions | 2,109,578 | 4,058,638 | 3,610,713 | 152,818 | - | 9,931,747 |
| Acquisition of a subsidiary (Note 39) | - | 24,334 | 7,873 | 5,079 | 126,498 | 163,784 |
| Depreciation | (8,540,225) | (1,720,879) | (1,718,584) | (19,728) | (15,596) | (12,015,012) |
| Write-off | - | (117,320) | (404,393) | - | - | (521,713) |
| Derecognition upon lease termination | (1,823,597) | - | - | - | - | (1,823,597) |
| Lease modification | (6,022,128) | - | - | - | - | (6,022,128) |
| Exchange differences | 550,318 | (29,269) | (76,166) | - | - | 444,883 |
| Closing net book amount | 27,630,328 | 4,827,839 | 3,273,304 | 490,999 | 110,902 | 36,333,372 |
| **At 31 December 2020** | | | | | | |
| Cost | 39,259,038 | 7,243,112 | 5,406,689 | 510,727 | 126,498 | 52,546,064 |
| Accumulated depreciation | (11,628,710) | (2,415,273) | (2,133,385) | (19,728) | (15,596) | (16,212,692) |
| **Net book amount as at 31 December 2020** | **27,630,328** | **4,827,839** | **3,273,304** | **490,999** | **110,902** | **36,333,372** |

As at 31 December 2020 and 2019, 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 RMB2,109,578 (2019: RMB37,138,358).

## 15. GOODWILL

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| Cost and net carrying amount at 1 January | **2,640,293** | - |
| Acquisition of a subsidiary (note 39) | **59,654,938** | 2,640,293 |
| Cost and net carrying amount at 31 December | **62,295,231** | 2,640,293 |

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 RMB59,654,938 was recognised as goodwill. Shanghai Pantosoft provides self-developed digital solutions to support education management in secondary and vocational schools in the PRC. Detail of the transaction is disclosed in Note 39.

During the year ended 31 December 2019, the Group acquired 51% equity interests in Aushen, in an entity incorporated in Australia in which RMB2,640,293 of goodwill was recognised.

Impairment test on goodwill

Goodwill acquired through business combinations is allocated to the Group's cash-generating units ("CGUs") for impairment testing.

The carrying amounts of goodwill, net of any impairment loss, were allocated to each CGU at the end of the reporting period as follows:

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| Shanghai Pantosoft CGU | **59,654,938** | - |
| Aushen Group Pty Ltd. CGU ("Aushen CGU") | **2,640,293** | 2,640,293 |
| | **62,295,231** | 2,640,293 |

## 15. GOODWILL

The recoverable amounts of each of the above CGUs are determined based on a value-in-use calculation. The value-in-use calculation uses cash flow projections based on financial budgets covering a five-year period approved by the directors. Assuming that the government policies for education industry remain unchanged, management determines the key assumptions including budgeted revenues, staff costs and other operating costs based on past performance of the CGUs, the general price inflation in operating jurisdictions and management's expectation on market development. Cash flows beyond the five-year period are extrapolated using the growth rates stated below. The key assumptions used for value-in-use calculations are as follows:

| | **2020** | 2019 |
|---|---|---|
| Discount rate (note) | | |
| - Shanghai Pantosoft CGU | **16%** | - |
| - Aushen CGU | **17%** | 26% |
| Growth rate | **2%** | 2% |

Note: The discount rate is pre-tax and derived by reference to the Capital Asset Pricing Model plus a risk premium reflecting specific risks relating to the industry and CGUs.

Management has estimated the reasonably possible changes in those factors and acknowledged that, even if the most unfavourable possible values were assigned to those factors, the recoverable amount of the CGU then calculated, after incorporating any consequential effects of such assignments on the other variables used to measure the recoverable amount of the CGU, would still exceed its carrying amount.

As at 31 December 2020 and 2019, the recoverable amounts of the CGUs were higher than their carrying amounts, and hence no impairment loss was recognised.

## 16. OTHER INTANGIBLE ASSETS

| | Trademarks RMB | Customer list RMB | Software 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 | - | | | - | 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 |
| Amortisation | - | - | - | - | (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 amortisation | - | - | - | - | (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** | | | | | | | |
| Opening net carrying amount | 2,137,709 | - | - | - | 607,332 | - | 2,745,041 |
| Additions | - | - | - | 11,389,328 | - | - | 11,389,328 |
| Acquisition of a subsidiary(note 39) | 4,984,874 | 11,049,222 | 4,281,101 | - | - | - | 20,315,197 |
| Amortisation | - | (276,231) | (214,055) | (1,838,845) | (485,084) | - | (2,814,215) |
| Exchange differences | - | - | - | 332,299 | - | - | 332,299 |
| **Closing net carrying amount** | **7,122,583** | **10,772,991** | **4,067,046** | **9,882,782** | **122,248** | **-** | **31,967,650** |
| **As at 31 December 2020** | | | | | | | |
| Cost | **7,122,583** | **11,049,222** | **4,281,101** | **11,796,011** | **1,708,937** | **3,584,906** | **39,542,760** |
| Accumulated amortisation | - | **(276,231)** | **(214,055)** | **(1,913,229)** | **(1,586,689)** | **(3,584,906)** | **(7,575,110)** |
| **Net carrying amount** | **7,122,583** | **10,772,991** | **4,067,046** | **9,882,782** | **122,248** | **-** | **31,967,650** |

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

## 17. DEPOSIT PAID

| | 2020 RMB | 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 as disclosed in note 39.

## 18. DEFERRED TAX

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

| | 2020 RMB | 2019 RMB |
|---|---|---|
| At 1 January | **377,037** | 203,458 |
| Acquisition of a subsidiary (note 39) | **(3,047,280)** | (587,870) |
| Charged to profit or loss for the year (note 11) | **310,968** | 761,449 |
| **At 31 December** | **(2,359,275)** | 377,037 |

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

**Deferred tax assets**

| | ECL allowance RMB |
|---|---|
| At 1 January 2019 | 203,458 |
| Charged to profit or loss for the year | 761,449 |
| At 31 December 2019 and 1 January 2020 | 964,907 |
| Charged to profit or loss for the year | 237,425 |
| **At 31 December 2020** | **1,202,332** |

## 18. DEFERRED TAX (CONTINUED)

### Deferred tax liabilities

| | Tax liabilities on arising from acquisition of subsidiaries RMB |
|---|---|
| At 1 January 2019 | - |
| Acquisition of a subsidiary | (587,870) |
| At 31 December 2019 and 1 January 2020 | (587,870) |
| Acquisition of a subsidiary (note 39) | (3,047,280) |
| Credited to profit or loss for the year | 73,543 |
| **At 31 December 2020** | (3,561,607) |

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

| | **2020 RMB** | 2019 RMB |
|---|---|---|
| Deferred tax assets recognised in the consolidated statement of financial position | **1,202,332** | 964,907 |
| Deferred tax liabilities recognised in the consolidated statement of financial position | **(3,561,607)** | (587,870) |
| **Net deferred tax assets** | **(2,359,275)** | 377,037 |

The Group has unrecognised tax losses of approximately RMB21,733,000 (2019: RMB 16,387,000) due to unpredictability of future profit streams, of which approximately RMB13,059,000 (2019: RMB6,567,000) will expire within 5 years and approximately RMB8,674,000 (2019: RMB9,820,000) with unlimited expiry date.

## 19. INVENTORIES

| | **2020 RMB** | 2019 RMB |
|---|---|---|
| Learning materials | **2,041,565** | - |

## 20. TRADE AND OTHER RECEIVABLES

| | 2020 RMB | 2019 RMB |
|---|---|---|
| **Current** | | |
| 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 | **7,074,503** | 4,590,088 |
| Financial assets at amortised cost | **49,004,470** | 58,892,778 |
| GST withholding tax received | **-** | 164,423 |
| Prepayments | **20,808,943** | 2,249,258 |
| | **69,813,413** | 61,306,459 |
| **Non-current** | | |
| Other receivables and deposits paid, net of ECL allowance | **2,083,817** | - |

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.

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 | 2019 RMB |
|---|---|---|
| 0 - 90 days | **28,027,976** | 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 | 2019 RMB |
|---|---|---|
| 1 January | **4,278,019** | 1,260,684 |
| ECL allowance recognised during the year | **1,466,708** | 3,017,335 |
| Amount written off during the year | **(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).

Details of the credit risk and provision of ECL allowance are set out in Note 40.4.

## 21. CONTRACT ASSETS AND LIABILITIES

### (a) Contract assets

| | **2020** **RMB** | 2019 RMB |
|---|---|---|
| Contract assets arising from unbilled revenue | **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** | 2019 RMB |
|---|---|---|
| 1 January | **2,984,976** | 95,701 |
| ECL allowance recognised during the year | **2,940,234** | 2,889,275 |
| 31 December | **5,925,210** | 2,984,976 |

At 31 December 2020 and 2019, all contract assets were expected to be recovered after more than one year is RMB1,151,881.

### (b) Contract liabilities

| | **2020** **RMB** | 2019 RMB |
|---|---|---|
| Contract liabilities arising from billings in advance of performance | | |
| - E-learning contracts | **3,755,691** | 2,901,432 |
| - Tuition and coaching services | **2,804,805** | 973,352 |
| 31 December | **6,560,496** | 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.

## 22. 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** | 2019 |
|---|---|---|
| | **RMB** | 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 Sustainability Development Limited.

### (b) Amounts due from related companies

| | **Maximum balance during the year** | **2020** | 2019 |
|---|---|---|---|
| | **RMB** | **RMB** | 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 ("Mr. Ai") 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. 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 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 23) are low and thus no ECL allowance is provided (2019: nil).

## 22. 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<br>RMB | 2019<br>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<br>RMB | 2019<br>RMB |
|---|---|---|
| Jiangsu Yunmei Digital Technology Co., Ltd. ("Jiangsu Yunmei")* | **-** | 5,974 |
| | **-** | 5,974 |

* Mr. Ai is 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<br>RMB | 2019<br>RMB |
|---|---|---|
| Li Kang* | **578,588** | - |

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

## 23. LOAN TO A RELATED COMPANY

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

Mr. Ai is 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 a fixed rate of 10% (2019: 10%) 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. In the event of default, he will indemnify the Group for any losses with regard to the amount outstanding above.

## 24. DERIVATIVE FINANCIAL INSTRUMENTS

Management considers the convertible note (note 30) issued on 20 November 2017 as hybrid instruments with main debt contract and embedded derivatives options. As set out in note 30, 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 41.

## 25. CASH AND CASH EQUIVALENTS

| | 2020 RMB | 2019 RMB |
|---|---|---|
| Cash at bank and in hand | **205,816,383** | 185,088,747 |

## 26. 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 Direct | 2020 Indirect | 2019 Direct | 2019 Indirect | Principal activities |
|---|---|---|---|---|---|---|---|---|
| Retech Holdings Co., Limited ("Retech Holdings") | Hong Kong | Limited liability company | Hong Kong dollar ("HK$") 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") 上海睿鹊网络科技有限公司 | PRC | Limited liability company | - | **-** | **60.02%** | - | 60.02% | Provision of e-learning solutions |
| Prosage Sustainability Development Limited ("Prosage") | Hong Kong | Limited liability company | HK$8,500,000 | **-** | **82.76%** | - | 82.76% | Provision of ESG related e-learning solutions and consultancy services |
| Aushen Group Pty Ltd | Australia | Limited liability company | Australian dollar ("A$")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 | - | **-** | **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 | A$100 | **-** | **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 | - | **-** | **51.00%** | - | 51.00% | Provision of educational software development services |
| Shanghai Pantosoft 上海鹏达计算机系统开发有限公司 (note 39) | PRC | Limited liability company | RMB14,322,500 | **-** | **80.00%** | - | - | Provision of education management system solutions and related services |
| Jiangsu Ruizhixing Information Technology Co., Ltd 江苏睿之星信息科技有限公司 [1] | PRC | Limited liability company | - | **-** | **100%** | - | - | Dormant |

[1] 江苏睿之星信息科技有限公司 was incorporated on 10 December 2020.

## 26. INTERESTS IN SUBSIDIARIES (CONTINUED)

The Group includes two subsidiaries (2019: one subsidiary) with material non-controlling interests ("NCI"), the details and the summarised financial information before intra-group eliminations, are as follows:

| | Shanghai Pantosoft 2020 RMB | Ai English Pty Ltd (Note) 2020 RMB |
|---|---|---|
| NCI percentage | 20.00% | 49.00% |
| Current assets | 13,442,561 | 9,708,185 |
| Non-current assets | 289,337 | 33,337,805 |
| Current liabilities | (9,275,059) | (27,127,099) |
| Non-current liabilities | - | (28,810,349) |
| Net assets/(liabilities) | 4,456,929 | (12,891,458) |
| Carrying amount of NCI | **891,386** | **(6,316,814)** |
| Revenue | 10,247,512 | 5,832,406 |
| Profit/(Loss) for the period/year | 3,884,578 | (21,872,161) |
| Profit/(Loss) for the year attributable to NCI | 776,916 | (10,717,359) |
| Total comprehensive loss | - | (646,224) |
| Total comprehensive loss allocated to NCI | - | (316,650) |
| Net cash used in operating activities | (96,411) | (15,192,181) |
| Net cash used in investing activities | - | (12,828,473) |
| Net cash generated from financing activities | - | 28,089,456 |

| | Ai English Pty Ltd (Note) 2019 RMB |
|---|---|
| NCI percentage | 49.00% |
| Current assets | 4,926,419 |
| Non-current assets | 33,406,852 |
| Current liabilities | (11,145,895) |
| Non-current liabilities | (32,211,790) |
| Net liabilities | (5,024,414) |
| Carrying amount of NCI | (2,461,963) |
| Revenue | - |
| Loss for the year | (4,938,520) |
| Loss for the year attributable to NCI | (2,419,875) |
| Total comprehensive loss | (86,374) |
| Total comprehensive loss allocated to NCI | (42,323) |
| Net cash used in operating activities | (8,874,003) |
| Net cash used in investing activities | (326,325) |
| Net cash generated from financing activities | 9,761,230 |

Note: Ai English was a subsidiary partially owned by Retech Holdings Co., Ltd in 2020. Ai English was a subsidiary wholly owned by Aushen Group Pty Ltd in 2019.

## 27. TRADE AND OTHER PAYABLE

| | **2020** | 2019 |
|---|---|---|
| | **RMB** | RMB |
| Trade payables | **9,346,185** | 12,442,615 |
| Other payables | | |
| - Accrued expenses | **3,811,133** | 2,515,537 |
| - Payable for acquisition of intangible asset | **-** | 800,000 |
| - Payroll payable | **4,765,088** | 2,262,656 |
| - Other liabilities | **8,671,767** | 4,001,542 |
| - Deposit received for potential investment | **13,000,000** | - |
| Trade and other payables as financial liabilities at amortised cost | **39,594,173** | 22,022,350 |
| Provision of other tax liabilities | **5,467,755** | 1,771,400 |
| | **45,061,928** | 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.

Deposit received for investment

During the year, subsidiaries of the Group have entered into investment agreements with third party investors to dispose a total of 15% interests in Ai English Pty Ltd. As of date of the report, the transactions have yet to be completed as terms of the investment agreement has not been fulfilled.

## 28. BORROWINGS

| | **2020** **RMB** | 2019 RMB |
|---|---|---|
| Secured bank loan (note a) | **20,000,000** | - |
| Guaranteed bank loans (note b) | **22,900,000** | 12,984,853 |
| Other unsecured loans (note c) | **16,527,492** | 4,888,326 |
| Total borrowings | **59,427,492** | 17,873,179 |
| Less: Amounts shown under current liabilities | **(49,365,092)** | (12,984,853) |
| | **10,062,400** | 4,888,326 |

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

- two properties located in Zhenjiang City owned by Jiangsu Industry Park were pledged as collateral to the bank; and
- corporate guarantee provided by Shanghai Retech Enterprise Management Group Co., Ltd.
- Mr. Ai is the ultimate controlling shareholder and a director of Shanghai Retech Enterprise Management Group Co., Ltd.

(b) Guaranteed bank loans are denominated in RMB, wholly repayable in 12 months from the date of drawdown and interest bearing at a fixed rate of 4.67% (2019: 5.22%) and no variables rates (2019: 5.34%) respectively. These bank loans are secured against:

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

(c) Other unsecured loans include corporate and personal loans 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 August 2022. The loan bears fixed rate of 4.5% per annum which the interest is repayable every six months;
- Zhengshi Investment Company Limited with loan principal amount of A$150,000. The loan is interest free and repayable on demand from the date of drawdown.
- A third party investor with loan principal amount of A$1,135,000. The loan is interest free and repayable within 12 months from the date of drawdown.

## 29. LEASE LIABILITIES

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

| | 2020<br>RMB | 2019<br>RMB |
|---|---|---|
| Total minimum lease payments: | | |
| Due within one year | **9,522,932** | 10,617,609 |
| Due in the second to fifth years | **22,972,533** | 31,964,063 |
| Due after the fifth year | **-** | 3,033,804 |
| | **32,495,465** | 45,615,476 |
| Less: Future finance charges on lease liabilities | **(2,367,201)** | (4,011,397) |
| Present value of lease liabilities | **30,128,264** | 41,604,079 |
| Present value of minimum lease payments: | | |
| Due within one year | **8,542,224** | 9,155,846 |
| Due in the second to fifth years | **21,586,040** | 29,445,113 |
| Due after the fifth year | **-** | 3,003,120 |
| | **30,128,264** | 41,604,079 |
| Less: Portion due within one year included under current liabilities | **(8,542,224)** | (9,155,846) |
| Portion due after one year included under non-current liabilities | **21,586,040** | 32,448,233 |

As at 31 December 2020, lease liabilities amounting to RMB30,128,264 (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 RMB4,406,157 and RMB495,377 (2019: RMB2,712,637 and RMB491,724) respectively.

As at 31 December 2020 and 2019, the Group has entered into leases for various office spaces and carpark 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" | 5<br>(2019: 5) | 2 to 5 years<br>(2019: 2 to 6 years) |
| Carpark | Buildings carried at cost in "property, plant and equipment" | 1<br>(2019: Nil) | 4.5 years<br>(2019: Nil) |

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

## 30. CONVERTIBLE NOTE

| | **2020** **RMB** | 2019 RMB |
|---|---|---|
| Convertible note maturing on 2021 | **32,437,927** | 32,781,619 |
| Less: amount shown under current liabilities | **(32,437,927)** | - |
| Amount shown under non-current liabilities | **-** | 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.

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

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

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

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

## 30. CONVERTIBLE NOTE (CONTINUED)

The liability component is classified as non-current liabilities 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<br>RMB | 2019<br>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 |

As at 31 December 2020, the fair value of the liability component above is approximately RMB32,408,000 (2019: RMB34,545,000). The embedded derivative components above are based on a valuation performed by an independent professional valuer using 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 41 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<br>RMB | 2019<br>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% |

## 31. CONTINGENT CONSIDERATION LIABILITY

| | 2020 RMB | 2019 RMB |
|---|---|---|
| Contingent consideration at beginning of the year | **1,607,522** | - |
| Acquisition of a subsidiary | **-** | 1,541,259 |
| Change in fair value | **35,762** | 38,155 |
| Exchange differences | **49,015** | 28,108 |
| **At the end of the year** | **1,692,299** | 1,607,522 |

During the year ended 31 December 2019, the Group acquired of 51% equity interests in Aushen Group Pty Ltd. ("Aushen") from an independent third party, Suns Group Corporation Pty Ltd ("Suns Group"). The acquisition includes a contingent consideration payable by the Group to Suns Group.

The Group is expected to pay additional consideration up to A$408,000 (equivalent to approximately RMB2,052,730) 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 41 to the consolidated financial statements.

## 32. SHARE CAPITAL

| | 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 | **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.

## 33. RESERVES

### 33.1 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.

### 33.2 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.

### 33.3 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.

## 34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

(a) Reconciliation of liabilities arising from financing activities

The table below set out the reconciliation of liabilities arising from financing activities, including cash and non-changes changes for the years ended 31 December 2020 and 2019.

| | Amounts due to related parties (note) RMB | Lease liabilities (current and non-current) RMB | Borrowings (current and non-current) RMB | Convertible note RMB | Total RMB |
|---|---|---|---|---|---|
| 1 January 2020 | 5,974 | 41,604,079 | 17,873,179 | 32,781,619 | 92,264,851 |
| Cash flows: | | | | | |
| Proceeds | 1,213,953 | - | 54,396,292 | - | 55,610,245 |
| Repayments | (672,458) | - | (12,900,000) | (2,775,202) | (16,347,660) |
| Interest expense paid | - | - | (1,378,224) | - | (1,378,224) |
| Capital element of lease rentals paid | - | (4,406,157) | - | - | (4,406,157) |
| Interest element of lease rentals paid | - | (495,377) | - | - | (495,377) |
| Non-cash: | | | | | |
| Additions | - | 2,109,578 | - | - | 2,109,578 |
| Transfer to payable upon termination of lease | - | (1,173,174) | - | - | (1,173,174) |
| Interest expenses accrued | - | 1,255,856 | 1,378,224 | 4,501,241 | 7,135,321 |
| Covid-19-related rent concessions | - | (1,005,598) | - | - | (1,005,598) |
| Termination of lease | - | (2,022,390) | - | - | (2,022,390) |
| Modification | | (6,462,573) | - | - | (6,462,573) |
| Exchange adjustments | 31,119 | 724,020 | 58,021 | (2,069,731) | (1,256,571) |
| **31 December 2020** | **578,588** | **30,128,264** | **59,427,492** | **32,437,927** | **122,572,271** |

Note:
Amount due to related parties include amount due to a related company and a director.

## 34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (CONTINUED)

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

| | **Amounts due to related parties (note) RMB** | **Lease liabilities (current and non-current) RMB** | **Borrowings (current and non-current) RMB** | **Convertible note RMB** | **Dividend payable RMB** | **Total RMB** |
|---|---|---|---|---|---|---|
| 1 January 2019 | 442,844 | 6,528,100 | - | 31,092,542 | - | 38,063,486 |
| Cash flows: | | | | | | |
| Proceeds | - | - | 17,788,326 | - | - | 17,788,326 |
| Repayments | (436,870) | - | (288,818) | (2,778,633) | - | (3,504,321) |
| Capital element of lease rentals paid | | (2,712,637) | | | | (2,712,637) |
| Interest element of lease rentals paid | | (491,724) | | | | (491,724) |
| Dividend paid | - | - | - | - | (5,586,108) | (5,586,108) |
| Non-cash： | | | | | | |
| Additions | - | 37,138,358 | - | - | 5,586,108 | 42,724,466 |
| Interest expenses accrued | - | 491,724 | 373,671 | 3,818,703 | - | 4,684,098 |
| Exchange adjustments | - | 650,258 | - | 649,007 | - | 1,299,265 |
| **31 December 2019** | **5,974** | **41,604,079** | **17,873,179** | **32,781,619** | **-** | **92,264,851** |

Note:

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

(b) Significant non-cash transaction

Other than the non-cash changes shown in reconciliation of liabilities arising from financing activities above, the Group entered into the following non-cash transactions in investing and financing activities which are not reflected in the consolidated financial statements of cash flows:

| | **2020 RMB** | 2019 RMB |
|---|---|---|
| Derecognition of deposit paid upon the completion of the acquisition of Shanghai Pantosoft | **(73,700,000)** | - |
| Changes in right-of-use assets arising from: | | - |
| - Entering into new leases | **2,109,578** | |
| - Termination of leases | **(1,823,597)** | - |
| - Lease modifications | **(6,022,128)** | - |
| Transfer of amount due from related Shanghai Retech IT by way of additional loan advanced to Jiangsu Industry Park: | | |
| - Decrease in amount due from related companies | **-** | (27,500,000) |
| - Increase in loan to a related company | **-** | 27,500,000 |
| Increase in contingent consideration liabilities upon acquisition of Aushen (note) | **-** | 1,541,259 |

Note:

During 2019, the consideration for the Group’s acquisition of Aushen included a contingent payment arrangement recognised on acquisition date. The initial recognition of this liability and the subsequent change in fair value are non-cash transactions which are excluded from the consolidated statement of cash flows.

## 35. 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 | 2019 RMB |
|---|---|---|---|
| **Related companies** | | | |
| Shanghai Retech IT (note (a)) | Services income recharged | **26,000,323** | 26,725,799 |
| | Other income received | **26,633** | - |
| | Administrative expenses recharged | **-** | 627,262 |
| | Cost of service recharged | **8,519,136** | 9,780,468 |
| 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 | **1,024,997** | 1,054,205 |
| | Provision of education management system solutions and related services | **846,226** | - |
| Hexon Consulting Limited | Property management income | **589,923** | 1,054,204 |

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 July 2017 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 22(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 23 to the consolidated financial statements.

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

(d) Hexon Consulting Limited is the non-controlling shareholder of a subsidiary of Prosage Sustainability Development Limited.

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.

## 36. COMMITMENT AND CONTINGENCIES

The Group does not have any significant commitment or contingencies at 31 December 2020 and 2019.

## 37. CONTINGENT LIABILITIES AND ASSETS

Except for the details of potential tax liabilities with respect to the potential penalty arising from the late filing of tax returns for reporting the PRC Enterprise Income Tax to the PRC tax authority as disclosed in Note 11(e) to the consolidated financial statements, the Group has no other contingent assets or contingent liabilities required to be recognised or disclosed in the financial statements as at 31 December 2020 and 2019.

## 38. 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 |
| 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.

## 39. BUSINESS COMBINATION

On 22 January 2020, the Group signed a Sale and Purchase Agreement ("SPA") to acquire 80% of the issued share capital of Shanghai Pantosoft by way of an acquisition of the holding company, Pantosoft International Limited. This SPA was subsequently revised on 30 September 2020 to a direct acquisition of 80% of the issued share capital of Shanghai Pantosoft.

In addition, pursuant to supplementary agreement signed between the Group and the seller, the consideration of RMB76,000,000, which was subsequently revised to RMB73,700,000.

| | Principal activities | Date of acquisition | Proportion of interest acquired % | Consideration transferred RMB |
|---|---|---|---|---|
| Shanghai Pantosoft | 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 the PRC.

### Assets acquired and liabilities recognised at the date of acquisition

| | Consideration transferred RMB |
|---|---|
| Property, plant and equipment | 163,784 |
| Intangible assets | 20,315,197 |
| Cash and bank balance | 168,152 |
| Trade and other receivables | 8,290,342 |
| Contract assets | 2,419,233 |
| Trade and other payables | (10,753,100) |
| Deferred tax liabilities | (3,047,280) |
| | 17,556,328 |

### Goodwill arising on acquisition

| | RMB |
|---|---|
| Consideration transferred | 73,700,000 |
| Non-controlling interest | 3,511,266 |
| Fair value of identifiable net assets acquired | (17,556,328) |
| | 59,654,938 |

## 39. BUSINESS COMBINATION (CONTINUED)

### Non-controlling interests

The non-controlling interests (20%) in Shanghai Pantosoft recognised at the acquisition date was measured by reference to the proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Goodwill arose in the acquisition of 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.

No goodwill arising from this acquisition is deductible for tax purposes.

### Net cash outflow on acquisition of subsidiaries

| | Total RMB |
|---|---|
| Deposit paid in November 2019 | 73,700,000 |
| Cash and cash equivalent acquired | (168,152) |
| Net cash inflow to the Group | 73,531,848 |

The net cash inflow for the year ended 31 December 2020 is RMB168,152 after netting-off with the deposit paid for the acquisition in prior year.

Shanghai Pantosoft contributed revenue of RMB10,247,512 and net profit of RMB3,884,578 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 pro-forma revenue by RMB6,483,507 and increase in proforma profit 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.

## 40. FINANCIAL RISK MANAGEMENT

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

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

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

### 40.1 Categories of financial assets and liabilities

| | 2020 RMB | 2019 RMB |
|---|---|---|
| **Financial assets** | | |
| *Financial assets measured at amortised cost:* | | |
| Trade and other receivables | **51,088,287** | 58,892,778 |
| Amount due from a non-controlling shareholder of a subsidiary | **-** | 328,755 |
| Amounts due from related companies | **8,629,001** | 12,901,840 |
| Loan to a related company | **31,748,709** | 12,347,019 |
| Cash and cash equivalents | **205,816,383** | 185,088,747 |
| | **297,282,380** | 269,559,139 |
| *Financial assets measured at FVTPL:* | | |
| Derivative financial instruments | **2,616,139** | 9,733,410 |
| | **299,898,519** | 279,292,549 |
| **Financial liabilities** | | |
| *Financial liabilities measured at amortised cost:* | | |
| Trade and other payables | **45,061,928** | 22,022,350 |
| Amount due to a related company | **-** | 5,974 |
| Amount due to a director | **578,588** | - |
| Lease liabilities (current and non-current) | **30,128,264** | 41,604,079 |
| Borrowings (current and non-current) | **59,427,492** | 17,873,179 |
| Convertible note | **32,437,927** | 32,781,619 |
| | **167,634,199** | 114,287,201 |
| *Financial liabilities measured at FVTPL:* | | |
| Derivative financial instruments | **4,469,311** | 14,281,539 |
| Contingent consideration liability | **1,692,299** | 1,607,522 |
| | **6,161,610** | 15,889,061 |
| | **173,795,809** | 130,176,262 |

## 40. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 40.2 Foreign currency risk

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

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

| | **A$** | **HK$** | **US$** |
|---|---|---|---|
| **At 31 December 2020** | | | |
| Amount due to a director | **(578,588)** | **-** | **-** |
| Derivative financial instruments (assets) | **-** | **2,616,139** | **-** |
| Cash and cash equivalents | **560,319** | **1,551** | **2,998** |
| Derivative financial instruments (liabilities) | **-** | **(4,469,311)** | **-** |
| Contingent consideration liability | **(1,692,299)** | **-** | **-** |
| Borrowings | **(5,710,412)** | **-** | **-** |
| Convertible note | **-** | **(32,437,927)** | **-** |
| **Gross exposure arising from recognised financial assets and liabilities** | **(7,420,980)** | **(34,289,548)** | **2,998** |

| | A$ | HK$ | US$ |
|---|---|---|---|
| At 31 December 2019 | | | |
| Derivative financial instruments (assets) | - | 9,733,410 | - |
| Cash and cash equivalents | 80,713 | 29,947 | 552,074 |
| Derivative financial instruments (liabilities) | - | (14,281,539) | - |
| Contingent consideration liability | (1,607,522) | - | - |
| Convertible note | - | (32,781,619) | - |
| Gross exposure arising from recognised financial assets and liabilities | (1,526,809) | (37,299,801) | 552,074 |

# 40. FINANCIAL RISK MANAGEMENT (CONTINUED)

## 40.2 Foreign currency risk (Continued)

The following table illustrates the sensitivity of the Group's profit after income tax for the year and equity as at 31 December 2020 and 2019 in regards to an appreciation in the functional currency of respective entities in the Group against foreign currencies above. The sensitivity rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rate.

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| **Currencies** | **A$** | **HK$** | **US$** | A$ | HK$ | US$ |
| Sensitivity rate | **5%** | **5%** | **5%** | 5% | 5% | 5% |
| Increase/(decrease) in profit after income tax | **(306,644)** | **(1,431,589)** | **125** | (63,744) | (1,557,267) | 23,049 |
| Increase/(decrease) in equity | **(306,644)** | **(1,431,589)** | **125** | (63,744) | (1,557,267) | 23,049 |

## 40.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Group's fair value interest rate risk arises primarily from loan to a related company, borrowings, lease liabilities and convertible note. The Group's loan to a related company, lease liabilities and convertible note are at fixed rates. The Group's borrowings are also mainly in fixed rate.

The Group's variables risk is mainly from one of the bank borrowings at RMB20,000,000 (2019: RMB4,900,000) which subject to the fluctuation of China Loan Prime Rate. Therefore, the Group does not have significant exposure to cash flow interest rate risk at the reporting date.

## 40.4 Credit risk

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

The Group's maximum exposures to credit risk on recognised financial assets are limited to the carrying amount as at 31 December 2020 and 2019 as summarised in Note 40.1.

## 40. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 40.4 Credit risk (Continued)

#### (i) Trade receivables and contract assets

In addition, as set out in note 2.10, the Group assesses ECL under HKFRS 9 on trade receivables and contract assets based on provision matrix, the expected loss rates are based on the payment profile for sales in the past 24 months as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forward looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

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

The Group's concentration of credit risk by geographical locations is mainly in PRC, which accounted for 99.45% (2019: 99.18%) of the total receivables as at 31 December 2020.

On the above basis, the ECL allowance for trade receivables as at 31 December 2020 and 2019 was determined as follows:

| | Current RMB | 1-90 days past due RMB | 91-180 days past dues RMB | 181-365 days past due RMB | More than 365 days past due RMB | More than 720 days past due RMB | Total RMB |
|---|---|---|---|---|---|---|---|
| **31 December 2020** | | | | | | | |
| ECL rate | 1.33% | 4.57% | 5.59% | 10.68% | 30.85% | 54.00% | |
| Gross carrying amount - trade receivables | 17,086,703 | 11,680,665 | 4,081,670 | 6,770,105 | 5,450,000 | 505,551 | 45,574,694 |
| **Lifetime ECL** | 205,292 | 534,100 | 228,049 | 722,826 | 1,681,462 | 272,998 | 3,644,727 |
| 31 December 2019 | | | | | | | |
| ECL rate | 1.30% | 4.15% | 5.61% | 12.21% | 33.78% | 78.25% | |
| Gross carrying amount - trade receivables | 31,934,616 | 7,411,343 | 5,760,000 | 10,454,750 | 920,000 | 2,100,000 | 58,580,709 |
| **Lifetime ECL** | 414,827 | 309,990 | 322,883 | 1,276,352 | 310,737 | 1,643,230 | 4,278,019 |

# 40. FINANCIAL RISK MANAGEMENT (CONTINUED)

## 40.4 Credit risk (Continued)

### (i) Trade receivables and contract assets (Continued)

On the above basis, the ECL for contract assets as at 31 December 2020 and 2019 was determined as follows:

| | 1-6 months past due RMB | 6-12 months past due RMB | 12 -24 months past due RMB | More than 24 months past due RMB | Total RMB |
|---|---|---|---|---|---|
| **31 December 2020** | | | | | |
| ECL rate | 3.93% | 10.68% | 30.85% | 54.00% | |
| Gross carrying amount – contract assets | **66,904,908** | **21,722,076** | **1,152,019** | **1,152,697** | **90,931,700** |
| **Lifetime ECL** | **2,628,118** | **2,319,210** | **355,426** | **622,456** | **5,925,210** |
| **31 December 2019** | | | | | |
| ECL rate | 3.89% | 12.21% | 30.52% | N/A | |
| Gross carrying amount – contract assets | 22,237,428 | 5,505,266 | 4,746,700 | - | 32,489,394 |
| Lifetime ECL | 864,199 | 672,226 | 1,448,551 | - | 2,984,976 |

### (ii) Other financial assets at amortised cost

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

As detailed in Note 22(b), in view of the financial undertakings given by Jiangsu Industry Park and Mr. Ai and the current financial condition of Jiangsu Industry Park, the directors are of the opinion that the credit risk of the amounts due from Retech Digital Media Co., Ltd and Shanghai Retech IT (Note 22(b)) and loan to Jiangsu Industry Park (Note 23) is insignificant and the balances are fully recoverable.

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

## 40. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 40.4 Credit risk (Continued)

#### (ii) Other financial assets at amortised cost (Continued)

Besides, management is of opinion that there is no significant increase in credit risk, except the amount due from an non-controlling shareholder of a subsidiary that the Group considered that there are significant increase in credit risk since initial recognition and, an ECL allowance of RMB521,980 was recognized, on these financial assets since initial recognition as the risk of default is low after considering the factors as set out in Note 2.10 and, thus, ECL recognised is based on 12-month ECL allowance and the impact of ECL allowance is insignificant.

### 40.5 Liquidity risk

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

<u>Analysis of financial instruments by remaining contractual maturities</u>

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

| | Within 1 year or on demand RMB | Over 1 year but within 5 years RMB | Over 5 years RMB | Total undiscounted amount RMB | Carrying amount RMB |
|---|---|---|---|---|---|
| **As at 31 December 2020** | | | | | |
| Non-derivative financial liabilities | | | | | |
| Trade and other payables | **45,061,928** | **-** | **-** | **45,061,928** | **45,061,928** |
| Amounts due to a director | **578,588** | **-** | **-** | **578,588** | **578,588** |
| Borrowings | **49,825,517** | **10,062,400** | **-** | **59,887,917** | **59,427,492** |
| Lease liabilities | **9,522,932** | **22,972,533** | | **32,495,465** | **30,128,264** |
| Convertible note | **34,816,708** | **-** | **-** | **34,816,708** | **32,437,927** |
| | **139,805,673** | **33,034,933** | **-** | **172,840,606** | **167,634,199** |
| As at 31 December 2019 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Trade and other payables | 22,022,350 | - | - | 22,022,350 | 22,022,350 |
| Amounts due to a related company | 5,974 | - | - | 5,974 | 5,974 |
| Borrowings | 13,531,200 | 5,473,519 | - | 19,004,719 | 17,873,179 |
| Lease liabilities | 10,617,609 | 31,964,063 | 3,033,804 | 45,615,476 | 41,604,079 |
| Convertible note | 2,830,517 | 36,471,807 | - | 39,302,324 | 32,781,619 |
| | 49,007,650 | 73,909,389 | 3,033,804 | 125,950,843 | 114,287,201 |

## 41. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

(a) Fair value hierarchy

Financial assets and liabilities measured at fair value in the consolidated statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability 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: significant unobservable inputs for the asset or liability.

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

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

| | Level 1<br>RMB | Level 2<br>RMB | Level 3<br>RMB | Total<br>RMB |
|---|---|---|---|---|
| **As at 31 December 2020** | | | | |
| **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) | **-** | **-** | **(1,692,299)** | **(1,692,299)** |
| | **-** | **-** | **(6,161,610)** | **(6,161,610)** |
| **Net fair value** | **-** | **-** | **(3,545,471)** | **(3,545,471)** |
| 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) |

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.

## 41. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Fair value hierarchy (Continued)

The fair values of the derivative financial instruments are based on a valuation performed by an independent professional valuer as at 31 December 2020 and 2019. The methods and valuation techniques used for the purpose of measuring fair values categorised in Level 3 are described below.

(b) Information about Level 3 fair value measurements

| | Valuation technique | Significant unobservable inputs | Sensitivity relationship of unobservable inputs to fair value |
|---|---|---|---|
| **Financial assets** | | | |
| Issuer's Call Option | Monte Carlo Simulation Model method 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: 91% (2019: 85%) | The higher the probability-weighted estimate, the higher of the fair value, and vice versa. |

## 41. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

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

The reconciliation of the carrying amounts of the Group's 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 | (35,762) | 2,527,975 |
| Exchange gain/(loss) recognised in profit or loss | (204,084) | 335,304 | (49,015) | 82,205 |
| **At 31 December 2020** | **2,616,139** | **(4,469,311)** | **(1,692,299)** | **(3,545,471)** |

Other than those disclosed in Notes 24, 30 and 31, 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.

## 42. 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.

## 43. EVENT AFTER THE REPORTING DATE

On 13 January 2021, the Group has entered into a financial guarantee contract to guarantee the repayment of loan by a significant supplier of the Group to the bank. The Group has the obligation to compensate the bank for the loss it would suffer because the supplier fails to repay. The contract amount was approximately RMB4,500,000 (2019: Nil). This represents the Group's maximum exposure under the financial guarantee contract.

## 44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Note | 2020 RMB | 2019 RMB |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current asset** | | | |
| Interest in a subsidiary | 26 | **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 |
| Amounts 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 |

Approved and authorized for issue by the board of directors on 31 March 2021.

**Mr. Ai Shungang**
**Co-Chairman**

**Mr. Calvin Cheng**
**Co-Chairman**

## 44. 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 | 2,331,868 |
| **At 31 December 2020** | **6,161,636** |

# 2. Directors' Declaration

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

In the opinion of the Directors:

a) The consolidated financial statements and the notes are in accordance with the Hong Kong Financial Reporting Standards as stated in note 2 to the consolidated financial statements, and give a true and fair view of the Group's consolidated financial position as at 31 December 2020 and of its consolidated performance and consolidated cash flows for the year ended on that date;

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

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

On behalf of

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

31 March 2021

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# Auditor's Independence Declaration

**To the Directors of Retech Technology Co., Limited**

As the auditor of Retech Technology Co., Limited and in relation to the audit for the year ended 31 December 2020, I declare that, to the best of my knowledge and belief, there have been no contraventions of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants.

**Grant Thornton Hong Kong Limited**

**Steve Ng**
Partner

31 March 2021

Hong Kong

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# Independent auditor's report

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

## Opinion

We have audited the consolidated financial statements of Retech Technology Co., Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 29 to 112, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

## Basis for Opinion

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

## Key Audit Matters

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

| *Key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| **Revenue from rendering of e-learning solutions and related services**<br>*Refer to notes 2.19 and 6 to the consolidated financial statements*<br><br>One of the revenue earned by the Group is from rendering of e-learning solutions and related services to customers. In the current year, revenue from rendering of e-learning solutions and related services of approximately RMB169,879,349 was recognised in profit or loss. Recognition of such revenue involves assessment of the stage of completion of contract works as well as the total outcome of each contract.<br><br>Assessment of the stage of completion involves significant estimates and judgment over cost allocations, estimate of total costs, and progressive assessment of actual and final outcome of each contract.<br><br>We have identified the revenue recognition from contracts with customers as a key audit matter considering significance of the amount and the extent of management's judgment exercised. | Our audit procedures in relation to the recognition of revenue from rendering of e-learning services included the following:<br><br>- understood the internal control and processes over the recognition of revenue from rendering of e-learning services from management;<br><br>- reviewed the contract terms and conditions, including any terms of contingent or adjustable income, reimbursement of costs on a sample basis;<br><br>- analysed cost allocation basis including staff cost and overheads;<br><br>- compared the budgeted contract costs with the actual costs incurred to assess if there were any material differences on sample basis;<br><br>- examined project documentation and discussed the status of those projects in progress with management, finance, and project managers of the Group on a sample basis;<br><br>- reviewed and inquired project profit margin with project managers for any exception; and<br><br>- inquired management's judgment of final outcome of each project. |

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## Key Audit Matters (Continued)

| *Key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| **Recoverability of trade receivables and contract assets**<br>*Refer to notes 2.10, 4, 20, 21 and 40.4 to the consolidated financial statements*<br><br>As at 31 December 2020, the Group's trade receivables and contract assets, net of expected credit loss ("ECL") allowance, (notes 20 and 21) were approximately RMB41,929,967 and RMB85,006,490 respectively.<br><br>Management applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at the end of the reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.<br><br>We consider recoverability of trade receivables and contract assets as a key audit matter considering significance of the amounts and the extent of management's judgment exercised. | Our audit procedures in relation to the recoverability of trade receivables and contract assets included the following:<br>- understood and discussed the Group's internal control and processes over granting of credits to customers, debt collection and estimate of ECL;<br>- verified the balances of trade receivables by requesting and receiving confirmations on a sample basis;<br>- tested aging of trade receivable balances at year end on a sample basis;<br>- obtained a list of long outstanding receivables and contract assets and identified any debtors with financial difficulties through discussion with management;<br>- assessed the recoverability of these outstanding receivables and contract assets through our discussion with management and latest correspondences with customers;<br>- challenged the information used to determine the ECL by considering cash collection performance against historical trends;<br>- evaluated the reasonableness of the valuation methodology used by management and compared the methodology used for similar instruments; and<br>- discussed the result with management and tested the key inputs adopted in the ECL calculation. |

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## Key Audit Matters (Continued)

| *Key audit matter* | *How the matter was addressed in our audit* |
| --- | --- |
| **Recoverability of loan to and amounts due from related parties**<br>*Refer to notes 2.10, 4, 22, 23 and 40.4 to the consolidated financial statements*<br><br>As at 31 December 2020, the Group's amounts due from related parties and loan to a related company, net of ECL allowance, (note 22 and 23) were approximately RMB8,629,001 and RMB31,748,709 respectively.<br><br>The provision policy for ECL allowance of amounts due from related parties and loan to a related company are based initially on 12-month ECL and subsequently on lifetime ECL if there is a significant increase in the credit risk of these receivables since initial recognition.<br><br>A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including their current creditworthiness, past collection history, financial condition and indemnification from Jiangsu Retech Digital Information Industry Park Co., Ltd ("Jiangsu Industry Park") and the ultimate controlling shareholder of the Company. If the financial conditions of these related parties, including Jiangsu Industry Park, or the ultimate controlling shareholder were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.<br><br>We consider the above as a key audit matter considering significance of the amount and the extent of management's judgment exercised. | Our audit procedures in relation to the recoverability of loan to and amounts due from related parties included the following:<br><br>- understood the internal control and processes of the Group over the estimation of ECL of loan to and amounts due from related parties;<br><br>- assessed the accuracy of management's basis and judgement in determining the ECL based on historical credit loss records and with reference to other factors that have been taken into consideration by management; and<br><br>- assessed the reasonableness of the basis of estimated loss with reference to historical default records, forward-looking information, the indemnification provided and the latest available financial information of Jiangsu Industry Park. |

## Key Audit Matters (Continued)

| *Key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| **Valuation of derivative financial instruments**<br>*Refer to notes 2.9, 2.12, 4, 24, 30 and 41 to the consolidated financial statements*<br>As described in note 30 to the consolidated financial statements, the derivative components of convertible note are measured at fair value. As at 31 December 2020, the fair value of derivative financial instruments in financial assets and fair value of derivative financial instruments in financial liabilities were approximately RMB2,616,139 and RMB4,469,311 respectively.<br><br>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.<br><br>We consider the valuation of the derivative financial instruments as a key audit matter, given the magnitude of these positions and the complexity of the valuation model applied. | Our audit procedures in relation to the valuation of derivative financial instruments included the following:<br><br>- assessed the experience, competence, capability, independence and objectivity of the valuer;<br><br>- evaluated the reasonableness of the valuation methodology used by the valuer and compared the methodology used for similar instruments;<br><br>- discussed the valuations with the valuer in a separate private session and challenged key estimates adopted in the valuations; and<br><br>- tested the inputs used in fair value calculation. With respect to the discount rates used and inputs for the valuation of the derivative element, the external and internal data are compared with independent source on a sample basis. |

## Key Audit Matters (Continued)

| *Key audit matter* | *How the matter was addressed in our audit* |
| --- | --- |
| **Impairment assessment of goodwill**<br>*Refer to notes 2.3, 2.8, 4, 15 and 39 to the consolidated financial statements*<br><br>As at 31 December 2020, the Group had goodwill of RMB62,295,231, which were allocated to two cash-generating units ("CGUs"), which arose from the acquisitions of Aushen Group Pty Ltd. and Shanghai Pantosoft Co., Ltd.. Management has performed an annual impairment test on the recoverability of goodwill as required by HKAS 36.<br><br>The recoverable amount of each CGU was determined based on value-in-use calculations using discounted cash flow projections. Based on the results of the impairment assessment which involved significant management judgements and estimation including the growth rates and discount rates applied in the value-in-use calculations, the Company's management has concluded that there was no impairment of the goodwill for the year ended 31 December 2020.<br><br>We identified the impairment assessment of goodwill as a key audit matter because the value-in-use calculations involved significant management's judgement and estimation, and were based on assumption that would be affected by economic and market conditions. | Our audit procedures in relation to the impairment test carried out by management and assess the value-in-use of the cash-generating units included the following:<br><br>- evaluated the valuation methodologies and assumptions including comparing source and market data used in the underlying assumptions for the valuation with reference to comparable companies;<br><br>- assessed the appropriateness of the key assumptions, including budgeted revenue, discount rates and growth rates beyond the five-year period, used for calculating the recoverable amount of the CGUs as adopted by the management for the goodwill impairment assessment;<br><br>- performed sensitivity analyses on the five-year budget;<br><br>- evaluated the adequacy of the Group's disclosures regarding the goodwill impairment testing. |

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### Other Information

The directors are responsible for the other information. The other information comprises all the information in the 2020 annual report of the Group, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

### Responsibilities of Directors for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

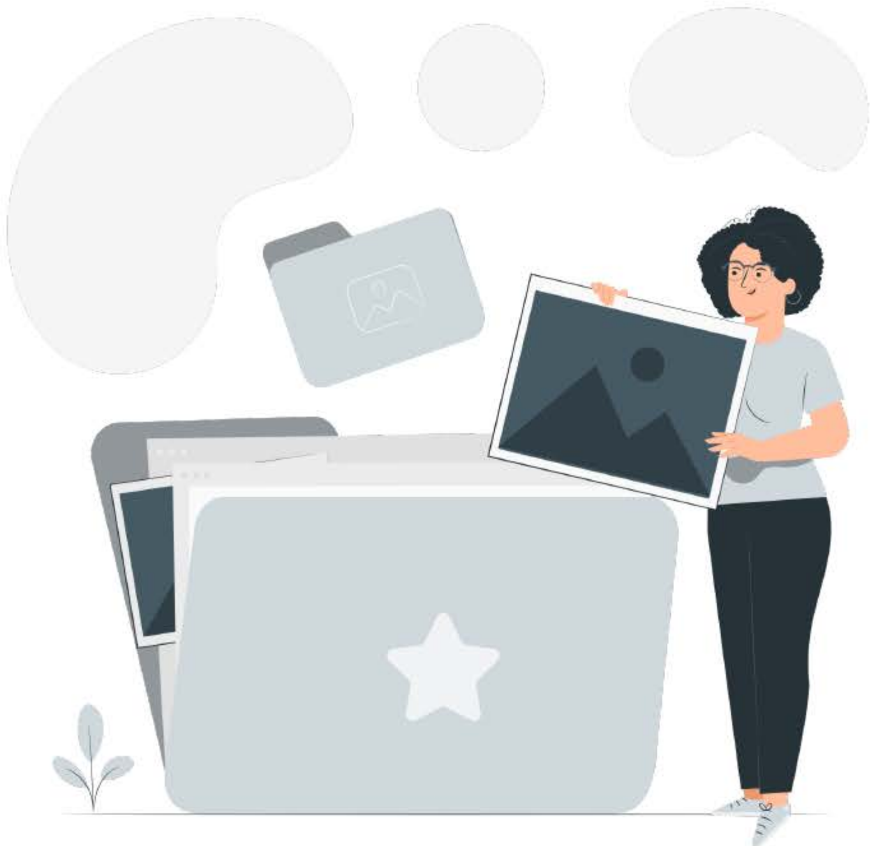
From the matters communicated with the Audit and Risk Management Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report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

Grant Thornton Hong Kong Ltd

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

31 March 2021

Ng Ka Kong
Practising Certificate No.: P06919



# PART 5

## Other Information

# Part 5 Other Information

## 1. ASX Additional Investor Information

Additional information required by the Australian Securities Exchange and not shown elsewhere in this Annual Report is as follows. The information is current as of 9 March 2021.

### Issued Capital

As at 9 March 2021, the Company had 232,912,633 ordinary fully paid shares on issue, of which 232,912,633 were held by Chess Depositary Nominees Pty Ltd ("CDN"). CDN has issued 232,912,633 CHESS Depositary Interests ("CDIs") in relation to these shares. CDN holds the legal title to shares on behalf of holders of CHESS Depositary Receipts. Pursuant to the ASX Settlement Operating Rules, CDI holders receive all of the economic benefits of actual ownership of the underlying shares.

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

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

### Distribution of Shareholders / CDI Holders

There were 301 Shareholders / CDI Holders at 9 March 2021. Each Shareholder/CDI Holder is entitled to one vote for each security held.

## Distribution of Shareholders / CDI Holders (Continued)

| Spread of holdings | Number of holders | Number of units | % |
|---|---|---|---|
| **1-1,000** | 10 | 2,214 | **0.00%** |
| **1,001-5,000** | 171 | 603,091 | **0.26%** |
| **5,001-10,000** | 35 | 254,829 | **0.11%** |
| **10,001-100,000** | 47 | 1,730,668 | **0.74%** |
| **100,001 and above** | 38 | 230,321,831 | **98.89%** |
| **Total** | **301** | **232,912,633** | **100.00%** |

## Voting Rights

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

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

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

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

## Substantial Shareholders / CDI Holders

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

| Holder | Substantial Shareholders / CDI holders | % of issued capital notified to ASX |
|---|---|---|
| 1 | RETECH INVESTMENT GROUP CO LTD | 33.78% |
| 2 | CITY SAVVY LIMITED | 11.89% |
| 3 | VICKERS VENTURE FUND IV LP | 6.72% |
| 4 | RETECH MANAGEMENT CO LTD | 6.20% |
| 5 | MIAO SHI INVESTMENT GROUP CO LTD | 5.45% |
| 6 | BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP> | 5.20% |
| | **Total** | **69.26%** |

## Share Buy-back

The Company has no current shareholder approval for share buy-back. The Board from time to time considers the potential for a share buy-back which would be submitted to shareholders at the appropriate time for approval.

## Top 20 Share/CDIs as at 09 March 2021

| Rank | Top 20 Share/CDIs holders | Shares/CDIs | % of issued capital |
|---|---|---|---|
| **1** | RETECH INVESTMENT GROUP CO LTD | 78,689,400 | 33.78% |
| **2** | CITY SAVVY LIMITED | 27,700,700 | 11.89% |
| **3** | VICKERS VENTURE FUND IV LP | 15,651,011 | 6.72% |
| **4** | RETECH MANAGEMENT CO LTD | 14,451,000 | 6.20% |
| **5** | MIAO SHI INVESTMENT GROUP CO LTD | 12,700,700 | 5.45% |
| **6** | BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP> | 12,112,597 | 5.20% |
| **7** | HENGYING FUQUAN COMPANY LTD | 10,079,450 | 4.33% |
| **8** | XU SHI TECHNOLOGY INVESTMENT GROUP CO LTD | 10,079,450 | 4.33% |
| **9** | CALVIN CHENG ERN LEE | 9,076,796 | 3.90% |
| **10** | CITICORP NOMINEES PTY LIMITED | 6,054,899 | 2.60% |
| **11** | J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 4,850,406 | 2.08% |
| **12** | BNP PARIBAS NOMS PTY LTD <DRP> | 4,571,561 | 1.96% |
| **13** | LUMINA LOOQUE KNOWLEDGE HUBS PTE LTD | 2,854,324 | 1.23% |
| **14** | MR SHENGDONG PANG | 2,804,746 | 1.20% |
| **15** | MR JIANWEI ZHENG | 2,154,316 | 0.92% |
| **16** | MR. YUE WANG | 2,043,945 | 0.88% |
| **17** | MR. RUYONG TAN | 2,014,180 | 0.86% |
| **18** | NEBULA LIMITED | 2,000,000 | 0.86% |
| **19** | MR ZHENG JIANWEI | 1,369,647 | 0.59% |
| **20** | QIUBING CHENG | 1,340,736 | 0.58% |
| | **Total** | **222,599,864** | **95.57%** |

## Use of Cash Consistent with Business Objectives

The Company confirms that, between 31 December 2019 and 31 December 2020, it has used cash and other assets readily convertible to cash that it held at time of admission, in a way consistent with its business objectives.

## The Company's Place of Incorporation

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

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

## Substantial Share / CDI Holder Notices

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

# 2. Corporate Governance

The Corporate Governance Statement of the Company for the reporting period ending 31 December 2020 has been prepared based on the 4th edition of the Australian Securities Exchange's ('ASX') Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council ('ASX Principles and Recommendations') pursuant to ASX Listing rule 4.10.3.

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

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

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

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

# 3. Corporate Directory

**Company – Hong Kong Registered Office & Headquarters**

**Retech Technology Co., Limited**
Room 2901, 29/F., Shui On Centre,
6-8 Harbour Road, Wan Chai,
Hong Kong
Phone: +852 2407 0405

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

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

**Ai English Pty Ltd.**
Level 7, 10 Dorcas Street,
Southbank VIC 3006 Australia
Phone: +61 0425764392

**Company Secretary**
Mr. WON Chik Kee

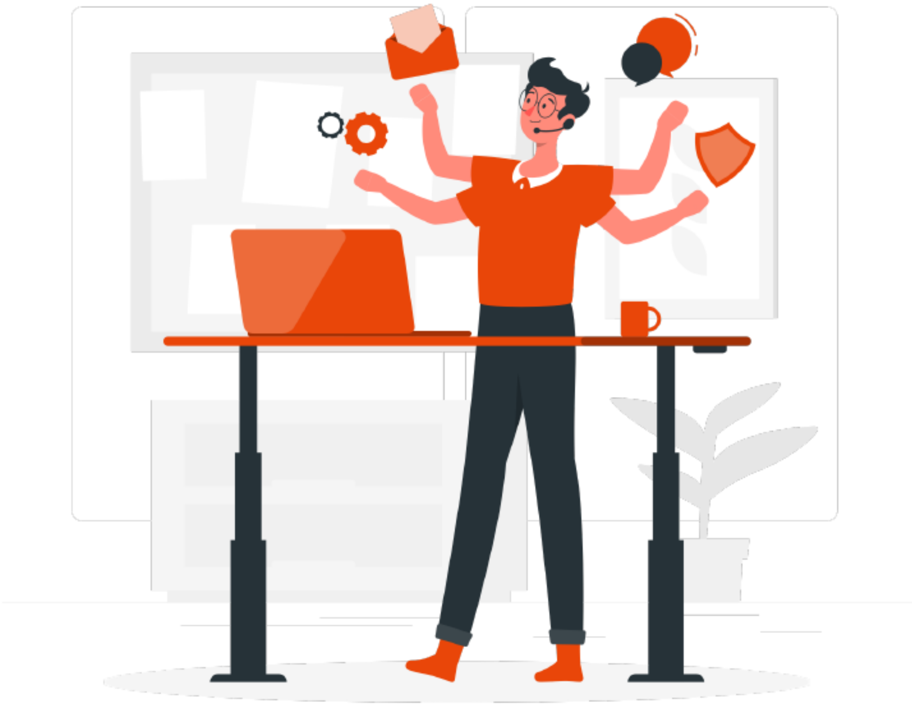
**Auditor**
Grant Thornton Hong Kong Limited
Level 12, 28 Hennessy Road
Wanchai, Hong Kong.

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

**ASX Code**
RTE
**Website**
www.retech-rte.com
**For further information contact:**
Investor Relations
T: +86 21 5566 6166
E: investors@retech-rte.com

# Disclaimer

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



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