

China Art Financial Holdings Limited

中國藝術金融控股有限公司

*(incorporated in the Cayman Islands with limited liability)*

Stock Code: 1572

# GLOBAL OFFERING

Sole Sponsor, Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager



## IMPORTANT

*IMPORTANT: If you are in any doubt about the contents of this prospectus, you should seek independent professional advice.*

# China Art Financial Holdings Limited

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*(Incorporated in the Cayman Islands with limited liability)*

### GLOBAL OFFERING

<b>Number of Shares offered under the Global Offering</b>	<b>: 400,000,000 Shares (subject to adjustment and the Over-allotment Option)</b>
<b>Number of Hong Kong Offer Shares</b>	<b>: 40,000,000 Shares (subject to adjustment)</b>
<b>Number of International Placing Shares</b>	<b>: 360,000,000 Shares (subject to adjustment and the Over-allotment Option)</b>
<b>Maximum Offer Price</b>	<b>: HK\$0.75 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund on final pricing)</b>
<b>Nominal value</b>	<b>: HK\$0.01 per Share</b>
<b>Stock code</b>	<b>: 1572</b>

**Sole Sponsor, Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager**



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in Appendix V — “Documents Delivered to the Registrar of Companies and Available for Inspection” to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission, The Stock Exchange of Hong Kong Limited and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

Please see “Risk Factors” in this prospectus for a discussion of certain risks that you should consider before investing in the Shares. The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, 2 November, 2016 and, in any event, not later than Friday, 4 November, 2016. The Offer Price will be not more than HK\$0.75 and is currently expected to be not less than HK\$0.60, unless otherwise announced. If, for any reason, the Offer Price is not agreed by Friday, 4 November, 2016 between the Sole Global Coordinator (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

Applicants for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$0.75 for each Offer Share, together with a 1.0% brokerage fee, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee, subject to refund if the Offer Price is lower than HK\$0.75 as finally determined.

The Sole Global Coordinator (on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in the Standard (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. For more details, please see “Structure of the Global Offering” and “How to Apply for the Hong Kong Offer Shares” in this prospectus. Please also see “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe or purchase, and to procure applicants for the subscription or purchase of, the Hong Kong Offer Shares, are subject to termination by the Sole Global Coordinator (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in “Underwriting” in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered or sold, pledged or transferred within the United States or to, or for the account or benefit of, U.S. persons, except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

27 October, 2016

## EXPECTED TIMETABLE<sup>(1)</sup>

Latest time to complete electronic applications under <b>White Form eIPO</b> service through the designated website <b>www.eipo.com.hk</b> <sup>(2)</sup> .....	11:30 a.m. on Tuesday, 1 November, 2016
Application lists open <sup>(3)</sup> .....	11:45 a.m. on Tuesday, 1 November, 2016
Latest time to lodge <b>WHITE</b> and <b>YELLOW</b> Application Forms .....	12:00 noon on Tuesday, 1 November, 2016
Latest time to complete payment for <b>White Form eIPO</b> applications by effecting internet banking transfer(s) or PPS payment transfer(s).....	12:00 noon on Tuesday, 1 November, 2016
Latest time to give <b>electronic application instructions</b> to HKSCC <sup>(4)</sup> .....	12:00 noon on Tuesday, 1 November, 2016
Application lists close <sup>(3)</sup> .....	12:00 noon on Tuesday, 1 November, 2016
Expected Price Determination Date <sup>(5)</sup> .....	Wednesday, 2 November, 2016
Announcement of	
• the Offer Price;	
• the level of applications in respect of the Hong Kong Public Offering;	
• the level of indications of interest in the International Placing; and	
• the basis of allotment of the Hong Kong Offer Shares under the Hong Kong Public Offer	
is expected to be published in the Standard (in English) and the Hong Kong Economic Times (in Chinese) on or before.....	Monday, 7 November, 2016
A full announcement of the Hong Kong Public Offering containing the information above will be published on the website of the Stock Exchange at <b>www.hkexnews.hk</b> <sup>(6)</sup> and our website at <b>www.cnartfin.com.hk</b> <sup>(6)</sup> from.....	Monday, 7 November, 2016
Results of allocations in the Hong Kong Public Offering will be available at <b>www.iporeresults.com.hk</b> with a “search by ID” function from.....	Monday, 7 November, 2016
Despatch of Share certificates, White Form e-Refund payment instructions and refund cheques in respect of wholly or partially successful applications on or before <sup>(7)(8)(9)</sup> .....	Monday, 7 November, 2016
Dealings in Shares on the Stock Exchange expected to commence at .....	9:00 a.m. on Tuesday, 8 November, 2016

## EXPECTED TIMETABLE<sup>(1)</sup>

### Notes:

- (1) Unless otherwise stated, all times and dates refer to Hong Kong local times and dates. Details of the structure of the Global Offering, including its conditions, are set out in “Structure of the Global Offering” in this prospectus.
- (2) You will not be permitted to submit your application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 1 November, 2016, the application lists will not open and close on that day. For more details, please see “How to Apply for the Hong Kong Offer Shares — 10. Effect of bad weather on the opening of the application lists” in this prospectus. If the application lists do not open and close on Tuesday, 1 November, 2016 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in “Expected Timetable”, an announcement will be made by us in such event.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to “How to Apply for the Hong Kong Offer Shares — 6. Applying By Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) We expect to determine the Offer Price by agreement with the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, 2 November, 2016 and, in any event, not later than Friday, 4 November, 2016. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (on behalf of the Underwriters) and us by Friday, 4 November, 2016, the Hong Kong Public Offering and the International Placing will not proceed. Notwithstanding that the Offer Price may be fixed at below the maximum Offer Price of HK\$0.75 per Share payable by applicants for Hong Kong Offer Shares under the Hong Kong Public Offering, applicants for the Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$0.75 for each Share, together with the brokerage fee of 1.0%, a Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027% but will be refunded the surplus application monies as provided for in “How to Apply for the Hong Kong Offer Shares” in this prospectus.
- (6) None of the website or any of the information contained on the website forms part of this prospectus.
- (7) Share certificates for the Offer Shares will become valid certificates of title at 8:00 a.m. on Tuesday, 8 November, 2016 provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms.
- (8) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong Identity Card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong Identity Card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong Identity Card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong Identity Card number or passport number may lead to delays in encashment of, or may invalidate, the refund cheque.
- (9) Applicants who have applied on **WHITE** Application Forms or **White Form eIPO** for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have provided all required information in their applications may collect refund cheques (where applicable) and/or Share certificates (where applicable) in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, between 9:00 a.m. to 1:00 p.m. on Monday, 7 November, 2016. Applicants being individuals who opt for personal collection may not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend through their authorised representatives bearing letters of authorisation from their corporation stamped with the corporation’s chop. Both individuals and authorised representatives of corporations must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

## EXPECTED TIMETABLE<sup>(1)</sup>

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering may collect their refund cheques, if any, in person but may not elect to collect their share certificates as such share certificates will be deposited into CCASS for the credit of their designated CCASS participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to "How to Apply for the Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies — (iv) If you apply via Electronic Application Instructions to HKSCC" in this prospectus for details. Uncollected share certificates and refund cheques will be despatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications. Further information is set out in "How to Apply for the Hong Kong Offer Shares — 13. Refund of Application Monies" and "How to Apply for the Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies" in this prospectus.

**The above expected timetable is a summary only. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 1 November, 2016, the application lists will not open and close on that day. Please refer to "How to Apply for the Hong Kong Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists" in this prospectus. You should refer to "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" in this prospectus for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares.**

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## IMPORTANT NOTICE TO INVESTORS

*This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.*

*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, any of the Underwriters, any of their respective directors, officers, representatives or advisers or any other person involved in the Global Offering.*

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## SUMMARY

*This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” starting on page 33 of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.*

### OVERVIEW

We are a leading art finance service provider in China. We provide art finance services under two business segments: (i) art and asset pawn business and (ii) art and asset auction business. According to F&S Report, art finance broadly refers to financial services that use artwork as the underlying financial asset, in personal or institutional financial management, and which transform the values of artwork into financial instrument. Art investment and art financing are the two dominating activities in the art finance market. We are principally engaged in the art pawn loan business (an important art financing channel in China) and art auction (a well-recognised art investment channel in China). According to F&S Report, in 2015, we were the largest art pawn loan service provider in China in terms of revenue and the second largest art pawn loan service provider in China in terms of the size of the art pawn loan portfolio and registered capital; the second largest art auction house in Jiangsu province in terms of aggregate art auction revenue and the largest auction house for Zisha Artworks in China in terms of Zisha Artwork auction revenue. In 2015, according to the F&S Report, in terms of revenue we had market shares of 0.33% and 0.50% in the PRC pawn loan industry and auction industry respectively. We are headquartered in Yixing, Jiangsu, which is the only origin of Zisha clay, the major raw material for producing Zisha Artworks. Yixing city is also well known for its production of Zisha Artworks and where some of famous Zisha Artworks masters are based.

The following table sets out the details of our revenue for the periods indicated:

	FY2013		FY2014		FY2015		Six months ended 30 June			
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	2015 (RMB'000) (Unaudited)	%	2016 (RMB'000)	%
<b>Revenue</b>										
<b>Art and asset pawn</b>										
Art pawn loan	30,985	77.7	41,341	71.7	58,639	54.5	28,446	97.5	31,310	47.2
Asset pawn loan	2,873	7.2	2,340	4.0	620	0.6	332	1.1	300	0.5
	<b>33,858</b>	<b>84.9</b>	<b>43,681</b>	<b>75.7</b>	<b>59,259</b>	<b>55.1</b>	<b>28,778</b>	<b>98.6</b>	<b>31,610</b>	<b>47.7</b>
<b>Art and asset auction</b>										
Art auction	3,292	8.3	12,027	20.8	47,845	44.5	—	—	34,712	52.3
Asset auction	2,719	6.8	1,990	3.5	470	0.4	414	1.4	—	—
	<b>6,011</b>	<b>15.1</b>	<b>14,017</b>	<b>24.3</b>	<b>48,315</b>	<b>44.9</b>	<b>414</b>	<b>1.4</b>	<b>34,712</b>	<b>52.3</b>
<b>Total</b>	<b>39,869</b>	<b>100</b>	<b>57,698</b>	<b>100</b>	<b>107,574</b>	<b>100</b>	<b>29,192</b>	<b>100</b>	<b>66,322</b>	<b>100</b>

Our focus is on artworks which are mainly contemporary Zisha Artworks, Paintings and Calligraphies, and Jewel Artworks. Revenue derived from artworks contributed to approximately 86.0%, 92.5%, 99.0% and 99.5% of our total revenue for the Track Record Period.



## SUMMARY

We achieved significant increase in revenue and profit attributable to owners of the Company in recent years. For the three years ended 31 December 2015, our revenue amounted to approximately RMB39.9 million, RMB57.7 million and RMB107.6 million, respectively, representing a CAGR of approximately 64.2% from 2013 to 2015. For the six months ended 30 June 2016, our revenue amounted to approximately RMB66.3 million. Our profit attributable to owners of the Company for the three years ended 31 December 2015 amounted to approximately RMB16.4 million, RMB25.9 million and RMB46.9 million, respectively, representing a CAGR of approximately 69.1% from 2013 to 2015. For the six months ended 30 June 2016, our profit attributable to owners of our Company amounted to approximately RMB27.9 million.

### OUR BUSINESS

#### Art and Asset Pawn Segment

We offer pawn loans secured by artwork and asset as collaterals which are regulated under the Pawning Measures, and charge composite administrative fees. Distinguishing from the traditional understanding of the pawn loan business in China that such loans are often secured by collateral such as real estate, personal property or equity interests, our loans are mainly secured by artworks. During the Track Record Period, over 90% of new loan amount we granted were secured by artworks. Our artwork collateral portfolio mainly includes Zisha Artworks as well as Paintings and Calligraphies and Jewel Artworks. Our asset collateral portfolio includes real estates, personal properties (including gold, platinum, precious metal ornaments and jewellery ornaments) and equity interests (of non-listed enterprises).

The table below sets out the gross loans amount by collateral category we granted as of the dates indicated:

	<b>As of 31 December</b>			<b>As of</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>30 June</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
<b>Gross loans amount to customers</b>				
Artwork	70,451	88,000	64,336	208,348
Real estates	11,941	8,380	1,432	1,458
Personal properties	<u>1,829</u>	<u>1,011</u>	<u>368</u>	<u>321</u>
<b>Total</b>	<u><u>84,221</u></u>	<u><u>97,391</u></u>	<u><u>66,136</u></u>	<u><u>210,127</u></u>

Maximum rates of monthly composite administrative fee for a pawn loan secured by movable properties, real estate and property rights as collaterals are 4.2%, 2.7% and 2.4% of the principal amount of the loan, respectively pursuant to the Pawning Measures. Due to the statutory maximum limit under the Pawning Measures, we have limited control over the composite administrative fee we can charge on our pawn loans. Please see “Risk Factors — We have limited control over the level of fees we can charge on our pawn loans” on pages 42 of this prospectus for details. Under our operation policy, during the Track Record Period and as of the Latest Practicable Date, we charged fixed rates of monthly composite administrative fee for our pawn loan secured by artworks and personal property (both of which are classified as movable properties under the Pawning Measures), real estate and equity interest

## SUMMARY

as collateral generally at the respective rate of 4.0%, 2.7% and 2.4% of the principal amount of the loan respectively. The following table sets forth the average monthly composite administrative fee rate for our pawn loan by type of collateral for the periods indicated:

				<b>For the six months ended</b>
<b>Average monthly composite administrative fee rate (%) (Note)</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>30 June 2016</b>
Artwork	3.8	3.9	3.9	4.0
Real estates	2.7	2.7	2.7	2.7
Personal properties	4.0	4.0	4.0	4.0
Equity interest	1.4	—	—	—

*Note:* Average monthly composite administrative fee rate is calculated by dividing the aggregate amount of the monthly composite administrative fee derived from the loans granted during the indicated financial year or period by the principal amount of loan granted to customers during the same financial year or period and multiplying by 100%.

The key operating statistics for the pawn loans secured by artwork and assets granted during the Track Record Period (including the overall average initial loan terms, the overall average loan period granted/renewed, loan repayment period, average loan repayment period and average number of renewals for the pawn loans secured by artwork) are set out in “Business — Our Business — Art and Asset Pawn Segment — Loan breakdown as of the relevant year- and period-end dates” beginning on page 190 of this prospectus.

We have implemented a risk management system which we believe to be effective in reducing various risks involved in our art and asset pawn business, such as credit risks and liquidity risks. We had an impaired loan ratio of 2.7%, 2.6%, 0% and 0% as of 31 December 2013, 2014 and 2015 and 30 June 2016, respectively. All of the artwork collaterals are evaluated by our internal and/or external specialists before pawn loans are approved. Starting from 2015, revaluation of high-valued artwork collaterals is and will be performed by external artwork valuing entity at the end of each financial year, or more frequently if there is a material change in circumstances related to the pawn loans granted and/or the value of the collateral. The following table sets forth the range of and average appraised loan-to-value ratio for artwork collateral for the periods/dates indicated:

	<b>As of 31 December/ Financial Year</b>			<b>As of/ For the six months ended</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>30 June 2016</b>
Range of appraised loan-to-value ratios (Note 1)	47% to 73%	44% to 70%	33% to 68%	40% to 68%
Average appraised loan-to-value ratio (Note 2)	60.9%	57.4%	55.7%	53.3%

*Notes:*

- (1) This refer to the range of actual appraised loan-to-value ratio during the indicated period. The appraised value of the underlying collateral as stated on the pawn ticket is used for calculation.
- (2) Average appraised loan-to-value ratio of a loan is calculated by dividing the outstanding principal amount of the loan as of the calculation date by the appraised value of the underlying collateral. The loan-to-value ratio does not take into consideration composite administrative fee on the loan or any change in the collateral value during the term of the loan.

## SUMMARY

We adopt the target appraised loan-to-value ratios of not exceeding 75%, 90% and 50% for real properties, personal properties and equity interest collaterals respectively. Our art and asset pawn business was funded by our registered capital and retained earnings. As of 31 December 2015 the paid-up registered capital of Hexin Pawn amounted to RMB100 million. Pursuant to the Pawning Measures, pawn loan providers, including Hexin Pawn, are prohibited from borrowing moneys from any person other than commercial banks. However, under the Notice Regarding the Prevention of External Risk Transmission issued by China Banking Regulatory Commission on 14 May 2013, commercial banks are prohibited to provide a credit line to pawn loan providers. Accordingly, we are unable to obtain bank loans as our source of funding for our pawn loan operation. During the Track Record Period and as of the Latest Practicable Date, we did not have any bank borrowings. Shortly before the Latest Practicable Date, we obtained the Bank Facility (which was not yet drawn on the Latest Practicable Date), as disclosed in the “Financial Information — Indebtedness — Statement of Indebtedness” section. During the Track Record Period and as of the Latest Practicable Date, our operations were mainly financed by our internal resources.

Our customers of art and asset pawn business for each category of collaterals comprise mostly individuals with short term financing needs. As collaterals of our pawn loans are predominately artworks, our art and asset pawn customers also include artworks interested parties. We source customers for our pawn loans mainly through sales and marketing efforts by our management and operating officers or referrals by existing customers and third parties. In addition, our customers and some other walk-in clients may approach us directly through our headquarters in Yixing and branch office at Nanjing to apply for a pawn loan.

### Art and Asset Auction Segment

Our auction business specialises in auctioneering a wide variety of artworks with emphasis on Zisha Artworks as well as Paintings and Calligraphies and Jewel Artworks. We also provide auction services for other assets such as real properties, equity interests and automobiles.

The following table sets forth the revenue of our art and asset auction segment for the periods indicated:

	FY2013		FY2014		FY2015		For the six months ended 30 June 2016	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
<b>Art auction revenue</b>								
Zisha Artworks	3,292	54.8	8,868	63.3	30,713	63.6	25,997	74.9
Paintings and Calligraphies	—	—	3,159	22.5	3,742	7.7	2,709	7.8
Jewel Artworks	—	—	—	—	13,390	27.7	6,006	17.3
	<u>3,292</u>	<u>54.8</u>	<u>12,027</u>	<u>85.8</u>	<u>47,845</u>	<u>99.0</u>	<u>34,712</u>	<u>100</u>
Asset auction revenue	2,719	45.2	1,990	14.2	470	1.0	—	—
<b>Total</b>	<b><u>6,011</u></b>	<b><u>100</u></b>	<b><u>14,017</u></b>	<b><u>100</u></b>	<b><u>48,315</u></b>	<b><u>100</u></b>	<b><u>34,712</u></b>	<b><u>100</u></b>

## SUMMARY

The following table sets forth the aggregate hammer price of artwork auction lots in connection with our Autumn Auctions and Spring Auction held during the Track Record Period:

	Autumn Auction held in			Spring Auction held in
	2013	2014	2015	2016
<b>Aggregate hammer price (RMB' million)</b>				
Zisha Artworks	16.5	44.3	153.5	120.5
Paintings and Calligraphies	—	15.8	18.7	12.3
Jewel Artworks	—	—	67.0	31.8
<b>Total</b>	16.5	60.1	239.2	164.6

In managing our auction operation, we generally function as an agent accepting auction lots on consignment, fostering market demand through professional marketing techniques and matching the needs of sellers (or consignors) to those of buyers (or bidders) through auctions.

Our art auction commission constituting our art auction revenue include buyer's commission and seller's commission, both of which are calculated as a percentage of the hammer price of artworks sold at auction. For our art auctions, we charge buyers and sellers of artwork fixed commission rate of 12% and 8% respectively of the hammer price, irrespective of whether they buy and sell the artwork on-site or online. After bidding is confirmed following an auction, we typically collect payment from buyer for the purchase price of the auction lot plus buyer's commission, then deliver the auction lot to the buyer and eventually release to seller the net sale proceeds after deducting seller's commission and personal income tax to complete the auction transaction.

During the period from 2013 to 2015, we organised one Autumn Auction each year which was held in the fourth quarter of each calendar year. In the 2015 Autumn Auction, our aggregate hammer price reached approximately RMB239.2 million, representing an increase of approximately 298.0% from that in 2014, of which the aggregate hammer price for Zisha Artworks amounted to approximately RMB153.5 million. The highlight of the auction — a Zisha teapot made by Master Gu Jingzhou — recorded the highest hammer price of approximately RMB38 million. Beginning in 2016, in addition to Autumn Auction, we organise one more principal art auction in (i.e. Spring Auction) each calendar year. The first Spring Auction took place in late-June 2016, which achieved an aggregate hammer price of approximately RMB164.6 million. To capture opportunities from the Chinese online auction market, one of the biggest markets worldwide in 2014, starting from the second half of 2015, we used our internet platform as an online marketing channel by enabling customers to access auction catalogue, view past auction records, and read art industry news. We launched our live bidding portal — [www.cnartfin.com](http://www.cnartfin.com) in December 2015 to allow online bidders to participate in our art auctions in real time. At our 2015 Autumn Auction, on a trial basis, online customers were able to use live bidding channel to participate in the auction together with on-site customers at the same time. We plan to arrange synchronised live and on-site biddings at all of our future Spring Auctions and Autumn Auctions. In January 2016, we conducted our first pure online auction.

## SUMMARY

In our auction segment, our customers primarily include sellers and buyers of artworks in our auctions. To the best knowledge of our Directors, customers generally comprise artwork interested parties including artworks artists, agents, masters, experts, merchants, collectors and art galleries and private museums. Our customers of the asset auction also include private sellers and buyers of assets.

### INSURANCE

As of the Latest Practicable Date, Hexin Pawn purchased insurance for the artwork collaterals kept in our headquarters for a term of one year up to 14 March 2017, which covered an initial aggregate insurance coverage of approximately RMB125 million for Zisha Artworks and Paintings and Calligraphies collaterals which was increased to approximately RMB435 million with effect from 25 October 2016. As of the Latest Practicable Date, the aggregate appraised value of artwork collaterals (as shown on the pawn tickets) in our possession was approximately RMB435 million. In line with industry practice and due to unavailability of insurance covering risks of our art and asset auction business at reasonable price, we do not purchase insurance for artworks we have been consigned for art auctions. For further details, please refer to “Business — Insurance” and “Risk Factors — We are exposed to loss for artworks in our possession, which may be subject to damage or theft, and insurance coverage may be difficult to obtain or insufficient” beginning on pages 247 and 35 of this prospectus, respectively. As of the Latest Practicable Date, we had not made nor been the subject of any material insurance claims.

### COMPETITIVE STRENGTHS

We believe the following competitive strengths allow us to enjoy the leading position in the art finance service industry and will enable our sustainable growth in the near future:

- we have an established market leading position in the art finance industry and the first mover advantage in art pawn loan and online auction market;
- we are located in Yixing, Jiangsu, having geographical advantages for art-related business development;
- we enjoy synergy brought by the operations of our art pawn loan and art auction;
- we have built up effective risk management and internal control systems; and
- we have an experienced and stable management team led by visionary founder.

### OUR STRATEGIES

Our long-term objective is to become the largest integrated art finance service provider in China. We plan to achieve such long-term objective by pursuing the following strategies:

- expansion in our art auction business by: (i) further developing our art auction business, with more focus on online auction and online operation; (ii) establishing new branches or subsidiaries; (iii) expanding strategically our auction lot composition and increasingly focusing on distinct value artworks; and (iv) maintaining existing and expanding client network;
- expansion in our art pawn loan business by: (i) increasing registered capital; (ii) focusing on growing our loan portfolio; (iii) expanding loan offices network; and (iv) developing and utilising online platform;

## SUMMARY

- building one-stop art finance service platform by integrating our art pawn loan and art auction businesses; and
- possible merger and acquisition or alliance with enterprises in related business and IT companies.

### SUMMARY OF CONSOLIDATED FINANCIAL INFORMATION

The following is a summary of our consolidated financial information for the Track Record Period, extracted from the Accountant's Report set out in Appendix I to this prospectus. The summary of our consolidated financial data set forth below should be read together with our consolidated financial statements and the related notes, as well as "Financial Information" starting on page 293 of this prospectus.

#### Key income statement information

	FY2013 (RMB'000)	FY2014 (RMB'000)	FY2015 (RMB'000)	Six months ended 30 June	
				2015 (RMB'000)	2016 (RMB'000)
Revenue	39,869	57,698	107,574	29,192	66,322
Profit before tax	32,255	48,558	89,064	24,666	45,736
Profit for the year/period	24,191	36,419	62,394	17,810	31,431
Segmental profits				(Unaudited)	
Art and asset pawn segment	30,750	39,846	55,947	26,530	26,731
Art and asset auction segment	5,076	12,344	44,105	169	33,500

#### Key balance sheet information

	As of 31 December			As of 30 June
	2013 (RMB'000)	2014 (RMB'000)	2015 (RMB'000)	2016 (RMB'000)
Non-current assets	4,148	3,927	2,367	2,689
Current assets	117,420	157,461	362,353	505,338
Current liabilities	4,014	7,415	76,353	188,229
Net current assets	113,406	150,046	286,000	317,109
Total equity	117,554	153,973	288,367	319,798

## SUMMARY

### Key cash flow items

	FY2013 (RMB'000)	FY2014 (RMB'000)	FY2015 (RMB'000)	Six months ended 30 June	
				2015 (RMB'000)	2016 (RMB'000)
Net cash from (used in) operating activities	22,744	27,764	149,992	(8,536)	(175,961)
Net cash (used in) from investing activities	(1,448)	(299)	260	70	436
Net cash from financing activities	—	—	78,526	—	10,257
Net increase (decrease) in cash and cash equivalents	21,296	27,465	228,778	(8,466)	(165,268)

### KEY FINANCIAL RATIOS

	As of/For the year ended 31 December			As of/ For the six months ended 30 June
	2013	2014	2015	2016
Segment profit margin ( <i>Note 1</i> )				
Art and asset pawn business	90.8%	91.2%	94.4%	84.6%
Art and asset auction business	84.4%	88.1%	91.3%	96.5%
Net profit margin	60.7%	63.1%	58.0%	47.4%
Return on equity ( <i>Note 2</i> )	20.9%	24.8%	23.3%	17.5%
Return on assets ( <i>Note 3</i> )	19.9%	22.6%	17.1%	12.4%
Current ratio	29.3	21.2	4.7	2.7
Gearing ratio ( <i>Note 4</i> )	n/a	n/a	n/a	n/a

#### Notes:

- (1) Segment profit margin is calculated by dividing the segment profit result of the relevant business segment by the respective segment revenue and multiplying the resulting value by 100%.
- (2) Return on equity is calculated by dividing profit for the year (or the annualised profit, for the six months ended 30 June 2016) attributable to owners of the Company by equity attributable to owners of the Company of the respective year/period and multiplying the resulting value by 100%.
- (3) Return on assets is calculated by dividing profit for the year (or the annualised profit, for the six months ended 30 June 2016) by total assets of the respective year/period and multiplying the resulting value by 100%.
- (4) Gearing ratio is calculated by dividing total interest-bearing borrowings by total equity and multiplying the resulting value by 100%.

### INTERNAL CONTROL AND RISK MANAGEMENT

Both of our art and asset pawn and art and asset auction businesses are subject to different levels of operating risks. We believe the core of our success relates greatly to our sound and effective internal control and risk management systems. We have established two separate sets of internal control and risk management rules regulating the daily operations of our art and asset pawn and art and asset auction businesses, please see “Business — Internal Control and Risk Management” beginning on page 214 for details. For details of our current assets and liabilities as of 31 August 2016, please see “Financial Information — Liquidity and Capital Resources — Net Current Assets” on page 331. For details of our liquidity position and liquidity risk management, please see “Business — Internal Control and Risk Management — Internal Control and Risk Management Policy for our Art and Asset Pawn Business — Liquidity risk management” on page 226.

## SUMMARY

### OUR SHAREHOLDING STRUCTURE

Our Company was incorporated in the Cayman Islands as a limited liability company on 2 November 2015. Immediately after the Reorganisation but before completion of the Global Offering, the issued share capital of our Company was owned as to 83% and 17% by Intelligenes Inv and Mr. Lai, our pre-IPO investor respectively. The issued share capital of Intelligenes Inv is in turn owned as to approximately 69.5% by a group of Controlling Shareholders acting in concert comprising Mr. ZJ Fan, Ms. QZ Fan, Mr. YJ Fan, Ms. Wu and Ms. Xu (through Mauve Jade Inv and Golden Sand Inv) and 30.5% by Mr. JS Wang (through Yubo Inv). Please see “History, Reorganisation and Development” beginning on page 120 for details.

We enter into certain transactions (including the Contractual Arrangements) with Mr. ZJ Fan and some of our connected persons, in the ordinary course of business and such transactions are expected to continue after the Listing Date. Please see “Connected Transactions and Notifiable Transactions” beginning on page 267 for details.

### CONTRACTUAL ARRANGEMENTS

Our Group is principally engaged in art and asset pawn business and art and asset auction business through our PRC Operating Entities in PRC: (i) Hexin Pawn is engaged in the provision of pawn loan services secured by artworks and assets as collaterals which are regulated under the Pawning Measures; and (ii) Hexin Auction (in addition to its traditional on-site art auctions) is engaged in online art auction operation. For the operation of the pawn loan business of Hexin Pawn, there is no legal basis to process the application for foreign investment in any pawn loan entities established in PRC. The operation of online art auction operation of Hexin Auction is subject to foreign investment prohibition in PRC, as the online auction operations (a) are considered as operational internet cultural activities, which falls within the “prohibited” category under the Foreign Investment Catalogue; and (b) involve value-added telecommunication businesses which falls within the “restricted” category under the Foreign Investment Catalogue, restricting foreign-invested enterprises with foreign equity ratios of 50% or above from engaging in certain types of such business activities. For the above reasons (the details of which are set out in “Contractual Arrangements — Background of the Contractual Arrangements” of the prospectus), neither Hexin Pawn nor Hexin Auction may become direct or indirect equity-owned subsidiaries of the Company. To enable the Group to maintain an effective control over the financial and operational policies of such companies (i.e. the PRC Operating Entities) so that the equity-owned subsidiaries of the Company are entitled to the economic benefits derived from the operations of the PRC Operating Entities, the Structured Contracts were entered into.

The Contractual Arrangements, comprising HP Structured Contracts and HA Structured Contracts, effectively transfer the economic benefits of our PRC Operating Entities and pass the risks associated therewith to our Group, which is illustrated by a simplified flowchart with explanation as set out in “Contractual Arrangements — Operation of the Contractual Arrangements” on pages 153 to 154 of this prospectus. To ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements, our Group has adopted the measures as set out in “Contractual Arrangements — Compliance with the Structured Contracts” beginning on page 173.



## SUMMARY

When the Contractual Arrangements are allowed to be and in fact unwound, under the FITE Administrative Rules, if we were to engage in the operation of Online Auction Operations (which involve the provision of the Restricted VATELECOM Business Activities) via an equity-owned subsidiary, as a foreign-invested entity, we must satisfy the Qualification Requirements. With the aim of fulfilling the Qualification Requirements, we have been taking steps to implement our plan (“**QR Plan**”) through Reliance Art HK, our wholly-owned subsidiary incorporated in Hong Kong to construct an overseas website targeting potential clients and other users in Hong Kong, Taiwan and other designated countries, and in late-June 2016, our overseas website has commenced its full operation and function. Our overseas website currently provides users with an introduction of our Group’s business, information of artists and artworks and global art industry news, and links to re-direct the users to our domestic website; it also provides online marketing and promotion services for 3 artwork artists. Under our business strategies and plans, our overseas website will in the long run be developed into an internet platform to support the future art auctions to be held in Hong Kong. We estimate that a total amount of about RMB1.8 million will be used for implementing the QR Plan. For details of the Qualification Requirements and the QR Plan, please see “Regulatory Overview — Regulation relating to Telecommunication Services and Foreign Investment Restrictions — Laws and Regulations in Relation to Foreign Investments in the Value-added Telecommunication Industry” beginning on page 109 and “Contractual Arrangements — Background of the Contractual Arrangements — Reasons for the Use of Contractual Arrangements — Online auction operation — VATELECOM Permit and value-added telecommunications businesses” beginning on page 144.

On 19 January 2015, MOFCOM published the Draft Foreign Investment Law. The Draft Foreign Investment Law, if enacted as proposed, may materially impact the entire legal framework regulating foreign investments in China. Under the Draft Foreign Investment Law, companies with “variable interest entity” (“**VIE**”) structure (including the Contractual Arrangements adopted by our Group) may be deemed as foreign invested entities (“**FIE**”) if they fail to pass the “actual control” test (purported to be introduced under the Draft Foreign Investment Law), which is used to determine whether a company is considered as a FIE or a PRC domestic entity). The FIEs are restricted or prohibited from investment in certain industries listed on the negative list unless permission (if applicable) from the competent authority in the PRC is obtained. The Explanatory Notes do not provide a clear direction in dealing with VIE structures which are in place before the Draft Foreign Investment Law becoming effective, which is still pending for further study as of the Latest Practicable Date. For details of the Draft Foreign Investment Law and the Explanatory Notes, their possible implications on our Group and measures taken by us to ensure their compliance, please see “Contractual Arrangements — Development in the PRC Legislation on Foreign Investment” beginning on page 168 for details. However, as the Draft Foreign Investment Law is a draft without any legal effect, our measures to ensure compliance with the Draft Foreign Investment Law may not be effective. Please see “Risk Factors — Risks Relating to the Contractual Arrangements — The Draft Foreign Investment Law may have significant impact on our businesses which are controlled by foreign invested enterprises primarily through Contractual Arrangements and measures in ensuring compliance with the Draft Foreign Investment Law may not be effective” beginning on page 47 for details.

The PRC government may determine that the Contractual Arrangements are not in compliance with applicable PRC laws, rules, regulations or policies and may take actions against us or our operation, which may adversely affect our business, financial condition or results of operations. Please see “Contractual Arrangements” starting on page 139 in this prospectus for more information. We strongly urge you to read the section headed “Risk Factors” in its entirety, including “Risk Factors — Risks Relating to the Contractual Arrangements” starting on page 47 for details of the risks relating to the Contractual Arrangements.

## SUMMARY

### RECENT DEVELOPMENTS

Despite worries of China's economic slowdown hitting the demand for luxury goods and artworks in China, artworks are still serving as an alternative asset for China's rich people as they may wish to avoid the volatile domestic stock market. As for the first half of 2016, several major auction houses have completed the first round of their respective 2016 spring auctions and have achieved different level of growth of aggregate hammer price and volume as compared with the results of the 2015 spring auctions. Over 80 art auction houses in PRC have held over 500 auction sessions, achieving a total turnover of approximately RMB24.4 billion, which represented a slight increase of 1.7% from 2015 spring auctions. The overall Chinese art auction industry is still undergoing adjustments with initial signs of recovery. For our art and asset auction segment, we launched our online auction in 2016 and three online auctions were held in January, April and September 2016 respectively. The first two online auction which were held in the first half of 2016 contributed in aggregate approximately RMB3.7 million to our revenue. Our first Spring Auction was held in late-June 2016 and contributed to approximately RMB31.0 million of our total revenue. In the 2016 Spring Auction, 425 auction lots were offered, out of which 315 were sold (with a transaction rate of 74.1%) at an aggregate hammer price of approximately RMB164.6 million. In the online auction held in September 2016, 135 auction lots were offered, out of which 101 were sold (with a transaction rate of 74.8%) at an aggregate hammer price of about RMB27.2 million.

The Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (關於全面推開營業稅改徵增值稅試點的通知) promulgated by the Ministry of Finance ("MOF") and the SAT on 23 March 2016 and became effective on 1 May 2016, following the policy implemented since May 2016 of applying the value-add tax ("VAT") in lieu of business tax, the tax rate of the value-added tax of 6% (which is higher than the business tax rate) has become applicable to our Group's business. However, if we can apply the VAT input for the deduction in tax expenses based on the VAT invoices and prescribed documents, the overall tax payable may decrease.

Our Directors have confirmed that as of the date of the prospectus, there has been no material adverse change in our financial or trading position or prospects since 30 June 2016 and there is no event since 30 June 2016 that would materially affect the information shown in the Accountant's Report set forth in Appendix I to this prospectus.

### USE OF PROCEEDS

We estimate that the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK\$0.675 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$219.1 million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering and assuming the Over-allotment Option is not exercised.

We intend to use the net proceeds of the Global Offering for the following purposes:

- approximately 50%, or HK\$109.6 million, will be used to increase Hexin Pawn's registered capital;
- approximately 20%, or HK\$43.8 million, will be used for strengthening our online auction platform and developing our online loan financing platform;

## SUMMARY

- approximately 20%, or HK\$43.8 million, will be used for the establishment of new loan offices in other part of China and new auction branches or subsidiaries in Beijing, Shanghai and Hong Kong;
- approximately 10%, or HK\$21.9 million, will be used for funding our general operations.

The above allocation of the proceeds will be adjusted on a pro-rata basis if the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price range. For more details on the use of the proceeds of the Global Offering, please see “Future Plans and Use of Proceeds” on page 341 of this prospectus. For additional detail with regard to certain risks relating to our plan to use the proceeds from the Global Offering, please see “Risk Factors — Risks Relating to our Overall Business and Industry — Our business expansion plans and development strategy may not be successful” on page 35 and “Risk Factors — Risks Relating to the Contractual Arrangements — If we were required to obtain the prior approval of MOFCOM for or in connection with our corporate restructuring, our failure to do so may have a material adverse effect on our business” on page 51 of this prospectus.

### DIVIDEND

No dividend has been paid or declared by our Group during the Track Record Period. As of the Latest Practicable Date, our Company did not have any policy for any prescribed percentage of our after-tax profit to be declared as dividend. For further details, please see “Financial Information — Dividend” on page 337 of this prospectus.

### LISTING EXPENSES

We have incurred professional and other fees with respect to the Listing. In accordance with the relevant accounting standards, listing related fees that are directly attributable to issuance of new Shares are recorded as prepaid expenses, which will be deducted from equity upon the Listing. The remaining listing related fees are charged to statements of profit or loss and other comprehensive income. We incurred approximately RMB22.5 million of listing expenses during the Track Record Period, among which RMB5.3 million was recorded as deferred listing costs and RMB17.2 million was recorded as expenses. We expect to incur approximately an additional RMB21.8 million in listing expenses after the Track Record Period, of which approximately RMB11.5 million will be recorded as expenses in the consolidated statements of profit or loss and other comprehensive income for the year ending 31 December 2016 and the remaining will be capitalised after Listing.

### OFFERING STATISTICS

Offer size	: Initially 25.0% of the enlarged issued share capital of our Company (subject to the Over-Allotment Option)
Offering structure	: initially 10.0% for the Hong Kong Public Offering (subject to adjustment) and 90.0% for the International Placing (subject to adjustment and the Over-Allotment Option)
Over-allotment Option	: Up to 15.0% of the number of Offer Shares initially available under the Global Offering
Offer Price per Share	: HK\$0.60 to HK\$0.75 per Offer Share

## SUMMARY

	<b>Based on the maximum indicative Offer Price of HK\$0.75 per Offer Share</b>	<b>Based on the minimum indicative Offer Price of HK\$0.60 per Offer Share</b>
Our Company's market capitalization upon completion of the Global Offering ( <i>Note 2</i> )	HK\$1,200 million	HK\$960 million
Unaudited pro forma adjusted net tangible asset per Share ( <i>Note 3</i> )	HK\$0.40	HK\$0.36

*Notes:*

- (1) All statistics in the table are based on the assumption that the Over-allotment Option is not exercised and none of the options which may be granted under the Share Option Scheme is exercised.
- (2) The calculation of market capitalization is based on 1,600,000,000 Shares expected to be issued immediately upon completion of the Global Offering.
- (3) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II — “Unaudited Pro Forma Financial Information” to this prospectus.

### RISK FACTORS

There are certain risks and uncertainties relating to an investment in our Shares. These risks include: (1) risks relating to our business and industry, (2) risks relating to our art and asset pawn segment, (3) risks relating to our art and asset auction segment and (4) risks relating to the Contractual Arrangements.

We believe the most significant risks involved in our business include:

- our business is subject to risks relating to the authentication and appraisal of artworks;
- we are exposed to concentration risks to certain types of artworks in our businesses, such as Zisha Artworks and Paintings and Calligraphies;
- unfavourable economic conditions of China may have adverse effect on our art pawn loan and art auction businesses;
- we may not be able to control default risk of our pawn loans and maintain a low impaired loan ratio;
- the value of collateral may decrease to a level below the outstanding amount of the loans, thus becoming insufficient to cover our pawn loans in the event of default of loan repayment; and
- we are not able to predict the future trend of art auction market, the availability and popularity of artworks, which may materially and adversely affect our auction operations, thus the financial results of operations.

The Draft Foreign Investment Law may have significant impact on our businesses which are controlled by foreign invested enterprises primarily through Contractual Arrangements and measures in ensuring compliance with the Draft Foreign Investment Law may not be effective.

Please see “Risk Factors” beginning on page 33 for details.

## DEFINITIONS

*Unless the context otherwise requires, the following expressions have the following meanings in this prospectus. Certain other terms are explained in the section headed “Glossary” of this prospectus.*

“2014 Investment Agreement”	the investment agreement dated 8 October 2014 entered into by Mr. ZJ Fan and Mr. Lai in respect of the transfer of shares of the holding company of our Group after Reorganisation referred to in “History, Reorganisation and Development — Change in registered capital and/or equity-holders of our Group — Change in issued capital and/or owners of our Company — Pre-IPO Investment” in this prospectus
“2015 MIIT Notice”	the Notice on Removing the Restrictions on Foreign Equity Ratios in Online Data Processing and Transaction Processing (Operating E-commerce) Business (關於放開在線數據處理與交易處理業務 (經營類電子商務) 外資股比限制的通告) issued by the MIIT on 19 June 2015, as amended, supplemented or otherwise modified from time to time
“act in concert” or “acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“Administrative Licensing Law”	Administrative Licensing Law of PRC (《中華人民共和國行政許可法》) promulgated by the Standing Committee of the NPC on 27 August 2003, as amended, supplemented or otherwise modified from time to time
“AIC”	Administration of Industry and Commerce (工商行政管理機關) in PRC or, where the context so requires, SAIC or its delegated authority at provincial, municipal or other local level
“AICPA”	American Institute of Certified Public Accountants
“Application Form(s)”	<b>WHITE, YELLOW</b> and <b>GREEN</b> application form(s), or where the context so requires, any one of them, relating to the Hong Kong Public Offering
“Approval Certificate for Auction Operation”	Approval Certificate for Auction Operation (拍賣經營批准證書)
“Articles” or “Articles of Association”	the articles of association of our Company (as amended from time to time), a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules

## DEFINITIONS

“Auction Law”	Auction Law of PRC (中華人民共和國拍賣法) issued by Standing Committee of the NPC on 5 July 1996 and amended on 28 August 2004 and 24 April 2015
“Auction Measures”	Measures for the Administration of Auctions (拍賣管理辦法) issued by the MOFCOM on 2 December 2004 and amended on 28 October 2015
“Board” or “Board of Directors”	the board of directors of our Company
“business day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate, a method of assessing the average annual growth of a value over time
“Capitalisation Issue”	the issue of 1,199,990,000 Shares upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in paragraph 1.3 under Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	the People’s Republic of China, which excludes for the purpose of this prospectus, Hong Kong, Macau and Taiwan
“China Association of Auctioneers”	China Association of Auctioneers (中國拍賣行業協會)
“close associates”	has the meaning ascribed thereto under the Listing Rules

## DEFINITIONS

“commerce authority”	commerce department (商務部門) in PRC or, where the context so requires, MOFCOM or its delegated authority at provincial, municipal or other local level
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong, which has become effective from 3 March 2014), as amended, supplemented or otherwise modified from time to time
“Company”	China Art Financial Holdings Limited (中國藝術金融控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 2 November 2015
“Connected Person(s)” or “connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Contractual Arrangements”	arrangements and transactions contemplated under the Structured Contracts, details of which are described in the section headed “Contractual Arrangements” in this prospectus
“Controlling Shareholder(s)”	has the meaning ascribed thereto in the Listing Rules and, unless the context requires otherwise, collectively refers to Intelligenesis Inv, Golden Sand Inv, Mauve Jade Inv, Mr. ZJ Fan, Ms. QZ Fan, Mr. YJ Fan, Ms. Wu, Ms. Xu, Yubo Inv and Mr. JS Wang
“Core Connected Person(s)” or “core connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“COWUMPO”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong, which has become effective from 3 March 2014), as amended, supplemented or otherwise modified from time to time
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Deed of Indemnity”	the deed of indemnity dated 14 October 2016 and entered into between the Controlling Shareholders in favour of our Company and its subsidiaries in respect of taxation and other indemnities referred to in paragraph 4.1 under Appendix IV to this prospectus



## DEFINITIONS

“Deed of Non-competition”	the deed of non-competition and other undertakings dated 14 October 2016 and made by our Controlling Shareholders in favour of our Company, which contains certain non-compete undertakings and other undertakings given in favour of our Company
“Director(s)”	the director(s) of our Company
“Draft Foreign Investment Law”	a discussion draft of the proposed Draft Foreign Investment Law (《中華人民共和國外國投資法草案徵求意見稿》) issued by MOFCOM on 19 January 2015
“Explanatory Notes”	the accompanying explanatory notes to the Draft Foreign Investment Law
“FITE Administrative Rules”	Administrative Rules for Foreign Investments in Telecommunication Enterprises (外商投資電信企業管理規定) promulgated by the State Council on 11 December 2001 and amended on 10 September 2008 and 6 February 2016
“Foreign Investment Catalogue”	Catalogue for the Guidance of Foreign Investment (《外商投資產業指導目錄(2015)》) promulgated jointly by MOFCOM and the NDRC on 10 March 2015, as amended, supplemented or otherwise modified from time to time
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. (弗若斯特沙利文(北京)諮詢有限公司上海分公司), a global market research and consulting company, which is an Independent Third Party
“FY2013”, “FY2014” and “FY2015”	financial years ended 31 December 2013, 2014 and 2015, respectively
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Placing
“Golden Sand Inv”	Golden Sand Investment Company Limited (金砂投資有限公司), a company incorporated under the laws of BVI on 15 March 2016 with limited liability, which was owned as to 74.1% by Mauve Jade Inv and the remaining 25.9% by various parties acting in concert with Mr. ZJ Fan as of the Latest Practicable Date, and is a Controlling Shareholder
“GREEN Application Form(s)”	the application form(s) to be completed by White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited



## DEFINITIONS

“Group”, “our Group”, “we” or “us”	our Company, its subsidiaries together with Hexin Pawn and Hexin Auction (the financial results of which have been consolidated and accounted for as the subsidiaries of our Company by virtue of the Contractual Arrangements) or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the entities which carried on the business of the present Group at the relevant time
“HA Equity-holders”	collectively Mr. ZJ Fan, Ms. Wu and Ms. Xu
“Hexin Auction”	Jiangsu Hexin Auction Company Limited (江蘇和信拍賣有限公司), a limited liability company established under laws of PRC on 25 May 2007, the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the Contractual Arrangements
“Hexin Pawn”	Jiangsu Hexin Pawn Company Limited (江蘇和信典當有限公司, formerly named Yixing Hexin Pawn Company Limited (宜興市和信典當有限公司)), a limited liability company established under the laws of PRC on 13 May 2004, the financial results of which have been consolidated and accounted for as a subsidiary of our Company by virtue of the Contractual Arrangements
“HK\$” or “Hong Kong dollar(s)” or “HKD” or “cents”	Hong Kong dollars and cents respectively, the lawful currency for the time being of Hong Kong
“HKFRS(s)”	Hong Kong Financial Reporting Standard(s)
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of PRC
“Hong Kong Offer Shares”	the 40 million Shares being initially offered for subscription in the Hong Kong Public Offering, subject to adjustment as described in “Structure of the Global Offering — Hong Kong Public Offering” in this prospectus
“Hong Kong Public Offering”	the conditional offer of the Hong Kong Offer Shares by our Company for subscription by members of the public in Hong Kong for cash at the Offer Price, payable in full on application, on and subject to the terms and conditions stated herein and in the Application Forms

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“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 26 October 2016, relating to the Hong Kong Public Offering and entered into by our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters
“HP Equity-holders”	collectively Mr. ZJ Fan, Wuxi Culture, Ms. QZ Fan, Zisha Hotel, Mr. YJ Fan and Ms. Wu
“IC Interim Provisions”	Interim Provisions on the Administration of Internet Culture (《互聯網文化管理暫行規定(2011修訂)》) promulgated by the Ministry of Culture on 17 February 2011, as amended, supplemented or otherwise modified from time to time
“Independent Third Party(ies)”	any individual(s) or entity(ies) who, as far as our Directors are aware, is/are not connected persons of our Company within the meaning ascribed to it in the Listing Rules
“INED(s)”	independent non-executive director(s)
“Intelligensis Inv”	Intelligensis Investment Co., Ltd (漢信投資有限公司), a company incorporated under the laws of BVI on 10 September 2015 with limited liability, which was owned as to 69.5% and 30.5% by Golden Sand Inv and Yubo Inv respectively as of the Latest Practicable Date, and is a Controlling Shareholder
“International Placing”	the conditional placing of the International Placing Shares by the International Underwriters on behalf of our Company for cash at the Offer Price, with professional, institutional and other investors as described in the section headed “Structure of the Global Offering” in this prospectus
“International Placing Shares”	the 360 million Shares being initially offered in the International Placing together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option, subject to adjustment as described in “Structure of the Global Offering — International Placing” in this prospectus
“International Underwriters”	the underwriters of the International Placing who are expected to enter into the International Underwriting Agreement to underwrite the International Placing Shares on or around the Price Determination Date

## DEFINITIONS

“International Underwriting Agreement”	the underwriting agreement relating to the International Placing, which is expected to be entered into among our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Global Coordinator and the International Underwriters
“Internet Measures”	The Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) promulgated by the State Council on 25 September 2000 and amended on 8 January 2011
“Issuing Mandate”	the general unconditional mandate granted to our Directors by our Shareholders in relation to the issue of new Shares, further information on which is set forth in paragraph 1.3 under Appendix IV to this prospectus
“Jiangsu Artwork Appraisal Center”	Jiangsu Provincial Artwork Appraisal Center (江蘇省藝術品鑒定評估中心), a valuer for our artworks, being an Independent Third Party
“Jiangsu Commerce Department”	the Department of Commerce of Jiangsu Province (江蘇省商務廳)
“Jiangsu Communications Administration”	Jiangsu Communications Administration (江蘇省通信管理局)
“Jiangsu Culture Department”	Jiangsu Provincial Department of Culture (江蘇省文化廳)
“Latest Practicable Date”	17 October 2016, being the latest practicable date for the purpose of ascertaining certain information in this prospectus prior to its publication
“Listing”	the listing of our Shares on the Main Board of the Stock Exchange
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date on which dealings in the Shares first commence on the Main Board of the Stock Exchange
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Mauve Jade Inv”	Mauve Jade Investment Limited (紫玉投資有限公司), a company incorporated under the laws of BVI on 15 February 2016 with limited liability, which was owned as to 67.2% and 32.8% by Mr. ZJ Fan and Ms. QZ Fan respectively as of the Latest Practicable Date, and is a Controlling Shareholder

## DEFINITIONS

“M&A Rules”	Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) promulgated on 8 August 2006 by six PRC regulatory agencies, including the MOFCOM and the CSRC and as amended on 22 June 2009 by MOFCOM, as amended, supplemented or otherwise modified from time to time
“Macau”	the Macau Special Administrative Region of PRC
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company (as amended from time to time), a summary of which is set out in Appendix III to this prospectus
“MIIT”	the Ministry of Industry and Information Technology of PRC, or where the context so requires, its counterparts at the local levels
“Ministry of Culture”	the Ministry of Culture of PRC (中華人民共和國文化部), or where the context so requires, its counterparts at the local levels
“MOFCOM”	the Ministry of Commerce of PRC (中華人民共和國商務部), or where the context so requires, its counterparts at the local levels
“Mr. JS Wang”	Mr. Wang Jiansong (王建松), one of our Controlling Shareholders and a director of Hexin Pawn
“Mr. Lai”	Mr. Lai Chau Yung (賴州榕), a Substantial Shareholder of our Company holding 17% of the total issued share capital of our Company as of the Latest Practicable Date
“Mr. YJ Fan”	Mr. Fan Yajun (范亞軍), a registered equity-holder and a director of Hexin Pawn. He is a former Director and a member of the group of Controlling Shareholders acting in concert with Mr. ZJ Fan
“Mr. ZJ Fan”	Mr. Fan Zhijun (范志軍) (formerly known as Fan Zhijun (范志君)), one of our Controlling Shareholders, an executive Director and a director or the sole director of each member of our Group, our Chief Executive Officer and the Chairman of the Board, who is the spouse of Mrs. Fan and the father of Ms. QZ Fan. Mr. ZJ Fan is also a registered equity-holder of each of Hexin Pawn and Hexin Auction
“Mr. ZX Fan”	Mr. Fan Zhixin (范志新), one of our senior management members and a brother of Mr. ZJ Fan
“Mrs. Fan”	Ms. Zhang Xiaoxing (張曉星), the spouse of Mr. ZJ Fan and the mother of Ms. QZ Fan

## DEFINITIONS

“Ms. QZ Fan”	Ms. Fan Qinzhi (范沁芝) (formerly known as Fan Xingyi (范星憶)), a registered equity-holder and a director of Hexin Pawn, who is the daughter of Mr. ZJ Fan and Mrs. Fan, and is a member of the group of Controlling Shareholders acting in concert with Mr. ZJ Fan
“Ms. Wu”	Ms. Wu Jian (吳健), a registered equity-holder of each of Hexin Auction and Hexin Pawn. She is a director of Hexin Pawn and a member of the group of Controlling Shareholders acting in concert with Mr. ZJ Fan
“Ms. Xu”	Ms. Xu Min (徐敏), a registered equity-holder of Hexin Auction and a member of the group of Controlling Shareholders acting in concert with Mr. ZJ Fan
“NCB Permit”	Network Cultural Business Permit (網絡文化經營許可證)
“NDRC”	National Development and Reform Commission of PRC (中華人民共和國國家發展和改革委員會)
“NPC”	the National People’s Congress (全國人民代表大會)
“Offer Price”	the final price per Offer Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee) at which the Hong Kong Offer Shares are to be subscribed under the Hong Kong Public Offering and the International Placing Shares are to be offered under the International Placing
“Offer Share(s)”	the Hong Kong Offer Shares and the International Placing Shares
“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) under the International Underwriting Agreement, pursuant to which our Company may be required to allot and issue up to an aggregate of 60 million Shares, representing approximately 15% of the number of Offer Shares initially available under the Global Offering at the Offer Price as further discussed in the section headed “Structure of the Global Offering” in this prospectus
“Pawn Operation Permit”	Pawn Operation Permit (典當經營許可證)
“Pawning Industry Provisions”	the Provisions for Supervision of Pawning Industry (典當行業監管規定) promulgated by MOFCOM on 5 December 2012, as amended, supplemented or otherwise modified from time to time

## DEFINITIONS

“Pawning Measures”	Measures for the Administration of Pawning (《典當管理辦法》) promulgated jointly by MOFCOM and the Ministry of Public Security (中華人民共和國公安部) on 25 February 2005 and becoming effective on 1 April 2005, as amended, supplemented or otherwise modified from time to time
“PBOC”	the People’s Bank of China (中國人民銀行)
“PRC Legal Advisers”	Jingtian & Gongcheng, the legal advisers to our Company as to PRC law
“PRC Operating Entities”	collectively Hexin Pawn and Hexin Auction
“Price Determination Agreement”	the agreement to be entered into between our Company and the Sole Global Coordinator on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or about 2 November 2016, on which the Offer Price is expected to be fixed and, in any event, no later than 4 November 2016
“Reliance Art BVI”	Reliance Art Holdings Limited (信藝控股有限公司), a company incorporated under the laws of BVI on 3 December 2015 with limited liability and a direct wholly-owned subsidiary of our Company as of the Latest Practicable Date
“Reliance Art HK”	Co- Reliance Art Financial Company Limited (和信藝術金融有限公司), a company incorporated under the laws of Hong Kong on 6 January 2016 with limited liability and an indirect wholly-owned subsidiary of our Company as of the Latest Practicable Date
“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing, details of which are set out in “History, Reorganisation and Development — Reorganisation” in this prospectus
“Repurchase Mandate”	the general unconditional mandate granted to our Directors by our Shareholders in relation to the repurchase of our Shares, further information on which is set forth in paragraph 1.3 under Appendix IV to this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency for the time being of PRC
“SAFE”	the State Administration of Foreign Exchange of PRC (中華人民共和國國家外匯管理局), a PRC governmental agency responsible for matters relating to foreign exchange administration, including local branches, when applicable

## DEFINITIONS

“SAIC”	State Administration of Industry and Commerce of PRC (中華人民共和國國家工商行政管理總局)
“SAT”	State Administration of Taxation of PRC (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of Share(s)
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 14 October 2016, the principal terms of which are summarised in paragraph 3.5 under Appendix IV to this prospectus
“Sole Global Coordinator”, “Sole Bookrunner” or “Sole Lead Manager”	South China Securities Limited, a corporation licensed under the SFO and permitted to carry on type 1 (Dealing in Securities) regulated activity, acting as the sole global coordinator, sole bookrunner or sole lead manager in the Global Offering
“Sole Sponsor”	South China Capital Limited, a corporation licensed under the SFO and permitted to carry on type 6 (Advising on Corporate Finance) regulated activity, acting as the sole sponsor to our Company’s application for the Listing
“Special Industry Permit”	Special Industry Permit (特種行業許可證)
“sq.m.” or “m <sup>2</sup> ”	square metre(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Structured Contracts”	separate sets of agreements constituting the Contractual Arrangements, the first set being entered into between WFOE-Pawn, Hexin Pawn and HP Equity-holders (“ <b>HP Structured Contracts</b> ”) and the other set being entered into between WFOE-Auction, Hexin Auction and HA Equity-holders (“ <b>HA Structured Contracts</b> ”)
“Substantial Shareholder(s)” or “substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules

## DEFINITIONS

“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period which comprises FY2013, FY2014 and FY2015 and the six months ended 30 June 2016 and, unless stated otherwise, in such sequence
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America
“US\$” or “U.S. dollar(s)” or “USD”	United States dollars, the lawful currency for the time being of the United States
“VATelecom Permit”	Value-added Telecommunications Service Operating Permit of PRC (中華人民共和國增值電信業務經營許可證)
“Wang’s Family Members”	Mr. Wang Junqian (王俊鈞) (the son of Mr. JS Wang) and Ms. Wang Hui (王慧) (the daughter of Mr. JS Wang), and both of them are connected persons of our Company
“WFOEs”	collectively, WFOE-Pawn and WFOE-Auction, and “WFOE” shall (as required by the context) refer to either of them
“WFOE-Auction” or “Yixing Ziyu”	Yixing Zi Yu Information Technology Service Co., Ltd. (宜興市紫玉信息技術服務有限公司), a wholly foreign-owned enterprise established in PRC on 10 March 2016 and an indirect wholly-owned subsidiary of our Company as of the Latest Practicable Date
“WFOE-Pawn” or “Yixing Hanxin”	Yixing Han Xin Information Technology Service Co., Ltd. (宜興市漢信信息技術服務有限公司), a wholly foreign-owned enterprise established in PRC on 9 March 2016 and an indirect wholly-owned subsidiary of our Company as of the Latest Practicable Date
“White Form eIPO”	the application for Offer Shares to be issued in the applicant’s own name, submitted online through the designated website of the White Form eIPO Service Provider, <a href="http://www.eipo.com.hk">www.eipo.com.hk</a>
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Wuxi Courts”	some of the People’s Courts of various level in Wuxi city



## DEFINITIONS

“Wuxi Culture”	Wuxi Hexin Culture and Art Company Limited (無錫和信文化藝術有限公司), a company established in PRC on 19 June 2006, which was solely owned by Mr. ZJ Fan as of the Latest Practicable Date, and it is a connected person of our Company
“Yixing AIC”	Yixing Municipal Administration for Industry and Commerce of the Wuxi Municipal (無錫市宜興工商行政管理局)
“Yixing Bidding Center”	Yixing Bidding Center (宜興市招投標中心), a direct business unit set up by the Yixing municipal government, which functions include managing and organising various type of transaction activities in Yixing city including bidding of engineering construction projects, government procurement, property right transfer of State-owned collective assets, an an Independent Third Party
“Yixing Culture Bureau”	Yixing Bureau of Culture, Radio, TV, Press and Publication (宜興市文化廣電新聞出版局)
“Yixing Lanshan Property”	Yixing City Property Development Company Limited (宜興市蘭山房地產開發有限公司), a company established in PRC on 4 May 1993, which is owned as to 75% and 25% by Mr. Wang Yunsong (王雲松) (the brother of Mr. JS Wang) and his spouse, and it is a connected person of our Company
“Yixing Market Supervision Department”	Department of Market Supervision of Yixing City (宜興市市場監督管理局), formed in 2014 by merging Yixing AIC and other PRC governmental authorities
“Yubo Inv”	Yubo Investment Co. Ltd (宇博投資有限公司), a company incorporated under the laws of BVI on 1 March 2016 with limited liability, which was solely owned by Mr. JS Wang as of the Latest Practicable Date, and is a Controlling Shareholder
“Zisha Hotel”	Yixing Taodu Zisha Hotel Company Limited (宜興陶都紫砂賓館有限公司), a company established in PRC on 26 March 2010, which was solely and beneficially owned by Mr. JS Wang as of the Latest Practicable Date, and a registered equity-holder of Hexin Pawn, it is also a connected person of our Company
“%”	per cent.

If there is any inconsistency between the Chinese names of entities or enterprises established in PRC and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese is for identification purpose only.

## GLOSSARY

*This glossary contains definitions of certain terms used in this prospectus in connection with our Group and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.*

“aggregate hammer price”	total hammer price for all or some auction lots in an auction, without calculating the buyer’s commission
“appraised loan-to-value ratio”	the outstanding principal loan amount as of the calculation date divided by the appraised value of the underlying collateral and multiplied by 100%
“Average initial loan term”	the average maturity date of a new loan when the loan was first granted in the indicated year/period excluding all renewal terms
“Average loan period granted/renewed”	the average number of days elapsed between (i) the date a new loan was first granted and (ii) the date on which such loan was renewed (which was treated as a separate loan) or repaid in full. It is calculated by dividing the loan repayment period of such loan by the sum of (a) one (representing the initial grant of such loan) and (b) the total number of renewals of such loan during the Track Record Period.
“Average loan repayment period”	the average number of days elapsed between the date a loan was first granted in the indicated year/period and the date on which the loan was repaid in full
“art and asset auction”	auction operation of our Group, comprising operation of art auctions and asset auctions
“art and asset pawn”	pawn loan services provided by our Group, which are secured by artwork or other asset collaterals and regulated under Pawning Measures
“art auction(s)”	collectively the Autumn Auctions, Spring Auctions and online auctions or any one or more of them
“art auction revenue”	in connection with any concluded auction transaction for artworks, the total amount of buyer’s commission and seller’s commission generated from our art auctions
“art auction rules”	auction rules prescribed by our Group for our art auctions

## GLOSSARY

“art finance”	a set of financial services that use artworks as the underlying financial assets, in personal or institutional financial management and which transform the value of artwork into financial instrument, and art investment (including art auction) and art financing (including art pawn loan) are two dominating activities of art finance
“art pawn loan”	pawn loan services provided by our Group, which are secured by artwork collaterals and regulated under Pawning Measures
“artwork(s)”	including but not limited to Zisha Artworks, Paintings and Calligraphies, Jewel Artworks and other artworks which we accept on consignment for our art auctions and/or as collaterals for our art pawn loan
“artwork bidding agreement”	a bidding agreement we sign with a bidder before our art auction
“artwork interested party(ies)”	including artworks artists, agents, masters, experts, merchants, collectors, art galleries and private museums
“asset auction(s)”	auction(s) of assets other than artworks, which assets generally include real properties, equity interests in enterprises and automobiles
“asset auction revenue”	in connection with any concluded auction transaction for assets (other than artworks), the total amount of buyer’s commission and (if any) seller’s commission generated from our asset auctions
“asset pawn loan”	pawn loan services provided by our Group, which are secured by asset collaterals (excluding artworks) and regulated under Pawning Measures
“auction”	a mode of sale by which bidder(s) or (prospective buyer(s)) compete for the purchase of auction lot(s) by way of increasing bidding price
“auction catalogue”	publication in printed or electronic format designed by us for artworks of different types or categories, which are consigned and accepted for our art auctions, and such publication contains descriptive details and photographs of artworks available for bidding at a particular auction
“auction house”	an entity which organises auctions
“auction listing agreement”	the agreement to establish the auction entrustment relationship which is entered into between us as an auction house and a consignor (or prospective seller) for consignment of an auction lot

## GLOSSARY

“auction lot(s)”	item(s) for sale at auction
“auction reserve price”	the lowest price that a consignor is willing to offer for selling the auction lot, and if during the course of auction, the highest bidding price does not reach or exceed the auction reserve price, the auction fails to conclude
“auctioneer”	host of an auction and who holds a registered practice certificate in order to practise as an auctioneer in an auction organised and held in PRC
“Autumn Auction(s)”	the principal auctions for artworks which we held once each year in or before 2015 and one of the two principal auctions for artworks each year we plan to organise from 2016 onwards. Such auctions were held and are intended to be held at some time between September of a calendar year and February of the following calendar year
“bidding deposit”	deposit payable by a bidder (or prospective buyer) prior to the commencement of an auction in order to enroll and participate in such auction
“buyer’s commission”	commission we charge a buyer for concluded auction sale transaction in our art auctions and assets auctions
“composite administrative fee”	the monthly composite administrative fee we charge the borrower for each loan granted or renewed
“External Artwork Appraisal Experts”	external experts who conduct authentication and/or valuation of artworks for our art auctions or as our loan collaterals. Please refer to “Business — Internal Control and Risk Management — Working team and experts for authentication and valuation of artworks” in this prospectus for their background and qualification
“gross loan amount”	the total outstanding loans amount owing from customers taking into consideration the amount of composite administrative fee accrued on the loan granted as of the dates indicated
“hammer price”	the price ascertained by way of the auctioneer dropping the hammer or in any other reasonable manner with the intention of confirming the winning bid for an auction lot at auction and the sale price. All previous bid offers of the same transaction in the auction will be void
“impaired loan ratio”	the individually assessed impairment allowance as of an indicated date divided by the gross loan amount to customers as of the same date and multiplied by 100%

## GLOSSARY

“Internal Artwork Appraisal Team”	internal team members who conduct authentication and valuation of artworks for our art auctions or as our loan collaterals. Please refer to “Business — Internal Control and Risk Management — Working team and experts for authentication and valuation of artworks” in this prospectus for the background and qualification of the team members
“internet”	the decentralised global network connecting computers worldwide
“IT”	information technology
“Jewel Artworks”	jewel artworks auctioned by our Group which are considered as sculptures and carvings, and/or arts and crafts artworks under the Administrative Measures for the Operation of Artworks (藝術品經營管理辦法)
“judicial asset”	assets consigned by Wuxi Courts to us for our asset auctions
“loan repayment period”	the number of days elapsed between the date on which a new loan is first granted and the date on which the loan (whether renewed or not) is repaid in full, which covers the initial loan term and all subsequent renewal terms (if the relevant loans are renewed upon maturity)
“online auction(s)”	auction(s) of artworks which are held online on a standalone basis and allow bidders to participate in the auction through live bidding on our internet platform
“Paintings and Calligraphies”	Chinese paintings and calligraphies as auction lots in our art auctions or as our art pawn loan collaterals, a majority of which are classified as contemporary fine and decorative paintings and calligraphies which were made after the year 1949
“principal loan amount”	the aggregate loan amount as shown on the pawn tickets being outstanding as of the dates indicated
“seller’s commission”	commission we charge a seller for concluded auction sale transaction in our art auctions and (other than Wuxi Court and Yixing Bidding Center) in our asset auctions
“Spring Auction(s)”	one of the two principal auctions for artworks each year we organise from 2016 onward, the first of which took place in late-June 2016. Such auctions are intended to be held at some time between March and August of each calendar year in the future

## GLOSSARY

“synchronised live and on-site biddings”	bidding channels available at our Spring Auctions and Autumn Auctions since 2015, through which information of the auction lots as well as timely information of the auction transaction (including real-time bidding prices and hammer prices, whether through the live or on-site bidding channels) would be disseminated through the internet platform. Based on such information available online, live bidders would be able to place live biddings through the internet platform, such live biddings are conveyed back to the on-site auction to facilitate synchronised live and on-site biddings. The winning bid is confirmed in consideration of all live and on-site biddings, which may be placed by a live or on-line bidder
“WeChat”	WeChat, also known as Weixin (微信) which is a mobile text and voice messaging communication service developed by Tencent in China. It provides multimedia communication with text messaging, location sharing and contact information exchange
“Zisha Artworks”	artworks which major raw material is Zisha clay and with respect to the Zisha Artworks as auction lots in our art auctions or as our art pawn loan collaterals, a majority of which are classified as contemporary Zisha Artworks which were made after the year 1949
“Zisha clay”	clay which is the major raw material for producing Zisha Artworks

## FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words “aim”, “anticipate”, “believe”, “consider”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “predict”, “project”, “propose”, “seek”, “should”, “will”, “would” and similar expressions and the negative thereof, as they relate to our Group or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties faced by our Company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- general political and economic conditions, including those related to PRC;
- changes to regulatory and operating conditions in the industry, in PRC and in the specific markets in which we operate our businesses;
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends;
- future developments, trends and conditions in the industry, in PRC and in the specific markets in which we operate our strategic businesses;
- the actions and developments of our competitors;
- our business and prospects;
- our strategies, plans, objectives and goals;
- our ability to successfully implement our business plans and strategies; and
- our dividend policy.

Subject to the requirements of, the applicable laws or the Listing Rules, we do not intend to update or otherwise revise by way of public announcement the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

In this prospectus, statements of or references to our intentions or those of our Directors are made as of the date of this prospectus. Any such information may change in light of future developments.

## RISK FACTORS

*Potential investors should consider carefully all the information set out in this prospectus and, in particular, should consider and evaluate the following risks associated with an investment in our Company before making any investment decision in relation to our Company.*

### RISKS RELATING TO OUR BUSINESS AND INDUSTRY

#### Risks Relating to our Overall Business and Industry

##### *Our business is subject to risks relating to the authentication and appraisal of artworks*

A majority of the pawn loans we grant are secured by artworks and a majority of our auction lots are high-end Zisha Artworks and Paintings and Calligraphies. We rely on our internal authentication team and external experts to perform authentication and valuation of artworks. The authentication, appraisal and valuation of artworks rely, to a certain extent, on the knowledge and judgment of our experts and management.

The techniques of counterfeiting have been continuously evolving and are becoming increasingly difficult to distinguish counterfeits from the authentic artworks. There is no assurance that during the course of our operations, disputes in relation to the authenticity of specific artworks will not arise. Mistaken or inaccurate authentication and/or valuation of artworks and other loan collateral may lead to erroneous calculation on the amount of loan that we agree to grant, thereby subjecting us to higher credit risk. In particular, we may suffer loss if the collaterals are proven to be counterfeit or if we are not able to recover the full outstanding amount owing to us by disposing of the underlying collateral and from enforcement measures to be taken against the borrower. Furthermore, notwithstanding that we include a disclaimer clause of our liability on the authenticity and quality of the auction lots in the art auction rules and the artwork bidding agreement, we cannot guarantee the effectiveness of such disclaimer clause and if the artwork is proven to be counterfeit, our reputation will be adversely affected.

The occurrence of the above incidents may materially and adversely affect our business, financial condition and results of operations. Furthermore, if we fail to resolve any dispute in relation to the authenticity and value of artworks, such dispute may have a material and adverse effect on our corporate image and reputation.

##### *We are exposed to concentration risks to certain types of artworks in our businesses, such as Zisha Artworks and Paintings and Calligraphies*

Our artwork collateral portfolio and our art auction lots mainly include Zisha Artworks and Paintings and Calligraphies. During the Track Record Period, revenue derived from artworks contributed 86.0%, 92.5%, 99.0% and 99.5% to our total revenue respectively, among which Zisha Artworks accounted for 36.0%, 43.2%, 44.5% and 56.0% and Paintings and Calligraphies accounted for 50.0%, 49.3%, 41.2% and 33.5% to our total revenue for the Track Record Period. During the Track Record Period and in the foreseeable future, the majority of our business operations have been and are expected to be related to or derived from certain types of artworks, such as Zisha Artworks and Paintings and Calligraphies. Further, as we operate in the artwork-related industry under art pawn loan and art auction operations and we focus on Zisha Artworks and Paintings and Calligraphies, any material unfavourable change in the market condition of artworks in particular Zisha Artworks and Paintings and Calligraphies would adversely affect the performance of both of our business segments.



## RISK FACTORS

Future trend and market conditions (including without limitation market value, quality, popularity and availability) of artworks are unpredictable and influenced by factors which are not under our control. Any unfavorable change in the future trend and market condition of such types of artworks could have a material and adverse effect on both of our art pawn loan and art auction businesses, financial condition and results of operations.

### ***Unfavourable economic conditions of China may have adverse effect on our art pawn loan and art auction businesses***

Unfavourable and volatile global economic conditions, in particular those of PRC and Jiangsu province may adversely affect our business. According to statistics of the National Bureau of Statistics of China, the annual growth rate of China's GDP fell from 10.1% in 2013 to 8.3% in 2014, which rate further fell to 6.3% in 2015. The annual growth rate of Jiangsu province's GDP also fell in the last three years generally in line with that of the nation's GDP annual growth rate.

Notwithstanding that artworks are less sensitive to the economic downturn comparing to the luxury goods, a significant economic downturn in China and in particular, Jiangsu province may affect our customers' ability to repay outstanding loan amounts when they fell due. In the circumstances, results of operation of our art pawn loan business may be adversely affected. Our art auction business may also be exposed to risk associated with fluctuation of the economic conditions in China. Although the fundamental situation that China's economic development in the long term may not be changed, as affected by structural and cyclical factors, downward pressure of domestic economy, volatility of the stock market and depreciation of RMB would lead to enhanced uncertainty in the economic situation which may then adversely affect the overall purchasing power and investment pattern on various kinds of goods and products including artworks. A decrease in market demand for artworks may cause a decline in auction transaction value which could result in lower commission income earned by us.

### ***We may fail to develop or maintain our existing client base and other business partners***

We believe that our performance and profitability are affected by our ability to develop and maintain relationships with our clients. As we focus on providing artwork-related services, we believe artwork interested parties (including, for instance, artworks artists, merchants, collectors and art galleries) form our important customer base for both of our art pawn loan and art auction businesses. During the Track Record Period, for our art and asset pawn segment, repeated clients represented approximately 66.3%, 62.1%, 72.5% and 66.4% of the total number of customers of such segment for the same period, respectively; while for our art and asset auction segment, repeated clients represented approximately 38.0%, 34.1%, 38.5% and 50.8% of the total number of customers of such segment for each of the same period, respectively.

In view of significance of the existing client base for both of our business segments, we intend to continue maintaining and further developing our client base through our business network. However, if we are unable to maintain our client relationships or cultivate business relationship with new clients (in particular, those with the artwork interested parties), our art pawn loan business may be adversely affected because a majority of our loan collaterals are artworks; at the same time, the source of artworks for our art auctions may be affected negatively and we may also lose support from our existing clients for our art auctions. This in turn will materially and adversely affect our business and financial performances.

## RISK FACTORS

### *Our business expansion plans and development strategy may not be successful*

Our long-term objective is to become the largest integrated art finance service provider in China. In achieving such objective, we plan, among other strategies, to further develop our art auction business, with more focus on online auction, construct overseas website to expand our offshore online auction operation, to develop and utilise online platform to expand our pawn loan services and to build a one-stop art finance service platform by integrating our art pawn loan and art auction businesses. We intend to utilise proceeds from the Global Offering primarily in the expansion of our business operations. For details, please see the sections headed “Business — Strategies” and “Future Plans and Use of Proceeds”. Our expansion plans, in particular, in connection with the development of online platform to expand our pawn loan services and the expansion of our auction operation overseas involve significant risks and uncertainties, including: technical support for the newly developed online platform for pawn loan services and new legal and regulatory compliance for overseas website construction and auction operation. Further, the intended establishment of one-stop art finance service platform is innovative and relatively new to the market and may not receive market support.

Further, we may incur significant costs in the expansion of our business. Any failure to implement our expansion plans may materially and adversely affect our business prospects.

If we are unable to implement our development strategy and business expansion plans or unable to achieve our goals by such strategy and/or plans, our business, financial performance, prospects and results of operations may be materially and adversely affected.

### *We are exposed to loss for artworks in our possession, which may be subject to damage or theft, and insurance coverage may be difficult to obtain or insufficient*

Collaterals for our art and asset pawn business include artworks and personal properties. Title and pledge documents of real estate and equity interest collaterals are also under our custody. They are usually kept in our strong-room. In addition, under our art auction operation, we usually keep in separate storage facilities those artworks consigned to us for auction.

Pursuant to Pawning Measures, we are liable to indemnify borrowers for damage or loss of collaterals which are under our custody unless the damage or loss is caused by force majeure. Under the auction listing agreement, we may also be liable to indemnify consignor any damage or loss of the consigned artworks which are kept in our store room under such damage or loss is caused by force majeure event.

For our art and asset pawn business, we have formulated specific measures on taking possession, safekeeping and release of loan collaterals and artworks into and out of our strong-rooms. We have also purchased insurance for our artwork collaterals kept in our strong-room at headquarters for a term of one year up to 14 March 2017, which covered an initial aggregate insurance coverage of approximately RMB125 million for Zisha Artworks and Paintings and Calligraphies collaterals, which was increased to approximately RMB435 million with effect from 25 October 2016. The increased insurance coverage amount mainly took into account the aggregate appraised value of approximately RMB435 million of the artwork collaterals (as shown on the pawn tickets) of all loans outstanding as of the Latest Practicable Date. As the number of artwork collaterals kept in our possession fluctuates from time to time depending on the loans outstanding, we may not always have sufficient insurance coverage for our artwork collaterals.

## RISK FACTORS

In the past, we did not encounter any damage or theft for items kept in our store rooms. However, there is no assurance that our security and stock management measures will be sufficient to prevent theft of or damages to artworks, which may subject us to claims and litigation. There is also no assurance that the insurance coverage for our artwork collaterals is sufficient to cover our loss, if any. Starting from 25 October 2016, Hexin Pawn maintained an insurance policy with an aggregate insurance coverage of approximately RMB435 million, and the aggregate appraised value of artwork collaterals (as shown on the pawn tickets) in our possession as of the Latest Practicable Date was approximately RMB435 million. However, as the number of artwork collaterals kept in our possession fluctuates depending on the loans outstanding, in the worst case scenario where all of the artworks in our possession were destroyed by natural disasters or accidents, our Group may be liable to compensate the borrowers beyond the insurance coverage we maintain at that time. This may adversely affect our reputation, client relationships for both our business segments and ability to source artworks for auction in the future. Time and attention of our management may also have to be spent to deal with these actual or possible claims, hence diverting them from the usual business operations and development. Our Group may be exposed to significant capital expenditures and expenses as well as liabilities in case of any such claims and litigation. As a result, our business, financial condition and results of operations may be materially and adversely affected.

In order to protect us from losses which may arise from damage or theft, we are in discussion with some insurance companies for the purchase of suitable insurance policy to cover risks such as damage and/or theft of our auction lots. We however are currently unable to find suitable insurance policy to cover the above risks for artworks for our auctions stored in our facilities and for auction preview exhibition, mainly due to the following: (1) the exclusiveness and rarity of artworks may require different or specific maintenance conditions, hence increasing the difficulty for us to agree with the insurance company on the value of the artwork and obtain suitable insurance policy at acceptable rate, (2) the development of the insurance industry in PRC may fall behind the rapid development of the art industry, (3) availability of relevant insurance in China is limited and in line with industry practice, such insurance is rarely obtained. Even if effected, the insurance coverage may not be sufficient to cover the loss suffered.

***We may suffer loss in the event of title claims and other disputes that arise from sale of artworks and/or pledge of collateral***

As part of our internal control and risk management procedures, we generally take steps to verify the ownership of (and, where applicable, chain of title to) the relevant artworks and other collaterals, before they can be accepted to secure the loan we grant or for auction. Please see the section headed “Business — Internal Control and Risk Management — Authentication and Valuation — Authentication and valuation workflow” for details of our internal control and risk management policy, in particular on the area of artwork authentication and appraisal. We also adopt contractual means to control risks as to the ownership of loan collateral and/or auction lots as borrower is requested to give us written undertaking on ownership of artwork collateral and consignor of artwork for art auction is also bound by ownership warranty under the auction listing agreement.

It is our Group’s policy that we will not accept any artwork or asset for our auction or as our loan collateral which we know is subject to title disputes or legal impediments. We have not encountered any claims, disputes or litigations in connection with title and ownership of any of our collaterals and

## RISK FACTORS

auction lots. However, any possible future title claim against us may nevertheless cause a diversion of management attention and resources from our existing business and expose us to reputation risks which may adversely affect our business, financial condition and results of operations.

***Our internal control and risk management systems (including that in relation to anti-money laundering and anti-corruption) may not be adequate and effective in controlling and limiting our risk exposures***

Both of our pawn loan and auction businesses are subject to different levels of operating risks. For instance, for our art and asset pawn business, we face credit risk, liquidity risk and legal and compliance risk; and for our art and asset auction business, we face risk of default or delay payment by auction buyers. As we operate in artwork-related businesses, we also face the risk of authenticity, valuation, legality of source and ownership of the artworks. We have established and implemented internal control and risk management systems aiming at identifying, evaluating and managing various risks inherent to different steps of our business operations. However, our internal control and risk management systems may contain inherent limitations caused by misjudgement. We cannot assure you that our risk management system and internal control policies are sufficiently effective in identifying and mitigating all types of risks in connection with our business, including unidentified or unanticipated risks. Some of our risk management and control methods are based upon historical market practice and past events. As such, we may not be able to adequately identify or estimate future risk exposures, which may be significantly greater than those indicated by measures based on historical data. Furthermore, if we expand our business and provide new services, we may not be in a position to efficiently and adequately identify and predict future risk exposures associated with such new services.

Further, fraud or other misconduct by our employees or third parties may be difficult to detect and prevent and could subject us to financial loss and sanctions imposed by PRC governmental authorities and seriously harm our reputation. Our internal control and risk management systems are designed to cover procedures and measures to monitor overall compliance and against money laundering activities. However, we may be unable to identify non-compliance or suspicious transactions in a timely manner or at all and there is no assurance that our systems will effectively prevent the occurrence of money laundering or other illegal activities. Furthermore, it is not always possible to detect and prevent fraud or other misconduct and the precautions we take to prevent and detect such activities may not be effective. As a result, there exists the risk that fraud or other misconduct may have previously occurred but was undetected, or may occur in the future. In addition, any money laundering or corruption litigation, investigation or probes against us, our employees, our clients or other service providers may have unfavorable impact on our reputation, operations, financial condition, future development and relationships with supervisory organisations. In more serious cases, these may bring about suspension of business.

***Our operations are subject to highly regulated regime. There is no assurance that we will be able to obtain and renew all necessary licences for our operation, failure of which may cause a halt to our business***

Both of our pawn loan and auction businesses are highly regulated and are subject to special licensing regime of various PRC government authorities (including AIC, MOFCOM, the Ministry of Public Security, MIIT and the Ministry of Culture). We need to obtain and renew on a timely basis relevant licences and permits in accordance with applicable laws and regulations. Currently, we hold (i)

## RISK FACTORS

for our art and asset pawn business, Pawn Operation Permit and Special Industry Permit, (ii) for our art and asset auction business, Approval Certificate for Auction Operation, VATelecom Permit and NCB Permit. For details, please see the section headed “Regulatory Overview” and “Business — Qualifications, Licences and Awards” in this prospectus. As of the Latest Practicable Date, the PRC Operating Entities obtained and held all necessary approvals and permits for their respective operations.

If we fail to comply with any of the conditions imposed on us for holding such licences, permits or approvals, we may be subject to economic penalties, regulatory actions and/or such licences may be suspended or even revoked. Any of these actions may have a material adverse impact on our business, financial performance and results of operations.

In addition, as the PRC legal system is evolving, PRC government authorities may enact new laws and regulations that impose new or more stringent standards on our operations. New requirements for approvals and permits may come into effect in the future. The introduction of any new and/or more stringent laws, regulations or other licensing requirements relevant to our business may significantly escalate our Group’s compliance and maintenance costs or may preclude us from continuing with our existing operations or may limit or prohibit our Group from expanding our business. Further, as and when we develop new services, we may be subject to additional regulations and governmental policies. There is no assurance that we will be successful in adapting to all such changes, obtaining and/or renewing all of the licences for our operation on a timely basis. Moreover, there are uncertainties regarding the interpretation and application of new laws and regulations and other governmental policies which impose limitation on our new business development. Any such event may have an adverse effect to our business, financial results and future prospects.

***Our past results are not indicative of our future performance, and our future financial condition and results of operation depend on many factors including our ability to manage effectively our future growth***

As far as our art and asset pawn business is concerned, our ability to sustain continued growth depends on our ability to identify, attract and evaluate new customers, to retain our existing customers and to introduce new products and services. Whether we are able to maintain or enhance our growth largely depends on our marketing capabilities, leadership of our management in the operation and expansion of our business, our ability to provide professional and efficient services, and other factors some of which are beyond our control.

For our art and asset auction business, market supply and demand for artworks and our services are particularly hard to predict and largely depend on a number of factors many of which are beyond our control. These factors include, for instance, overall economic and political environment, the living standard and income level of the Chinese population, interests in art appreciation and collection in PRC, changing trends in the art market as to which collecting categories and artists are most sought after, collecting preference of individual collectors, willingness of potential buyers or sellers to purchase or sell particular artworks.

We may not be able to sustain the rate of our growth in both of our art and asset pawn and art and asset auction segments due to increasing market saturation, competition, regulation and other factors. Accordingly, our past results are not indicative of our future performance.

## RISK FACTORS

### ***Our business growth and development may be hampered by competition***

The pawn loan industry is relatively localised, highly fragmented and competitive. We compete with other pawn loan providers and other providers of short-term secured financing service in Jiangsu province and potentially in other cities into which we plan to expand, as well as with banks and other financial institutions.

For our art and asset auction segment, we mainly compete against auction houses in China with the capability of sourcing, authenticating and valuing artworks. Some of our competitors have competitive advantages over us in terms of their financial resources, network coverage, client base and brand recognition. Competition may cause a decrease in our auction revenue and an increase in the cost of sourcing of artworks and in the recruitment of talents in the industry.

Our ability to compete with our competitors depends on different factors: for instance, our abilities to maintain a leading position in the art finance industry in PRC, to establish a widely recognised brand name, to maintain good and long term customer relationships, to comply with existing and future government rules and regulations, to retain a team of experienced management and staff, and to diversify our service portfolio and deepen our market penetration.

If we cannot successfully compete with our competitors, we may lose our leading market position and our results of operations may be materially and adversely affected.

### ***We may not be able to retain senior management and experts and hire qualified employees, and our business may be interrupted and adversely affected***

Our success has been largely attributable to a group of senior management, internal authentication staff and external experts. Those authentication and valuation employees and experts require long-term practice to accumulate sufficient experience for providing professional and reliable advice. For biographies of our internal authentication team and external experts, please see “Business — Internal Control and Risk Management — Authentication and Valuation — Working team and experts for authentication and valuation of artworks” and “Directors and Senior Management” in this prospectus. In our art and asset pawn segment, we rely on qualified employees who have in-depth local knowledge and extensive commercial experience to identify potential credit risks and to appraise the loan collateral. In art and asset auction segment, auctions are organised in accordance with the statutory requirements under the Auction Law and the Auction Measures, and must be hosted by a PRC registered auctioneer. Currently, we have one internal and engage an external PRC registered auctioneers accredited with the National Auctioneer’s Qualification Certificate.

Our growth also significantly depends on our ability to attract, train and retain qualified employees, including technical, financial services, industry specialists and risk management personnel. Failure to recruit or retain qualified employees may have a material adverse effect on our business prospect and development.

There is no assurance, however, that any or all of our senior management and our employees will continue their employment with us and that we are able to engage and continue retaining appropriated and experienced external experts. If any of our senior management, employees and experts is unable or unwilling to continue his or her service with us, we may not be able to find a suitable replacement in a



## RISK FACTORS

timely and cost efficient manner, or at all. The loss of the services of any of the above personnel or the failure to find a suitable and timely replacement might cause disruption to our business and may have an adverse impact upon our ability to manage or operate our business effectively.

### **Risks Relating to our Art and Asset Pawn Segment**

#### ***We may not be able to control default risk of our pawn loans and maintain a low impaired loan ratio***

In our art and asset pawn business, we encounter risks of borrowers' failure or delay to repay loan and/or other overdue amount. The sustainability of our business and future growth depends largely on our ability to manage the default risk of our loan portfolio and maintain a low impaired loan ratio. Our risk management measures are implemented at different stages of our art and asset pawn operation. However, such measures may not always be effective.

Our impaired loan ratio was 2.7%, 2.6%, 0% and 0% as of 31 December 2013, 2014 and 2015, and as of 30 June 2016 respectively. However, we may not be able to maintain the impaired loan ratio at low level and effectively control the level of loan defaults in the future. Any increase in the impaired loan ratio or deterioration in our loan portfolio quality may materially and adversely affect our results of operations. The impaired loan ratio may increase due to a variety of factors, such as a slowdown in economic growth in PRC (and in particular, in Jiangsu province and Yixing city), a deepening of a global credit crisis or other adverse macroeconomic trends. Such factors may have material adverse impact on the financial condition of our borrowers, thereby affecting their ability to repay loan owing to us on a timely basis or at all. If the level of loan defaults increase drastically in the future, our business, results of operations and financial condition may be materially and adversely affected.

#### ***The value of collateral may decrease to a level below the outstanding amount of the loans, thus becoming insufficient to cover our pawn loans in the event of default of loan repayment***

We offer pawn loans secured by collaterals, mostly artworks, and also include real estates, personal property and equity interest. The principal amount of loan that we grant to our customers depends on, and is at a discount to, the appraised value of the collateral pledged by our customers at the loan application stage. As the loan period of our pawn loans is generally short, the chance of significant deterioration of value of the related collateral during the loan period is relatively low. However, we cannot preclude the possibility that the value of our collateral may be changed substantially during the loan period. The following are some of the factors that may materially and adversely affected the collateral value: damage, loss, oversupply, devaluation or reduced market demand of the collateral or, in the case of equity interest collateral, any downturn in the business or financial condition of the related company and the disputes involving equity-holders of such company.

We believe we have formulated and implemented effective procedures in monitoring the financial conditions of the borrowers as well as the value of the collaterals during the loan period. We only encountered one case of loan default during the Track Record Period, please refer to "Internal Control and Risk Management — Internal Control and Risk Management Policy for our Art and Asset Pawn Business — Specific risk control measures for every stage of our art and asset pawn business — Loan repayment and disposal of collateral" in the "Business" section for details. However, we cannot assure you that such procedures will continue to be implemented in a timely and effective manner in the future, or that we may always receive or obtain updated information about the borrower's financial condition and valuation of such collateral.

## RISK FACTORS

Where the value of the collateral has significantly deteriorated, we may require the borrower either to repay a portion of the outstanding principal amount or to provide additional collateral to maintain the appraised loan-to-value ratio at the level within the range of the target threshold for the relevant collateral in accordance with our risk management policy. However, we cannot assure you that we can always do so, or at all. Accordingly, we also face higher credit risk in case of reduction of value of the collateral and/or the deterioration of financial condition of a borrower.

***There may be practical or legal difficulty in enforcing our rights to the underlying collateral, thereby we may suffer loss for failing to dispose of the collateral to recover the full outstanding loan amount when the loan is in default***

When a borrower defaults on a loan, we are contractually entitled to enforce our rights over the collateral by repossessing and disposing of the collateral in such manner as prescribed under the Pawning Measures to recover the outstanding loan amount. To enforce our right to dispose of the collateral with appraised value of RMB30,000 or more, the collateral may be disposed of pursuant to the Security Law of PRC or by way of auction as agreed between the creditor and the borrower in advance through an auction house appointed by the creditor.

Where legal action is to be taken against any defaulting borrower for loan recovery or disposal of collaterals, according to our previous experience, the legal proceedings may take several months to conclude. Further, the procedures for liquidating or otherwise realising the value of collateral in China may be protracted or ultimately unsuccessful, and the enforcement process in China in accordance with the applicable laws and regulations of PRC (e.g. the Security Law and the Property Law) may sometimes be difficult to be implemented for legal and practical reasons.

Commencing from early 2016, we requested our borrowers to provide written consent and authorisation for us to dispose of the collateral by way of auction through an auction house to be appointed by us without going through any legal proceedings. Auction sale of artwork or asset would generally take about 90 days. Notwithstanding obtaining the above prior written consent from our borrower, as advised by our PRC Legal Advisers, in order to have absolute enforceable right over the collateral, we may have to go through legal proceedings and obtain court order in our favour to dispose of the collateral.

If we fail to bring an enforcement action with respect to any collateral underlying our pawn loans or to repossess and dispose of such collateral on a timely basis or at all, our asset quality, financial condition or results of operations may be materially and adversely affected.

***Information available to us for our collateral appraisal and monitoring may be limited, inaccurate, unreliable or outdated, and we may not be able to detect fraud in the information provided by customers***

The loan amount we grant depends on the appraised value of the collateral. Since the pawn loan is secured by such collateral, the collateral appraisal process is a crucial part of our loan application review process. However, information regarding markets, customers, collateral or other relevant matters available to us may be inaccurate, incomplete, fraudulent, obsolete or improper. Further, the information infrastructure concerning credit information in China is relatively underdeveloped and there is no



## RISK FACTORS

extensive and unified nationwide credit information system. As such, we are only able to rely on limited publicly available resources and the experience and judgement of our officers to assess credit risks associated with a particular loan applicant.

Authentication and appraisal of artwork and other personal property collaterals are mostly based on the knowledge and judgement of our experts. Mistaken or inaccurate authentication and valuation of such collaterals may lead to erroneous calculation on the amount of loan we agree to grant and subject us to higher credit risk. Please refer to the risks titled “Our business is subject to risks relating to the authentication and appraisal of artworks” above in association with the risk relating to the authentication and appraisal of artworks.

Further, the value of the underlying collateral is subject to change during the term of a loan. See the risk entitled “The value of collateral may decrease to a level below the outstanding amount of the loans, thus becoming insufficient to cover our pawn loans in the event of default of loan repayment” above. Our calculation of appraised average loan-to-value ratio is subject to limitations on the information available to us and might be outdated.

We cannot assure you that our due diligence will uncover all material information necessary to make a fully informed or correct decision, nor can we assure you that our due diligence efforts will be sufficient and effective to detect frauds perpetrated in the application for, or during the term of, our loans. Further, it may not be cost effective for us to verify information given to us for collateral appraisal purposes, and the resources and channels through which we can verify such information may be limited. There is inherent uncertainty in our appraisal results. Inaccurate appraisal results may render our pawn loans under-collateralised and subject us to higher credit risk, which may have an adverse effect on our financial condition and results of operations.

### ***We have limited control over the level of fees we can charge on our pawn loans***

We offer pawn loans secured by artwork and asset as collaterals which are regulated under the Pawning Measures, and charge monthly composite administrative fees. Under the Pawning Measures, we are entitled to charge both loan interests and composite administrative fee for each pawn loan granted. However, during the Track Record Period and up to the Latest Practicable Date, we have only charged composite administrative fees and have not charged loan interests, and we generated all our revenue arising from art and asset pawn loan by charging generally fixed rates of monthly composite administrative fees for the pawn loans we grant.

Under the Pawning Measures, the maximum rates of monthly composite administrative fee of a pawn loan secured by movable properties, real estate and property rights collaterals are 4.2%, 2.7% and 2.4% of the principal amount of the loan, respectively. During the Track Record Period, the average monthly composite administrative fee rate for our pawn loan secured by movable properties (including artworks and person properties), real estate and property rights (including equity interests) did not exceed 4.0%, 2.7% and 1.4% respectively.

Due to the statutory maximum limit under the Pawning Measures, we have limited control over the composite administrative fee we can charge for our pawn loans. This will in turn limit the flexibility in formulating our pricing policy and restrict our revenue derived from the art and asset pawn segment and adversely affect our profitability and result of operation.

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***Our art and asset pawn business is capital intensive, and limitation on sufficient funding may affect our operation and hinder expansion of our business***

Our art and asset pawn business is capital-intensive in nature and a substantial amount of capital as well as ongoing funding is required to support our on-going operations, as well as to fund any future expansion. Currently, our funding sources consist primarily of paid-in capital and retained earnings.

Hexin Pawn, being regulated as a pawn loan provider, is subject to tight capital control prescribed by MOFCOM. Paid-in capital is capped at the approved registered capital amount. Under the Pawning Measures and the Decision of the State Council on the Sixth Batch of Cancelled and Modified Administrative Examination and Approval Items (國務院關於第六批取消和調整行政審批項目的決定(國發[2012]52號) issued by the State Council in September 2012, if we intend to change the registered capital of Hexin Pawn (which is currently over RMB50 million), the change has to be approved by the commerce authority at the provincial level. Since its incorporation in 2004, Hexin Pawn has obtained two approvals from relevant PRC government authorities and its registered capital increased from initially RMB10 million to RMB100 million.

Save and except the Bank Facility (which was not yet drawn on the Latest Practicable Date) as disclosed in the “Financial Information — Indebtedness — Statement of Indebtedness” section, during the Track Record Period and as of the Latest Practicable Date, we did not have any bank borrowings. Pursuant to the Pawning Measures, we are prohibited from borrowing moneys from any person other than commercial banks. However, under the Notice Regarding the Prevention of External Risk Transmission (中國銀監會辦公廳關於防範外部風險傳染的通知) issued by China Banking Regulatory Commission on 14 May 2013, commercial banks are prohibited to provide a credit line to pawn loan providers. Accordingly, we are unable to obtain bank loans to fund our pawn loan operation.

We cannot assure you that we are able to obtain necessary government approvals in our future applications to increase the approved registered capital of Hexin Pawn. Our ability to fund our operation and expand our existing business may be limited, in view of the possible impediment and limitation to obtain funding for our operation.

***Our ability to use the net proceeds of the Global Offering as we intend is subject to statutory approvals and procedures as well as the Contractual Arrangements, which could delay, hinder or prevent us from expanding our business using some or all of the proceeds from the Global Offering***

We intend to increase the registered capital of Hexin Pawn by an amount equal to approximately 50% of the net proceeds from the Global Offering to expand our art and asset pawn business. The increase of the registered capital of Hexin Pawn is subject to approval by the commerce authority at the provincial level as well as loan or credit arrangements with domestic banks in China in compliance with PRC laws and regulations. We cannot assure you we will be able to obtain all required statutory approvals and complete all necessary loan or credit arrangements in a timely manner, or at all. This could delay, hinder or prevent us from deploying the net proceeds we expect to receive from the Global Offering to fund and expand our business.

We have been advised by our PRC Legal Advisers that there is currently no PRC law or regulation explicitly preventing us from deploying the net proceeds of the Global Offering as described in this prospectus. Our PRC Legal Advisers have advised us that, there are uncertainties under and changes to PRC law which could require us to amend or abandon our plan for the use of proceeds from the Global

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Offering or could subject us to fines and penalties if the relevant PRC authorities determine that the process we intend to follow in order to move funds from the proceeds from the Global Offering into the PRC Operating Entities violates PRC laws and regulations.

The implementation of existing, introduction of new, and the interpretation of such PRC laws and regulations governing the pawn loan industry and the conduct of our pawn loan business involves a certain degree of uncertainty and could negatively affect our ability to effectively deploy the net proceeds from the Global Offering. Moreover, if we are forced to amend the plan or redeploy the funds from the net proceeds of the Global Offering, we may be prevented in material respects from expanding our business as contemplated in this prospectus and we may incur significant costs in redeploying such funds or may be prevented from using such funds to increase the registered capital of Hexin Pawn, and your investment in the Shares could be materially and adversely affected.

***Provisions for impairment allowance may be inadequate to cover actual losses, and we may need to make additional provisions***

The amount of impairment allowances we have recognised is based on our management's current assessment of, and expectations concerning, various factors (such as the repayment ability and the recoverable value of collateral). Many of these factors are beyond our control, therefore, our assessment and expectations on these factors may differ from actual development. If unanticipated changes occur in the PRC economy or to any customers, our impairment allowance may be inadequate. We may then need to recognise additional impairment allowances or adjust the assessments criteria for determining the impairment allowances. As such, our revenue, profitability, and operating cash flow could be significantly affected. Further, any increase in aged outstanding loan amount may have an adverse effect on our loan portfolio quality. If our assessment and expectations differ from actual circumstances, our allowance may not be adequate to cover our actual losses and we may need to make additional provisions, which may materially and adversely affect our results of operations and financial condition.

***We recorded net cash outflow from operating activities and we may record net cash outflow from operating activities in the future as we expand our business***

Our Group had net cash from operating activities of approximately RMB22.7 million, RMB27.8 million and RMB150.0 million for FY2013, FY2014 and FY2015 respectively. For the six months ended 30 June 2016, we experienced negative operating cash flow of approximately RMB176.0 million, primarily as a result of (i) the increases in trade receivables, other receivables and prepayments, (ii) and increase in loans granted to customers of our pawn business due to increasing customer demand for our art pawn loans services and higher principal amount of the pawn loans granted to our customers, and (iii) the income tax paid.

Due to the nature of our art and asset pawn business, when we grant a loan to our customers, it will be recorded as our operating cash outflow; and when our customers make repayment to us, it will be recorded as our operating cash inflow. We may record net cash outflow from operating activities in the future as we expand our pawn loan business and increase the aggregate loan amount we grant to customers. As of 31 August 2016, approximately 22.6% of our outstanding loan receivables have not reached their respective maturity dates, 24.8% were fully settled in cash, 49.6% were renewed as of 31 August 2016 and the remaining 3.0% were past due as of 31 August 2016 and were subsequently repaid or renewed on 1 September 2016, which was within five days upon their maturity, accordingly, such loans would not be treated as default under the Pawning Measures. There can be no assurance that we

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will be able to fully collect outstanding loan receivables when our loans become due. A significant increase in overdue loan amounts may result in a significant increase in our net cash outflow from operating activities for a given period, which may in turn have a material adverse effect on our results of operations.

### **Risk Relating to our Art and Asset Auction Segment**

***We are not able to predict the future trend of art auction market, the availability and popularity of artworks, which may materially and adversely affect our auction operations, thus the financial results of operations***

During the Track Record Period, the auction revenue derived from our art auctions grew rapidly, during 2013 to 2015, it grew from approximately RMB3.3 million in FY2013 to RMB47.8 million in FY2015, achieving a CAGR of approximately 280.6% and approximately RMB34.7 million was derived from our art auctions held during the six months ended 30 June 2016. We believe the high growth of our art auction revenue was mainly due to the expansion of our art auction business and our ability to source artworks of high value, good quality and high reception in sufficient quantity at our art auctions, as evidenced by the continuous increase in the total number of auction lots offered and sold as well as the significant increase in the aggregate hammer price during the Track Record Period. We will continue our effort to source distinct value artworks and to diversify our auction lots to achieve continual growth in our art auction operation. However, we cannot guarantee the constant availability of high value and good quality artworks in sufficient quantity for our art auctions nor can we guarantee the rapid development and prosperity of the art auction market in the PRC in the foreseeable future.

The market demand, value and conditions for artworks as well as the future development in art auction market are relatively unpredictable and influenced by various factors, many of which are not under our control, these include, the overall economic and political environment, changing trends in the art market (such as preferences of collectors, popularity of particular types of artworks or popularity of artworks of particular artists), the overall artwork market activity, popularity and availability of good quality and high-value artworks, and willingness of potential market-players to purchase or sell particular artworks.

In addition, the availability of sufficient number of high value and good quality artworks with high reception may not be assured. We do not accept artworks for our auctions if we are not satisfied with their quality. A decrease in availability and/or popularity of certain artworks may attract fewer bidders to our art auctions, and/or the unavailability of high value, good quality artworks in sufficient quantity may result in fewer auction transactions to be completed, hence lowering the commission income to be earned by us, our art auction business, the reputation of our Group and our profitability may also be adversely affected.

***Winning bidders may default in making payment, which may adversely affect our results of operations***

Under our art and asset auction operation, we generally collect auction receivables from the winning bidder after auction. As we normally recognise commission income upon settlement of auction payment with buyers and sellers, delays or failures in settlement will have an adverse effect on our business and results of operations. Further, since we make payment to sellers after settlement of auction price with buyers, delays or failures by buyers to settle auction prices will also delay our payment to seller hence may affect our relationship with sellers of auction lots.

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We have adopted and implemented internal control practices to monitor the settlement of auction receivables, and we actively review the outstanding fees and liaise with relevant parties to speed up the collection process. In managing our art auction operation, we normally require buyers of artworks to settle the entire purchase price of the artworks within seven days after the date of auction. For asset auction, the settlement date of the entire purchase price is usually five to seven days after the date of auction as stipulated in the bidding rules. During the Track Record Period, the longest period that for settlement of full purchase price for art auction is about one month from the date of auction.

We believe our above internal control practices in monitoring settlement have all along been effective. However, there is no assurance that all auction buyers will make payment in accordance with the contractual terms, or at all. We may incur loss in case of delays or failures in settlement.

***Our revenue attributable to art auction operation is subject to fluctuation in connection with the time of our holding principal art auctions and online auctions***

During the Track Record Period, we organised one principal art auction each year, i.e. the Autumn Auction which took place in the last quarter each year. Accordingly, in each year during the Track Record Period, the art auction revenue derived from the Autumn Auction represented a major portion of the total auction revenue.

Commencing from 2016, we will organise two principal art auctions each year, i.e. the Spring Auction and the Autumn Auction. In addition, from 2016 onward, we started to hold online auctions generally at quarterly interval.

Previously, in each year, the sales derived from the Autumn Auction accounted for a major portion of our annual auction income (as our Group also organised auctions for assets in addition to artworks). With the introduction of a Spring Auction and our quarterly online auctions each year, we expect the impact of seasonality on our revenue derived from commission income of auctions will be significantly reduced. However, as the expected scale of each quarterly online auction is relatively small, it is expected that the sales to be derived from the Spring Auction and the Autumn Auction will account for a significant portion of our annual auction income.

As a result, our revenue attributable to the art and asset auction business will generally be higher during the periods when our Spring Auction and Autumn Auction are held. As our revenue fluctuates seasonally, comparisons of sales and operating results between different periods in a single financial year for our art auction business segment, or between the same periods in different financial years, are not necessarily meaningful, and should not be relied on as indicators of our future performance.

***Failure or service suspension in our IT systems may disrupt our operations, cause leakage of client information, damage our reputation and cause losses***

We rely on our IT systems to manage our business, including transaction processing, financial management and risk management. In managing our art and asset auction segment, we have established an electronic database which allows us to keep track of historical transaction details and authentication and valuation results of a variety of artworks in our art auctions. In addition, our auction catalogues are also available in digital form which can be viewed on our official website. In December 2015, we held our first principal art auction which allowed synchronised live and on-site biddings on a test-run basis. In addition, since 2016, we have started holding online auctions.

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Such online operation is newly launched and our existing IT systems and/or our IT technology may be insufficient to support our online art operation, in particular, when such online operation is expected to be expanding in terms of functions and number of users.

We have formulated and implemented an internal policy to regulate our IT system, including inspection and maintenance of our internet services to ensure non-disturbance, anti-virus protection and safety measures on storage of information. However, in case of human errors, natural disasters, power failure, computer virus, spam attack, illegal invasion and other similar interference where our IT system is not sufficiently and effectively equipped to provide protection, client's information and other confidential information processed, stored in, and transmitted through our IT systems and networks may be subject to leakage or damage. It may cause interruptions and malfunctions in our operations; or interfere with the customers' use of our online products and services. Any leakage of information of customers could harm our client relationships and we may face litigation or claim from our client against leakage of confidential information and our competitiveness, financial condition, results of operations and brand reputation may also be materially and adversely affected.

### **RISKS RELATING TO THE CONTRACTUAL ARRANGEMENTS**

*The Draft Foreign Investment Law may have significant impact on our businesses which are controlled by foreign invested enterprises primarily through Contractual Arrangements and measures in ensuring compliance with the Draft Foreign Investment Law may not be effective*

MOFCOM published the Draft Foreign Investment Law (Draft for Comment) in January 2015 aiming to, upon its enactment (if enacted at all), replace the major existing laws and regulations governing foreign investment in China. The Draft Foreign Investment Law, if enacted as proposed, may materially impact the entire legal framework regulating foreign investments in China. Among other things, the Draft Foreign Investment Law purports to introduce the principle of "actual control" in determining whether a company is considered as a foreign invested entity ("FIE"): entities established in China but "controlled" by foreign investors will be treated as FIEs, whereas an entity organized in a foreign jurisdiction but cleared by the authority in charge of foreign investment as "controlled" by PRC entities and/or citizens would nonetheless be treated as a PRC domestic entity. Under the Draft Foreign Investment Law, companies with the "variable interest entity" ("VIE") structure may also be deemed as FIEs if they are ultimately "controlled" by foreign investor. Such FIEs are restricted or prohibited from investment in certain industries listed on the negative list unless permission (if applicable) from the competent authority in the PRC is obtained.

If the Draft Foreign Investment Law is enacted in the current draft form without any amendment, on the basis that at the time of Listing, Mr. ZJ Fan together with parties acting in concert with him (as a group of Controlling Shareholders), will be interested in over 50% of the issued share capital of our Company, which through the WFOEs exercises effective control over our PRC Operating Entities, our PRC Operating Entities are and will be ultimate controlled by Mr. ZJ Fan and parties acting in concert with him (as a group of Controlling Shareholders). As each of Mr. ZJ Fan and acting in concert with him is a natural person of Chinese nationality, he/she is a "PRC investor or citizen" within the meaning of the Draft Foreign Investment Law and would likely pass the "actual control" test thereunder as advised by our PRC Legal Advisers. As a measure to secure the passing of the "actual control" test in order for the Contractual Arrangements to remain a domestic investment under the interpretation of the Draft Foreign Investment Law and for compliance with the Draft Foreign Investment Law in its current



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draft form, upon Listing each of Mr. ZJ Fan and parties acting in concert with him (as a group of Controlling Shareholders) shall give an undertaking to our Company to the effect that each of them will continue to maintain his/her Chinese nationality and citizenship, will continue to control our Company (controlling of our Company shall mean, for the purpose of such undertaking, holding not less than 51% of the issued share capital of our Company or having control under the definition of the Draft Foreign Investment Law) and, in case of share transfer, that the transferee(s) of their Shares who will become the new controlling shareholder(s) of our Company shall provide an undertaking in the same terms and conditions as the one offered by Mr. ZJ Fan and parties acting in concert with him. Based on the matters stated above, our PRC Legal Advisers are of the view that it is likely that the Contractual Arrangements will be allowed to be retained after complying with relevant procedures contained in the prevailing effective PRC laws and regulations. For detailed discussion of the Draft Foreign Investment Law and its Explanatory Notes, as well as the undertaking given by Mr. ZJ Fan and parties acting in concert with him, please refer to “Development in the PRC Legal Legislation on Foreign Investment” in the section headed “Contractual Arrangements” of this prospectus.

Notwithstanding the above, as advised by our PRC Legal Advisers, the Draft Foreign Investment Law and its Explanatory Notes are both drafts without any legal effect and are released for the purpose of public consultation, with a number of legislative procedures to be undergone before the promulgation and implementation of the new foreign investment law, if at all. Given this, there are substantial uncertainties regarding the Draft Foreign Investment Law, including, among others, the final provisions of the law (if passed), its effective date, the level of “actual control” for being qualified as a domestic enterprise, the treatment and/or status of existing domestic enterprises which are operated or held by foreign investors under the VIE structure, as well as the classification of industries under the “prohibited” or “restricted” category in the “negative list”. Under all those uncertainties, we cannot assure that our Company will be deemed as “controlled” by Chinese investors notwithstanding the fact that Mr. ZJ Fan and parties acting in concert with him (who are of Chinese nationality) are altogether indirectly interested in more than 50% of the issued share capital of our Company, nor can we assure that the Contractual Arrangements will be deemed as domestic investment under the Draft Foreign Investment Law. There are also uncertainties that the measures to maintain control over and receive the economic benefits from our PRC Operating Entities alone may not be effective in ensuring compliance with the Draft Foreign Investment Law (if and when it becomes effective). In the event that such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the trading of our Shares. Further, our compliance with the Draft Foreign Investment Law depends on adherence to the terms of such undertaking by Mr. ZJ Fan and parties acting in concert with him. In the event that any of such parties breaches the undertaking, the Stock Exchange has limited enforcement power against such default party and the Structured Contracts may be deemed invalid and illegal.

Further, our PRC Legal Advisers cannot exclude the possibility that MOFCOM may have contrary or different interpretation of the Draft Foreign Investment Law and its Explanatory Notes, and there may be amendments to such draft law before its formal promulgation and implementation (if at all) which may have material adverse impact on our Group at the time when the new foreign investment law becomes effective. Due to the substantial uncertainties under the Draft Foreign Investment Law as discussed above, we are unable to determine and ascertain the extent of its impact on our corporate structure and business at the current stage. In the event our business is not regarded as being held by PRC investors and is listed on the negative list under the Draft Foreign Investment Law or other future PRC laws and regulations including industry policies or regulations or practice of industry competent

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authorities, in the worst case scenario, we may be required to unwind the Contractual Arrangements, dispose of our PRC Operating Entities and discontinue our businesses, which contribute substantially to our revenue. As we primarily conduct auction (including online auctions) and pawn loan (regulated under the Pawning Measures) businesses in the PRC, if we are forced to dispose of our principal businesses to comply with such regulatory requirements, not only our business, financial condition and result of operations are materially and adversely affected, but the sustainability of our businesses may also not be maintained.

***The PRC Government may determine that the Contractual Arrangements are not in compliance with applicable PRC laws, rules, regulations or policies and may take actions against us or our operation***

All of our Group's total revenue and total net profit for each year during the Track Record Period were generated from the PRC Operating Entities.

In order for us to operate our pawn loan business in China and the online auction operation, separate sets of agreements that constitute the Contractual Arrangements have been entered into, under which substantially all the economic benefits and risks arising from the business of the respective PRC Operating Entities are transferred to the relevant WFOEs by means of accrual and payment of management and operation fees. As our equity-owned subsidiaries currently may not be granted a Pawn Operation Permit, the NCB Permit and the VATElecom Permit, we rely on the PRC Operating Entities to hold and maintain the licences necessary to operate our pawn loan business and online auction operation in China. Further information on the Contractual Arrangements is set out in "Contractual Arrangements" in this prospectus.

In the opinion of our PRC Legal Advisers, (i) the ownership and contractual structures of the Contractual Arrangements are not in violation of existing PRC laws and regulations, (ii) the Contractual Arrangements are legally valid, binding and enforceable and (iii) the business operations of our Group and the PRC Operating Entities, as described in this prospectus, are not in any violation of the existing PRC laws and regulations in any material respect. There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. In particular, any future acquisition of rights, benefits or assets of or equity interests in the PRC Operating Entities pursuant to the Contractual Arrangements will be subject to the laws and regulations then applicable. Accordingly, we cannot assure you that some of the PRC regulatory authorities will not ultimately take a view which is contrary to that of our PRC Legal Advisers. If we are found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities may exercise its discretion to deal with such violations, including possibly:

- revoking the business and operating licences held by the PRC Operating Entities;
- ruling the Structured Contracts as unlawful, invalid or unenforceable;
- imposing economic penalties;
- restricting our right to collect revenues;
- discontinuing or restricting the operations of the PRC Operating Entities or our Group;



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- imposing conditions or requirements with which we or the PRC Operating Entities may not be able to comply;
- requiring us or the PRC Operating Entities to restructure our ownership or operations; or
- taking other regulatory or enforcement actions, including levying fines, that may be prejudicial to our business.

Any of the above possible actions which may be taken by PRC regulatory authorities may hamper or even terminate the flow of economic benefits from the PRC Operating Entities to our Group as stipulated under the Contractual Arrangements. It may result in the diversion of management attention and the incurring of substantial operating and remedial costs which may adversely affect our business, financial condition or results of operations.

***The Contractual Arrangements (which are related to critical aspects of our operations) entered into with the PRC Operating Entities and their shareholders may not be as effective as direct ownership in providing operational control***

We rely on the Contractual Arrangements with the PRC Operating Entities and their respective shareholders to operate our business. These Contractual Arrangements may not be as effective as direct equity ownership in providing us with control and security over the PRC Operating Entities. If we had direct ownership of the PRC Operating Entities, we would have been able to exercise our rights as a shareholder to effect changes in the board of directors of the PRC Operating Entities, which in turn may effect changes at the management level, subject to any applicable fiduciary obligations. However, under the current Contractual Arrangements, we rely on the PRC Operating Entities and their respective shareholders' performance of their contractual obligations to exercise effective control.

In general, neither of the PRC Operating Entities nor any of its shareholders may terminate the Structured Contracts. However, the respective shareholders of the PRC Operating Entities may not act in the best interests of our Company or may not perform their obligations under these contracts. Such risks exist and we expect them to continue to exist throughout the period in which we intend to operate our business through the Contractual Arrangements made with the PRC Operating Entities. Pursuant to the Contractual Arrangements, we are entitled to replace the shareholders of the PRC Operating Entities with our equity-owned companies when PRC laws and regulations permit such replacement. However, if any dispute relating to these contracts remains unresolved, we may have to incur substantial costs and expend significant resources and time to enforce our rights under these contracts through the operations of PRC law and courts and therefore will be subject to uncertainties in the PRC legal system. Legal remedies available under the PRC laws may require, among other things, the defaulting party to continue to perform its, his or her obligations under the Contractual Arrangements or to take other remedial measures and pay damages, any of which may not be effective or satisfactory to us. Moreover, if we are unable to enforce these Contractual Arrangements, we may not exert effective control over the PRC Operating Entities, and our ability to conduct our business may be materially and adversely affected.

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***Some shareholders of the PRC Operating Entities may potentially have a conflict of interest with us, and they may breach their contracts with us***

We conduct substantially all of our operations, and generate substantially all of our revenues, through the PRC Operating Entities. Our control over them is based on the Contractual Arrangements. Mr. ZJ Fan is our Director and also the registered shareholder of both of the PRC Operating Entities. Conflicts of interest may arise due to the dual roles of these individuals and also their own interests. They may not act in the best interests of our Group and/or may breach their contracts with us, if they believe such action furthers their own interest, or if they otherwise act in bad faith. If they breach their contracts with us or otherwise have disputes with us, we may have to initiate legal proceedings, which may involve significant cost, time and other uncertainties. Such disputes and proceedings may divert management's attention, disrupt our business operations, adversely affect our ability to control the PRC Operating Entities and/or otherwise result in negative publicity. Besides, we cannot assure you that the outcome of such disputes and proceedings will be in our favour.

***The Contractual Arrangements may be considered by the PRC tax authorities as requiring transfer pricing adjustments***

Under applicable PRC tax laws and regulations, arrangements and transactions between related parties may be subject to audit or scrutiny by the PRC tax authorities not exceeding ten years after the taxable year when the arrangements or transactions are conducted. The Structured Contracts were negotiated and executed based on an equal standing and reflect the true commercial intention of the PRC Operating Entities, the relevant equity-owned subsidiaries of our Company and other relevant parties thereto. Further, we entered into the Contractual Arrangements only in respect of those businesses which are subject to foreign ownership restrictions under the laws and/or regulations of PRC. However, if the PRC tax authorities determine that the Structured Contracts were not entered into based on arm's-length negotiations and therefore constitute unfavourable transfer pricing arrangements, we may face material adverse tax consequences. Unfavourable transfer pricing arrangements may, among other things, result in an upward adjustment of the amount of tax we are required to pay. In addition, the PRC tax authorities may impose interest on late payments on the PRC Operating Entities or our Group for the adjusted but unpaid taxes.

We are not in a position to predict what position the PRC tax authorities may take in connection with the Contractual Arrangements. Our results of operations may be materially and adversely affected if the PRC Operating Entities' or WFOEs' tax liabilities increase significantly or if they are required to pay interest on late payments.

***If we were required to obtain the prior approval of MOFCOM for or in connection with our corporate restructuring, our failure to do so may have a material adverse effect on our business***

On 8 August 2006, six PRC regulatory agencies jointly adopted the M&A Rules, which became effective on 8 September 2006 and were later amended on 22 June 2009. Article 11 of the M&A Rules requires PRC domestic enterprises or domestic natural persons to obtain prior approval of MOFCOM when an offshore company established or controlled by them proposes to merge with or acquire shares or assets of a PRC domestic company with which such enterprises or persons have a connected relationship.

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Our PRC Legal Advisers have advised us that the Contractual Arrangements, as a whole, did not constitute a merger or acquisition of shares or assets, and there are no provisions in the M&A Rules which classify the Contractual Arrangements as a type of merger or acquisition transaction falling under the M&A Rules.

However, the M&A Rules are unclear in certain respects, including as to what constitutes a merger with or acquisition of PRC domestic enterprises and what constitutes circumvention of its approval requirements. If MOFCOM subsequently determines that its approval of the Contractual Arrangements should have been obtained, we may face regulatory actions or other sanctions by MOFCOM or other PRC regulatory agencies for not having obtained its or their approval before entering into the Contractual Arrangements. Actions that may be taken in such connection by the relevant PRC regulatory agency(ies) include: compelling us to terminate the contracts with the PRC Operating Entities, imposing such restrictions and limitations on the extent of our operation in China, imposing fines and penalties on us, delaying or restricting the repatriation of the net proceeds from the Global Offering into China, restricting or prohibiting the payment or remittance of dividends by WFOEs or others to their shareholders (including our Company). Any of the above actions may have an adverse effect on our business, financial condition, results of operations and prospects, as well as the trading price of our Shares.

***Some of the terms of the Structured Contracts may not be enforceable under PRC laws and the PRC Operating Entities or their respective shareholders may fail to perform their obligations under the Contractual Arrangements***

The PRC Operating Entities and their respective shareholders may fail to comply with the Contractual Arrangements and/or to take certain actions required for our business or to follow our instructions despite their contractual obligations to do so. In the event that we are not able to exert control over the PRC Operating Entities (for example, if the shareholders of the PRC Operating Entities refuse to transfer their equity interest in the PRC Operating Entities to us or our nominee when we exercise the call option pursuant to these Contractual Arrangements, or if they fail to increase the registered capital of the PRC Operating Entities, or if they otherwise act in bad faith toward us), then we may have to take legal action to compel them to fulfil their contractual obligations, including seeking specific performance or injunctive relief, which may not be effective without incurring significant time and cost, or at all.

All the Structured Contracts are governed by PRC laws and provide for dispute resolution by way of arbitration by an arbitral body (i.e. China International Economic and Trade Arbitration Commission) in accordance with its then prevailing arbitration rules. These contracts contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of the PRC Operating Entities, injunctive relief and/or winding up of the PRC Operating Entities. In addition, these contracts also contain provisions to the effect that courts of competent jurisdictions shall be empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal.

However, under PRC laws, some of the above contractual terms may not be enforceable. For instance, under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final liquidation order for the purpose of protecting assets of or equity-interest in the PRC Operating Entities in case of disputes. In addition, as our major assets and operations are situated and carried out in PRC, such remedies may not be available to our Company or our equity-owned

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subsidiaries, notwithstanding the contractual provisions contained in the Structured Contracts. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, PRC courts may not support such an award of the arbitral body when deciding whether to take enforcement measures. Under PRC laws, courts or judicial authorities in PRC generally do not award injunctive relief or winding-up of the PRC Operating Entities as preliminary remedies for the purpose of protecting assets or shares in favor of any aggrieved party. Even though the Contractual Arrangements provide that overseas courts are given jurisdiction to grant and/or enforce interim remedies and support arbitral judgments and awards, such interim remedies (even if so granted by overseas courts in favor of an aggrieved party) may not be recognised or enforced by PRC courts.

For the above reasons, in the event of breach of any Structured Contracts by any of the PRC Operating Entities and/or their respective shareholders, and if we are unable to enforce the Contractual Arrangements, we may not exert effective control over the PRC Operating Entities, and our ability to conduct our business may be negatively affected.

***We may lose the ability to use and enjoy assets held by the PRC Operating Entity, if any of them becomes subject to a dissolution or liquidation proceeding***

We operate our businesses in China on the bases of certain permits and certificates held by Hexin Pawn and Hexin Auction (e.g. the Pawn Operation Permit, Special Industry Permit, Approval Certificate for Auction Operation, the VATelecom Permit and NCB Permit). Such permits and certificates are important to our business operations. When their respective terms expire and if any of the PRC Operating Entities is not able to renew any of such permits or certificates with substantially similar terms as the ones they currently hold, our operations, reputation and business may be materially affected. See the risk factor entitled “Our operations are subject to highly regulated regime. There is no assurance that we will be able to obtain and renew all necessary licences for our operation, failure of which may cause a halt to our business” above.

Under the Contractual Arrangements, our Group was granted the right to acquire the equity interests or assets of the PRC Operating Entities. However, the Contractual Arrangements may not be effective in providing control over the application for and maintenance of the licences required for our business operations. Further, relevant Structured Contracts contain terms that specifically require the shareholders of the PRC Operating Entities to ensure the valid existence of the PRC Operating Entities and that the PRC Operating Entities may not be voluntarily liquidated. However, if the shareholders breach this obligation and voluntarily liquidate the PRC Operating Entities or any of them, or any of the PRC Operating Entities declares bankruptcy, and all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business operations, which may materially and adversely affect our business, financial condition and results of operations. Furthermore, if any of the PRC Operating Entities undergoes any voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which may materially and adversely affect our business, results of operations and financial condition.

## RISK FACTORS

### ***Our ability to acquire the entire equity interest and/or assets of the PRC Operating Entities is subject to restrictions***

We have entered into the Contractual Arrangements in order to manage our businesses in China, and we will unwind the Contractual Arrangements when PRC laws and regulations allow our businesses to be directly operated by us through the acquisition of the entire equity interest and/or all assets of the PRC Operating Entities. However, our acquisition of the PRC Operating Entities' equity interest and/or assets may only be conducted to the extent as permitted by applicable PRC laws and may be subject to obtaining the prerequisite approvals and procedures under applicable PRC laws. In addition, our acquisition may be subject to a minimum price limitation (such as an appraised value for the entire equity interest or all assets of the PRC Operating Entities) or other limitations as imposed by applicable PRC laws, and may also be subject to substantial costs. The respective shareholders of the PRC Operating Entities have undertaken to us that if any minimum price is required to be paid by WFOEs or their respective nominee(s) to any of them, such price will be reimbursed to WFOEs or their respective nominee(s). However, the legality and enforceability of such undertakings are subject to the then applicable PRC laws and regulations. So long as the Contractual Arrangements have to be maintained, we will continue to face those risks relating to Contractual Arrangements as outlined above.

### **RISKS RELATING TO CONDUCTING BUSINESS IN CHINA**

#### ***Political and economic policies of the PRC government, social conditions and legal developments of PRC may affect our Group's business***

Most of our Group's assets are located in PRC and all of our Group's income has been generated from PRC. Our Group's results, financial condition and prospects are therefore to a significant degree subject to the economic, political and legal developments, as well as government policies (including taxation policies) of PRC. The PRC economy differs from the economies of some other developed countries in many respects. The PRC economy has historically been a planned economy and has been in a transitional stage to a market economy. Although the PRC government has implemented measures emphasising the use of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises in recent years, the PRC government continues to have significant influence on the PRC economic growth through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatments to particular industries or companies. These economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, some of these measures and the development of the economic, political or legal systems of PRC may develop in a way that is detrimental to the Group's business, results of operations and prospects.

Further, changes in China's macroeconomic policy, monetary policy and interest rate policy may have adverse effects on our business, in particular, the art and asset pawn segment. For instance, on 7 June 2012, the PBOC announced the first interest rate cut since 2008 as well as other measures granting banks more autonomy over lending and deposit rates. There were subsequent interest rate cuts. Such rate cuts and policy changes allow ordinary bank loans to be more accessible and appealing to borrowers, making our pawn loans less competitive and reducing our pricing power, hence reducing demands for our pawn loans.

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Currently, we do not charge other loan interests apart from the composite administrative fees for the pawn loan which we granted. Further, we have no bank borrowings to finance our operation. In future, if we charge borrowers loan interest for our pawn loan and/or if we are able to obtain bank borrowings under the then applicable PRC laws and regulations, changes in interest rates may affect our business in terms of both income to be generated from loan interest (which may not exceed the statutory interest rate for a six-month loan published by the PBOC as discounted by the term of the loan pursuant to the Pawning Measures) as well as expenses we may pay on our bank borrowings.

### ***Uncertainties regarding interpretation and enforcement of the PRC laws and regulations may impose adverse impact on us***

China's legal system is based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference, but may have limited weight as precedents. Many laws and regulations, including those providing for protection or restriction to various forms of foreign investments in PRC, have been promulgated and amended in PRC. Some of these laws, rules and regulations are promulgated in broad principles without clear and simultaneous implementation rules, or at all. Because of the limited volume of published decisions, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and may be influenced by momentary policy changes imposed by the PRC government. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until some time after the violation. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and it may also be difficult to enforce judgments and arbitration awards in PRC. Further, litigation may result in substantial costs and the diversion of resources and management attention, which in turn may have an adverse effect on our financial condition and results of operations.

As the PRC legal system develops, the promulgation of new laws or refinement and modification of existing laws may affect foreign investors. There is no assurance that future changes in legislation or the interpretation thereof will not have an adverse effect upon our business, operations or profitability.

### ***PRC regulations on loans to and direct investment by offshore holding companies in the PRC entities may delay or prevent our Group from making loans or additional capital contributions to our PRC subsidiaries***

As offshore holding company(ies) of the PRC subsidiaries, other member(s) of our Group may make loans to the PRC subsidiaries, or may make additional capital contributions to the PRC subsidiaries. Any loans or capital contributions made by our Company, as an offshore entity, to our PRC subsidiaries are subject to the PRC regulations and foreign exchange loan registrations. For example, loans by offshore holding companies to the PRC subsidiaries to finance their activities cannot exceed the difference between the total amount of investment of the relevant PRC entity and its registered capital and must be registered with the SAFE or its local counterpart. Our Group may subject to compliance with applicable laws and regulations, also determine to finance the PRC subsidiaries by means of capital contributions. These capital contributions must be approved by MOFCOM or its local counterpart. There is no assurance that our Group may obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by our Group to finance the PRC subsidiaries. If our Group fails to receive relevant registrations or approvals, our



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ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be negatively affected, which may adversely affect our PRC subsidiaries' liquidity and ability to fund their working capital and expansion projects and meet their obligations and commitments, and in turn, may adversely and materially affect our business, financial condition and results of operations.

***PRC regulations relating to acquisitions of PRC companies by foreign entities may limit our ability to acquire the PRC companies and adversely affect the implementation of our Group's strategy as well as our business and prospects***

The M&A Rules set out the rules with which foreign investors must comply if they seek to acquire shares in a domestic enterprise, whether through a purchase agreement made with existing shareholders or through a direct subscription from a company, which will result in that company becoming a foreign-funded enterprise. The M&A Rules also provide for the takeover procedures for the acquisition of equity interests in domestic enterprises and further require that the business scope of the resultant foreign-funded enterprise conform to the Foreign Investment Catalogue.

There are uncertainties as to how the M&A Rules will be interpreted or implemented. As we operate under the Contractual Arrangements, if our Company decides to acquire any PRC company in the future, our corporate structure and control over such PRC company have to be carefully planned, in order not to breach any applicable PRC laws and regulations on direct equity ownership in certain aspects of our operations. There is no assurance that our Company or the owners of such PRC company can successfully complete all necessary approval requirements under the M&A Rules and other applicable rules and regulations. This may restrict our ability to implement our expansion and acquisition strategy and may materially and adversely affect our Group's future growth.

***Our Company may be subject to the PRC enterprise income tax on our worldwide income under the Enterprise Income Tax Law***

Our Company is incorporated under the laws of the Cayman Islands and it directly holds interests in certain PRC subsidiaries and controls the PRC Operating Entities through the Contractual Arrangements. Under the Enterprise Income Tax Law (企業所得稅法) and the Implementation Rules of Enterprise Income Tax Law (企業所得稅法實施條例) (collectively called "**the EIT Law**"), both of which were enforced from 1 January 2008 (and as amended from time to time), enterprises established under the laws of or within the territory of PRC, or established under the laws of a foreign country (region), but whose "de facto management body" is located in PRC are treated as resident enterprises for PRC tax purposes. If any entity is treated as a resident enterprise for PRC tax purposes, it will be subject to PRC tax at the uniform tax rate of 25% on its worldwide income. The term "de facto management body" is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. In April 2009, SAT promulgated a circular to clarify the certain criteria for the determination of the "de facto management bodies" for foreign enterprises controlled by PRC enterprises. These criteria include: (1) members of senior management who are in charge of the enterprise's day-to-day operation and who operates from China; (2) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organisations or personnel in China; (3) the enterprise's primary assets, accounting books and records, company seals, and minutes of board and shareholders' meetings are located or maintained in China; and (4) 50% or more of voting board members or senior executives of the enterprise habitually reside in

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China. If our Company is deemed to be a PRC resident enterprise under the EIT Law by the PRC taxation authority, our Company may become subject to the PRC enterprise income tax at a rate of 25% on its worldwide income.

***Dividend payable by our Company to Shareholders and gain on the sale of the Shares may be subject to the PRC tax***

Under the EIT Law, withholding tax at 10% will normally apply to dividends payable to non-PRC investors which are derived from sources within PRC. If we are deemed by the PRC tax authorities as a PRC resident enterprise for tax purpose in the future, we may be required to withhold PRC income tax on capital gains realised from sales of our Shares and dividends distributed to Shareholders, as such income may be regarded as income from “sources within China”.

In this case, dividend income of our foreign corporate Shareholders which are “non-resident enterprises”, i.e. enterprises that do not have an establishment or place of business in PRC, or that have such establishment or place of business in PRC but the relevant income is not effectively connected with such establishment or place of business, are generally subject to PRC enterprise income tax at the rate of 10% to the extent such dividend has its source within PRC unless it can be reduced pursuant to the respective tax treaty between PRC and the jurisdiction in which our foreign corporate Shareholders resides which reduces or exempts the relevant tax. Similarly, any gain realised on the transfer of shares by such non-resident investors is subject to a 10% PRC enterprise income tax if such gain is regarded as income derived from sources within PRC. The preferential tax rate does not automatically apply. If PRC tax authorities deem us as a PRC resident enterprise, Shareholders who are not PRC tax residents but seeking to enjoy preferential tax rates under relevant tax treaties will need to apply to the PRC tax authorities to seek approval for recognition of eligibility for such benefits. If determined to be ineligible for treaty benefits, such Shareholder may become subject to higher PRC tax rates on dividends of our Shares.

Since it is uncertain whether our Company will be considered a PRC resident enterprise, dividend payable to Shareholders with respect to the Shares, or the gain Shareholders may realise from the transfer of the Shares, may be treated as income derived from sources within PRC and be subject to the PRC tax. If our Company is required under the EIT Law to withhold the PRC tax on dividend payable to foreign Shareholders, or if our foreign Shareholders are required to pay the PRC tax on the transfer of their Shares, the value of their investment in the Shares may be adversely affected.

***Our Company is a holding company and our ability to pay dividend relies on dividend payments from our subsidiaries***

Our Company is a holding company and our Group’s business is substantially conducted through its operating subsidiaries in PRC. As a result, our ability to pay dividend depends on dividend and other distributions we received from our PRC subsidiaries. If our subsidiaries incur debts or losses, these may impair their ability to pay dividend or other distributions to our Company, which may in turn adversely affect our ability to pay dividend to Shareholders.

The ability of our subsidiaries to pay any dividend in a given year to our Company depends on the legal and regulatory requirements to which the relevant subsidiary is subject. In general, such subsidiaries may not declare and pay any dividend to our Company, if they do not have any distributable profits. The applicable PRC laws, rules and regulations also require foreign-invested



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enterprises to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. Limitations on the ability of such subsidiaries to remit their after tax profits to our Company in the form of dividend or other distributions may adversely affect our Company's ability to grow, to invest, to pay dividend and otherwise fund, and to conduct our business. There is no assurance that such subsidiaries will generate sufficient earnings and cash flow to pay dividend or otherwise distribute sufficient funds to our Company to enable us to pay dividend to Shareholders.

In addition, restrictive covenants in bank credit facilities, joint venture agreements or other arrangements that members of our Group may enter into in the future may also restrict the ability of such members to pay dividend or make distributions to our Company. These restrictions generally reduce the amount of dividend or other distributions our Company may receive from our subsidiaries, which in turn may impact on our Company's ability to pay dividend to our Shareholders.

Under the EIT Law, we may in the future be deemed as a Chinese residential enterprise by the Chinese tax authorities. In addition, under the EIT Law, certain qualifying dividend payments between Chinese resident enterprises are tax free. However, we are not sure as to whether we will be deemed to be a Chinese resident enterprise, and that our subsidiaries incorporated in PRC or elsewhere do not need to pay dividend withholding income tax.

***Fluctuation of RMB and governmental control over currency conversion may adversely affect our Group's operations and financial results as well as the value of your investment in our Company***

The value of RMB is subject to changes in the PRC government's policies and depends, to a large extent, on domestic and international economic and political developments. Since 1994, the conversion of RMB into foreign currencies, including Hong Kong dollars and USD, has been based on exchange rates published by the PBOC, which are set daily based on the previous business day's interbank foreign exchange market rates in PRC and current exchange rates on the world financial markets. From 1994 to July 2005, the official exchange rate for the conversion of RMB into Hong Kong dollars and US dollars were generally been stable. However, in July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. The PRC government has since made adjustments, and in the future may make further adjustments, to the exchange rate system.

During the period between 29 December 2006 and 31 December 2015, the value of RMB appreciated against Hong Kong dollar at a CAGR of approximately 2.0% per annum. There has been significant international pressure on the Chinese government to adopt a more flexible currency policy. As of 31 December 2015, the exchange rate of RMB to HKD is 1.19, which represents a depreciation by about 5.8% as compared to that as of 31 December 2014.

Any appreciation of RMB against Hong Kong dollar or any other foreign currencies may subject our Group to increased costs as this will reduce the RMB amount we may receive from the conversion of the Hong Kong dollar-denominated proceeds from the Global Offering and future financing for our operations.

On the other hand, any depreciation in the exchange rates of RMB against USD or Hong Kong dollar may adversely affect the financial results, and hence value of our Company's dividend payment, which will be funded by RMB but paid in Hong Kong dollars.

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In addition, under the current foreign exchange regime in PRC, there can be no guarantee that sufficient foreign currency will be available in PRC at a given exchange rate to satisfy the demands of a particular enterprise in full. There can also be no assurance that shortages in the availability of foreign currency will not restrict our Company's ability to obtain sufficient foreign currency in PRC to satisfy our Group's foreign currency needs.

***The PRC tax authorities have imposed more stringent scrutiny over acquisitions or transfer of assets which may subject us and our Shareholders to additional tax liabilities***

On 3 February 2015, SAT issued the Circular on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (“**Circular 7**”), which, among other matters, abolished certain provisions in the previously issued Notice on Strengthening the Administration of Enterprise Income Tax on Non-Resident Enterprises (關於加強非居民企業股權轉讓所得企業所得稅管理的通知) (“**Circular 698**”) in 2009. Circular 7 provides guidelines relating to, and also heightened the PRC tax authorities' scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise (“**PRC Taxable Assets**”).

In the circumstances where a non-resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC Taxable Assets, Circular 7 provides that the PRC tax authorities are entitled to reclassify the nature of such indirect transfer of PRC Taxable Assets by disregarding the existence of the overseas holding company and considering the transaction as a direct transfer of PRC Taxable Assets, if such transfer is deemed to have been conducted for the purposes of avoiding PRC enterprise income taxes and without any other reasonable commercial purpose. Although Circular 7 contains certain exemptions, it remains unclear whether any exemptions under Circular 7 will be applicable to the transfer of our Shares or to any future acquisition of assets and/or equity interest by us outside China involving PRC Taxable Assets, or whether the PRC tax authorities will reclassify such transaction by applying Circular 7. If the PRC tax authorities deem any transfer of our Shares by our Shareholders that are non-resident enterprises, or any future acquisition by us outside China involving PRC Taxable Assets are subject to the foregoing regulations, our Shareholders or our Group may be imposed with additional PRC tax reporting obligations or tax liabilities.

### **RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES AND RELATING TO STATEMENTS MADE IN THIS PROSPECTUS**

***Potential conflict of interests between the Controlling Shareholders and other minority Shareholders***

Immediately following the Global Offering and the Capitalisation Issue, our direct Controlling Shareholder, Intelligenesis Inv will beneficially own an aggregate of approximately 62% of the Shares in issue (without taking into account Shares, if any, to be allotted and issued pursuant to the exercise of the Over-allotment Option or any options that may be granted pursuant to the Share Option Scheme). The interests of the Controlling Shareholders may differ from the interests of the other Shareholders. There is no assurance that the Controlling Shareholders will act in our best interests or that of the minority Shareholders. If there is any conflict of interests between the Controlling Shareholders and the minority Shareholders, the Controlling Shareholders may have power to prevent us from proceeding with any proposed transactions at the general meeting which may be beneficial to us and other Shareholders, regardless of the underlying reasons.

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***Investors will experience dilution as a result of additional equity fund raising***

After Listing, we may issue additional Shares to raise additional funds to finance our business expansion. Such fund-raising activities may be made through issue of new equity or equity-linked securities of our Company, which are not made on a pro rata basis to existing Shareholders. In such event, the percentage ownership of those existing Shareholders may be reduced, and they may experience subsequent dilution, and/or such newly issued securities may have rights, preferences or privileges superior to those of the ordinary Shares held by existing Shareholders. Alternatively, if we meet such funding requirements by way of debt financing, such debt financing arrangements may have restrictions on us including limiting our ability or flexibility to pay dividends and requiring us to set aside certain part of our cash flows from operations to repay our debt, etc.

***There was no prior public market for our Shares, an active trading market for our Shares may not develop and the market price and trading volume of our Shares may be volatile and affected by factors not under our control***

Prior to the Global Offering, there was no public market for our Shares. The initial issue price range for our Shares and the Offer Price was the result of negotiations between us and the Sole Global Coordinator (for itself and on behalf of the Underwriters). Such Offer Price may differ significantly from the market price for the Shares following the Global Offering. Further, we cannot assure you that an active trading market will develop or be maintained following completion of the Global Offering, or that the market price of our Shares will not decline below the Offer Price.

The price and trading volume of our Shares may be volatile which is affected by various factors, some of which are beyond our control, including, variations in our revenue, earnings and cash flow, our inability to compete effectively in the market, unexpected business interruptions, our inability to obtain or maintain regulatory approval for our operations, unfavourable political, economic, financial and social developments in China and Hong Kong and in the global economy.

***There is time lag between pricing and commencement of trading of the Shares, and the price of our Shares may fall before trading begins***

The Offer Price will be determined on the Price Determination Date, which is expected to be on Wednesday, 2 November 2016. However, trading of the Shares on the Main Board will not commence until the Listing Date, which is expected to be on Tuesday, 8 November 2016. During this period, investors may not be able to sell or otherwise deal in the Shares. Accordingly, holders of the Shares are subject to the risk that the Shares' price may fall before trading begins, resulted from adverse market conditions or other adverse developments that may occur between the said period of time.

***Protection to minority shareholders under the Cayman Islands law may be different from that under the laws of Hong Kong or other jurisdictions and investors may experience difficulties in enforcing their shareholders' rights***

Our Company is incorporated in the Cayman Islands and its affairs are governed by the Articles, the Companies Law and common law applicable in the Cayman Islands. The laws of the Cayman Islands may differ from those of Hong Kong or other jurisdictions where investors may be located. Minority

## RISK FACTORS

Shareholders should be cautious that they may not enjoy the same rights as pursuant to the laws of Hong Kong or such other jurisdictions. Please refer to Appendix III to this prospectus for a summary of the Cayman Islands company law including protection of minorities.

***Future issues, offers or sale of Shares may adversely affect the prevailing market price of the Shares***

Prevailing market price of Shares may, after Listing, be negatively impacted by future issue of Shares by our Company or the disposal of Shares by any of our Controlling Shareholders or the perception that such issue or sale may occur. Future sales, or perceived sales, of substantial amounts of our Shares may also materially and adversely affect our ability to raise capital in the future at a time and at a price favorable to us. Shares held by our Controlling Shareholders are subject to certain lock-up undertakings for periods up to 12 months after the Listing Date. However, we cannot give any assurance that they will not dispose of Shares they may own now or in the future.

***Granting options under the Share Option Scheme may affect our Group's result of operation and dilute Shareholders' percentage of ownership***

We adopted the Share Option Scheme on 14 October 2016. Our Company may grant share options under the Share Option Scheme in the future. The fair value of the options at the date on which they are granted with reference to the valuer's valuation will be charged as share-based compensation, which may adversely affect our Group's results of operations. Issue of Shares upon exercise of the share options granted under the Share Option Scheme will also increase the total number of Shares in issue after such issue, resulting in the dilution to percentage ownership of the Shareholders and the net asset value per Share. No option has been granted pursuant to the Share Option Scheme up to the Latest Practicable Date. For a summary of the terms of the Share Option Scheme, please see paragraph 3.5 in Appendix IV — "Statutory and General Information" to this prospectus.

***Statistics and industry information may come from various sources which may not be reliable***

Certain facts, statistics and data presented in the section headed "Industry overview" and elsewhere in this prospectus relating to, in particular, the PRC art pawn loan and art auction industries have been derived, in part, from various publications and industry-related sources prepared by government departments or Independent Third Parties. We believe that the sources of the information are appropriate sources for such information and we have no reason to believe that such information is false or misleading in any material respect or that any fact that would render such information false or misleading has been omitted. However neither our Group, our Directors, the Sole Sponsor nor any of the parties involved in the Global Offering have independently verified, or make any representation as to, the accuracy of such information and statistics, as such these statistics and data should not be unduly relied upon.

***Investors should read this entire prospectus carefully and we strongly caution you not to place any reliance on any information (if any) contained in press articles or other media regarding us and the Global Offering including, in particular, any financial projections, valuations or other forward looking statement***

Prior to the publication of this prospectus, there may be press or other media, which contains certain information referring to us and the Global Offering that is not set out in this prospectus. We wish to emphasise to potential investors that we have not authorised the disclosure of such information

## **RISK FACTORS**

in any press or media, and neither the press reports, any future press reports nor any repetition, elaboration or derivative work were prepared by, sourced from, or authorised by us. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is not contained in this prospectus or is inconsistent or conflicts with the information contained in this prospectus, we disclaim any responsibility, liability whatsoever in connection therewith or resulting therefrom. Accordingly, prospective investors should not rely on any such information in making your decision as to whether to subscribe the Offer Shares. You should rely only on the information contained in this prospectus and the Application Forms.

## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

### **WAIVER FROM STRICT COMPLIANCE WITH RULE 8.12 OF THE LISTING RULES**

Rule 8.12 of the Listing Rules provides that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Since the core business, major assets and operations of our Group are primarily located in PRC, all of our executive Directors are currently and will, in the foreseeable future, continue to be ordinarily resident in PRC after the Listing.

We have applied to the Stock Exchange for and the Stock Exchange has granted a waiver from strict compliance with the management presence requirements under Rule 8.12 of the Listing Rules.

In order to ensure that regular adequate and effective communication is maintained between the Stock Exchange and our Company, we will put in place the following measures:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed two authorised representatives, namely Mr. ZJ Fan (our Chairman, an executive Director and Chief Executive Officer) and Mr. Tang Man Joe (our Chief Financial Officer and Company Secretary), to act as our principal channel of communication with the Stock Exchange. Mr. Tang is ordinarily resident in Hong Kong. Each of the authorised representatives shall be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange, and will also be accessible by telephone, facsimile and electronic means. Our Company will inform the Stock Exchange promptly in respect of any change in our authorised representatives or the contact details of any of them;
- (b) each of the authorised representatives has means to contact all Directors promptly at all times as and when the Stock Exchange wishes to contact them for any matters. Each of them is authorised to communicate on behalf of our Company with the Stock Exchange; each of the Directors, authorised representatives and the company secretary has provided his mobile and office contact phone numbers, fax number and email address to the Stock Exchange, should the Stock Exchange find it necessary to contact any of them;
- (c) those Directors who are not ordinarily resident in Hong Kong have confirmed that they possess or are entitled to apply for valid travel documents to visit Hong Kong and will be able to meet with the relevant officers of the Stock Exchange within a reasonable period of time when required;
- (d) each Director has confirmed that, in the event that he expects to travel or be out of office, he will provide the phone number of the place of his accommodation or other means of communications to our authorised representatives;

## **WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES**

- (e) pursuant to Rule 3A.19 of the Listing Rules, we have appointed Halcyon Capital Limited to act as our compliance adviser for the period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year after the Listing Date. The compliance adviser will act as an additional channel of communication with the Stock Exchange; and
- (f) our Company will maintain a principal place of business in Hong Kong at Suite 4018, 40/F, Jardine House, 1 Connaught Place, Hong Kong.

### **WAIVER FROM STRICT COMPLIANCE WITH CHAPTER 14A OF THE LISTING RULES**

Our Group has entered into certain transactions which would constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules after the Listing, including those transactions contemplated under the Contractual Arrangements concerning waiver from strict compliance with (i) the announcement, circular and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Structured Contracts; (ii) setting a maximum aggregate annual value (i.e. an annual cap) for the fees payable to WFOEs under the Structured Contracts; and (iii) fixing the term of the Structured Contracts to three years or less. Further particulars about such transactions together with the application for a waiver from strict compliance with the relevant requirements under Chapter 14A of the Listing Rules are set out in "Connected Transactions and Notifiable Transactions" in this prospectus.



## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

### **DIRECTORS' RESPONSIBILITY STATEMENT**

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the COWUMPO, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

### **THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS**

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set forth the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and any of the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

The Listing is sponsored by the Sole Sponsor and the Global Offering is managed by the Sole Global Coordinator. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters subject to the terms and conditions of the Hong Kong Underwriting Agreement, with one of the conditions being that the Offer Price is agreed between our Company and the Sole Global Coordinator (for themselves and on behalf of the Hong Kong Underwriters). The International Placing is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or about the Price Determination Date.

Further information about the Underwriters and the underwriting arrangements is set forth in “Underwriting” in this prospectus.

Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

### **PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES**

The procedures for applying for the Hong Kong Offer Shares are set forth in “How to Apply for the Hong Kong Offer Shares” in this prospectus and in the Application Forms.



## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

### **STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING**

Particulars of the structure of the Global Offering, including its conditions, are set forth in “Structure of the Global Offering” in this prospectus.

### **RESTRICTIONS ON OFFERS AND SALES OF SHARES**

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

### **APPLICATION FOR LISTING OF THE SHARES ON THE STOCK EXCHANGE**

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalisation Issue and the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme).

No part of our equity or debt securities is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

### **COMMENCEMENT OF DEALINGS IN THE SHARES**

Dealings in the Shares on the Stock Exchange are expected to commence on Tuesday, 8 November 2016. The Shares will be traded in board lots of 4,000 Shares each. The stock code of the Shares will be 1572.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

### **OVER-ALLOTMENT OPTION AND STABILISATION**

For details of the arrangements relating to the Over-allotment Option and stabilisation, see “Structure of the Global Offering — International Placing — Over-allotment Option” and “Structure of the Global Offering — Stabilisation Action” in this prospectus.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, the Shares or exercising any rights attaching to the Shares. We emphasise that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, the Shares or your exercise of any rights attaching to the Shares.

### **REGISTER OF MEMBERS AND STAMP DUTY**

All Shares issued pursuant to applications made in the Global Offering will be registered on our Company’s branch register of members to be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited, the Hong Kong Share Registrar. Our Company’s principal register of members will be maintained in the Cayman Islands. Only Shares registered on our Company’s branch register of members maintained in Hong Kong may be traded on the Stock Exchange.

No stamp duty is payable by applicants in the Global Offering.

Dealings in the Shares registered in the branch register of our Company in Hong Kong will be subject to Hong Kong stamp duty. The stamp duty is charged to each of the seller and purchaser at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the Shares transferred. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of the Shares. In addition, a fixed duty of HK\$5 is charged on each instrument of transfer (if required).

### **EXCHANGE RATE CONVERSION**

Unless otherwise specified, amounts denominated in RMB, Hong Kong dollars and U.S. dollars have been translated into other currencies in this prospectus, for the purpose of illustration only, at the following exchange rates:

RMB1.00: HK\$1.1700; and  
US\$1.00: HK\$7.76.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

No representation is made that any amounts in RMB, Hong Kong dollars and U.S. dollars were or could have been or could be converted into each other at such rates or any other exchange rates on such date or any other date.

### **ROUNDING**

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

### **LANGUAGE**

If there is any inconsistency between this English prospectus and the Chinese translation of this English prospectus, this English prospectus shall prevail. If there is any inconsistency between the names of any of the entities mentioned in this English prospectus which are not in the English language and their English translations, the names in their respective original languages shall prevail.

### **OTHERS**

Unless otherwise specified, all references to any shareholdings in our Company following the completion of the Global Offering assume that the Over-allotment Option is not exercised.

<b>DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING</b>
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**DIRECTORS**

Name	Residential address	Nationality
<i>Executive Directors</i>		
Mr. Fan Zhijun (范志军先生) (formerly known as Fan Zhijun (范志君))	Room 108, Block 3 Cheng Shi Jia Yuan Yicheng Street Yixing City Jiangsu Province China	Chinese
Mr. Zhang Bin (张斌先生) (formerly known as Zhang Qiqi (张琦琦))	Room 101 No. 72 Yue Di Nan Yuan Yicheng Street Yixing City Jiangsu Province China	Chinese
<i>INEDs</i>		
Mr. Leung Shu Sun Sunny (梁树新先生)	Flat H, 9/F Tower 23, Mei Hin Court South Horizons, Phase 3 Ap Lei Chau Hong Kong	Chinese
Mr. Liu Jian (刘健先生)	Flat C, 24/F Lotus Mansion Taikoo Shing Quarry Bay Hong Kong	Chinese
Mr. Chu Xiaoliang (储晓良先生)	Room 101 26 He Dong Dong Shan Village Yicheng Street Yixing City Jiangsu Province China	Chinese

Further information of the Directors is disclosed in the section headed “Directors and Senior Management” in this prospectus.

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

### PARTIES INVOLVED IN THE GLOBAL OFFERING

**Sole Sponsor**

**South China Capital Limited**  
28/F., Bank of China Tower  
No. 1, Garden Road  
Central  
Hong Kong

**Sole Global Coordinator,  
Sole Bookrunner and Sole  
Lead Manager**

**South China Securities Limited**  
28/F., Bank of China Tower  
No. 1, Garden Road  
Central  
Hong Kong

**Legal advisers to our Company**

*As to Hong Kong law:*

**Chiu & Partners**  
40/F., Jardine House  
1 Connaught Place  
Hong Kong

*As to PRC law:*

**Jingtian & Gongcheng**  
34/F., Tower 3, China Central Place  
77 Jianguo Road  
Chaoyang District  
Beijing 100025  
China

*As to Cayman Islands law:*

**Conyers Dill & Pearman**  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

<b>DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING</b>
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**Legal advisers to the Sole Sponsor,  
Sole Global Coordinator,  
Sole Bookrunner, Sole Lead Manager  
and the Underwriters**

*As to Hong Kong law:*

**Deacons**  
5/F., Alexandra House  
18 Chater Road  
Central  
Hong Kong

*As to PRC law:*

**Commerce & Finance Law Offices**  
6/F., NCI Tower  
A12 Jianguomenwai Avenue  
Beijing 100022  
China

**Auditor and Reporting accountants**

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
35/F., One Pacific Place  
88 Queensway  
Hong Kong

**Receiving banker**

**Bank of Communications Co., Ltd.**  
**Hong Kong Branch**  
20 Pedder Street  
Central  
Hong Kong

**Compliance adviser**

**Halcyon Capital Limited**  
11/F., 8 Wyndnam Street  
Central  
Hong Kong

## CORPORATE INFORMATION

<b>Registered office</b>	Cricket Square Hutchins Drive, P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
<b>Headquarters and principal place of business in PRC</b>	Northern side of Jiefang East Road Yicheng Street Yixing City Jiangsu Province China
<b>Principal place of business in Hong Kong</b>	Suite 4018, 40/F, Jardine House 1 Connaught Place Hong Kong
<b>Company's website</b>	<a href="http://www.cnartfin.com.hk">www.cnartfin.com.hk</a> <i>(information contained in this website does not form part of this prospectus)</i>
<b>Company secretary</b>	Mr. Tang Man Joe (鄧文祖先生) <i>member of HKICPA and AICPA</i> Flat H, 10/F. Block 5, Sorrento 1 Austin Road West Kowloon Hong Kong
<b>Authorised representatives</b>	Mr. Fan Zhijun (范志軍先生) Room 108, Block 3 Cheng Shi Jia Yuan Yicheng Street Yixing City Jiangsu Province China  Mr. Tang Man Joe (鄧文祖先生) Flat H, 10/F. Block 5, Sorrento 1 Austin Road West Kowloon Hong Kong
<b>Audit committee</b>	Mr. Leung Shu Sun Sunny (梁樹新先生) ( <i>Chairman</i> ) Mr. Liu Jian (劉健先生) Mr. Chu Xiaoliang (儲曉良先生)



## CORPORATE INFORMATION

<b>Remuneration committee</b>	Mr. Chu Xiaoliang (儲曉良先生) ( <i>Chairman</i> ) Mr. Fan Zhijun (范志軍先生) Mr. Liu Jian (劉健先生)
<b>Nomination committee</b>	Mr. Fan Zhijun (范志軍先生) ( <i>Chairman</i> ) Mr. Leung Shu Sun Sunny (梁樹新先生) Mr. Chu Xiaoliang (儲曉良先生)
<b>Risk management committee</b>	Mr. Chu Xiaoliang (儲曉良先生) ( <i>Chairman</i> ) Mr. Zhang Bin (張斌先生) Mr. Leung Shu Sun Sunny (梁樹新先生)
<b>Principal share registrar and transfer office in the Cayman Islands</b>	Codan Trust Company (Cayman) Limited Cricket Square Hutchins Drive, P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
<b>Hong Kong Share Registrar</b>	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor Hopewell Center 183 Queen’s Road East Wan Chai Hong Kong
<b>Principal banker</b>	Jiangsu Yixing Rural Commercial Bank (江蘇宜興農村商業銀行) 170–172 Renmin Road South Yixing City Jiangsu Province China

## INDUSTRY OVERVIEW

*The information presented in this section is, including certain facts, statistics and data, derived from the market research report (“F&S Report”) prepared by Frost & Sullivan, which was commissioned by us and from various official government publications and other publicly available publications, unless otherwise indicated. We believe that these sources are appropriate for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information that would qualify, contradict or have a material impact on such information since the date of the F&S Report. The information has not been independently verified by our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, any of our or their respective directors, officers representatives, advisers or any other person involved in the Global Offering and no representation is given as to its accuracy.*

### SOURCE OF INFORMATION

We commissioned Frost & Sullivan, an Independent Third Party, to conduct an analysis of, and to report on the PRC art finance industry, in particular, the art pawn loan industry, the art auction, the zisha artworks industry and the paintings and calligraphies industry, for the period from 2009 to 2019. The F&S Report has been prepared by Frost & Sullivan independent of our influence. The fee payable to Frost & Sullivan for preparing the F&S Report is RMB1.9 million, which we consider reflects market rates for similar services. Founded in 1961, Frost & Sullivan has 40 global offices with more than 1,800 industry consultants, market research analysts, technology analysts and economists. It offers industry research and market strategies and provides growth consulting and corporate training. Frost & Sullivan has been covering the Chinese market from its offices in PRC since the 1990’s.

The F&S Report that we commissioned includes information on China’s art finance industry and certain sub-segments, in particular the art pawn loan industry, the art auction industry, the zisha artworks industry and the paintings and calligraphies industry thereof as well as other market and economic data, which have been quoted in this section and other parts of this prospectus. Frost & Sullivan’s independent research was undertaken through (1) conducting primary research which involved discussing the status of the industry with certain leading industry participants; and (2) conducting secondary research which involved reviewing company reports, independent research reports and data based on its own research database. Projected data was obtained from historical data analysis plotted against macroeconomic data as well as specific industry-related drivers. Frost & Sullivan adopted the following assumptions when making forecast in its report: (a) China’s social, economic and political environment is likely to remain stable in the forecast period, (b) the development of the PRC art finance services sector will remain stable and healthy; and (c) the related industry key drivers are likely to continue acting as drivers of the market in the forecast period. In consideration of the basis and assumptions adopted for generating and preparing projected data, the Directors are satisfied that the disclosure of the projected data is not misleading.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the F&S Report.

# INDUSTRY OVERVIEW

## OVERVIEW OF THE PRC ECONOMY AND ART FINANCE INDUSTRY IN PRC

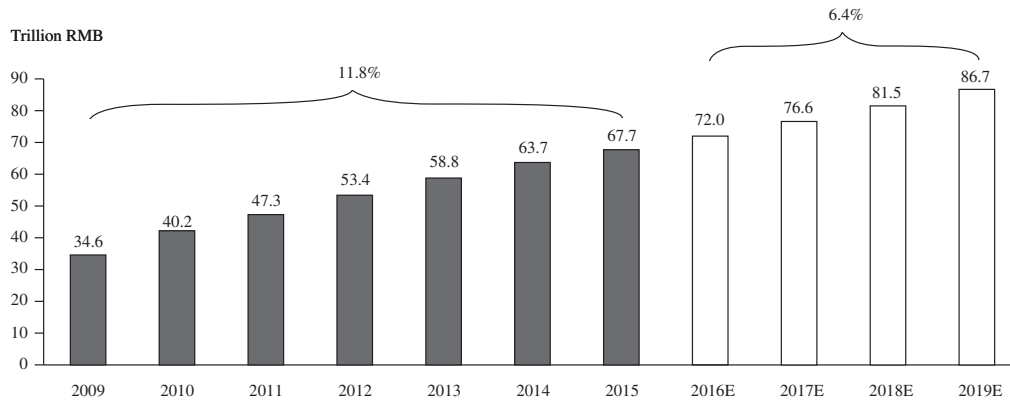
### Overview of the PRC Economy

According to National Bureau of Statistics of China, China's GDP grew with a CAGR of 11.8% between 2009 and 2015 and is forecast to increase at a CAGR of 6.4% from 2016 to 2019 to reach about RMB86.7 trillion in 2019. According to National Bureau of Statistics of China, China's per capita disposable income of urban households increased at a CAGR of 10.4% from 2009 to 2015, reaching RMB31,200 in 2015.

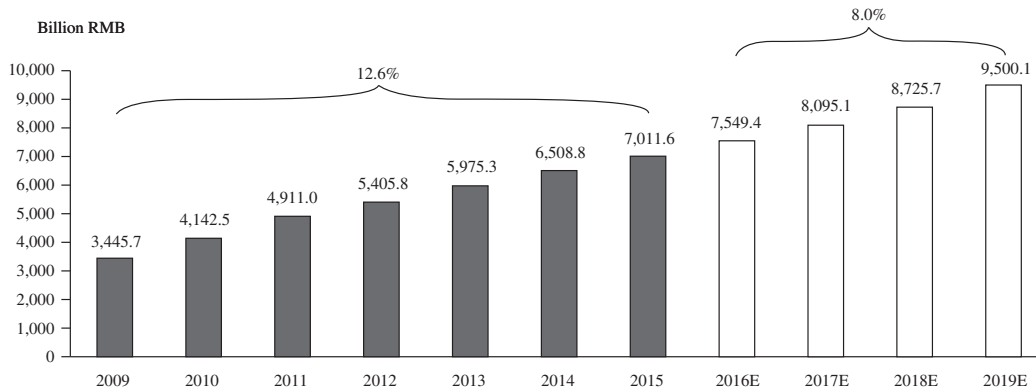
Our Group's business is mainly based in Yixing, Jiangsu province. Jiangsu province is one of the most economically developed provinces in China, its nominal GDP amounted to RMB7.0 trillion in 2015, ranking second among China's provinces. In terms of economic development in recent years, Yixing ranked the 7th among the top 100 counties of China in 2015. Yixing's GDP reached RMB130.4 billion in 2015, rising from RMB68.1 billion in 2009. Looking forward, CAGR of Yixing from 2016 to 2019 is forecast to be 6.6% with GDP at RMB168.5 billion in 2019.

The following charts set forth the historical and projected GDP and their CAGR of China and Jiangsu province respectively for the periods indicated:

**GDP (China), 2009–2019E**



**GDP (Jiangsu), 2009–2019E**



*Note:* The GDP of China and Jiangsu province for the period from 2009 to 2015 is sourced from the statistics given by National Bureau of Statistics of China.

## INDUSTRY OVERVIEW

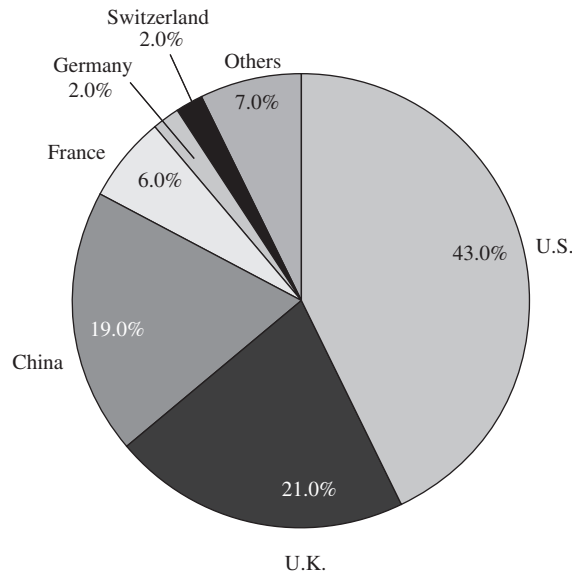
### Overview of the Culture and Art Industry in China

China is the third-largest player in the global art trading market in terms of transaction value in 2015. From 2003 to 2015, China also saw a substantial growth in the population of high net-worth individuals (individuals with investible wealth valued at US\$1 million or above, “HNWI”) from approximately 1.0 million to 3.2 million. The accumulation of wealth has been driving the development of China’s art market.

### *Accumulation of wealth creation fuels art market growth in China*

The following chart sets forth the country breakdown of the global art trading transaction value in 2015:

**Art Trading Transaction Value Breakdown by Country (Global), 2015**



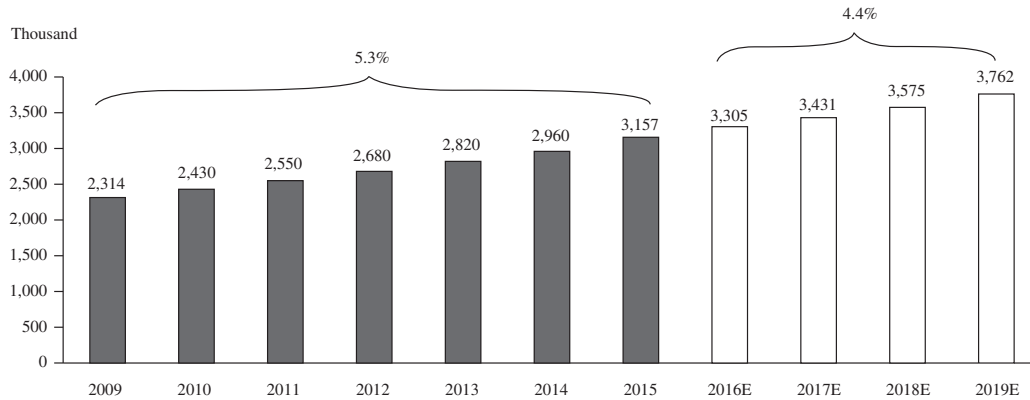
*Note:* The country breakdown of the global art trading transaction value in 2015 is based on the statistics given by the European Fine Art and Antiques Fair.

The growth in the art market is generally caused by an exceptional increase in wealth creation, especially in new growth market such as Asia. According to the F&S Report, the number of HNWI globally has increased from approximately 7.0 million in 2003 whose total investible wealth are estimated at US\$27.2 trillion, to 14.2 million in 2015 whose total investible wealth are estimated at US\$53.8 trillion (increase at a CAGR of 5.4% in total investible wealth). China has seen particularly strong growth, from approximately 1.0 million HNWI in 2003 whose total investible wealth are estimated at US\$3.6 trillion, to 3.2 million HNWI in 2015 whose total investible wealth are estimated

## INDUSTRY OVERVIEW

at US\$11.4 trillion (increase at a CAGR of 10.1% in total investible wealth). The following table chart sets forth the historical and projected number of HNWI's and their CAGR in China for the periods indicated below:

**Number of HNWI's (China), 2009–2019E**



*Note:* The number of HNWI's in China for the period from 2009 to 2015 is based on the F&S Report.

With the strong growth of the art market and the transaction value of artwork, there is an increasing trend in treating art as financial investment, and hence a growing interest in the art finance market.

### ***Overview and related government policies***

In 2010, the Guidance on the Financial Support for the Prosperity and Development of the Culture Industry (關於金融支持文化產業振興和發展繁榮的指導意見) was jointly issued by the Ministry of Finance and the Ministry of Culture. It was considered to be the basis for expanding and improving financial services for the cultural industry. In 2012, Cultural Reform and Development Plan during the National “12th Five Year Plan” Period (文化部“十二五”時期文化改革發展規劃) was promulgated by the Ministry of Culture with the aim to promote the protection and inheritance of cultural heritage, improve the inspection system of cultural market and facilitate the cultural communications and trades. In 2014, “Opinion regarding the Promotion of Further Cooperation between Finance and Culture” (關於深入推進文化金融合作的意見) was jointly issued by PBOC and the Ministry of Culture to emphasise the need for cooperation between finance and culture as a new trend for current economic and social development and to encourage financial institutions to establish specific services dedicated to cultural industries with the support of professional financial and cultural teams. The Administrative Measures for the Operation of Artworks (藝術品經營管理辦法) was issued by the Ministry of Culture on 18 January 2016 and became effective on 15 March 2016, which is formulated to strengthen the administration over operating activities related to artworks, regulate artwork-related business operations, promoting the prosperity of artwork market and protecting the legitimate rights and interests of creators, operators and consumers.

## Overview of the Art Finance Industry and its Development in China

### *Overview of the art finance industry*

For the purpose of the F&S Report, art finance broadly refers to a set of financial services that use artwork as the underlying financial asset, in personal or institutional financial management, and which transform the values of artwork into financial instrument. Art investment and art financing are the two dominating activities in the art finance market.

*Art investment* refers to the services that fulfill demand of artwork investors and collectors in purchasing, acquiring and collecting artwork pieces. The demand of art investment comes from mainly artwork collection and appreciating art. The art investment market comprises primary market and secondary market:

- primary market mainly includes purchase and acquisition of artwork from art retailers, art galleries and antique shops.
- secondary market mainly includes purchase and acquisition of artwork through art auction, private and retail sales and cultural equity exchanges (which refers to trading platforms focusing on art property rights transactions and art stock trading).

In recent years, as compared with art investment through purchase and acquisition of artworks in art galleries, the PRC market saw greater development in art auction which is considered as a promising and well-recognised channel in the China art investment market, see “Key Drivers for the Art Auction Industry in China” below.

*Art financing* refers to the services that fulfill demand of fund raisers in generating and raising working capitals utilising artworks. The major channels of art financing include equity market by way of, for instance, investment in art investment funds and debt market by obtaining funds or loans in the form of art pawn loan.

In China, as compared with other financing service providers or individuals providing private lending, art pawn loan by specialised art pawn loan companies has become an important art financing channel for its fast and convenient service, see “Key Drivers for the Art Pawn Loan Industry in China” below.

### *Characteristics of the art finance services*

Distinct from traditional types of finance services, art finance services have the following characteristics:

- (i) ***authentication and valuation:*** art finance services include authentication and valuation of artworks, which are crucial to the determination of authenticity, legitimacy and fair price of the artworks. Ability to ensure authenticity and offer accurate and fair value of the artworks is an important distinguishing factor for the success of an art finance service provider;

## INDUSTRY OVERVIEW

- (ii) **safekeeping:** in addition to the anti-theft measures and storage facilities of traditional finance institutions, storage of artworks requires delicate and higher level of safekeeping measures in view of the high value and portable nature of artworks. Certain types of artworks shall be stored under special conditions, for example, damp-proof condition or under temperature control;
- (iii) **privacy:** art investors and collectors usually require higher level of privacy due to the high value and portable nature of artworks.

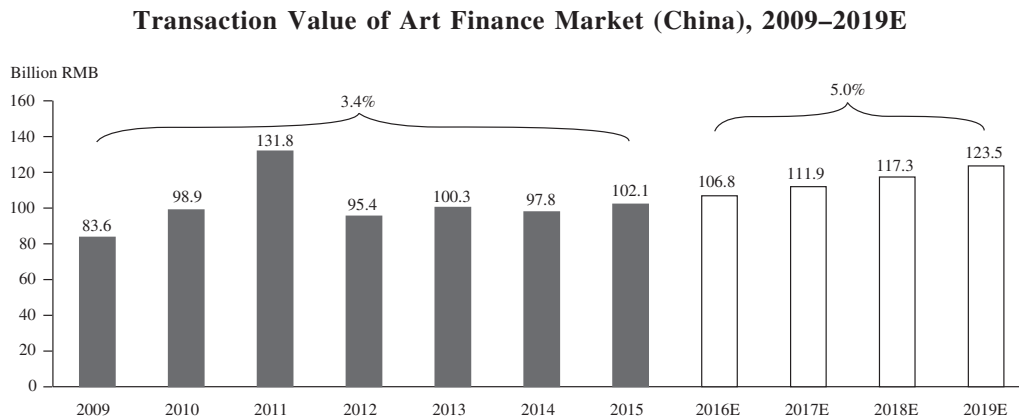
### *Art finance industry in China*

#### *Overview*

From 2003 to 2015, the global art market grew from around US\$20 billion to US\$83 billion in terms of total art sales, according to the F&S Report. Despite the financial crisis started in 2008, the global art market witnessed a CAGR in total art sales of around 13% from 2003 to 2015.

In recent years, the art market in China has witnessed stable growth. It is expected that between 2016 and 2019, transaction value of the art finance market in China will grow steadily at a CAGR of 5.0% to reach about RMB123.5 billion in 2019.

The following chart sets forth the historical and projected transaction value and their CAGR of the art finance market in China for the periods indicated:



*Note:* The total transaction value of the art finance market in China for the period from 2009 to 2015 is sourced from the statistics given by the Ministry of Culture.

In 2015, transaction value of art pawn loan and art auction in China accounted for about 4.5% and 51.8%, respectively of total transaction value of the art finance market in China.

#### *Challenges of art finance industry in China*

The development of art finance industry is dependent upon the supply of talents in artwork assessment, appraisal and storage. The lack of supply of professional talents creates an obstacle for the further expansion of art finance industry in China.



## INDUSTRY OVERVIEW

Currently, there is a market perception that the China art finance industry still presents certain marketing hype and investment risk. Market normalization and standardization are needed for the healthy development of the China art finance industry.

### *Key drivers for the art finance market in China*

The art finance industry in China is likely to grow as the Chinese government has adopted a proactive role in creating closer cooperation between the financial and cultural sectors. The strong appetite for art as an investment among Chinese buyers is likely to continue to be a major motivation and a key dynamic in the Chinese art finance market going forward. It is also expected that there will be significant financial innovation in the area of art and collectible assets in the future.

According to the F&S Report, increase in wealth creation generally has a positive impact on the art and collectibles market, particularly as wealthy individuals in China invested approximately RMB9.0 trillion of their total wealth in artwork in 2015. In addition, from 2009 to 2015, the investment amount of HNWIs in artwork in China increased at a CAGR of 24.6%.

### *Relationship between luxury market and fine arts market*

The broader luxury market comprises of various segments, including personal luxury goods, luxury cars, luxury cruises, designer furniture, fine food, fine art, and so on. In 2015, luxury car is the largest segment market in the global luxury industry, occupying over 40% of the market size. Personal luxury goods have been considered as the second core segment of the global luxury market, which occupied a market share of over 25%. Comparatively, fine art is a smaller segment, which occupied less than 4% of the market size in overall luxury market.

The largest two luxury segments, namely, luxury cars and personal luxury goods, are commonly considered as consumer products, which have corresponding functionality during daily life. When economy slows down, it is reasonably expected that consumers tend to cut their budgets on luxury cars and personal luxury goods, and substitute them with more economical consumer goods with similar functions; and at the same time, for luxury goods companies, their operating costs such as promotion cost, human capital and rental are all closely correlated with the general economic environment. Therefore, the markets of luxury cars and personal luxury goods are more sensitive to economic slowdown not only because it affects purchase decisions of wider range of consumers, but also the supply decisions of luxury goods companies worldwide.

Fine arts market, on the other hand, are less sensitive to the economic downturn comparing to the markets of luxury cars and personal luxury goods mainly because of the following two reasons. Firstly, major consumers of fine artworks are HNWIs who usually purchase artworks for their appreciation of artistic value and/or as a way of investment, which cannot easily be substituted by other consumer products. Secondly, fine artworks are usually hand-made by individuals such as artists and craftsmen, not by luxury goods companies. Their supply is more affected by investors/collectors' preference and artists' skills, and less correlated with economic environment. The adverse impacts of economic slowdown to those luxury goods companies generally affect less on individuals.

## INDUSTRY OVERVIEW

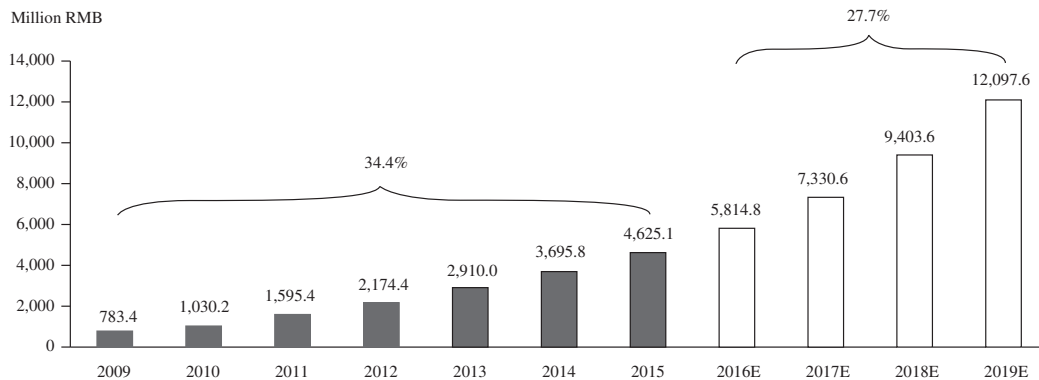
### ART PAWN LOAN INDUSTRY IN CHINA

#### Overview

The art pawn loan market in China has experienced rapid growth in recent years. According to the F&S Report, the total transaction value of China's art pawn loan market grew to RMB4.6 billion in 2015 at a CAGR of 34.4% between 2009 and 2015.

The following chart sets forth the historical and projected transaction value and their CAGR of China's art pawn loan market for the periods:

**Transaction Value of Art Pawn Loan Market (China), 2009–2019E**



*Note:* The transaction value of China's art pawn loan market for the period from 2009 to 2015 is based on the F&S Report.

Art pawn loan is a segment of pawn loan, and it broadly refers to a kind of financing where the borrower uses an artwork as collateral to the pawn loan provider for pawn loans. According to the F&S Report, the art pawn loan market in China occupied a market share of 1.3% in the overall pawn loan industry in China. Art pawn loan can be seen as an effective way of enabling art collectors to access liquidity and the equity value in their artworks without having to sell them. Art pawn loan is one of the important strategic areas that private banks in China started to look at in 2015.

#### Key Drivers for the Art Pawn Loan Industry in China

According to the F&S Report, China's art pawn loan market is expected to achieve continuous growth. Future growth of the art pawn loan market in China is expected to be primarily driven by the following factors:

##### *More private banks are offering art pawn loan*

More private banks in China are offering art pawn loan and art financing services using art and collectibles as collateral, this shows that private banks are getting more tolerant with the risks associated with lending against art collaterals, but could also be a result of increasing pressure from clients.

## INDUSTRY OVERVIEW

### *Increasing client demand*

Art pawn loan provides a prompt channel for funding. According to F&S Report, more art collectors and art owners indicated that they would be interested in using their art collection as collateral for a pawn loan. It is expected that there will be a further increase in the number of art owners using their art collections as collateral in the next few years.

### *Collectors are looking for leverage when buying new artwork*

More art collectors are interested in using their art collection as collateral to finance them to buy more artwork.

Although the regulation of the art finance market is still at in a developing stage in China, great progress has been made over the last few years. In 2013, China Minsheng Bank (中國民生銀行) set up a club for art collection and investment in order to provide art pawn loan services to its HNWI clients, while in 2014, Bank of Weifang (濰坊銀行) announced its aim to build an art and finance database to study the art market by a more quantitative approach.

### **Competition**

According to the F&S Report, the number of validly subsisting pawn loan companies passing the annual inspection in Wuxi and Yixing increased from 18 to 22 and from 4 to 5 respectively from 2012 to 2015. Despite a steady growth in China's pawn loan industry in terms of an increasing number of pawn loan companies in the last few years (from 4,433 in 2012 to 8,050 in 2015), the number of pawn loan companies which are capable of providing art pawn loan service is declining. The reasons for such decline include the following factors:

- *capital intensive nature*: pawn loan business is capital-intensive in nature. Amount of capital reserve has direct influence on the business scale of a pawn loan company. The aggregate amount of pawn loan that a pawn loan company can grant and the related total outstanding amount of pawn loans are subject to statutory thresholds. In general, the greater the registered capital amount that a pawn loan provider has, the larger amount of pawn loans it can grant. A substantial amount of capital as well as ongoing funding is required to support on-going operations, as well as to fund future expansion. Large capital requirement may deter new entrants to the industry.
- *licence requirement*: pawn loan industry is highly regulated and is subject to special licensing regime supervised by various PRC government authorities. In addition, any intended change of the registered capital of a pawn loan company over RMB50 million is required to be approved by a competent commerce department at the provincial level. Stringent entry requirements would discourage new starters to the business.
- *authentication and appraisal talent*: experts and talents in appraising artwork are generally scarce and it needs relatively high costs of maintaining a team of stable and professional authentication and appraisal experts. These create difficulty to new industry entrants to compete in the industry due to limited resources and experience.

## INDUSTRY OVERVIEW

- *brand and reputation*: art pawn loan companies operated for years have developed extensive business network, accumulated clients' confidence and loyalty and established good reputation in the industry. Newly established art pawn loan companies generally do not earn trust and loyalty from clients which may be built up only after years of quality services.
- *clients network*: establishing and maintaining good and stable relationship with clients (especially artwork interested parties, including artwork artists and art collectors) is crucial for artwork-related services provider. These parties form not only an important customer base, but may also provide technical support in artwork authentication and appraisal. New industry entrants generally lack such long-term and stable relationship with customers and business partners.

For the PRC pawn loan industry, according to the F&S Report, in terms of revenue generated from provision of pawn loan we had a market share of 0.33% in 2015.

Total revenue of the art pawn loan industry in China in 2015 amounted at RMB229.8 million. According to the F&S Report, in 2015, the five largest art pawn loan companies in PRC accounted for about 63% of the nation's market share in terms of revenue generated from provision of pawn loan secured by artwork collaterals. Among these five largest art pawn loan companies in China in 2015, Hexin Pawn ranked the first with a market share of 24.3%.

## INDUSTRY OVERVIEW

The following table set forth the five largest PRC art pawn loan service providers in terms of revenue generated from provision of pawn loan secured by artwork collaterals and their respective market share in 2015:

Rank	Company	Market Share (%)
1	Hexin Pawn	24.3
2	Company A	20.9
3	Company B	15.6
4	Company C	1.7
5	Company D	0.7

*Source: F&S Report*

Total loan amount granted of the art pawn loan industry in China in 2015 amounted to RMB4.6 billion. According to the F&S Report, the five largest art pawn loan companies accounted for about 47% of the nation's market share in terms of the size of the art pawn loan portfolio in 2015, among which Hexin Pawn ranked the second with a market share of about 13.0%, after Company A which occupied 19.2% of the market share. The table below sets forth the five largest PRC art pawn loan companies in terms of the size of the art pawn loan portfolio and their respective market share in 2015:

Rank	Company	Market Share (%)
1	Company A	19.2
2	Hexin Pawn	13.0
3	Company B	12.4
4	Company C	2.0
5	Company D	0.7

*Source: F&S Report*

In 2015, Hexin Pawn ranked the second among the PRC art pawn loan service providers in terms of registered capital, among which Hexin Pawn's registered capital increased to RMB100 million in July 2015, equal to that of Company B, after Company A with a registered capital of RMB300 million in 2015.

## INDUSTRY OVERVIEW

The table below sets forth the five largest PRC art pawn loan companies in terms of registered capital and their respective registered capital in 2015:

<b>Rank</b>	<b>Company</b>	<b>Registered Capital</b> <i>(RMB' million)</i>
1	Company A	300
2	Hexin Pawn	100
2	Company B	100
4	Company C	50
5	Company D	10

*Source: F&S Report*

### **Future Development of the Art Pawn Loan Industry in China**

According to the F&S Report, it is expected that the total transaction value of art pawn loan market in China will grow at a CAGR of 27.7% from 2016 to 2019, reaching about RMB12.1 billion in 2019, and the total revenue of art pawn loan services in China is forecast to increase to about RMB690.9 million in 2019, at a CAGR of 31.6% from 2016 to 2019. The art pawn loan market in China is expected to follow the main development trends, including: (1) increasing popularity of one-stop art finance service in terms of expansion of service scope to include other aspects of art finance services to facilitate the sharing of resources and hence lower the relative operation costs; Such aspects include the integration of art pawn loan with other art financing business (such as P2P) and/or art investment services (such as auction), which can provide multiple fund raising options to cater for different needs; (2) increasing focus on brand maintenance and expanding geographically; and (3) achieving market concentration in view of the relatively small proportion of art pawn loan services in terms of transaction value and revenue among the overall pawn loan industry in China, hence implying greater expansion potential.

### **ART AUCTION INDUSTRY IN CHINA**

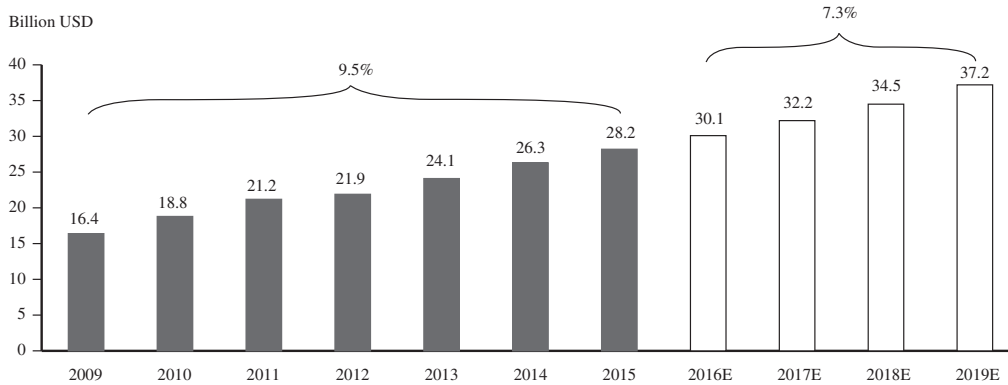
#### **Overview**

The global art auction market has witnessed growth in the past years, with the transaction value increased from USD16.4 billion in 2009 to USD28.2 billion in 2015, at a CAGR of 9.5%.

## INDUSTRY OVERVIEW

The following chart sets forth the historical and projected transaction value and their CAGR of the global art auction market for the period indicated:

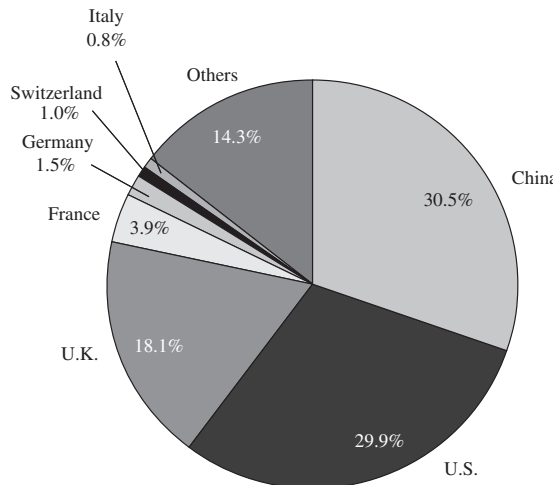
**Art Auction Transaction Value (Global), 2009–2019E**



*Note:* The transaction value of the global art auction market for the period from 2009 to 2015 is based on the F&S Report.

China emerged as the primary center for Chinese art and antiques sales early in the 2000s, and has maintained strong market share since then. In 2015, China continued to occupy a significant position in the global art auction market by accounting for 30.5% of the global art auction transaction value. The following chart sets forth the country breakdown of the global art auction transaction value in 2015:

**Art Auction Transaction Value Breakdown by Country (Global), 2015**



*Note:* The breakdown of global art auction transaction value by country in 2015 is based on the F&S Report.

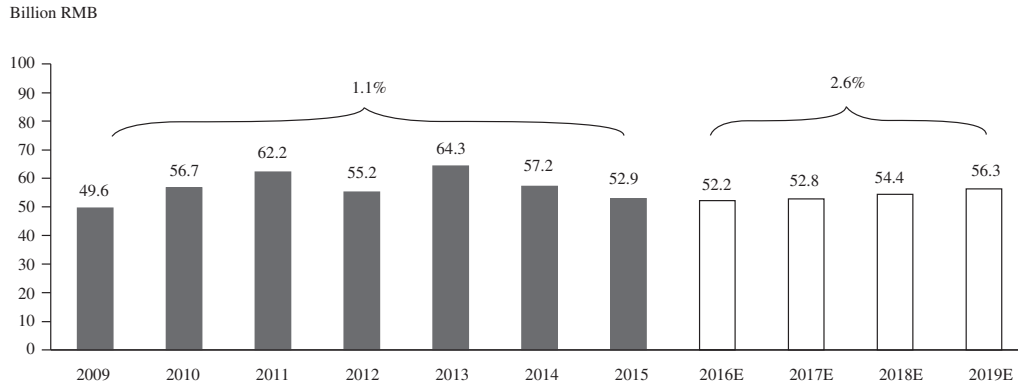
In 2011, the art auction transaction value contributed by China passed that of the United States. Since then, China occupied the leading position in terms of global art auction transaction value. Art auction is the largest component of the art finance market in China, contributing 51.8% of total transaction value of its art finance market in 2015.



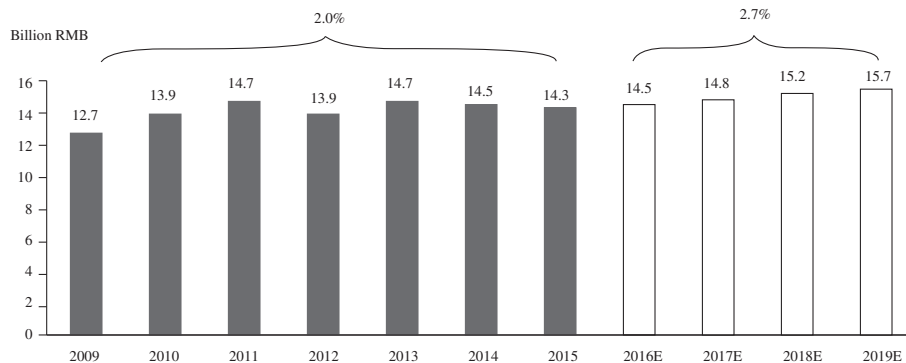
## INDUSTRY OVERVIEW

The following charts set forth the historical and projected transaction value and their CAGR of the art auction market of China and the Yangtze River Delta region respectively for the periods indicated:

### Art Auction Transaction Value (China), 2009–2019E



### Art Auction Transaction Value (Yangtze River Delta Region), 2009–2019E



*Notes:*

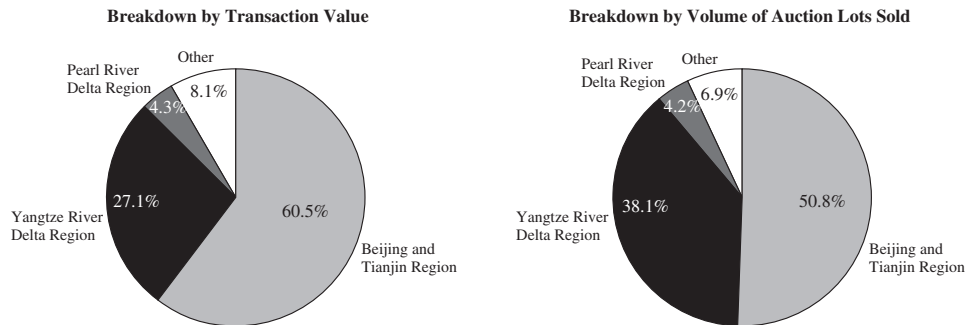
- (1) The transaction value of the art auction market of China and the Yangtze River Delta region respectively for the period from 2009 to 2015 is based on the statistics given by the China Association of Auctioneers. The transaction value of the art auction market of China and the Yangtze River Delta region both experienced a decrease primarily due to the decreasing demand resulted from capital outflow and the adjustment to industrial structure. From 2012 to 2015, the industry, in terms of artwork category, capital source and demand structure, was undergoing structural adjustment.
- (2) It is expected that between 2016 and 2019, transaction value of China's art auction market will grow steadily at a CAGR of 2.6% to reach about RMB56.3 billion in 2019. According to the F&S Report, it is expected that the future growth will be primarily driven by the forecasted increase in wealthy population in China (from approximately 3.3 million in 2016 to 3.8 million in 2019), the expected expansion of auction channels to include online platforms (the transaction value of online art auction in China is expected to experience a significant growth which is forecasted to increase at a CAGR of 44.2% from 2016 to 2019), the increasing popularity of appreciation of artwork and artwork investment (the added value of the culture and art industry in China from approximately RMB2.7 trillion in 2015 to RMB3.9 trillion in 2019), the increasing overall income level (the per capita disposable income of urban households is forecasted to increase from approximately RMB33,800 in 2016 to RMB44,700 in 2019), the pursuit of professionalism of auction houses and the increasing acceptance of auction as an investment channel for artworks.
- (3) It is expected that between 2016 and 2019, transaction value of the art auction market of the Yangtze River Delta region will grow steadily at a CAGR of 2.7% to reach about RMB15.7 billion in 2019. According to the F&S Report, it is expected that the future growth will be primarily driven by the increasing maturity level of the regional market development and similar drivers for the transaction value of the art auction market of China.

## INDUSTRY OVERVIEW

The Yangtze River Delta region, which includes Shanghai, Jiangsu province, and Zhejiang province, is the second-largest Chinese art market in 2015. In 2015, the Yangtze River Delta region contributing 27.1% of the transaction value of the auction lots sold and 38.1% of the volume of auction lots sold in China.

The following charts set forth the region breakdown of the Chinese art auction market shares in 2015 (i) by transaction value and (ii) by volume of auction lots sold:

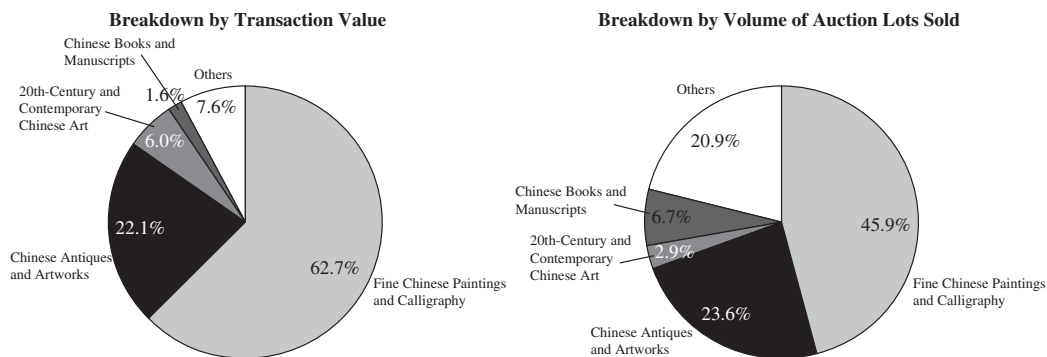
### Art Auction Market Breakdown by Region (China), 2015



*Note:* The region breakdown of the Chinese art auction market shares in 2015 is based on the statistics given by the China Association of Auctioneers.

According to China Association of Auctioneers, among various types of artworks, fine Chinese paintings and calligraphies (including contemporary Paintings and Calligraphies, being the major type of paintings and calligraphies in our Group's art auctions) has accounted for the largest part in terms of both art auction transaction value and transaction volume of auction lots sold in 2015, with a share of 62.7% and 45.9% respectively. Chinese antiques and artworks (which include Zisha Artworks, being one of the major types of auction lots in our Group's art auctions) has accounted for the second largest part in terms of both art auction transaction value and transaction volume of auction lots sold in 2015, with a share of 22.1% and 23.6% respectively. The following charts set forth the artwork category breakdown of the Chinese art auction market shares in 2015 (i) by transaction value and (ii) by volume of auction lots sold:

### Art Auction Market Breakdown by Category (China), 2015

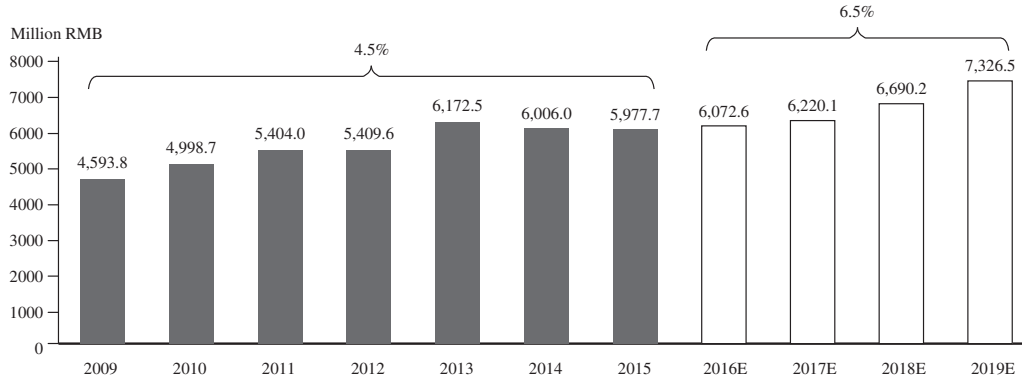


*Note:* The artwork category breakdown of the Chinese art auction market shares in 2015 is based on the statistics given by the China Association of Auctioneers.

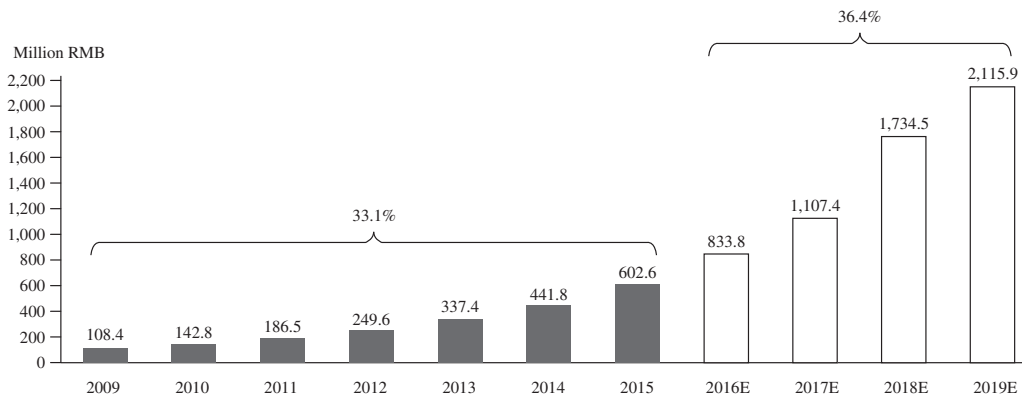
## INDUSTRY OVERVIEW

The following chart sets forth the historical and projected transaction value and their CAGR of contemporary Paintings and Calligraphies and Zisha Artworks in China's art auction industry for the periods indicated:

### Art Auction Transaction Value of Contemporary Paintings and Calligraphies (China), 2009–2019E



### Art Auction Transaction Value of Zisha Artworks (China), 2009–2019E



*Note:* The transaction value of contemporary Paintings and Calligraphies and Zisha Artworks in China's art auction industry for the period from 2009 to 2015 is based on the F&S Report.

### Online Art Auction

E-commerce in the art market has been growing in recent years, with a proliferation of new companies entering the online art sector, offering convenience, efficiency, and greater accessibility for both buyers and sellers of art. The Chinese online market is one of the biggest worldwide: in 2014, it had the highest number of internet users globally of 632 million (versus 277 million in the United States), and electronic retailing was estimated at US\$295 billion (versus \$270 billion in the United States).

## INDUSTRY OVERVIEW

### *Global online art industry trends*

Globalisation of the art market has been accelerating in the last ten years, with the significant development of e-commerce infrastructure and the emergence of online art marketplaces, globalisation of the art market is developing at an unprecedented pace. However, globalisation also presents challenges to the online art market. In terms of consumer protection, transacting across geographical markets with different legal jurisdictions presents risks associated with non-payment, defective title, physical or other conditions, and authenticity problems, and it also raises questions about legal rights and how to enforce them when there are disputes. Complicated import, export and value added tax duties make the movement of artworks far from frictionless. In terms of specialist nature of packing, shipping and storing artworks, logistical challenges could also make some art transactions uneconomical.

While experienced traditional galleries, dealers and auction houses have the competence and knowledge in cross-border transactions and in handling fragile artworks, online platforms or marketplaces that can combine with experienced traditional art businesses seamlessly into the digital marketplace will be well positioned to benefit from, and participate in, the growth online.

Reputation is arguably the most valuable asset in the art world. It is of crucial importance for traditional galleries and auction houses to translate their existing reputation into a digital environment, and for new art e-commerce platforms to build a reputation and trust in a relatively closed and relationship-driven art market. In response to these challenges, starting from 2014, there has been a proliferation of strategic partnerships between the new and traditional art finance service providers. The advent of the online art market is likely to increase the amount and availability of potentially useful information and help these companies compete in an increasingly consumer-empowered economy.

Online market is likely to bring an evolution, not revolution for traditional market players. The art industry is learning how to integrate and exploit the benefits of digital services without undermining their traditional revenue streams and business models.

### *The online art industry and its potential impact on the art finance industry*

*Online art finance business is crucial in broadening the existing collector base, which is likely to bring improved market liquidity*

Online art business has the potential to broaden collector and investor base for art, which in turn could bring improved overall market liquidity as more participants enter the art finance market. This could be significant for the wealth management industry since liquidity is considered as a key impediment to providing art pawn loan services.

*Online art business can help improving the valuation of art and collectibles*

New technology and online art business have the potential to facilitate valuation of art and collectibles. The advent of the widespread digitisation of data and the ability of technology to process such data provides opportunities for significant improvements and potential standardisation around valuation methods and processes. While this is unlikely to replace the specialist approach to valuation and appraisal, it will be an additional tool to meet the demands of a data-driven wealth management industry.

## INDUSTRY OVERVIEW

*Online art business is likely to drive down transaction costs as competition increases*

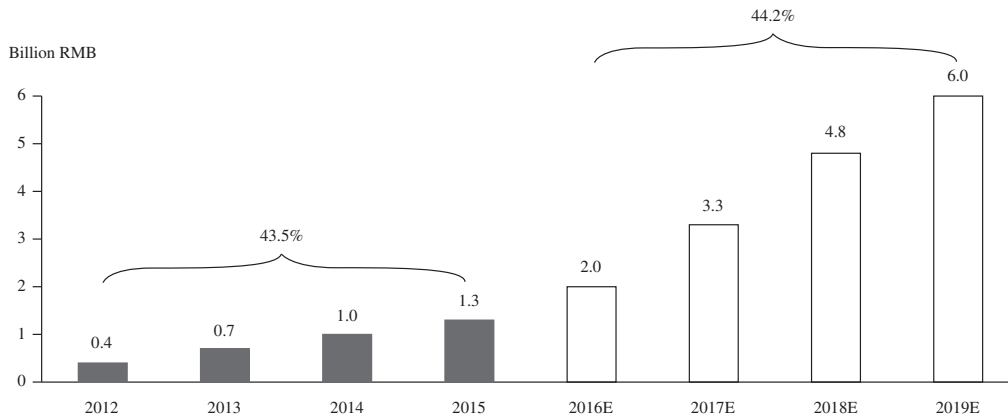
Online sales platforms are likely to drive down overall transaction costs in the art market. Auction sales commissions are currently charged at the rate of about 20%, and there is room for online sales platforms and marketplaces with a lower overhead structure to reduce transaction costs.

### **Online art auctions market in China**

In developed countries (such as the United States and the United Kingdom), online art auction market has undergone years of development and reached its mature development stage with stable market demand and supply status.

In China, leading players in the art auction market (including key competitors of our Group in the art auction business) have commenced to operate auction business through organising both on-site and online auctions. The past few years saw a sustained expansion momentum in the online art auction market. The following chart sets forth the historical and projected transaction value and their CAGR of China's online art auction for the periods indicated:

**Transaction Value of Online Art Auction (China), 2012–2019E**



*Note:* The transaction value of China's online art auction for the period from 2012 to 2015 is based on the F&S Report.

Online auctions will likely draw more attention and become the key strategy of our key competitors in the art auction business. As a result, the total market size and supply network of online art auction are expected to receive further growth in China.

## INDUSTRY OVERVIEW

### Auction Qualifications for Auction Enterprises in China

The Grade Assessment and Classification for Auction Enterprises (《拍賣企業的等級評估與等級劃分》) jointly published by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局) and Standardization Administration of the PRC (中國國家標準化管理委員會) on 30 December 2011 sets out the major criteria for assessing the auction house grading, which are summarised as follows:

Category	Criteria	Content	Score
Auction normalisation	Institutional construction	Corporation management system, work procedure, and business rules	1 to 3
	Filing management	Archiving and management of auction files	1 to 3
	Human resource management	Signing of labor contract, and paying social insurance	1 to 3
Level of integrity	Integrity of corporation	Award of industry association and title of honor	1 or 3
	Industrial responsibilities	Member of industry association and performing of obligation	1 or 3
	Client services	Providing service plan and execution of service	2 or 4
Sustainable development	Information technology	Enterprise website, computer management, and online auction	2 to 4
	Level of expertise	Average transaction value and average number of auction held annually	2 to 4
	Marketisation Level	Average transaction value of entrusted business of public	2 to 4
	Human resources	Number of employees holding practitioner certification of auction industry and auctioneer qualification certificate	1 to 3
	Cultural construction	Training program and party organization	1 to 3

## INDUSTRY OVERVIEW

Category	Criteria	Content	Score
Operation status	Average annual net asset value	RMB1 million to above RMB50 million	1 or 3 or 5 or 7 or 9
	Years of operation	3 years to above 10 years	1 or 3 or 5
	Office space	100 to above 1000 sq. m.	1 or 3 or 5
	Average transaction value	RMB10 million to above RMB300 million annually	1 to 6
	Average revenue	RMB0.3 million to above RMB15 million annually	1 to 6
	Average number of auctions held	5 to above 37 auctions held annually	1 or 3 or 5
Social responsibility	Charity auction	Average donation amount and number of charity auctions held	1 or 3 or 5
	Average business tax paid	RMB15,000 to above RMB750,000	1 or 3 or 5 or 7 or 9 or 11
	Average EIT paid	RMB10,000 to above RMB2 million	1 or 3 or 5 or 7 or 9 or 11

For an auction enterprise to be awarded A-Grade, AA-Grade or AAA-Grade Auction Qualification, it has to obtain a total score of 60 (or above), 70 (or above) and 85 (or above) respectively based on the assessment criteria.

### **Key Drivers for the Art Auction Industry in China**

According to the F&S Report, China's art auction market is largely driven by China's macro economy, as well as the rising income level and living standard of the population. It is expected that the China art auction market will be primarily driven by the factors listed below.

#### ***Appreciation in value of artwork***

The strong growth of China's art market witnessed the rapid rise in the value of artwork. The market for Zisha Artworks, in particular Zisha teapots began to flourish in late 2008 and early 2009 and hit unprecedented popularity in 2011. In the 2015 autumn auction of Dongzheng Auction, a set of Zisha teapot made by Master Gu Jingzhou reached a new hammer price record of RMB92 million. Strong growth in auction value of Zisha Artworks has drawn much attention and interest of artwork interested parties to investment in Zisha Artworks. The rising living standard contributes to cultivating interests in art appreciation and collection in PRC, which in turn drives the demand for cost-effective and flexible artwork trading platforms. Recognition and popularity of art auction, as the major trading platform for artworks, will be further enhanced.



## INDUSTRY OVERVIEW

### *Increasing number of wealthy population*

According to the F&S Report, the number of HNWIs in China in 2015 was 3.2 million, and it grew at a CAGR of 5.3% between 2009 and 2015. It is expected to increase further to reach over 3.7 million in 2019 at a CAGR of 4.4% from 2016 to 2019. The increase in both the wealth and the number of wealthy population is expected to enhance the financial strengths and purchasing power, hence enlarging the customer base for the art auction market in PRC. With the strong growth of the art market and the transaction value of artwork, there is an increasing trend in treating art as financial investment, and hence a growing interest in the art finance market.

### *Increasing popularity of artworks as an asset for investment*

According to the Hurun Research Institute, among the various investment assets of HNWI, artworks ranked the second in terms of investment amount in their investment portfolio in 2015. During 2009 to 2015, investment in artworks achieved the highest CAGR of 24.6%, outranking the growth in investment in gold which ranked the second in terms of CAGR at 5.6% for the period from 2009 to 2015. The increasing popularity of artworks as an asset for investment will enhance the prosperity of the PRC art auction industry.

### *Improving and expanding auction channels*

With its expanding popularity, higher requirements on the form and organisation of the art auction become the center of attention of global artwork interested parties. Online art auctions offer the opportunity for art auction companies to breakthrough geographical limitations, and to allow sizable number of online bidders to access the auction platform with convenience.

### *Pursuit of professionalism and high quality services of auction companies*

The growing demand from artwork interested parties has driven the qualitative improvements of the auction organisation, auction services, and the artworks. Competition for professionalism will lead to a gradual standardisation of market practices, enhancing further growth of the PRC art auction market in the future.

## **Competition**

Major entry barriers of the PRC art auction market include (1) brand reputation; (2) authentication and appraisal ability and (3) clients network, which are similar to those entry barriers of the PRC art pawn loan market as discussed above.

In 2015, there were more than 7,000 auction companies in China, of which approximately 6% focused on art auction. In 2012, there were around 350 art auction companies in China, and the number has increased to around 420 in 2015. For the PRC auction industry, according to the F&S Report, in terms of auction revenue we had a market share of 0.50% in 2015. The total revenue derived from the art auctions in PRC reached about RMB7.4 billion in 2015, of which Jiangsu province accounted for about RMB284 million. According to the F&S Report, the five largest art auction companies in Jiangsu province accounted for about 75% of the province's market share in terms of art auction revenue in 2015, among which Hexin Auction ranked the second with a market share of about 16.9%, after

## INDUSTRY OVERVIEW

Company E which occupied 21.1% of the market share. The table below sets forth the five largest auction companies in Jiangsu province in terms of revenue generated from art auction and their respective market share in 2015:

Rank	Company	Market Share (%)
1	Company E	21.1
2	Hexin Auction	16.9
3	Company F	13.0
4	Company G	12.7
5	Company H	11.3

*Source: F&S Report*

In the Zisha Artworks auction market in China, Hexin Auction occupied the leading position with a market share of 30.1% in terms of revenue in 2015. Total revenue generated from auction of Zisha Artworks in PRC in 2015 amounted to RMB102.1 million. According to the F&S Report, the five largest auction companies in China accounted for about 76% of the PRC market share in terms of Zisha Artworks auction revenue in 2015. The five largest auction companies in PRC in terms of revenue generated from auction of Zisha Artworks and their respective market share in 2015 are set out in the table below:

Rank	Company	Market Share (%)
1	Hexin Auction	30.1
2	Company I	13.4
3	Company J	13.0
4	Company K	10.1
5	Company L	9.3

*Source: F&S Report*

### **Future Development of the Art Auction Industry in China**

According to the F&S Report, it is expected that the transaction value of art auction in China will exceed RMB56 billion in 2019 at a CAGR of 2.6% from 2016 to 2019. Contemporary Paintings and Calligraphies and Zisha Artworks are forecast to contribute 13.5% and 3.8%, respectively of the total transaction value, in 2019. The total art auction revenue in China is forecast to reach over RMB8 billion in 2019 at a CAGR of 3.4% from 2016 to 2019. Among them, contemporary Paintings and Calligraphies and Zisha Artworks are forecast to occupy 13.4% and 3.7%, respectively, in 2019. The art auction market in China are expected to grow in the coming years following the development trend: (1) the PRC art auction industry will embrace e-commerce and witness continuous penetration of the internet in the art finance market; (2) Chinese artworks with diversified culture connotation, in particular, Zisha Artworks, will receive further recognition in both Chinese and global art market.

# INDUSTRY OVERVIEW

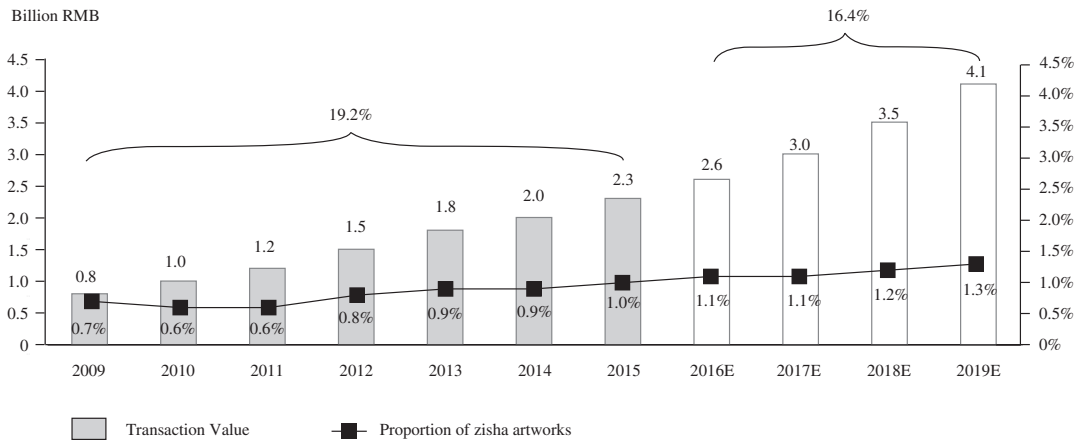
## OVERVIEW OF ZISHA ARTWORKS INDUSTRY IN CHINA

Zisha artworks particularly refer to the high quality products which major raw material is Zisha clay that are made individually or in a small batch by Zisha artists and craftsmen. As compared with mass-produced Zisha products, Zisha artworks have higher artistic value and collection value.

Zisha artworks have a development history of hundreds of years since the late Ming Dynasty, and they are recognised as an important part of the traditional Chinese tea culture. Most of the Zisha artwork factories and Zisha masters gather in Yixing city of Jiangsu Province, which is the only origin of Zisha clay.

Although it contributes a relatively small portion of the overall artwork market, the Zisha artwork market has great development potential. The following chart sets forth (i) the historical and projected transaction value and their CAGR of the Zisha artwork market in China; (ii) the historical and projected proportion of Zisha artworks (in terms of transaction value) of the total transaction value of artworks in China for the periods indicated:

**Transaction Value of Zisha Artworks and Proportion of Zisha Artworks  
(in terms of transaction value) (China), 2009–2019E**



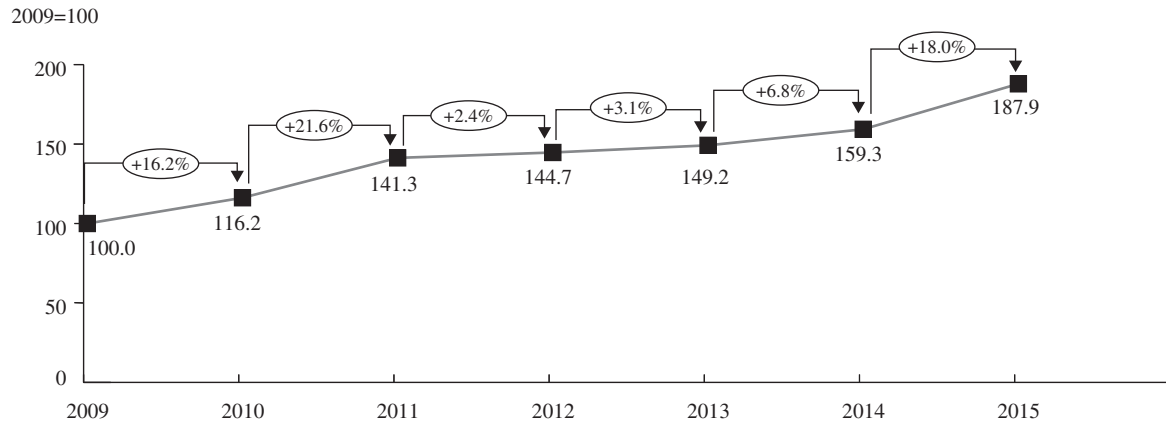
*Notes:*

1. The transaction value of Zisha artworks represents the total transaction prices of Zisha artworks transacted or involved in art pawn loan, art auction, transactions at art galleries and other channels.
2. The transaction value and proportion of Zisha artworks for the period from 2009 to 2015 is based on the statistics given by the China Ceramics Association (中國陶瓷協會) and the China Arts and Crafts Association (中國工藝美術協會).

## INDUSTRY OVERVIEW

As with the growing trend of the transaction value of Zisha artworks, the historical price index of Zisha artworks in the Chinese art auction market also shows a steady growth. The following charts set forth the historical price index and percentage changes in the price index of Zisha artworks in the Chinese art auction market for the periods indicated:

**Price Index of Zisha Artworks in Art Auctions (China), 2009–2015**



*Notes:*

1. The price index of Zisha artworks represents the change of average transaction price of Zisha artworks transacted in art auctions.
2. The price index of Zisha artworks for the period from 2009 to 2015 are based on the F&S Report and the statistics sourced from the China Association of Auctioneers, the China Ceramics Association and the China Arts and Crafts Association.

Apart from the historical factor, the limited production of Zisha artists, the prosperity of the Zisha and tea culture and the increasing purchasing power and Zisha artwork appreciation in China are the primary drivers for the increase of the transaction value of Zisha artworks. According to the F&S Report, the range of lowest and highest hammer price of Zisha artworks sold by the five largest art auction companies (in terms of total revenue generated from auction of Zisha artworks) grew from approximately RMB2,750–RMB12.9 million in 2012 to RMB8,000–RMB38.0 million in 2015. From 2012 to 2015, the number of Zisha artworks offered as auction lots by these five largest art auction companies grew from 1,337 in 2012 to 1,826 in 2015, with a CAGR of approximately 10.9%.

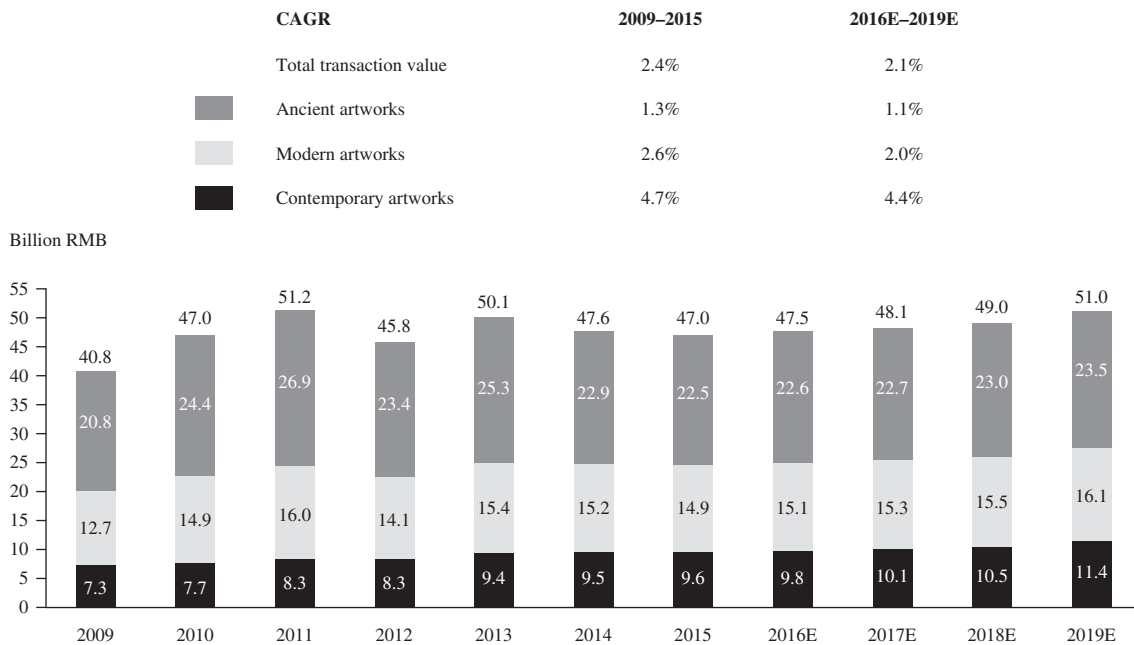
According to F&S Report, it is expected that the transaction value of Zisha artworks in China will exceed RMB4.1 billion in 2019 at a CAGR of approximately 16.4% from 2016 to 2019. The Zisha artworks industry in China is expected to grow in the coming years following the development trend: (1) further growth in the demand of Zisha artworks to be driven by the increasing popularity of Zisha artworks among the general public of China and (2) Zisha artists will be incentivised to make Zisha artworks with higher quality.

# INDUSTRY OVERVIEW

## OVERVIEW OF PAINTINGS AND CALLIGRAPHIES INDUSTRY IN CHINA

During 2009 to 2015, the growth of the paintings and calligraphies market in China fluctuated mainly due to the changing demands of ancient and modern paintings and calligraphies. As a result of the global financial crisis and slowdown of economic growth in 2012, the investment demand in paintings and calligraphies, in particular ancient and modern category, decreased. On the other hand, contemporary Paintings and Calligraphies maintained a steady growth from 2009 to 2015. The following chart sets forth the historical and projected transaction value and their CAGR of the paintings and calligraphies market (as a whole and breakdown by ancient, modern and contemporary category) in China for the periods indicated:

**Transaction Value of Paintings and Calligraphies (China), 2009–2019E**



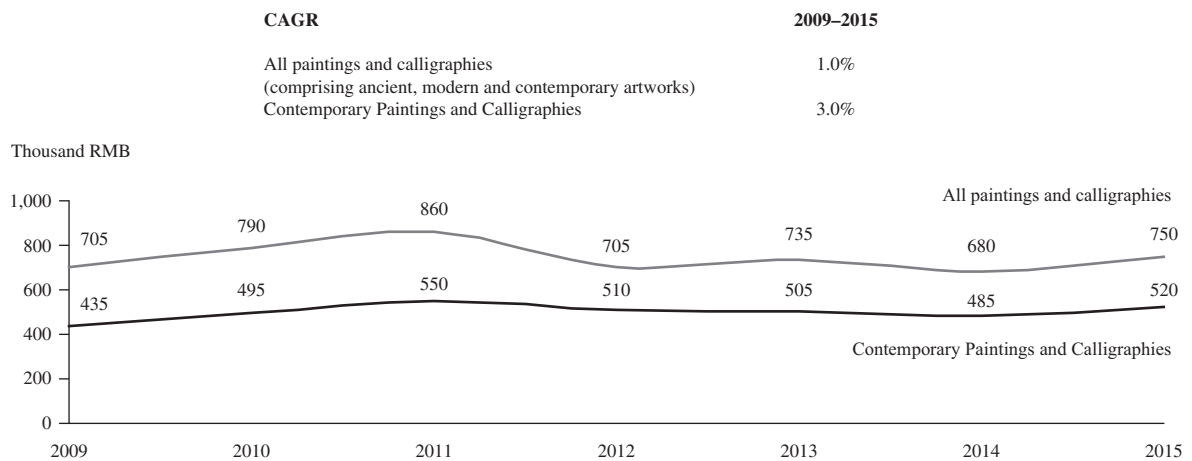
*Notes:*

1. The transaction value of paintings and calligraphies represents the total transaction prices of paintings and calligraphies transacted or involved in art pawn loan, art auction, transactions at art galleries and other channels.
2. Ancient artworks refers to artworks which were made prior to the year 1840; modern artworks refers to artworks which were made between the year 1840 and the year 1949; contemporary artworks refers to artworks which were made after the year 1949.
3. The transaction value for the period from 2009 to 2015 is based on the statistics given by the China Association of Auctioneers.

## INDUSTRY OVERVIEW

The number of paintings and calligraphies offered as auction lots in China experienced fluctuation, with only a slight increase from approximately 27,400 in 2009 to approximately 28,000 in 2015 at a CAGR of approximately 0.4%; while the number of contemporary Paintings and Calligraphies offered as auction lots increase sharply from approximately 4,410 in 2009 to approximately 7,440 in 2015, with a CAGR of approximately 9.1%. The growth of the average hammer price of all paintings and calligraphies (comprising ancient, modern and contemporary artworks) and contemporary Paintings and Calligraphies shared a similar trend. The following chart sets forth the historical average hammer prices of all paintings and calligraphies and contemporary Paintings and Calligraphies in China for the periods indicated:

### Average Hammer Price of all Paintings and Calligraphies and Contemporary Paintings and Calligraphies (China), 2009–2015



*Source: China Association of Auctioneers; F&S Report*

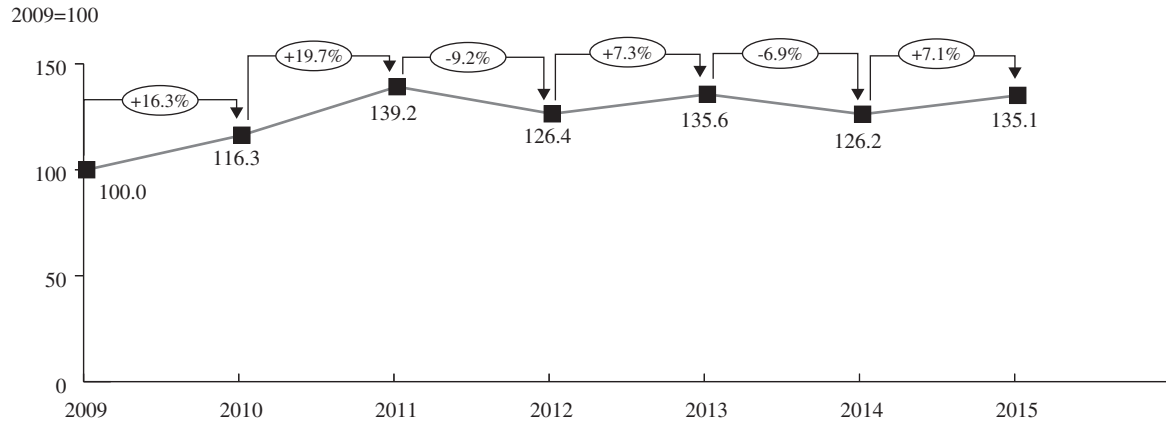
*Note:* The average hammer price for the period from 2009 to 2015 is sourced from the statistics given by the China Association of Auctioneers.

According to the F&S Report, it is expected that the transaction value of paintings and calligraphies in China will be around RMB51.0 billion at a CAGR of 2.1% from 2016 to 2019, primarily due to the adjustment in the industry structure of the paintings and calligraphies market.

## INDUSTRY OVERVIEW

Compared to the steady growth of the historical transaction value of contemporary paintings and calligraphies from 2009 to 2015, the growth in the historical price index of contemporary paintings and calligraphies experienced fluctuations during the same period. The following charts set forth the historical price index and percentage changes in the price index of contemporary painting and calligraphies in the Chinese art auction market for the periods indicated:

### Price Index of Contemporary Paintings and Calligraphies in Art Auctions (China), 2009–2015



*Notes:*

1. The price index of contemporary paintings and calligraphies represents the change of average transaction price of contemporary paintings and calligraphies transacted in art auctions.
2. Contemporary paintings and calligraphies refers to paintings and calligraphies which were made after year 1949.
3. The price index of contemporary paintings and calligraphies for the period from 2009 to 2015 are based on the F&S Report and the statistics sourced from the China Association of Auctioneers.

## REGULATORY OVERVIEW

### REGULATIONS

Our business comprises two segments: (i) art and asset pawn (which is regulated under Pawning Measures) and (ii) art and asset auctions (including online auction). Our business operations are subject to extensive laws and regulations of PRC and government supervision. This section sets forth a summary of the most significant aspects of laws and regulations relating to our business operations in PRC.

### ART AND ASSET PAWN

#### The Pawning Measures

On 25 February 2005, the Pawning Measures were jointly issued by the MOFCOM and the Ministry of Public Security (the “MPS”) and came into effective on 1 April 2005. The Pawning Measures define “pawn” as an act whereby (a) a pledgor gives his or her chattels or property rights to a pawn loan provider as a pledge or gives his or her real estate to the pawn loan provider as a mortgage; (b) on the basis of the value of the mortgaged property, the pledgor pays a fee and interest to the pawn loan provider and the pawn loan provider provides a loan to the pledgor; and (c) within a pre-determined period the pledgor repays the loan and interest calculated thereon and by doing so discharges the pledge or mortgage and accordingly redeems the property and/or real estate.

A pawn loan provider is a legal person established in accordance with the Pawning Measures and the Company Law. Pawn loan providers come under the supervision and administration of the competent commerce authorities and public security bureaus. According to the Pawning Measures, an application for establishment of a pawn loan provider must meet the following conditions: (a) the proposed pawn loan provider shall have an articles of association that complies with the laws and regulations of PRC; (b) the proposed pawn loan provider shall have a minimum registered capital provided by the Pawning Measures. Specifically, a pawn loan provider must have a minimum registered capital of (i) RMB3 million; (ii) RMB5 million in case it provides financing secured by real estate mortgages; or (iii) RMB10 million in case that it provides financing secured by pledges over property rights. In each case, the minimum registered capital must be contributed in the form of cash; (c) the proposed pawn loan provider shall have business premises and business facilities as required; (d) the proposed pawn loan provider shall have business management personnel and appraisal personnel who are familiar with the pawn business; (e) the proposed pawn loan provider shall have at least two legal person shareholders which have relative controlling shareholding of the pawn loan provider; (f) the proposed pawn loan provider shall meet the requirements of security administration provided by the Pawning Measures; and (g) the proposed pawn loan provider shall meet the requirements of the State on uniform planning and reasonable layout of pawn loan providers.

In accordance with the Pawning Measures, a pawn loan provider is required to establish and implement procedures for the safe operation of the pawn business. Such procedures include (a) the proper maintenance of paperwork for the receipt, preservation and redemption of pledged property; (b) the careful inspection and safeguarding of pledged property; (c) the provision of assistance in government investigations pertaining to the arrest of people suspected of crimes; (d) the reporting of suspicious persons or circumstances to the relevant authorities; (e) the engagement of security personnel; (f) the installation of security video and sound recording equipment, including those on all business counters; and (g) the installation of security vaults and safes adequate for the safe and secure storage of pledged property.



## REGULATORY OVERVIEW

Pawn loan providers with a registered capital in excess of RMB15 million, an operating history of more than 3 years, and net profits and no record of unlawful business operations over the most recent two years may establish branch offices in provinces and regions outside the jurisdiction of their registration. For each branch office that is established, the pawn loan provider must provide a minimum of RMB5 million operation capital, and the combined operation capital provided to all branches must not exceed fifty percent of the registered capital of the pawn loan provider.

An application for the establishment of a new pawn loan provider or a new branch of an existing pawn loan provider must be submitted to local commerce authority and thereafter must undergo examination and approval by the provincial level commerce authority and finally be filed with MOFCOM before issue the requisite Pawn Operation Permit. Within five working days of examination and approval by MOFCOM, the relevant provincial level commerce authority must inform the Public Security Bureau at the provincial level, which thereafter must inform the local counterpart of Public Security Bureau of the relevant circumstances of the establishment. Within ten working days of receiving a Pawn Operation Permit, the applicant must report to the city-level counterpart of Public Security Bureau and apply for a Special Industry Permit by providing, among other things, floor plans, architectural drawings and schematic diagrams detailing the layout of the pawn loan provider premises and the installation of secure vaults, safes and security surveillance equipment. Within ten working days of receiving a Special Industry Permit, the applicant must apply at the relevant AIC for registration of the business and receipt of a Business Licence (營業執照).

The Pawning Measures provide that, in addition to granting loans to pledgors who mortgage their real estate which is located in the province or region within the jurisdiction of the pawn loan provider's registration, or projects under-construction (在建工程) that have obtained Housing Presale Permits (商品房預售許可證), the permitted scope of a pawn loan provider's business includes, among other things, the sale of pledged or mortgaged property that has been forfeited by the pledgor, as well as the provision of valuation and related consultancy services. Where relevant laws of PRC require the registration of pawned property, including in respect of mortgaged real estate or pledged automobiles, such registration must be duly completed. Pawn loan providers are not permitted to, among other things, accept mortgages over moveable properties, engage in unlawful capital raising activities, accept cash deposits in any form or provide credit loans. Furthermore, pawn loan providers are prohibited from borrowing money from any person other than commercial banks, entering into short-term loan facilities with other pawn loan providers, borrowing funds in excess of permitted amounts from commercial banks and engaging in investment activities. According to the Notice Regarding the Prevention of External Risk Transmission (中國銀監會辦公廳關於防範外部風險傳染的通知) issued by China Banking Regulatory Commission on 14 May 2013, commercial banks are prohibited to provide credit line to pawn loan providers.

On 17 May 2005, MOFCOM and the MPS jointly promulgated the Circular of the Ministry of Commerce and the Ministry of Public Security on Relevant Issues concerning the Implementation of the Pawning Measures (商務部、公安部關於貫徹實施《典當管理辦法》的有關問題通知), which further addresses the issues on, including but not limited to, preliminary examinations of applications for a new pawn loan provider, verification and issuance of Special Industry Permits, the scope of senior managers and security standards for existing pawn loan providers.

## REGULATORY OVERVIEW

The MOFCOM issued the Circular of the General Office of the Ministry of Commerce on Improving Systems for the Supervision and Risk Prevention of Pawn Industry (商務部辦公廳關於進一步完善典當業監管及風險防範制度的通知) (“**Circular No. 119**”), and the Circular of the General Office of the Ministry of Commerce on Strengthen the Supervision of Pawn industry (商務部辦公廳關於加強典當行業監管工作的通知) (“**Circular No. 81**”), on 12 November 2008 and 28 August 2009 respectively. Under these circulars, MOFCOM further specifies the issues on supervision and inspection of pawn loan providers for the purpose of standardizing the business operations and improving the internal control mechanisms of pawn loan providers.

On 23 September 2012, the State Council issued the Decision of the State Council on the sixth batch of cancelled and modified Administrative Examination and approval item, which delegates the approval power of establishing pawn loan providers and its branch to provincial level departments.

### **The Pawning Industry Provisions**

On 5 December 2012, the MOFCOM promulgated the Pawning Industry Provisions which further specifies, on the basis of the Pawning Measures, the responsibilities of MOFCOM and its local counterparts and raises the requirement of strengthening the supervision on certain aspects of pawn loan providers’ business operations.

Pursuant to the Pawning Industry Provisions, the MOFCOM is responsible for the supervision of the pawning industry on a nationwide basis, with a primary focus on the promulgation of pawning industry laws and regulations, and guidance on the work of local commerce authority, while each local commerce authority is responsible for the supervision and administration of pawning industry within each of their jurisdictions. The provincial commerce authority shall promulgate policies for the pawn industry within its jurisdiction, administer the Pawn Operation Permit and pawn tickets, establish a pawning industry material information reporting system, a risk pre-warning system and an emergency settlement plan, and supervise and regulate the pawn industry by multiple methods including conducting random on-site inspection on no less than 20% of pawn loan providers on an annually basis. The municipal commerce authority shall supervise the entire progress of pawn loan providers’ business operations, establish on-site inspection and conversation systems, focus on its supervision on the compliance of pawn loan providers’ business operations and the authenticity of pawn loan providers’ financial data, prevent and rectify any illegal activities in a timely manner, and conduct on-site inspection on all pawn loan providers within its jurisdiction at least once every half year. The commerce authority on the county level shall focus on the on-site inspection of pawn loan providers within its jurisdiction, and assist the supervision of its superior counterparts.

The Pawning Industry Provisions, on the basis of the Pawning Measures, raise further requirements on the shareholders applying to establish a pawn loan provider, including: (i) corporate shareholders rather than individual shareholder shall have relative controlling shareholding of the pawn loan provider, specifically, all corporate shareholders shall hold collectively more than half of the entire shareholding of the pawn loan provider or the largest single corporate shareholder must hold the largest shareholding of more than one-third of the entire shareholding of the pawn loan provider; (ii) the corporate shareholder shall be capable of making capital contribution to the pawn loan provider in the form of monetary fund, and the corporate shareholder shall submit its audit report issued by an accounting firm selected from the ones designated by MOFCOM and its records of paying business tax and income tax; (iii) an individual shareholder shall be a PRC citizen residing in PRC, who is no younger than 18 years

## REGULATORY OVERVIEW

old and has full civil capacity with no criminal record, good credibility and capability of making capital contribution to the pawn loan provider; (iv) to apply for establishment of pawn loan provider, the shareholders shall issue an undertaking letter to promise to comply with relevant PRC laws and regulations and the articles of association of the pawn loan provider, to strengthen the management and supervision of the pawn loan provider and to not to conduct illegal business operation, and to pay in the registered capital of pawn loan provider with its own legal fund; (v) for the corporate shareholder operating complying with laws, owning sufficient funds, having a good reputation and possessing the consistent profitability, its application for establishing pawn loan provider will be approved for priority; and (vi) the corporate shareholder shall undertake to report to the local commerce authority of its long-term equity investment in any enterprise other than that in the pawn loan provider.

With respect to pawnshops' business operations, the Pawning Industry Provisions require local counterparts of the MOFCOM to reinforce their supervision and management in the following aspects: (i) strengthen its investigation and punishment of illegal fund-raising, illegal operation beyond the business scope of pawnshop, raising funds disguised in the form of pawning, and accepting stolen goods as the pawned property intentionally; (ii) strengthen the supervision and administration of pawnshops' fund, including the sources and use of pawning funds, bank deposits and cash flow of pawnshops, and fund flow between a pawnshop and its shareholders; and (iii) strengthen the supervision and administration over legal compliance of pawnshops' business operations. According to the Pawning Measures and Pawning Industry Provisions, pawnshops may only get funds from their registered capital, operating surplus and the loans provided by commercial banks. The municipal MOFCOM shall monitor the fund flow of pawnshops within its jurisdiction by recording the bank account of pawnshops and conducting random inspection on such bank accounts. All illegal operations regarding the funding of pawnshops, including pawnshops borrowing money from shareholders, shareholders solicit business for themselves in the name of the pawnshop, and shareholders conducting financial activities through the pawnshop, are strictly forbidden. The following illegal operations of pawnshops are forbidden: participating in the investment in listed securities with pawn fund or providing fund to clients for investment in listed securities, accepting a securities account as pawn collateral, abuse and misappropriation of Pawn Operation Permit, pawning without issuance of pawn ticket, signing pawning contract without issuance of pawn ticket, accepting the pawn without any pawned property, or other illegal operation that would result in the pawn ticket being inconsistent with pawned property.

For the purpose of reinforcing the supervision of the pawn industry as mentioned above, the Pawning Industry Provisions provide that MOFCOM shall adopt multiple measures and establish multiple channels, including: (i) the provincial MOFCOM shall be responsible for the manufacture and issuance of pawn tickets, and the provincial MOFCOM and municipal MOFCOM shall set up the ledger recording the issuance, allocation and withdrawal of the pawn ticket for the purpose of numbering and managing the pawn tickets; (ii) the municipal MOFCOM shall strengthen the management of pawnshops' file by conducting on-site inspection to check the effectiveness, integrity and consistency of the pawn tickets, pawn contracts, the documents of pawnshops' clients and the account report of the pawnshop; and (iii) the local counterparts of MOFCOM shall supervise pawnshops' business operations and financial data via the Information System for the Supervision and Administration of Pawning Industry (the "**System**"), and pawnshops shall, correspondingly, conduct business operations via the System (including printing out and issuing pawn tickets and reporting its operation and financial data) for the review and inspection of MOFCOM.

## REGULATORY OVERVIEW

Pursuant to the Pawning Industry Provisions, the municipal commerce authority or its superior counterparts shall have conversations with the legal representative, director or senior management of the pawn loan provider, and issue a rectification letter ordering it to correct its non-compliance operation if a pawn loan provider: (i) withdraws registered capital during its operation term; (ii) establishes branch office without approval; (iii) changes its shareholding or business location without approval; (iv) operates beyond the approved business scope, provides pawning loans at a ratio higher than statutory allowed, and/or charge interest at a rate higher than statutory allowed; (v) refuses or hinders the on-site or off-site supervision; (vi) refuses or hinders to submit reports and documents, provides false reports and documents, or conceals material facts for the review and inspection of MOFCOM; (vii) fails to issue pawn tickets via the System, or signs pawning contracts without issuance of pawn tickets, or manufactures pawn tickets without approval; or (viii) engages in other non-compliant behavior.

### **Regulations for Annual Inspection of Pawn Loan Providers**

The State Economic and Trade Commission promulgated the Measures for Annual Inspection of Pawn loan providers (典當行年審辦法) on 31 December 2002 which came into effect on 1 February 2003. The annual inspection of pawn loan providers, among other things, includes: (a) alteration of the registered capital, shareholders and other matters of a pawn loan provider and its branches; (b) financial status of a pawn loan provider; (c) organisation and internal management of a pawn loan provider and its branches; (d) the compliance of the business operation of a pawn loan provider and its branches; (e) the use of pawn-tickets; and (f) other aspects in compliance with the Pawning Measures and other laws and regulations.

The pawn loan provider shall not pass the annual inspection and its Pawn Operation Permit shall be revoked, if the following circumstances are found in the annual inspection: (a) a pawn loan provider was established in a materially illegal manner (e.g. making feigned contributions and obtaining approval by fraud); (b) the business was operated in a materially illegal manner (e.g. accepting deposits or doing so in disguised form, illegally raising funds, extending credit loans, intentionally accepting unlawfully obtained goods as pawned property and forcing the pledgor to redeem the pawned property in a materially illegal manner); (c) the pawn loan provider has not been opened for business for more than 6 months since obtaining the Pawn Operation Permit, or stopped business operations for more than 6 months; (d) illegal matters have not been rectified although the pawn loan provider makes the rectification as ordered by the administration authority; (e) the pawn loan provider refuses to participate in the annual inspection; and (f) other circumstances provided by the State Economic and Trade Commission.

### **Jiangsu Regulations for the Administration of Pawn Loan Provider**

In line with the Pawning Measures, Jiangsu Commerce Department promulgated the Notice Regarding Enhancing the Supervision and Administration of Pawning in Jiangsu (關於進一步加強我省典當業監管工作的通知) on 19 March 2007, which re-emphasised the supervision of the business operation, financial status and shareholders of the pawn loan provider. In particular, the Jiangsu Pawning Regulation provides that, in case of changing any shareholder of a pawn loan provider, the new shareholder shall be subject to the qualifications for the contribution to the pawn loan provider including: (a) the contribution to the pawn loan provider by such new shareholder shall be in cash and the shareholder shall abide by its contribution commitment; (b) the equity investment balance of such new shareholder shall not, in principle, exceed fifty percent (50%) of its net assets; and (c) the

## **REGULATORY OVERVIEW**

contribution shall comply with the laws and regulations for the state-owned assets if it involves external investment with state-owned capital. In addition, Jiangsu Commerce Department will conduct the annual inspections in which the registered capital, alternation of shareholders, business operations and financial status of the pawn loan provider will be inspected.

### **CONCESSION OF AUCTION BUSINESS**

#### **The Auction Law and the Auction Measures**

Pursuant to the Auction Law and the Auction Measures, no auction house shall engage in any auction business before receiving an auction business licence. Commerce departments at local levels shall grant an enterprise that fulfills relevant requirements with the Approval Certificate for Auction Operation. If any articles or property rights are prohibited for sale by laws or regulations, or their ownership or right of disposition is in dispute, or they are goods under the Customs control for which Customs formalities have not been completed, then the auction of such articles and property rights is prohibited. An auction house shall have the right to verify itself or require the consignor to specify in writing the sources and defects of the auction objects. Where an auctioneer and consignor have declared, prior to the auction sale, that they cannot guarantee the authentication or quality of an auction object, they shall be free from any warranty liability for the defects of the object. In the case that an auction house needs to exhibit the auction objects before the auction sale, it shall exhibit such objects for at least two days except for fresh goods or other perishable goods. After a transaction is concluded, the vendee and the auctioneer shall execute a written confirmation.

#### **The Provisions on Strengthening Supervision and Management of Auctioneers**

The MOFCOM and the China Association of Auctioneers shall conduct trial management on the certification of auctioneers' qualification. All auctioneers shall hold an Auctioneer Qualification Certificate of the People's Republic of China and be registered. An auctioneer shall be registered as the auctioneer of only one auction house and shall not work as a part-time auctioneer in any other auction companies. The Auctioneer Qualification Certificate of PRC shall be reviewed annually and shall not be lent to any other individuals or entities for use. Within the one-year validity of the Certificate, an auctioneer shall not change the auction house in which he/she is registered more than once.

#### **Provisions on Auctioning by the People's Court**

According to the Provisions of the Supreme People's Court on Auctioning or Selling off Property by the People's Courts in Civil Execution issued by the Supreme People's Court on 15 November 2004 and effective on 1 January 2005, and the Several Provisions of the Supreme People's Court on the Evaluation, Auction and Sale Authorized by the People's Courts issued by the Supreme People's Court on 12 November 2009 and effective on 20 November 2009, auction shall be the first-chosen method in a people's court's disposition of any property that has been sealed up, seized or frozen. The people's court shall compile a list of authorised appraisal agencies and auction houses, and then select an appraisal agency from the list in an open and random manner and entrust the selected agency with the appraisal of the said property. The auction of such property shall be announced in advance and a reserve price shall be set. In the event that the property is not sold at two consecutive auctions, the people's court may directly evaluate the price of the property for repayment of any relevant debts.

## REGULATORY OVERVIEW

According to the Provisions of the Supreme People's Court on Several Issues concerning Online Judicial Auctions by People's Courts (《最高人民法院關於人民法院網絡司法拍賣若干問題的規定》), which was issued by the Supreme People's Court on 2 August 2016 and will take effect on 1 January 2017, if auction is chosen to be the method in a People's Court for disposition of any property, it shall principally be held on Internet platform and open to public in the overall process.

### **Administrative Measures for the Operation of Artworks**

Pursuant to the Administrative Measures for the Operation of Artworks (藝術品經營管理辦法) issued by the Ministry of Culture on 18 January 2016 and effective from 15 March 2016, to establish an operator engaged in operating activities related to artworks, an applicant shall apply for a business licence to the local industrial and commercial administrative department of the people's government at or above the county level at the domicile of the operator to be established, and shall conduct record filing with the cultural administrative department of the said people's government within 15 days upon receipt of the business licence. Other operators to launch the business operation of artworks in addition to their original business shall handle the record-filing formalities in accordance with the preceding mentioned above.

To import from abroad, or export overseas, artworks, an importer or exporter shall, prior to the import or export of artworks, apply to the cultural administrative department of the people's government of the province, autonomous region, or municipality directly under the Central Government of the place where the import or export port of the artworks is located, with the following material, submitted as required by approval authorities. To hold a show in a domestic public exhibition site, with the participation of foreign artworks creators or foreign artworks, for sales or commercial publicity purposes, a host shall, 45 days prior to the date of the show, apply to the cultural administrative department of the people's government of the province, autonomous region or municipality directly under the Central Government of the place where the show is to be held and submit materials required by approval authorities.

### **Anti-Money Laundering Law**

Pursuant to the Anti-Money Laundering Law issued by the Standing Committee of the NPC on 31 October 2006 and effective from 1 January 2007, a financial institution established within the territory of the People's Republic of China or a special non-financial institution that has the anti-money laundering obligation shall adopt relevant preventive and supervisory measures, establish and improve its client identity identification system to preserve the clients' identity materials and transactional records and a reporting system of large or doubtful transactions, and perform its anti-money laundering obligations. The scope of the special non-financial institutions that has the anti-money laundering obligation, the anti-money laundering obligations thereof, as well as the supervising and administrative measures on special non-financial institutions shall be regulated mainly by the administrative department of anti-money laundering of the State Council, in collaboration with other relevant departments of the State Council.



### REGULATION RELATING TO TELECOMMUNICATION SERVICES AND FOREIGN INVESTMENT RESTRICTIONS

#### Laws and Regulations in Relation to Telecommunication Services

The Telecommunication Regulation of PRC (中華人民共和國電信條例) (the “**Telecommunication Regulation**”) promulgated by State Council on 25 September 2000 and amended on 29 July 2014 provides a regulatory framework for telecommunication service providers in PRC. The Telecommunication Regulation categorizes telecommunication services into basic telecommunication services and value-added telecommunication services and sets out extensive guidelines on various aspects of telecommunication operations in PRC. The Catalogue of Telecommunication Businesses (電信業務分類目錄) attached to the Telecommunication Regulation, which was amended on 28 December 2015 and became effective on 1 March 2016, provides that information services provided via public communication networks, such as fixed networks, mobile networks and Internet, are value-added telecommunication services. According to the Telecommunication Regulation, a commercial telecommunication service provider in PRC must obtain an operating licence from the MIIT or its provincial-level counterparts.

The Internet Measures, which was promulgated by the State Council on 25 September 2000 and amended on 8 January 2011, regulates the provision of internet information services. According to the Internet Measures, “Internet information services” refers to services that provide information to online users via the internet, and are categorized as either commercial services or non-commercial services. Pursuant to the Internet Measures, commercial service providers of Internet information shall obtain an VATELECOM Permit from the telecommunication administration authorities at the provincial, autonomous regional or municipal level or the MIIT before engaging in the provision of any commercial internet information services in PRC. Besides, the Internet Measures and other relevant measures also ban internet activities that constitute publication of any content that, among others, propagates obscenity, pornography, gambling and violence, incites the commission of crimes or infringes upon the lawful rights and interests of third parties. If an internet information service provider detects information transmitted on their system that falls within the specifically prohibited scope, such provider must terminate such transmission, delete such information immediately, keep records and report to the governmental authorities in charge. Any internet information service provider’s violation of these requirements will lead to the revocation of its VATELECOM Permit and, in serious cases, the shutting down of its website.

On 1 March 2009, the MIIT promulgated the Administrative Measures for Telecommunications Businesses Operating Licensing (電信業務經營許可管理辦法) (the “**Telecom License Measures**”), which became effective on 10 April 2009. The Telecom License Measures, which is formulated in accordance with the Telecommunication Regulation, sets out the types of licences required to provide telecommunication services in PRC and the procedures and requirements for obtaining such licences.

### **Laws and Regulations in Relation to Foreign Investments in the Value-added Telecommunications Industry**

Pursuant to the Guiding Catalogue for Foreign Investment Industries (Amended in 2015) (外商投資產業指導目錄 (2015年修訂)) jointly promulgated by the NDRC and the MOFCOM on 10 March 2015, which took effect on 10 April 2015, a foreign investor is prohibited from owning more than 50% of the equity interest in a PRC entity that provides value-added telecommunications services (excluding e-commerce).

Pursuant to FITE Administrative Rules, foreign investors' capital contribution to any entity in PRC providing value-added telecommunications services shall not exceed 50% and a foreign investor wishing to acquire any equity interest in a value-added telecommunications business in PRC must demonstrate a good track record and operating experience in providing value-added telecommunications services overseas (the "**Qualification Requirements**"). Since no written guidelines have been publicly issued by the MIIT to specify the criteria of the Qualification Requirements (such as what would constitute "a good track record" and "operating experience"), the MIIT retains reasonable discretion in granting approvals for the foreign investor's commencement of value-added telecommunication business in PRC.

On 13 July 2006, the former Ministry of Information Industry (currently known as the MIIT) issued the Circular on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business (信息產業部關於加強外商投資經營增值電信業務管理的通知) (the "**MIIT Notice**"), which prohibits holders of VATElecom Permit from leasing, transferring or selling their VATElecom Permit to any foreign investors in any form, or providing any resources, sites, facilities or other assistances to foreign investors for illegal operation of telecommunications businesses in PRC. The MIIT Notice requires that holders of VATElecom Permit or their shareholders must directly and legally own the domain names and registered trademarks used by such licence holders in their ICP-related services. The MIIT Notice further requires that each licence holder must have necessary facilities for its approved business operations and maintain such facilities in the regions covered by its licence.

On 19 June 2015, MIIT issued the 2015 MIIT Notice, which removes the restrictions on foreign equity ratios for foreign-invested companies engaging in online data processing and transaction processing (operating e-commerce) business, allowing the foreign equity ratios of such companies to be increased to 100%. However, the 2015 MIIT Notice stipulates that the abovementioned foreign-invested companies should comply with other applicable regulations in relation to the conduct of foreign-invested telecommunication business (including but not limited to the Qualification Requirements under the FITE Administrative Rules).

### **Regulations in Relation to Information Security and Privacy Protection**

On 18 February 1994, the State Council promulgated the Regulations on Protection of Computer Information System Security of PRC (中華人民共和國計算機信息系統安全保護條例), which took effect on 18 February 1994 and was amended on 8 January 2011. Users of computer information systems should establish and improve their security management systems and are responsible for the security protection of their own computer information systems.



## REGULATORY OVERVIEW

On 16 December 1997, the Ministry of Public Security issued the Administration Measures on the Security Protection of Computer Information Network with International Connections (《計算機信息網絡國際聯網安全保護管理辦法》), then amended by State council on 8 January 2011, which prohibit using the internet in ways which, among others, result in a leakage of state secrets or a spread of socially destabilizing content.

On 28 December 2000, the Standing Committee of the NPC issued the Decision Regarding the Protection of the Internet Security (《全國人民代表大會常務委員會關於維護互聯網安全的決定》), which was amended by the Standing Committee of the NPC on 27 August 2009, provides that the following activities, among others, shall be subject to criminal punishment: (i) intrusion of computer or systems which are of strategic importance; (ii) dissemination of politically disruptive information or obscenities on the Internet; (iii) stealing and divulging national secrets or military secrets; (iv) spread of false commercial or other illegal information on the Internet; (v) infringement of third-party intellectual property rights on the internet; and (vi) infringement of reputation, privacy and property rights of citizens on the internet.

On 13 December 2005, the MPS issued the Regulations Provisions on Technological Measures for Internet Security Protection (《互聯網安全保護技術措施規定》), which took effect from 1 March 2006. Pursuant to the Provisions on Technological Measures for Internet Security Protection, internet services providers are responsible for implementing technological measures for internet security protection and safe guarding the normal functions of such measures. Internet services providers should establish corresponding management systems, and are prohibited from unauthorized disclosure or revelation of users' registered information unless otherwise required by the laws and regulations. Internet services providers are required to lawfully utilize technological measures for Internet security protection and are prohibited from utilizing such measures to infringe the freedom and secrecy of the users' correspondences.

On 28 December 2012, the Standing Committee of the NPC issued the Decision on Strengthening Network Information Protection (《全國人民代表大會常務委員會關於加強網絡信息保護的決定》) to enhance the legal protection of information security and privacy on the internet. On 16 July 2013, the MIIT issued the Provisions on the Protection of Personal Information of Telecommunication and Internet Users (《電信和互聯網用戶個人信息保護規定》) to regulate the collection and use of users' personal information in the provisions of telecommunication service and internet information service in China. Telecommunication business operators and internet service providers must specify the purposes, manners and scopes of information collection and uses, obtain consent of the relevant citizens, and keep the collected personal information confidential. Telecommunication business operators and internet service providers are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with, collected personal information. Telecommunication business operators and internet service providers are required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss.

### Regulations in Relation to Internet Culture

Pursuant to the aforesaid Guidance Catalog of Industries for Foreign Investment, the internet culture business falls within the category of industries prohibiting foreign investment. On 17 February 2011, the Ministry of Culture issued the revised IC Interim Provisions. On 18 March 2011, the Ministry of Culture issued the Circular on Implementation of the Newly Revised Interim Provisions on the Administration of Internet Culture (《文化部關於實施新修訂〈互聯網文化管理暫定規定〉的通知》), which provides that the authorities will temporarily not accept applications by foreign-invested internet content providers for operation of internet culture business (other than online music business).

Pursuant to the IC Interim Provisions, the “Internet cultural products” is defined as the cultural products produced, disseminated and circulated through the Internet, which mainly include: (1) internet cultural products specially produced for the internet, such as online music entertainments, online games, online shows & plays (programs), online performances, online works of art, online cartoons, etc.; and (2) internet cultural products produced from such cultural products as music entertainment, games, shows & plays (programs), performances, works of art, cartoons, etc. by certain technical means and reproduced on the Internet for dissemination.

According to the IC Interim Provisions, the cultural administrative departments of the people’s governments of the provinces, autonomous regions and municipalities directly under the Central Government shall examine the entities that apply for engaging in operational Internet cultural activities, and make archival filing on the entities that engage in non-operational internet cultural activities. The cultural administrative departments of the people’s governments at or above the county level shall be responsible for the supervision and administration of the internet cultural activities within their respective administrative regions. The cultural administrative departments of the people’s governments at or above the county level or the general law enforcement organs of the cultural market shall impose punishments on the illegal Internet cultural activities in violation of the relevant regulations of the state. Whoever applies to establish an operational internet cultural entity shall file the application with the cultural administrative department of the people’s government of the province, autonomous region or municipality directly under the Central Government at its locality for examination and approval. If it decides to approve the application, it shall issue the NCB Permit to the applicant and make an announcement to the public. A non-operational Internet cultural entity shall, within 60 days as of the day when it is established, file with the cultural administrative department of the people’s government of the province, autonomous region or municipality directly under the Central Government for archival purposes.

Whoever applies for establishing an operational Internet cultural entity shall, after being approved, go through the relevant formalities with the administrative organ of telecommunications at its locality or the administrative department of information industry under the State Council upon the strength of the NCB Permit in accordance with the relevant provisions of the Measures for the Administration of Internet Information Services.

## FOREIGN INVESTMENT IN PRC

### Wholly Foreign-Owned Enterprise Law of PRC

The Wholly Foreign-Owned Enterprise Law of PRC (《中華人民共和國外資企業法》), which was amended by the Standing Committee of the NPC on 31 October 2000 and amended on 3 September 2016 which became effective on 1 October 2016, and the Implementation Measures for the Wholly Foreign-Owned Enterprise Law (《中華人民共和國外資企業法實施細則》), which was promulgated amended by the State Council on 12 April 2001, came into effect on the same day and was amended on 19 February 2014, stipulates that PRC permits foreign enterprises and other economic organizations or individuals to establish wholly foreign-owned enterprises (the “WFOEs”) in China. The establishment and change of a WFOE which involves the implementation of special access administrative measures prescribed by the State Council shall be subject to the examination and approval by the competent commercial departments before an Approval Certificate is issued, while the establishment and change of a WFOE which does not involve the implementation of special access administrative measures shall be subject to the record-filling management. Under the above-mentioned laws and regulations and the PRC Company Law, foreign-invested enterprises in PRC may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, foreign-invested enterprises in PRC must allocate at least 10% of their respective accumulated profits after tax each year, if any, to fund certain reserve funds unless these accumulated reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

### The Law of PRC on Sino-Foreign Equity Joint Ventures

Pursuant to the Law of PRC on Sino-Foreign Equity Joint Ventures promulgated by NPC on 8 July 1979, amended on 4 April 1990, 15 March 2001 and 3 September 2016 respectively and the Implementing Regulations of the Law of PRC on Sino-Foreign Equity Joint Ventures issued by the State Council in 1983 and amended in 2001 and 2011 respectively and further amended on 19 February 2014, foreign companies, enterprises and other economic organisations and individuals are allowed to establish joint ventures with Chinese companies, enterprises and other commercial organizations within the territory of PRC based on the principles of equality and mutual benefit. Joint venture agreements, contracts and articles of association concluded by the parties to a joint venture which involves the implementation of special access administrative measures prescribed by the State Council shall be subject to the examination and approval by the competent commercial departments, while the joint venture which does not involve the implementation of special access administrative measures shall be subject to the record-filling management. The proportion of a joint venture’s registered capital contributed by the foreign party shall generally be no lower than 25 percent. The profits, risks and losses of a joint venture shall be shared by the parties to the venture in proportion to their respective contributions to its registered capital and the net profits of a joint venture shall be distributed to the parties to the venture in proportion to their respective shares in the registered capital.

### The Provisions Guiding Foreign Investment Direction and the Foreign Investment Catalogue

Investment in PRC conducted by foreign investors and foreign-owned enterprises shall comply with the Provisions Guiding Foreign Investment Direction (指導外商投資方向規定), which were promulgated by the State Council on 11 February 2002 and came into effect on 1 April 2002, and the current Foreign Investment Catalogue. The Foreign Investment Catalogue contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign-invested industries, restricted foreign invested industries and prohibited

## REGULATORY OVERVIEW

foreign investment industries. Any industry not listed in the Catalogue is a permitted industry. If the industry in which the investment is to occur falls into the encouraged category, foreign investment, in certain cases, may enjoy preferential policies or benefits. If restricted, foreign investment may be conducted in accordance with applicable legal and regulatory restrictions. If prohibited, foreign investment of any kind is not allowed.

### **Circular of the SAIC on Implementing the Registration of Foreign-invested Enterprises subject to the Record-filing Management**

On 30 September 2016, the SAIC promulgated the Circular of the SAIC on Implementing the Registration of Foreign-invested Enterprises subject to the Record-filing Management (工商總局關於做好外商投資企業實行備案管理後有關登記註冊工作的通知), which has clarified the registration principles and improved the registration system for the registration of foreign-invested enterprises which does not involve the implementation of special access administrative measures.

### **The Announcement of the NDRC and the MOFCOM [2016] No.22**

On 8 October 2016, the NDRC and the MOFCOM promulgated The Announcement of the NDRC and the MOFCOM [2016] No.22 (國家發展改革委、商務部公告2016年第22號) (the “**Announcement No.22**”). According to the Announcement No.22, The scope of the special administrative measures shall subject to the restricted catalogue, prohibited catalogue and the encouraged catalogue within which involve the restrictions on equity or senior executives in the Foreign Investment Catalogue, which was amended in 2015. Meanwhile, the establishment and change of foreign-invested enterprises during foreign-related merger and acquisitions shall still subject to the relevant existing provisions.

### **Interim Administrative Measures for the Record-filing of the Incorporation and Change of Foreign-invested Enterprises**

On 8 October 2016, The MOFCOM promulgated the Interim Administrative Measures for the Record-filing of the Incorporation and Change of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) (the “**Interim Measures**”), which came into effect on the same day. According to the Interim Measures, if the incorporation and change of a foreign-invested enterprise does not involve the implementation of special access administrative measures prescribed by the state, the Interim Measures shall be applied. When handling the procedures of the record-filing of the establishment or change, foreign-invested enterprises or their investors shall upload relevant documents via the foreign investment comprehensive administration information system (外商投資綜合管理信息系統).

### **The M&A Rules**

The M&A Rules require that foreign investors acquiring domestic companies by means of asset acquisition or equity acquisition shall comply with relevant foreign investment industry policies and shall be subject to approval by relevant commerce authorities.

### **Interim Provisions on Investment Made by Foreign-Invested Enterprises in China**

The Interim Provisions on Investment Made by Foreign-Invested Enterprises in China (關於外商投資企業境內投資的暫行規定), which was jointly promulgated by the MOFCOM and the SAIC on 25 July 2000 and amended on 26 May 2006 and 28 October 2015, stipulates that the provisions of the Provisions Guiding Foreign Investment Direction and the Foreign Investment Catalogue shall apply as

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the reference to the foreign-invested enterprises' investment in China. Foreign-invested enterprises shall not make investment in any sector prohibiting foreign investment. Where a foreign-invested enterprise makes investment in a restricted sector to establish a company, the foreign-invested enterprise shall file an application with the provincial commercial department of the place where the investee company is located. The relevant company registration authority shall, in accordance with the relevant provisions of the Company Law and the Regulations on the Administration of Company Registration of the People's Republic of China (中華人民共和國公司登記管理條例), decide whether to approve the registration or not. Where the registration is approved, a Business Licence of an Enterprise Legal Person shall be issued, with the words meaning "Invested by a Foreign-Invested Enterprise" added in the column of enterprise type therein. Within 30 days of the date of establishment of the investee company, the foreign-invested enterprise concerned shall report the establishment to its original examination and approval authority for record-filing.

### Regulations in Relation to Foreign Exchange

The Regulations on the Control of Foreign Exchange (外匯管理條例), which was promulgated by the State Council on 29 January 1996, became effective on 1 April 1996 and was amended on 14 January 1997 and 5 August 2008, set out that foreign exchange receipts of domestic institutions or individuals may be transferred to PRC or deposited abroad; the conditions for transfer to PRC or overseas deposit, time limit and other contents shall be specified by the foreign exchange control department of the State Council according to the international receipts and payments status and requirements of foreign exchange control. Foreign exchange receipts for current account transactions may be retained or sold to financial institutions engaged in the settlement or sale of foreign exchange according to the relevant provisions of the State. Domestic institutions or individuals that make direct investments abroad or are engaged in the distribution or deal of overseas valuable securities or derivative products shall go through the formalities for registration according to the provisions of the foreign exchange control department of the State Council. Said institutions or individuals shall submit to the formalities for examination and approval or record-filing prior to foreign exchange registration, if they shall be subject to the approval of or record-filing with the competent administration departments in advance as required by the State. The exchange rate for RMB follows a managed floating exchange rate system based on market demand and supply.

On 30 March 2015, the SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) ("SAFE Circular No. 19"), which came into effect on 1 June 2015. According to SAFE Circular No. 19, the foreign exchange capital of foreign-invested enterprises ("FIE") shall be subject to the Discretionary Foreign Exchange Settlement ("Discretionary Foreign Exchange Settlement"). The Discretionary Foreign Exchange Settlement refers to the foreign exchange capital in the capital account of an FIE for which the rights and interests of monetary contribution has been confirmed by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operational needs of the FIE. The proportion of Discretionary Foreign Exchange Settlement of the foreign exchange capital of an FIE is temporarily determined as 100%. The RMB converted from the foreign exchange capital will be kept in a designated account and if an FIE needs to make further payment from such account, it still needs to provide supporting documents and go through the review process with the banks. Furthermore, SAFE Circular No. 19 stipulates that the use of capital by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of

## REGULATORY OVERVIEW

enterprises. The capital of an FIE and capital in RMB obtained by the FIE from foreign exchange settlement shall not be used for the following purposes: (1) directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations; (2) directly or indirectly used for investment in securities unless otherwise provided by relevant laws and regulations; (3) directly or indirectly used for granting the entrust loans in RMB (unless permitted by the scope of business), repaying the inter-enterprise borrowings (including advances by the third party) or repaying the bank loans in RMB that have been sub-lent to the third party; and (4) paying the expenses related to the purchase of real estate that is not for self-use (except for the foreign-invested real estate enterprises).

On 4 July 2014, the SAFE issued Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Overseas Investment and Financing and Inbound Investment via Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (“SAFE Circular No. 37”), which has replaced Circular 75, and states that (i) a PRC resident, including a PRC resident natural person or a PRC legal person, shall register with the local branch of the SAFE before it contributes the assets of or its equity interest into a special purpose vehicle for the purpose of investment and financing, and (ii) when the special purpose vehicle undergoes change of basic information, such as change of a PRC resident natural person shareholder, name or operating period, or a material event, such as change in share capital of a PRC resident natural person, merger or split, PRC resident shall register such change with the local branch of the SAFE timely.

### TAX

#### Enterprise Income Tax

According to the Law on the Enterprises Income Tax (企業所得稅法), which was promulgated by the NPC on 16 March 2007 and became effective on 1 January 2008, and the Implementation Regulations on the Law of the Enterprises Income Tax (企業所得稅法實施條例), which was promulgated by the State Council on 6 December 2007 and became effective on 1 January 2008, a uniform income tax rate of 25% will be applied to the PRC enterprises, foreign-invested enterprises and foreign enterprises which have established production and operation facilities in PRC. These enterprises are classified as either resident enterprises or non-resident enterprises.

Pursuant to the Law on Enterprise Income Tax and the Implementation Regulations on the Law of the Enterprises Income Tax, a PRC withholding tax at the rate of 10% is applicable to dividends payable to investors that are non-resident enterprises (who do not have an establishment or place of business in PRC, or that have such establishment or place of business but to whom the relevant income tax is not effectively connected) to the extent that such dividends have their source within PRC unless there is an applicable tax treaty between PRC and the jurisdiction in which an overseas holder resides which may reduce or provide exemption to the relevant tax. Similarly, any gain realized on the transfer of shares by such investors is subject to 10% of the PRC income tax rate if such gain is regarded as income derived from sources within PRC.

Pursuant to the Arrangement between PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), which was promulgated by the SAT on 21 August 2006 and became effective on 8 December 2006, a company incorporated in Hong Kong will be subject to a



## REGULATORY OVERVIEW

withholding tax at a rate of 5% on dividends it receives from a company incorporated in PRC if it holds a 25% interest or more in the PRC company. In addition, according to the Notice on the Understanding and Identification of the Beneficial Owners in the Tax Treaty (國家稅務總局關於如何理解和認定稅收協定中“受益所有人”的通知), which was promulgated by the SAT and became effective on 27 October 2009, tax treaty benefits will be denied to “conduit” or shell companies without business substance, and a beneficial ownership analysis will be used based on a substance-over-the-form principle to determine whether or not to grant tax treaty benefits.

Pursuant to the Notice on the Several Issues of the Implementation of Dividend Clauses of Tax Treaty (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated by the SAT and became effective on 20 February 2009, the non-resident taxpayer or the withholding agent is required to provide sufficient documentary evidence to prove that the recipient of the dividends meets the relevant requirements for enjoying a lower withholding tax rate under a tax treaty if the main purpose of an offshore transaction or arrangement is to obtain a preferential tax treatment, and the competent tax departments of the people’s government have the power to adjust accordingly.

Pursuant to the Administrative Measures on Non-residents to Enjoy the Treatment Under Tax Treaties (非居民納稅人享受稅收協定待遇管理辦法), which was promulgated by the SAT on 27 August 2015 and became effective on 1 November 2015, a non-resident enterprise subject to taxation is not required to obtain approval from the relevant tax administration department of the people’s government before it may enjoy a tax reduction or exemption under the dividend provision of a tax treaty.

Pursuant to the Circular of the SAT on Printing and Issuing the Interim Administrative Measures for Income Tax Withheld at Source for Non-Resident Enterprises (《國家稅務總局關於印發《非居民企業所得稅源泉扣繳管理暫行辦法》的通知》) which was promulgated by the SAT on 9 January 2009 and became effective on 1 January 2009, with regard to dividends, bonuses and other equity investment proceeds and interest there from, rentals, royalties, property transfer income and other kinds of income earned by non-resident enterprises from inside China, on which enterprise income tax shall be levied, withholding tax at source shall be applicable thereto. Entities or individuals that have direct obligations to make relevant payments to non-resident enterprises in accordance with relevant legal provisions or contracts shall be the withholding agents. Each time a withholding agent pays or is due to pay an income as provided in this Circular to a non-resident enterprise, the enterprise income tax shall be withheld from the sum paid or due to be paid.

### **Business Tax**

The Temporary Regulations on Business Tax (營業稅暫行條例), which was promulgated by the State Council on 13 December 1993, became effective on 1 January 1994, and was amended on 10 November 2008 and came into effect on 1 January 2009, provide that entities and individuals engaged in the provision of services with respect to the industries of transportation, construction, finance and insurance, post and telecommunication, culture and sports, entertainments and service prescribed in Temporary Regulations on Business Tax, transfer of intangible assets or sale of real estate within the territory of PRC shall be the taxpayers of business tax.

### Value-added Tax

The Temporary Regulations on Value-added Tax (增值稅暫行條例), which was promulgated by the State Council on 13 December 1993, became effective on 1 January 1994, and was amended on 10 November 2008 and came into effect on 1 January 2009, and the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax (增值稅暫行條例實施細則), which was promulgated by the Ministry of Finance (“MOF”) and became effective on 25 December 1993, and was amended on 15 December 2008 and 28 October 2011, set out that all taxpayers selling goods or providing processing, repairing or replacement services and importing of goods within PRC shall pay value-added tax. The tax rate of 17% shall be levied on general taxpayers selling or importing various goods; the tax rate of 17% shall be levied on the taxpayers providing processing, repairing or replacement service; the applicable rate for the export of goods by taxpayers shall be nil, unless otherwise stipulated.

Pursuant to the Circular of MOF and SAT on Policies concerning Adoption of Low Value-added Tax Rate for Certain Goods and Levy Value-added Tax with Simple Method (財政部、國家稅務總局關於部分貨物適用增值稅低稅率和簡易辦法徵收增值稅政策的通知) promulgated by the MOF and the SAT on 19 January 2009 and took effect on 1 January 2009, and the Circular of the MOF and the SAT on the Policy of Streamlining and Combination of Value-Added Tax Levy Rates (財政部、國家稅務總局關於簡併增值稅徵收率政策的通知) promulgated by the MOF and the SAT on 13 June 2014 and took effect on 1 July 2014, where the pawn loan provider sells forfeited pawned items that the pawning customers fail to redeem before the expiry date, the pawn loan provider is required to pay value-added tax at the rate of 3%.

Pursuant to the Notice on Questions of Levying Value-added Tax and Business Tax on Auction Income of Auction House (國家稅務總局關於拍賣行取得的拍賣收入徵收增值稅、營業稅有關問題的通知) issued by the SAT on 11 March 1999 and the Announcement of the State Administration of Taxation on Clarifying the Administration after the Abolition of Certain Examination and Approval Matters Regarding Preferential Value-added Tax Policies (國家稅務總局關於明確部分增值稅優惠政策審批事項取消後有關管理事項的公告) issued by the SAT on 19 May 2015, VAT shall be applied, at the tax rate of 4%, to hammer price and buyer’s commission made by buyers to auction houses for successful auctions. As to goods that are not subject to VAT according to the relevant PRC laws and regulations, VAT could be waived after filling with relevant authorities.

Pursuant to the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (關於全面推開營業稅改徵增值稅試點的通知) promulgated by the MOF and the SAT on 23 March 2016 and became effective on 1 May 2016, the pilot program of the collection of value-added tax in lieu of business tax (hereinafter referred to as the “**VAT in lieu of BT**”) shall be promoted nationwide in a comprehensive manner as of 1 May 2016, and all taxpayers of business tax engaged in the building industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot program with regard to payment of value-added tax instead of business tax. Entities and individuals engaged in sales of services, intangible assets or real property within the territory of PRC are value-added taxpayers, and shall pay value-added tax rather than business tax according to the Implementing Measures for the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (營業稅改徵增值稅試點實施辦法). Sales of services, which includes auction services and loan services, shall be subject to a tax rate of 6%. Following the policy implemented since May 2016 of applying the VAT in lieu of BT, the tax rate of the value-added



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tax of 6% (which is higher than the business tax rate) has become applicable to our Group's business. However, if we can apply for the VAT input for the deduction in tax expenses based on the VAT invoices and prescribed documents, the overall tax payable may decrease.

### LABOR PROTECTION

#### PRC Labor Law

The PRC Labor Law (中華人民共和國勞動法), which was promulgated by the Standing Committee of the NPC on 5 July 1994 and became effective on 1 January 1995, and was amended on 27 August 2009, sets out that an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. An employer shall develop and improve its labor safety and health system, stringently implement national protocols and standards on labor safety and health, conduct labor safety and health education for workers, guard against labor accidents and reduce occupational hazards. Labor safety and health facilities must comply with relevant national standards. An employer must provide workers with the necessary labor protection gear that complies with labor safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that are engaged in operations with occupational hazards. Laborers engaged in special operations shall have received specialised training and obtained the pertinent qualifications. An employer shall develop a vocational training system. Vocational training funds shall be set aside and used in accordance with national regulations and vocational training for workers shall be carried out systematically based on the actual conditions of the company.

#### Labor Contract Law and its Implementation Regulations

The Law on Labor Contract (中華人民共和國勞動合同法), which was promulgated by the Standing Committee of the NPC on 29 June 2007, came into effect on 1 January 2008, and was amended on 28 December 2012, and the Implementation Regulations on Labor Contract Law (勞動合同法實施條例) which was promulgated on 18 September 2008 and became effective on the same day, regulate both parties through a labor contract, namely the employer and the employee, and contain specific provisions involving the terms of the labor contract. It is stipulated under the Law on Labor Contract and the Implementation Regulations on Labor Contract Law that a labor contract must be made in writing. An employer and an employee may enter into a fixed-term labor contract, an un-fixed term labor contract, or a labor contract that concludes upon the completion of certain work assignments, after reaching agreement upon due negotiations. An employer may legally terminate a labor contract and dismiss its employees after reaching agreement upon due negotiations with the employee or by fulfilling the statutory conditions. Pursuant to the Law on Labor Contract, labor contracts concluded prior to the enactment of the said law and subsisting within the validity period of the said law shall continue to be honored. With respect to a circumstance where a labor relationship has already been established but no formal contract has been made, a written labor contracts shall be entered into within one month from the effective date of the Law on Labor Contract.

#### Social Security and Housing Funds

According to the Temporary Regulations on the Collection and Payment of Social Insurance Premium (社會保險費徵繳暫行條例), the Regulations on Work Injury Insurance (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例) and the Trial Measures on Employee Maternity Insurance of Enterprises (企業職工生育保險試行辦法), enterprises in PRC shall provide

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benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and shall pay or withhold relevant social insurance premiums for or on behalf of employees. The Law on Social Insurance (社會保險法), which was promulgated on 28 October 2010 and became effective on 1 July 2011, has consolidated pertinent provisions for basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with relevant laws and regulations on social insurance.

The Regulations on the Administration of Housing Provident Fund (住房公積金管理條例), which was promulgated and came into effective on 3 April 1999, and was amended on 24 March 2002, stipulate that housing provident fund contributions paid up in deposit by an individual employee and housing provident fund contributions paid up in deposit by his or her employer shall belong to the individual employee.

# HISTORY, REORGANISATION AND DEVELOPMENT

## OVERVIEW

We have two principal operating subsidiaries which are incorporated in PRC, namely, Hexin Pawn and Hexin Auction. Hexin Pawn was established in May 2004 and Hexin Auction was established in May 2007. Both of them were founded by Mr. ZJ Fan and his business partners. Hexin Pawn is principally engaged in the art and asset pawn services which are regulated under the Pawning Measures, while Hexin Auction is principally engaged in the art and asset auction business. Since 2009, our Group started preparatory works to build our art finance business with a focus on Zisha Artworks, Paintings and Calligraphies and other artworks.

Because of the foreign investment prohibition or restrictions and practical difficulties in obtaining the governmental approval for foreign investment in the pawn loan industry and the online art auction operation, Contractual Arrangements were made (i) between Hexin Pawn, WFOE-Pawn and HP Equity-holders, and (ii) between Hexin Auction, WFOE-Auction and HA Equity-holders. Such Contractual Arrangements effectively transfer the economic benefits and pass the risks associated therewith of Hexin Pawn and Hexin Auction to our Group. Please refer to the section headed “Contractual Arrangements” of this prospectus for details of the Contractual Arrangements.

As of the Latest Practicable Date, other than the PRC Operating Entities, other members of our Group are investment-holding companies. Apart from holding the equity interests of WFOE-Pawn and WFOE-Auction, Reliance Art HK has also constructed an overseas website and develops an internet platform for art trading and art auction.

## Our Company

Our Company was incorporated on 2 November 2015 in the Cayman Islands as an exempted company with limited liability. As part of the Reorganisation, our Company became the holding company of our Group. See the paragraph headed “Reorganisation” in this section below.

## Our Group

The following table contains some brief details of our Company and our subsidiaries as of the Latest Practicable Date:

Entity	Date of incorporation	Place of incorporation	Amount of registered capital/issued share capital	Amount of paid up capital	Principal activities
Our Company	2 November 2015	Cayman Islands	HK\$50 million	HK\$100	Investment holding
Reliance Art BVI	3 December 2015	BVI	US\$50,000	US\$1	Investment holding
Reliance Art HK	6 January 2016	Hong Kong	HK\$1	HK\$1	Investment holding and online art operation
WFOE-Pawn	9 March 2016	PRC	HK\$500,000	Nil	Information technology consultation service
WFOE-Auction	10 March 2016	PRC	HK\$500,000	Nil	Information technology consultation service
Hexin Pawn <i>(note)</i>	13 May 2004	PRC	RMB100 million	RMB100 million	Pawn loan services
Hexin Auction <i>(note)</i>	25 May 2007	PRC	RMB10 million	RMB10 million	Auction services

*Note:* Hexin Pawn and Hexin Auction are controlled by our Group through the Contractual Arrangements.

## HISTORY, REORGANISATION AND DEVELOPMENT

### MILESTONES

Set out below are the key milestones of the development of our Group since commencement of our Group's operations in 2004:

<b>Time</b>	<b>Milestone</b>
2004	Hexin Pawn was established to engage in asset pawn loan business, which accepted various types of assets as collaterals, including personal properties and automobiles
2007	Hexin Auction was established
2008	Hexin Auction commenced its asset auction business, focusing on real estate auctions
2009	The management of our Group started preparatory works intending to focus on art finance services by building our art pawn loan and art auction businesses involving Zisha Artworks, Paintings and Calligraphies and other artworks
2010	Our Group obtained the business licences for each of Hexin Pawn's branch offices in Nanjing and Wuxi in relation to our art and asset pawn business. Operation of the Nanjing branch started in the same year
2011	Our Group held our first art auction, also our first principal on-site Autumn Auction, since then, we hold one Autumn Auction annually
2013	Hexin Auction was awarded the AA-Grade Auction Qualification by China Association of Auctioneers and is the only auction house in Yixing awarded with such auction house grading
2014	Expecting that there would be increasing market demand for premium artworks and there would be potential growths and expansions of our art auction scale, in particular, via the internet platform, we started our preparation for one more principal art auction (i.e. the Spring Auction) each year and online auctions
2015	Our Group launched our live bidding portal and allowed bidders to participate in the 2015 Autumn Auction with synchronised live and on-site biddings; Jewel Artworks were included in the 2015 Autumn Auction as new auction lots
2016	Our Group held our first online auction in January on a standalone basis and we also organised our first Spring Auction in late-June
	Our Group's overseas website has commenced its full operation and function in late-June.

## HISTORY, REORGANISATION AND DEVELOPMENT

### CHANGE IN REGISTERED CAPITAL AND/OR EQUITY-HOLDERS OF OUR GROUP

#### Change in registered capital and/or equity-holders of the PRC operating subsidiaries of our Group during the Track Record Period and prior to the commencement of the Reorganisation

##### 1. *Hexin Pawn*

Hexin Pawn was incorporated in PRC on 13 May 2004 with an initial registered capital of RMB10 million which was owned by the following equity-holders as shown below:

Name of equity-holders	Registered capital contribution made (RMB million)	Percentage registered capital held (%)
Mr. ZJ Fan	1.8	18
Mr. Fan Shunqi (范順其)	2.0	20
Mr. YJ Fan	1.0	10
Ms. Zhang Suping (張素萍)	0.6	6
Ms. Wu	0.8	8
Yixing Lanshan Property 宜興市寧興汽車銷售有限公司 (Yixing Ningxing Vehicle Sales Company Limited, “ <b>Ningxing Vehicle</b> ”)	3.0 0.8	30 8
<b>Total:</b>	<b>10.0</b>	<b>100</b>

The initial capital of Hexin Pawn was funded by its founding equity-holders in accordance with their respective percentage ownership by their respective financial resources.

At the date of incorporation of Hexin Pawn, Yixing Lanshan Property was owned as to 75% and 25% by Mr. Wang Yunsong (王雲松) (the brother of Mr. JS Wang) and Mr. JS Wang respectively. On 15 April 2016, Mr. JS Wang entered into an equity transfer agreement for the transfer of his entire 25% equity interest in Yixing Lanshan Property to the spouse of Mr. Wang Yunsong, which equity transfer was approved by the relevant government authority on 12 May 2016. Mr. JS Wang is one of our Controlling Shareholders. Mr. Wang Yunsong is the brother of Mr. JS Wang, and hence an associate of Mr. JS Wang. Accordingly, Yixing Lanshan Property is a connected person of our Company under Chapter 14A of the Listing Rules. Ningxing Vehicle was owned by various Independent Third Parties. Other than being the founding equity-holder of Hexin Pawn, Ningxing Vehicle is an Independent Third Party of our Company. Other than being a co-founder of Hexin Pawn and a business partner of Mr. ZJ Fan, Mr. YJ Fan is independent of and has no relationship with Mr. ZJ Fan.

## HISTORY, REORGANISATION AND DEVELOPMENT

Since its incorporation, the registered capital and equity-holders of Hexin Pawn underwent the following changes:

- (i) By an agreement dated 6 December 2005, Ms. Zhang Suping agreed to transfer 6% of the registered capital in Hexin Pawn (being all the equity interest of Hexin Pawn then owned by Ms. Zhang) to Yixing Lanshan Property at a consideration of RMB0.6 million. The consideration was determined having regard to the face value of the equity capital agreed to be transferred. Such consideration was fully paid by Yixing Lanshan Property on 15 December 2005. The transfer was completed on 8 December 2005 upon approval by Yixing AIC.
- (ii) (a) By an agreement dated 15 December 2007, Ningxing Vehicle agreed to transfer 8% of the registered capital in Hexin Pawn (being all the equity interest of Hexin Pawn then owned by Ningxing Vehicle) to Hexin Auction at a consideration of RMB0.8 million. The consideration was determined having regard to the face value of the equity capital agreed to be transferred. Such consideration was fully paid by Hexin Auction on 20 December 2007. The transfer was completed on 29 January 2008 upon approval by Yixing AIC.
- (b) By an agreement dated 15 December 2007, Mr. Fan Shunqi agreed to transfer 20% of the registered capital in Hexin Pawn (being all the equity interest of Hexin Pawn then owned by Mr. Fan Shunqi) to Ms. QZ Fan at a consideration of RMB2 million. The consideration was determined having regard to the face value of the equity capital agreed to be transferred. Such consideration was fully paid by Ms. QZ Fan on 20 December 2007. The transfer was completed on 29 January 2008 upon approval by Yixing AIC.
- (c) On 15 December 2007, it was resolved by a shareholders' resolution of Hexin Pawn to increase its registered capital from RMB10 million to RMB40 million by way of additional cash contribution by each of its then existing equity-holders as shown below:

Name of equity-holders	Amount of additional cash contribution made <i>(RMB million)</i>	Portion of registered capital held after enlargement <i>(RMB million)</i>	Percentage registered capital held <i>(%)</i>
Mr. ZJ Fan	5.4	7.2	18
Ms. QZ Fan	6.0	8.0	20
Mr. YJ Fan	3.0	4.0	10
Ms. Wu	2.4	3.2	8
Yixing Lanshan Property	10.8	14.4	36
Hexin Auction	2.4	3.2	8
<b>Total:</b>	<b>30.0</b>	<b>40.0</b>	<b>100</b>

## HISTORY, REORGANISATION AND DEVELOPMENT

Each equity-holder made such contribution from its own financial resources and the entirety of the additional cash contribution was fully paid up in December 2007.

The transfer of equity interests as outlined in sub-paragraphs (a) and (b) above and the increase in registered capital as outlined in sub-paragraph (c) above were approved by Jiangsu Commission for Economy and Trade (江蘇省經濟貿易委員會) on 22 January 2008 and by Yixing AIC on 29 January 2008.

- (iii) (a) By an agreement dated 28 July 2015, Yixing Lanshan Property agreed to transfer 36% of the registered capital in Hexin Pawn (being all the equity interest of Hexin Pawn then owned by Yixing Lanshan Property) to Zisha Hotel at a consideration of RMB14.4 million. The consideration was determined having regard to the face value of the equity capital agreed to be transferred. Such consideration was fully paid by Zisha Hotel on 18 September 2015. The transfer was completed on 29 July 2015 upon the approval of Yixing Market Supervision Department. At the date of equity transfer agreement up to the Latest Practicable Date, Zisha Hotel was solely and beneficially owned by Mr. JS Wang.
- (b) By an agreement dated 28 July 2015, Hexin Auction agreed to transfer 8% of the registered capital in Hexin Pawn (being all the equity interest of Hexin Pawn then owned by Hexin Auction) to Wuxi Culture at a consideration of RMB12 million. The consideration was determined having regard to the net asset value of Hexin Pawn as of 30 June 2015. Such consideration was fully paid by Wuxi Culture on 27 November 2015. The transfer was completed on 29 July 2015 upon the approval of Yixing Market Supervision Department. At the date of equity transfer agreement up to the Latest Practicable Date, Wuxi Culture was solely and beneficially owned by Mr. ZJ Fan.
- (c) On 28 July 2015, it was resolved by a shareholders' resolution of Hexin Pawn to increase its registered capital from RMB40 million to RMB100 million by way of additional cash contribution by each of its then existing equity-holders as shown below:

Name of equity-holders	Amount of additional cash contribution made <i>(RMB million)</i>	Portion of registered capital held after enlargement <i>(RMB million)</i>	Percentage registered capital held <i>(%)</i>
Mr. ZJ Fan	10.8	18.0	18
Ms. QZ Fan	12.0	20.0	20
Mr. YJ Fan	6.0	10.0	10
Ms. Wu	4.8	8.0	8
Zisha Hotel	21.6	36.0	36
Wuxi Culture	4.8	8.0	8
<b>Total:</b>	<b>60.0</b>	<b>100.0</b>	<b>100</b>

## HISTORY, REORGANISATION AND DEVELOPMENT

Each equity-holder made such contribution from its own financial resources and the entirety of the additional cash contribution was fully paid up in July 2015. The equity transfers as outlined in sub-paragraphs (a) and (b) above and the increase in registered capital as outlined in sub-paragraph (c) above were approved by Jiangsu Commerce Department on 6 July 2015 and by Yixing Market Supervision Department on 29 July 2015.

Since then and up to the Latest Practicable Date, the registered capital of Hexin Pawn has not been changed.

### 2. *Hexin Auction*

Hexin Auction was incorporated in PRC on 25 May 2007 with an initial registered capital of RMB5 million which was held by the following equity-holders as shown below:

Name of equity-holders	Registered capital contribution made <i>(RMB million)</i>	Percentage registered capital held %
Mr. ZJ Fan	1.25	25
Mrs. Fan <i>(Note)</i>	1.5	30
Ms. Wu	0.75	15
Ms. Xu	0.25	5
Mr. Fan Baowen (范保文)	0.5	10
Mr. JS Wang	0.75	15
<b>Total:</b>	<b>5.0</b>	<b>100</b>

*Note:* 30% of the registered capital in Hexin Auction was registered in the name of Mrs. Fan who held such equity interest on trust for the benefit of Mr. ZJ Fan since 25 May 2007 (date of incorporation of Hexin Auction) up to 23 March 2016.

Save for RMB1.5 million (representing 30% of the initial capital of Hexin Auction) which was funded by Mr. ZJ Fan on behalf of Mrs. Fan by his financial resources, the initial capital of Hexin Auction was funded by its founding equity-holders in accordance with their respective percentage ownership by their respective financial resources.

Since its incorporation, the registered capital and equity-holders of Hexin Auction underwent the following changes:

- (i) (a) By an agreement dated 1 August 2009, Ms. Wu agreed to transfer 5% of the registered capital in Hexin Auction to Mr. ZJ Fan at a consideration of RMB250,000. The consideration was determined having regard to the face value of the equity capital agreed to be transferred. Such consideration was fully paid by Mr. ZJ Fan on 5 August 2009. The transfer was completed on 25 March 2010 upon approval by Yixing AIC.



## HISTORY, REORGANISATION AND DEVELOPMENT

- (b) By an agreement dated 1 August 2009, Mr. Fan Baowen agreed to transfer 10% of the registered capital in Hexin Auction (being all the equity interest of Hexin Auction then owned by Mr. Fan Baowen) to Mr. ZJ Fan at a consideration of RMB500,000. The consideration was determined having regard to the face value of the equity capital agreed to be transferred. Such consideration was fully paid by Mr. ZJ Fan on 6 August 2009. The transfer was completed on 25 March 2010 upon approval by Yixing AIC.
- (c) By an agreement dated 1 August 2009, Mr. JS Wang agreed to transfer 15% of the registered capital in Hexin Auction (being all the equity interest of Hexin Auction then owned by Mr. JS Wang) to Mr. ZJ Fan at a consideration of RMB750,000. The consideration was determined having regard to the face value of the equity capital agreed to be transferred. Such consideration was fully paid by Mr. ZJ Fan on 11 August 2009. The transfer was completed on 25 March 2010 upon approval by Yixing AIC.
- (d) On 1 August 2009, it was resolved by a shareholders' resolution of Hexin Auction to increase its registered capital from RMB5 million to RMB10 million by way of additional cash contribution by each of its then existing registered equity-holders as shown below:

Name of equity-holders	Amount of additional cash contribution made <i>(RMB million)</i>	Portion of registered capital held after enlargement <i>(RMB million)</i>	Percentage registered capital held <i>(%)</i>
Mr. ZJ Fan	2.75	5.5	55
Mrs. Fan (as trustee for the benefit of Mr. ZJ Fan)	1.5	3.0	30
Ms. Wu	0.5	1.0	10
Ms. Xu	<u>0.25</u>	<u>0.5</u>	<u>5</u>
<b>Total:</b>	<b><u>5.0</u></b>	<b><u>10.0</u></b>	<b><u>100</u></b>

Save for RMB1.5 million (representing 30% of the additional cash contribution) which was funded by Mr. ZJ Fan on behalf of Mrs. Fan by his financial resources, each equity-holder made such contribution from its own financial resources and the entirety of the additional cash contribution was fully paid up in December 2009. The equity transfers as outlined in sub-paragraphs (a), (b) and (c) above and the increase in registered capital as outlined in sub-paragraph (d) above were approved by Jiangsu Commission for Economy and Trade on 11 January 2010 and by Yixing AIC on 25 March 2010.

## HISTORY, REORGANISATION AND DEVELOPMENT

- (ii) as part of the Reorganisation, by an agreement dated 5 January 2016, for the purpose of unwinding the trust arrangement between Mr. ZJ Fan and Mrs. Fan in relation to ownership of the equity interest in Hexin Auction, Mrs. Fan, as the trustee holding such equity interest on trust for the benefit of Mr. ZJ Fan, agreed to transfer 30% of the equity interest in Hexin Auction, representing all the equity interest of Hexin Auction then held by Mrs. Fan, to Mr. ZJ Fan at a consideration of RMB3 million, which consideration was waived by Mrs. Fan. Such transfer was completed on 24 March 2016 upon approval by Yixing Market Supervision Department. Immediately after the transfer, Hexin Auction was held by the equity-holders as shown below:

Name of equity-holders	Portion of registered capital held <i>(RMB million)</i>	Percentage registered capital held <i>(%)</i>
Mr. ZJ Fan	8.5	85.0
Ms. Wu	1.0	10.0
Ms. Xu	0.5	5.0
<b>Total:</b>	<b>10.0</b>	<b>100.0</b>

Since then and up to the Latest Practicable Date, the registered capital of Hexin Auction has not been changed.

### Change in issued capital and/or owners of our Company

Our Company was incorporated on 2 November 2015.

At the time of incorporation of our Company, the initial authorised share capital of our Company was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. On 2 November 2015 (i.e. the date of its incorporation), one subscriber Share allotted and issued, credited as fully paid up, to an officer of the registered agent of our Company was transferred to Intelligensis Inv.

Upon the completion of the 2014 Investment Agreement on 29 December 2015, the Company allotted and issued 8,299 Shares and 1,700 Shares, at par and credited as fully paid, to Intelligensis Inv and Mr. Lai, respectively. Immediately following the issue of such 9,999 Shares, Intelligensis Inv became the owner of 8,300 Shares (representing 83% of the then entire issued share capital of the Company) and Mr. Lai became the owner of 1,700 Shares (representing 17% of the then entire issued share capital of the Company). For further details of such investment, please see “— Pre-IPO Investment” in this section below.

Conditional on the share premium account of our Company being credited as a result of the issue of new shares under the Global Offering, our Directors are authorised to capitalise an amount of HK\$11,999,900 standing to the credit of the share premium account of our Company by applying that sum in paying up in full at par 995,991,700 Shares and 203,998,300 Shares for allotment and issue to Intelligensis Inv and Mr. Lai on the assumption that their names appear in the register of members of our Company at close of business on 14 October 2016.

## HISTORY, REORGANISATION AND DEVELOPMENT

It is contemplated that immediately upon Listing, on the assumption that 25% of the entire issued shares of our Company as enlarged by the Offer Shares being allotted by our Company under the Global Offering (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option, and the options which may be granted under the Share Option Scheme) will be held by the public, the Shares to be held by Intelligenes Inv and Mr. Lai will represent approximately 62.25% and 12.75% of the entire issued Shares of our Company respectively.

See paragraph 1.2 under Appendix IV — “Statutory and General Information” to this prospectus for further details of the changes in our Company’s share capital.

### Pre-IPO Investment

On 8 October 2014, Mr. ZJ Fan as vendor and Mr. Lai as purchaser entered into an investment agreement (the “**2014 Investment Agreement**”), pursuant to which Mr. ZJ Fan agreed to transfer to Mr. Lai certain shares of the holding company of Hexin Pawn and Hexin Auction, which was to be formed during the Reorganisation, i.e. our Company, representing 17% of its entire issued share capital immediately after the completion of the transfer at a consideration of RMB34,000,000 (equivalent to HK\$42,070,140 as agreed between the parties), subject to adjustment and upon the terms and conditions therein. On 2 November 2015, Intelligenes Inv held one Share of our Company.

On 29 December 2015, in performance of the transfer obligation of Mr. ZJ Fan under the 2014 Investment Agreement, Mr. ZJ Fan, being the then sole shareholder of Intelligenes Inv, requested Intelligenes Inv to direct and instruct our Company to allot and issue 1,700 Shares to Mr. Lai. On the same date, the Company allotted and issued 8,299 Shares to Intelligenes Inv. The aggregate number of 9,999 Shares were allotted and issued at par and fully paid by Intelligenes Inv. Immediately following the issue of such 9,999 Shares, Intelligenes Inv became the owner of 8,300 Shares (representing 83% of the then entire issued share capital of the Company) and Mr. Lai became the owner of 1,700 Shares (representing 17% of the then entire issued share capital of the Company). Other than being a party to the 2014 Investment Agreement, Mr. Lai is independent of other Shareholders. Mr. Lai is an experienced investor with experience of investing in listed company, namely China Saite Group Company Limited, the shares of which are listed on the main board of the Stock Exchange (stock code: 153).

Brief details of the 2014 Investment Agreement are set forth below:

Name of the investor	: Lai Chau Yung (賴州榕)
Date of the 2014 Investment Agreement	: 8 October 2014
Number of Shares allotted and issued to the investor	: 1,700 Shares, representing 17% of the then entire issued share capital of our Company immediately after the completion of the 2014 Investment Agreement
Total consideration	: RMB34,000,000 (payable in Hong Kong dollars as agreed between the parties in the sum of HK\$42,070,140)

## HISTORY, REORGANISATION AND DEVELOPMENT

Payment date of the consideration	:	28 December 2015 (payment date of the last batch of consideration)
Completion of the allotment	:	29 December 2015
Basis of determination of the consideration	:	The consideration was determined with reference to the financial performance of our Group for FY2014 and the proportion of the then issued Shares agreed to be transferred, after arm's length negotiations between Mr. ZJ Fan and Mr. Lai
Strategic benefits brought by the investor	:	As an experienced investor, we expect that Mr. Lai will bring in business connections and insights to our Company's business strategies
Shareholding of the investor in our Company immediately following the completion of the Global Offering:	:	Approximately 12.75% (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme)
Investment cost per Share (assuming completion of the Global Offering and the Capitalisation Issue)	:	approximately HK\$0.21
Level of discount to Offer Price of HK\$0.675 per Offer share (assuming the mid-point of the indicative Offer Price range)	:	68.9%
Special rights granted to the investor	:	no special right was granted

Mr. Lai has undertaken not to dispose of, directly or indirectly, any of the Shares held by him for a period of six months after Listing, unless prior written consent has been obtained from our Company and the Sole Global Coordinator, under the terms and conditions set forth in the undertakings.

After reviewing the terms of the 2014 Investment Agreement, the Sole Sponsor is of the view that the 2014 Investment Agreement is in compliance with the Interim Guidance on Pre-IPO Investments (HKEx-GL29-12) and the Guidance on Pre-IPO Investments (HKEx-GL43-12).

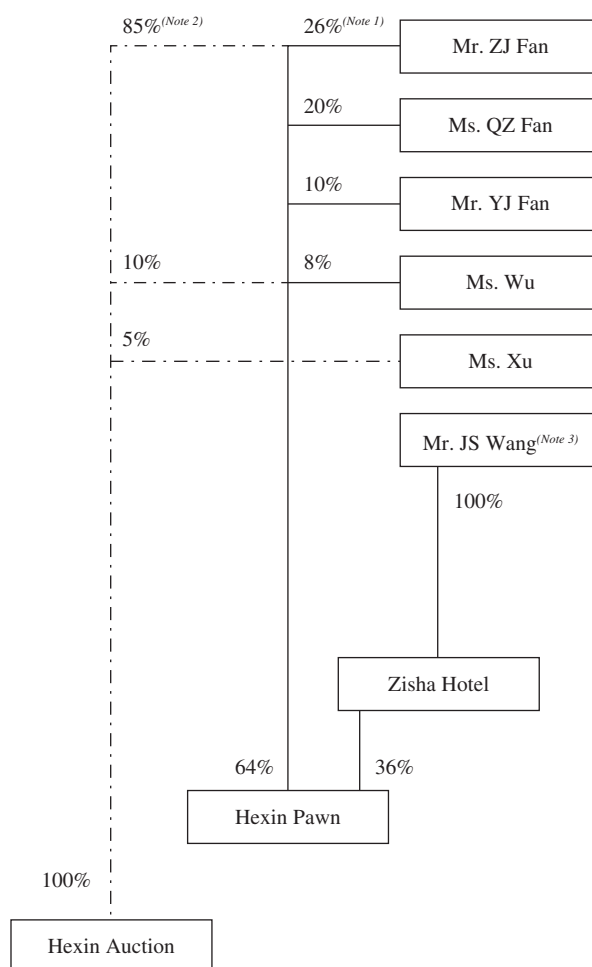
The Shares held by Mr. Lai will not be counted as part of the public float of our Company given that Mr. Lai is a substantial shareholder of the Company and hence a connected person.

# HISTORY, REORGANISATION AND DEVELOPMENT

## REORGANISATION

The corporate structure of our Group and our subsidiaries as of 1 November 2015 immediately prior to our Reorganisation is as follows:

**Chart 1**



*Notes:*

- (1) Among the 26% registered capital of Hexin Pawn beneficially owned by Mr. ZJ Fan, 8% of the registered capital was registered in the name of Wuxi Culture. As of 1 November 2015, Wuxi Culture was solely and beneficially owned by Mr. ZJ Fan, among Mr. ZJ Fan's entire interest in Wuxi Culture, 50% was registered in the name of Mrs. Fan who then held such equity interest on trust for the benefit of Mr. ZJ Fan.
- (2) As of 1 November 2015, among the 85% registered capital of Hexin Auction beneficially owned by Mr. ZJ Fan, 30% of the registered capital was registered in the name of Mrs. Fan who then held such equity interest on trust for the benefit of Mr. ZJ Fan.
- (3) Among the 100% registered capital of Zisha Hotel beneficially owned by Mr. JS Wang, 30% of the registered capital was registered in the name of Wang Junqian (son of Mr. JS Wang) who has been holding such equity interest on trust for the benefit of Mr. JS Wang, and the remaining 10% was registered in the name of Wang Hui (daughter of Mr. JS Wang) who has been holding such equity interest on trust for the benefit of Mr. JS Wang.

## HISTORY, REORGANISATION AND DEVELOPMENT

Our Group underwent the Reorganisation prior to Listing, which involved the following steps:

### **1. Incorporation of our Company**

On 2 November 2015, our Company was incorporated in the Cayman Islands as an exempted company with limited liability. Its initial authorised share capital was HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 per Share. On 2 November 2015 (i.e. the date of its incorporation), one subscriber Share was allotted and issued, credited as fully paid up, to an officer of the registered agent of our Company, such share was transferred to Intelligenes Inv on the same date.

### **2. Incorporation of Reliance Art BVI**

On 3 December 2015, Reliance Art BVI was incorporated in BVI. Its initial authorised share capital was US\$50,000 divided into 50,000 shares of US\$1 each. On 18 December 2015, Reliance Art BVI allotted and issued one share to our Company at a total subscription price of US\$1 and the total issued share capital of Reliance Art BVI has remained unchanged up to the Latest Practicable Date.

### **3. Incorporation of Reliance Art HK**

On 6 January 2016, Reliance Art HK was incorporated in Hong Kong. On the date of its incorporation, Reliance Art HK allotted and issued one share to Reliance Art BVI at a total subscription price of HK\$1. The total issued share capital of Reliance Art HK was HK\$1 and has remained unchanged up to the Latest Practicable Date.

### **4. Introduction of Pre-IPO Investor**

As part of the Reorganisation exercise for preparation of the Listing and for bringing in business connections and insights to our Group's business strategies, a pre-IPO investor was introduced to the Company. On 8 October 2014, Mr. ZJ Fan as vendor and Mr. Lai as purchaser entered into the 2014 Investment Agreement.

Upon completion of the 2014 Investment Agreement on 29 December 2015, Intelligenes Inv became the owner of 8,300 Shares (representing 83% of the then entire issued share capital of the Company) and Mr. Lai became the owner of 1,700 Shares (representing 17% of the then entire issued share capital of the Company). For details of the pre-IPO investment under the 2014 Investment Agreement, please refer to "Change in Registered Capital and/or Equity-holders of our Group — Pre-IPO Investment" of this section above.

### **5. Transfer of share of Intelligenes Inv to Golden Sand Inv and Yubo Inv**

On 10 September 2015, Intelligenes Inv was incorporated in BVI as an investment vehicle to hold Shares of our Company. As of the date of its activation on 30 September 2015, 10,000 shares having par value of US\$0.01 each, being the then total number of issued shares of Intelligenes Inv were issued and allotted to Mr. ZJ Fan.

## HISTORY, REORGANISATION AND DEVELOPMENT

On 15 February 2016, Mauve Jade Inv was incorporated in BVI as an investment vehicle to hold shares in Golden Sand Inv, which would in turn hold certain shares in Intelligenes Inv (the direct registered shareholder of our Company). As of the date of the activation of Mauve Jade Inv on 4 March 2016 and up to the Latest Practicable date, it was owned by Mr. ZJ Fan and Ms. QZ Fan as to approximately 67.2% and 32.8% respectively.

On 15 March 2016 and 1 March 2016, Golden Sand Inv and Yubo Inv were incorporated in BVI, respectively, as investment vehicles to hold certain shares in Intelligenes Inv, which is the direct registered shareholder of our Company.

- (i) as of the date of the activation of Golden Sand Inv on 17 March 2016 and up to the Latest Practicable date, it was owned by the following shareholders as shown below:

Name of shareholders	Number of shares held	Percentage holding (%)
Mauve Jade Inv	7,409	74.1
Mr. YJ Fan	1,390	13.9
Ms. Wu	1,125	11.3
Ms. Xu	76	0.8
<b>Total</b>	<b>10,000</b>	<b>100</b>

- (ii) as of the date of the activation of Yubo Inv on 14 March 2016 and up to the Latest Practicable date, it was solely owned by Mr. JS Wang.

On 18 March 2016, Mr. ZJ Fan transferred to (i) Golden Sand Inv 6,954 fully paid shares in Intelligenes Inv (representing approximately 69.5% of Intelligenes Inv's total issued share capital) at the consideration of HK\$1, and (ii) Yubo Inv 3,046 fully paid shares in Intelligenes Inv (representing approximately 30.5% of Intelligenes Inv's total issued share capital) at the consideration of HK\$1.

The shareholders (and/or attributable shareholdings) of the individuals in Intelligenes Inv, Golden Sand Inv and Mauve Jade Inv were determined by reference to the net asset value of Hexin Pawn and Hexin Auction as of 31 July 2015 and the respective equity-holdings of such individuals in the respective PRC Operating Entities.

### 6. Incorporation of WFOEs

On 9 March 2016, WFOE-Pawn was established in PRC with Reliance Art HK as its sole equity-holder. As of the date of its incorporation and up to the Latest Practicable Date, the registered capital of WFOE-Pawn was HK\$500,000, which is required to be paid up before 8 March 2018 (i.e. two years from the date of grant of WFOE-Pawn's business licence). As of the Latest Practicable Date, such registered capital was not yet paid up.



## HISTORY, REORGANISATION AND DEVELOPMENT

On 10 March 2016, WFOE-Auction was established in PRC with Reliance Art HK as its sole equity-holder. As of the date of its incorporation and up to the Latest Practicable Date, the registered capital of WFOE-Auction was HK\$500,000, which is required to be paid up before 9 March 2018 (i.e. two years from the date of grant of WFOE-Auction's business licence). As of the Latest Practicable Date, such registered capital was not yet paid up.

### 7. Unwinding the trust arrangements between Mr. ZJ Fan and Mrs. Fan

Mrs. Fan is the spouse of Mr. ZJ Fan, for reasons of family arrangements, Mrs. Fan had held certain equity interest of Wuxi Culture and Hexin Auction on trust for the benefit of Mr. ZJ Fan. No compensation, benefits or advantages have been provided by Mr. ZJ Fan to Mrs. Fan for entering into those trust arrangements.

Under the trust arrangements, Mr. ZJ Fan enjoyed all rights and benefits (including voting rights and payment of dividends) derived from the equity-interests. As advised by our PRC Legal Advisers, all the said trust arrangements are legally effective and binding on the parties. Under the applicable PRC laws and regulations, all such trust arrangements do not violate any applicable laws and regulations. The said trust arrangements were unwound in early 2016. Details of the trust arrangements are set out below:

#### *Wuxi Culture*

Mr. ZJ Fan and Mrs. Fan entered into a trust arrangement (“**Wuxi Culture Trust Arrangement**”), in which Mrs. Fan confirmed that she has been holding 50% of the registered capital in Wuxi Culture (being all the equity interest of Wuxi Culture registered in the name of Mrs. Fan at the material time) on trust for the benefit of Mr. ZJ Fan during the term of the trust arrangement from 19 June 2006 (being the date of incorporation of Wuxi Culture) to 17 March 2016.

On 3 March 2016, for the purpose of unwinding the Wuxi Culture Trust Arrangement, Mrs. Fan entered into an equity transfer agreement with Mr. ZJ Fan pursuant to which Mrs. Fan agreed to transfer the said 50% registered capital in Wuxi Culture then held under her name to Mr. ZJ Fan at a consideration of RMB1 million, the payment of the consideration was waived by Mrs. Fan. Such transfer was completed on 18 March 2016.

#### *Hexin Auction*

Mr. ZJ Fan and Mrs. Fan entered into a trust arrangement (“**Hexin Auction Trust Arrangement**”), in which Mrs. Fan confirmed that she has been holding 30% of the registered capital in Hexin Auction (being all the equity interest of Hexin Auction registered in the name Mrs. Fan at the material time) on trust for the benefit of Mr. ZJ Fan during the term of the trust arrangement from 25 May 2007 (being the date of incorporation of Hexin Auction) to 23 March 2016.

## HISTORY, REORGANISATION AND DEVELOPMENT

On 5 January 2016, for the purpose of unwinding the Hexin Auction Trust Arrangement, Mrs. Fan entered into an equity transfer agreement with Mr. ZJ Fan pursuant to which Mrs. Fan agreed to transfer 30% of the registered capital in Hexin Auction then held under her name to Mr. ZJ Fan at a consideration of RMB3 million, the payment of the consideration was waived by Mrs. Fan. Such transfer was completed on 24 March 2016.

### **8. Entering into the Structured Contracts which constitute the Contractual Arrangements**

On 15 April 2016, our Group entered into two series of Structured Contracts which constitute the Contractual Arrangements for our art and asset pawn business and art and asset auction business respectively. The Contractual Arrangements effectively transfer the economic benefits and pass the risks associated therewith of Hexin Pawn and Hexin Auction to our Group. The Structured Contracts in respect of Hexin Pawn include: (i) HP Exclusive Operation Services Agreement, (ii) HP Exclusive Call Option Agreement, (iii) HP Equity Entrustment Agreement, and (iv) HP Equity Pledge Agreement, and the Structured Contracts in respect of Hexin Auction include: (i) HA Exclusive Operation Services Agreement, (ii) HA Exclusive Call Option Agreement, (iii) HA Equity Entrustment Agreement, and (iv) HA Equity Pledge Agreement. For further details of the Contractual Arrangements, please see the section headed “Contractual Arrangements” in this prospectus.

Upon the Contractual Arrangements becoming effective on 15 April 2016, our Company became the holding company of our Group. Our PRC Legal Advisers advised that all our Reorganisation steps were legal and valid, and all requisite approvals, permits and licences required for each stage of Reorganisation within PRC have been obtained and all the necessary filings and registration have been effected.

As of the Latest Practicable Date, the following individuals (who are all PRC nationals) were the ultimate individual Controlling Shareholders or members of the Group of Controlling Shareholders of our Company: Mr. ZJ Fan, Ms. QZ Fan, Mr. YJ Fan, Ms. Wu, Ms. Xu and Mr. JS Wang.

The above individuals have effected registration with the local SAFE branch as required under the SAFE Circular No. 37 on 22 March 2016.

### **9. Excluded Companies**

Prior to Listing, some of our Controlling Shareholders and their close associates had direct or indirect interest (having such meaning ascribed in the note to Rule 8.10(1) of the Listing Rules) in, amongst other entities, Hexin Guarantee, Hexin Microfinancing and Taodu Microfinancing.

To avoid future possible competition with the Group’s business, the relevant Controlling Shareholders have disposed of their respective interests and ceased to be a director of each of Hexin Guarantee, Hexin Microfinancing and Taodu Microfinancing in mid-2016. After such transfers, such Controlling Shareholders ceased to have any interest in Hexin Guarantee, Hexin Microfinancing and Taodu Microfinancing. For further details of the disposal, please see “Relationship with the Controlling Shareholders — Our Controlling Shareholders” of this prospectus below.

## HISTORY, REORGANISATION AND DEVELOPMENT

### Parties acting in concert

On 15 April 2016, a group of our Controlling Shareholders, namely, Mr. ZJ Fan, Ms. QZ Fan, Mr. YJ Fan, Ms. Wu and Ms. Xu, who are the ultimate beneficial owners of Golden Sand Inv, entered into a concert parties confirmation to confirm:

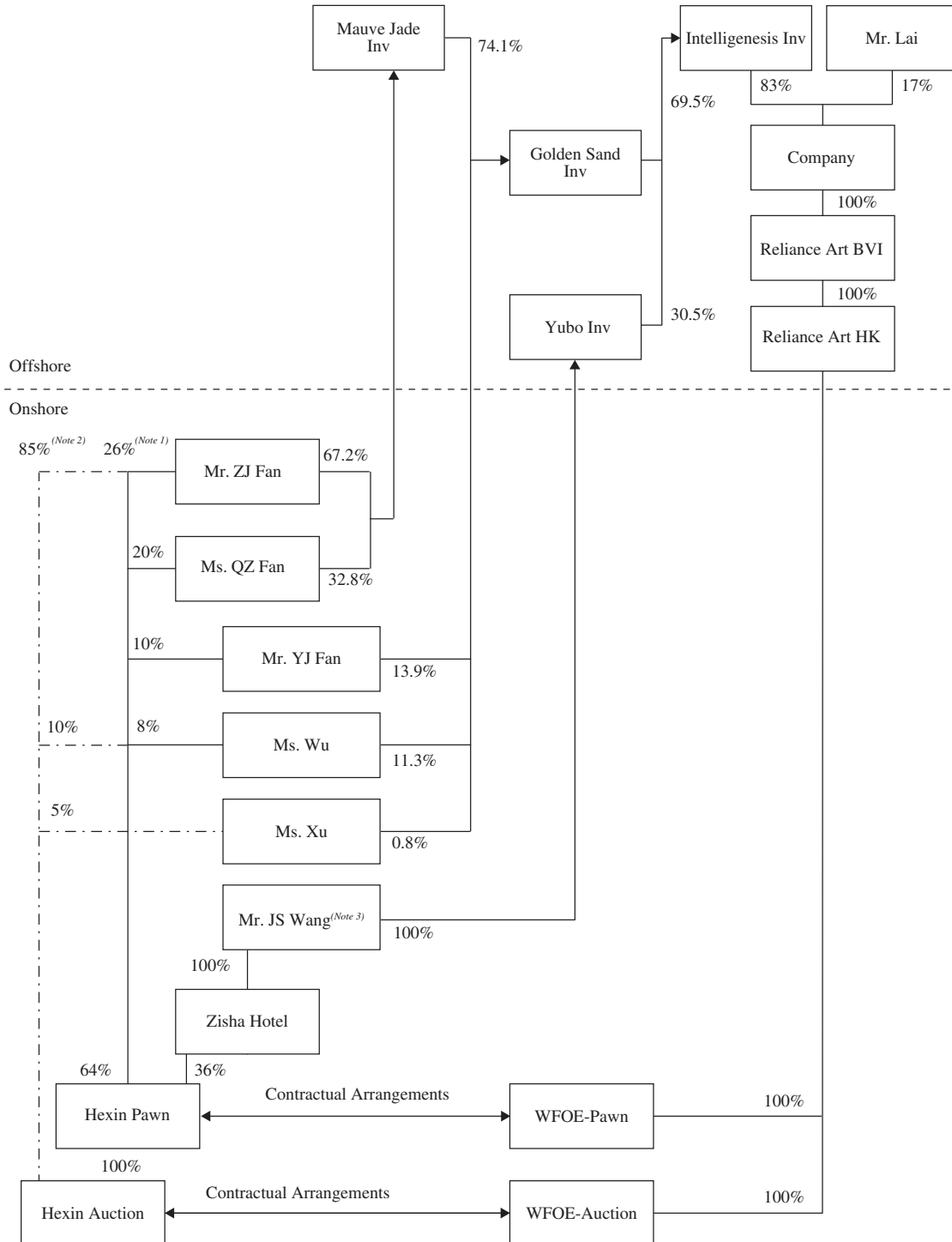
- (a) they shall act in concert and give unanimous consent, approval or rejection on any material issues and decisions in relation to the business of our Group and none of them shall make any decision that is contrary to the decision of the others of the concert group, including, but not limited to, their financing and operating activities, unless the consent, approval or rejection so made would be in breach of any applicable laws or regulations, in the event of any contrary view within the concert group, the view of Mr. ZJ Fan shall prevail;
- (b) they shall cast unanimous vote collectively for or against all resolutions in all meetings and discussions of the companies of our Group, unless the decisions so made would be in breach of any applicable laws or regulations; and
- (c) they shall cooperate with each other to obtain and maintain the collective control and the management of the companies of our Group, unless such actions so performed would be in breach of any applicable laws or regulations.

Throughout the Track Record Period, Mr. ZJ Fan, Ms. QZ Fan, Mr. YJ Fan, Ms. Wu and Ms. Xu are directly or indirectly interested in over 50% of both Hexin Pawn (64% of the equity interest of Hexin Pawn) and Hexin Auction (100% of the equity interest of Hexin Auction), i.e. our PRC Operating Entities. During such period, notwithstanding there was no written agreement or confirmation in connection with the management, exercise of shareholders' right and/or voting patterns among those equity-holders prior to 15 April 2016, they cast unanimous votes collectively for or against all resolutions in all meetings and discussions of the PRC Operating Entities.

# HISTORY, REORGANISATION AND DEVELOPMENT

The corporate structure of our Group and our subsidiaries immediately after the Reorganisation but before completion of the Global Offering is as follows:

**Chart 2**



## HISTORY, REORGANISATION AND DEVELOPMENT

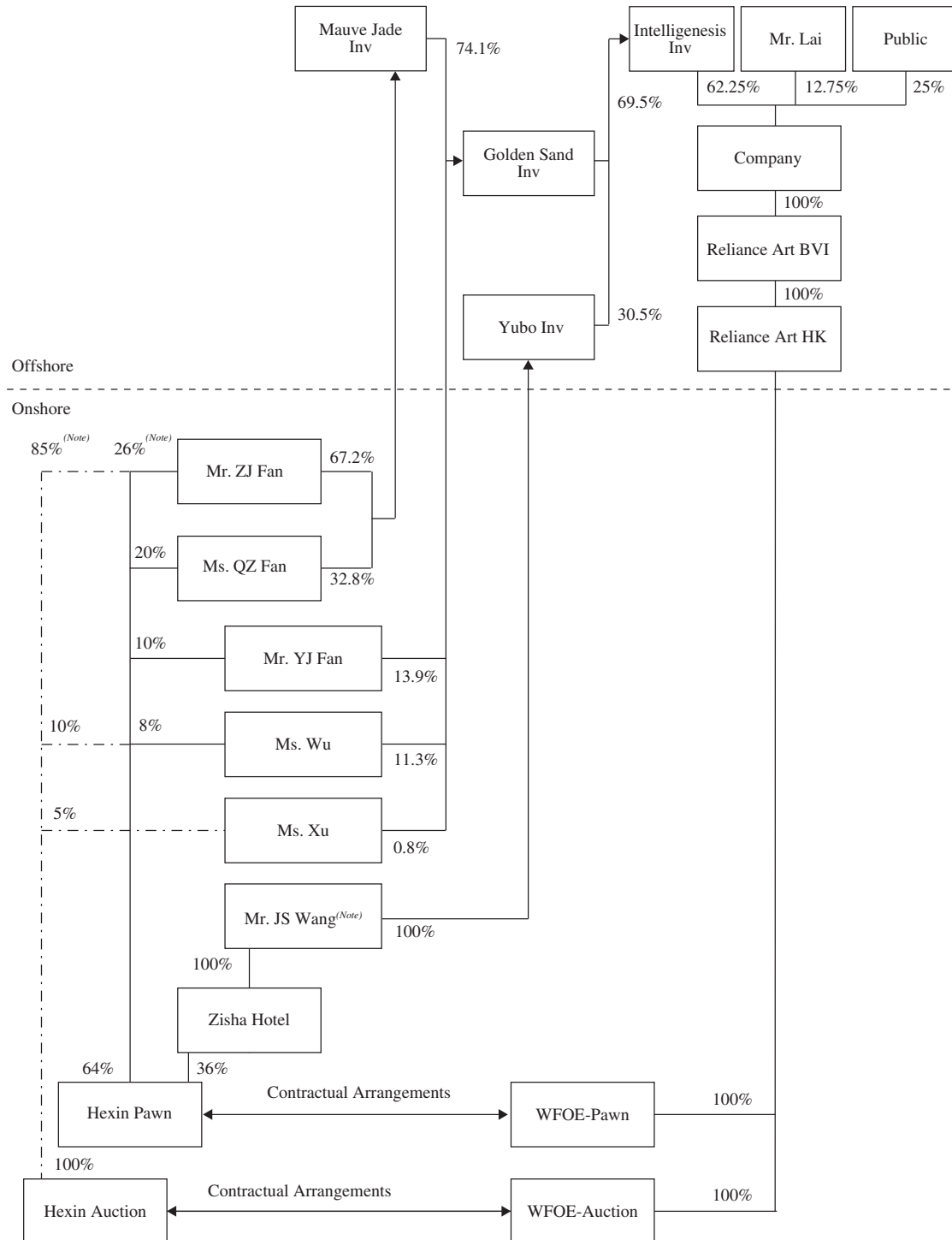
*Notes:*

- (1) Among the 26% registered capital of Hexin Pawn beneficially owned by Mr. ZJ Fan, 8% of the registered capital was registered in the name of Wuxi Culture, which is solely and beneficially owned by and registered in the name of Mr. ZJ Fan.
- (2) As of 24 March 2016, 85% of the registered capital in Hexin Auction was beneficially owned by, and registered in the name of Mr. ZJ Fan.
- (3) Among the 100% registered capital of Zisha Hotel beneficially owned by Mr. JS Wang, 30% of the registered capital was registered in the name of Wang Junqian (son of Mr. JS Wang) who has been holding such equity interest on trust for the benefit of Mr. JS Wang, and the remaining 10% was registered in the name of Wang Hui (daughter of Mr. JS Wang) who has been holding such equity interest on trust for the benefit of Mr. JS Wang.

# HISTORY, REORGANISATION AND DEVELOPMENT

The corporate structure of our Group and our subsidiaries immediately following the completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme) will be as follows:

**Chart 3**



*Note:* Please refer to the notes to chart 2 above.

## CONTRACTUAL ARRANGEMENTS

### BACKGROUND OF THE CONTRACTUAL ARRANGEMENTS

We conduct our art and asset pawn business and art and asset auction business through our PRC Operating Entities: (i) Hexin Pawn is engaged in the provision of pawn loan services secured by artworks and assets as collaterals which are regulated under the Pawning Measures; and (ii) Hexin Auction focuses on auction of artworks. In addition to our traditional principal on-site art auctions, we commenced online auctions of artworks since 2015.

The operation of the pawn loan business of Hexin Pawn and online art auction operation of Hexin Auction are, to a certain extent, subject to foreign investment prohibition or restriction in PRC and there are practical difficulties in obtaining governmental approval for foreign investment in these businesses. For such reasons, we do not hold any equity interest in Hexin Pawn and Hexin Auction, and our Company through our equity-owned subsidiaries control the PRC Operating Entities through two series of agreements (i.e. the HP Structured Contracts and the HA Structured Contracts) which constitute the Contractual Arrangements. The Contractual Arrangements are narrowly tailored to achieve our business purpose and minimise the potential conflict with relevant PRC laws and regulations.

#### Reasons for the Use of Contractual Arrangements

##### *Art and asset pawn business which is operated as pawn loan*

In PRC, enterprises engaging in pawn loan business must obtain a Pawn Operation Permit and a Special Industry Permit. Hexin Pawn has obtained and maintained both permits, being all the necessary licences and permits for the operation of its pawn loan business in PRC.

The pawn loan business currently engaged in by Hexin Pawn is regulated by the Pawning Measures. It is not clearly stated in the Pawning Measures as to whether foreign investors can engage in pawn loan business in PRC. According to the Pawning Measures, the measures for the administration of foreign-invested enterprises engaging in pawn loan business or such entities invested by Hong Kong, Macau or Taiwan investors shall be formulated by MOFCOM together with other relevant departments separately. However, as advised by our PRC Legal Advisers, up to the Latest Practicable Date, neither MOFCOM nor the Jiangsu Commerce Department has announced any such regulatory measures.

In addition, under the Administrative Licensing Law, the establishment and implementation of any regulations on administrative licensing (1) shall be in accordance with legal authority, scope, conditions and procedures; and (2) shall be made known to the public, and any undisclosed provisions or guidelines may not form the basis for the implementation of any regulations on administrative licensing.

On 3 December 2015, the Sole Sponsor and the PRC Legal Advisers (together with some other professional parties involved in the Global Offering) had an interview with competent officers of the relevant authority (namely Jiangsu Commerce Department) and consulted with them regarding the requirements and restrictions of foreign investment in relation to (among other entities) Hexin Pawn. Jiangsu Commerce Department confirmed the following:

- (i) pursuant to the Pawning Measures, the measures for the administration of foreign-invested enterprises engaging in pawn loan business or such entities invested by Hong Kong, Macau or Taiwan investors shall be formulated by MOFCOM together with other relevant departments separately. As of 3 December 2015, neither MOFCOM nor any other

## CONTRACTUAL ARRANGEMENTS

governmental departments have promulgated any such measures. Accordingly, there is no legal basis to process the application for foreign investment in any pawn loan entities established in PRC;

- (ii) up to the date of such interview, Jiangsu Commerce Department could not accept any application for establishing or acquiring foreign-invested enterprises engaging in pawn loan business;
- (iii) if any foreign investor is introduced into Hexin Pawn, regardless of the proportion of shareholding of the foreign investor, Hexin Pawn will not be allowed (a) to continue to hold or renew its Pawn Operation Permit or (b) to engage in pawn loan business;
- (iv) it is not necessary to obtain any approval from Jiangsu Commerce Department in relation to the Contractual Arrangements proposed to be applicable to both Hexin Pawn and Hexin Auction; and
- (v) the Contractual Arrangements proposed to be applicable to both Hexin Pawn and Hexin Auction do not violate the provisions of the relevant PRC laws, administrative regulations and normative documents relating to the pawn loan and auction businesses respectively.

On 3 December 2015, Jiangsu Commerce Department issued a letter, confirming the matters stated in paragraphs (i) and (ii) above. According to our PRC Legal Advisers, Jiangsu Commerce Department is the appropriate and competent authority supervising the licensing of pawn loan businesses engaged by companies incorporated in Jiangsu province.

Because of the lack of regulatory guidance and hence the impracticability for supervising governmental authority to approve foreign-invested enterprises to engage in pawn loan business in PRC, our Company does not hold any direct or indirect equity interest in Hexin Pawn, and will control Hexin Pawn through the HP Structured Contracts.

### ***Online auction operation***

In PRC, auction enterprise must obtain the Approval Certificate for Auction Operation for conducting auction operation. There is no foreign ownership restriction for domestic enterprises which carry on general auction operation under the Approval Certificate for Auction Operation. To engage in the online art auction operation, auction enterprises shall also obtain the NCB Permit and the VATELECOM Permit, which are subject to foreign investment prohibition or restriction. Hexin Auction has obtained and maintained all the above certificate and permits, being all the necessary licences and permits for the operation of its auction (including online auction) business in PRC.



## CONTRACTUAL ARRANGEMENTS

### *Hexin Auction's current online art auction operation model*

Our current online art auction operations (collectively called “**Online Auction Operations**”) operated by Hexin Auction is broadly categorised into three inter-related elements:

- (a) *Live bidding under the synchronised live and on-site biddings channel:* Starting from the 2015 Autumn Auction, in addition to traditional on-site biddings, live bidding channel is provided to bidders through our internet platform at our art auctions, which involves disseminating information about the auction lots and shows timely transaction information of the auction (including real-time bidding prices and hammer prices, whether through the on-site or live bidding channels). During the auction, all live and on-site biddings are synchronised and a final sale is confirmed by the highest bidder using any of the two bidding channels.
- (b) *Online auction:* In January 2016, we also began to hold online auction on a standalone basis and we plan to hold such online auctions generally at quarterly interval.

The live bidding and online auctions involve processing of the bidding requests sent by live bidders and the reproduction of artworks on the internet for dissemination and offering of artworks on the internet for sale.

- (c) *Online marketing:* Starting from the second half of 2015, we used our internet platform as an online marketing channel by enabling customers to access auction catalogue, view past auction records, and read art industry news. We will continue to diversify our online marketing initiatives, details of which are set out in “Strategies — Expansion in our art auction business — Further develop our art auction business, with more focus on online auction and online operation” in the Business section of this prospectus.

### *The NCB Permit and internet cultural activities*

In PRC, enterprises engaging in operational internet cultural activities must be approved by cultural administration authorities and obtain the NCB Permit. Under the IC Interim Provisions, “internet cultural products” is defined as the cultural products produced, disseminated and circulated through the internet, which mainly include: (a) internet cultural products specially produced for the internet (such as online music entertainment, online games, online shows and plays (programs), online performances, online artworks, online cartoons), and (b) internet cultural products produced from such cultural products as music entertainment, games, shows & plays (programs), performances, artworks, cartoons, by certain technical means and reproduced on the internet for dissemination; and “internet cultural activities” includes the activities carried on for providing internet cultural products and services such as production and dissemination of internet cultural products.

## CONTRACTUAL ARRANGEMENTS

Our PRC Legal Advisers have advised us that (a) Zisha Artworks, Paintings and Calligraphies and Jewel Artworks (which are made by artists, craftsmen or professionals through designing, carvings and sculpting), being the auction lots of our art auctions (including online auctions) during the Track Record Period, are considered as internet cultural products for the purpose of the IC Interim Provisions; and (b) the Online Auction Operations fall under “operational internet cultural activities” under the IC Interim Provisions. Accordingly, Hexin Auction is required to hold an NCB Permit for the Online Auction Operations. As of the Latest Practicable Date, Hexin Auction held an NCB Permit for the Online Auction Operations.

Under the Foreign Investment Catalogue, internet cultural business falls within the “prohibited” category which prohibits foreign-invested enterprises from engaging in such (i.e. internet cultural) business activities (“**ICB Foreign Ownership Restriction**”). As advised by our PRC Legal Advisers, the engagement in organising online auctions, which involves internet cultural activities under the definition set out in the IC Interim Provisions, is subject to the foreign investment prohibition under the Foreign Investment Catalogue.

On 30 December 2015, the Sole Sponsor and the PRC Legal Advisers (together with some other professional parties involved in the Global Offering) had an interview with the section chief (科長) and a member (科員) of the Internet Cultural Management Section (網絡文化管理科) of Jiangsu Culture Department and consulted with them regarding, among other matters, the requirements and restrictions of foreign investment to which Hexin Auction is subject. Jiangsu Culture Department confirmed the following:

- (i) internet cultural business falls within the “prohibited” category under the Foreign Investment Catalogue. Jiangsu Culture Department will not approve any foreign investment in enterprises engaging in any operational internet cultural activities (經營性互聯網文化活動);
- (ii) if any foreign investor is introduced into Hexin Auction, regardless of the proportion of shareholding of the foreign investor, Hexin Auction will not be allowed (a) to continue to hold or renew its NCB Permit or (b) to engage in the organisation of any online auctions;
- (iii) the Ministry of Culture has not promulgated any regulation prohibiting the Contractual Arrangements; and
- (iv) as of the date of such interview, it was not necessary for Hexin Auction to obtain any approval from or to effect any filing with Jiangsu Culture Department in relation to the Contractual Arrangements proposed to be entered into.

According to our PRC Legal Advisers, (a) Jiangsu Culture Department is the appropriate and competent authority supervising the operation of internet cultural activities by companies incorporated in Jiangsu Province; and (b) the officers being interviewed have the authority to provide the confirmation above.

## CONTRACTUAL ARRANGEMENTS

On 26 February 2016, the Sole Sponsor and PRC Legal Advisers (together with some other professional parties involved in the Global Offering) had an interview with the head (局長) of Yixing Culture Bureau and consulted him regarding, among other matters, whether Hexin Auction's engagement in the provision of synchronised live and on-site bidding channels at its art auctions and the use of internet platform to conduct online marketing activities would be considered as "operational internet cultural activities". Yixing Culture Bureau confirmed the following:

- (i) an NCB Permit is required for all artwork operational activities through the internet;
- (ii) if a new auction enterprise is to be established to engage only in the on-site auction operations (which includes operating the on-site bidding channels), during art auctions with synchronised live and on-site biddings, information of the auction lots as well as timely information of the auction transaction would be disseminated through the internet platform. Based on such information available online, live bidders would be able to place live biddings through the internet platform, such live biddings are conveyed back to the on-site auction to facilitate synchronised live and on-site biddings. The winning bid is confirmed in consideration of all live and on-site biddings, which may be placed by a live bidder. The new auction enterprise will also use the internet platform to conduct online marketing activities for its on-site auctions. Based on the aforesaid business model, the new auction enterprise would be considered to be indirectly engaging in operational internet cultural activities, hence requiring the NCB Permit. Yixing Culture Bureau further confirmed that the NCB Permit should be obtained in order to engage in operational internet cultural activities, whether directly or indirectly.

According to our PRC Legal Advisers, (a) Yixing Culture Bureau is the appropriate and competent authority directly supervising the operational internet cultural activities conducted by companies incorporated in Yixing city; and (b) the officer being interviewed has the authority to provide the confirmation above.

Our PRC Legal Advisers further confirmed that Jiangsu Culture Department is the appropriate and competent authority for the approval of NCB Permit, while Yixing Culture Bureau is the appropriate and competent authority responsible for supervising the operational internet cultural activities conducted by Hexin Auction.

As advised by our PRC Legal Advisers (after taking into consideration the opinion or comment of the Yixing Culture Bureau), our on-site auction operations involve the using of an internet platform to provide synchronised live and on-site biddings channel and to conduct online marketing activities, and therefore, we would be considered to be indirectly participating in operational internet cultural activities, which falls within the "prohibited" category under the Foreign Investment Catalogue. As such, even if our online and on-site auction operations are separated, the NCB Permit is still required for Hexin Auction's on-site auction operations.

Please also refer to the sub-section headed "Reasons for the use of Contractual Arrangements — Art and asset pawn business which is operated as pawn loan" of this section for the summary of interviews made by the Sole Sponsor (among other parties) with competent officers of the Jiangsu Commerce Department on the relevant authority's confirmation on its interpretation of the applicable approval and compliance requirements concerning Hexin Auction - see item (iv) and (v) of such summary.

## CONTRACTUAL ARRANGEMENTS

### *VATelecom Permit and value-added telecommunications businesses*

According to the Internet Measures, “internet information services” refer to services that provide information to online users via the internet, and “commercial internet information services” refer to the provision of internet information services to online users in return for compensation. Commercial service providers of internet information shall obtain a VATelecom Permit from the telecommunications administration authorities at the provincial, autonomous regional or municipal level or the MIIT before engaging in the value-added telecommunication services, including the provision of any commercial internet information services in PRC.

The Online Auction Operations conducted by Hexin Auction in return for commissions to be paid by the successful bidders and the seller of artworks involve the provision of certain types of value-added telecommunication businesses, which include (i) online data processing and transaction processing (operating e-commerce) business (在線數據處理與交易處理業務(經營類電子業務)) (“**Transaction Processing VATelecom Services**”); (ii) information services (excluding fixed network telephone information services and internet information services (信息服務業務(不含固定網電話信息服務和互聯網信息服務)); (iii) and information services (limited to internet information services, excluding contents of news, publication, education, health care, pharmaceuticals and medical equipment, culture, broadcasting, film and television programs and electronic announcements (信息服務業務(僅限互聯網信息服務、不含新聞、出版、教育、醫療保健、藥品和醫療器械、文化、廣播電影電視節目、電子公告內容)). As far as the Company understands upon consultation with our PRC Legal Advisers, the organisation of the Online Auction Operations is classified as engaging in “commercial internet information services” under the Internet Measures. Accordingly, it would be necessary for Hexin Auction to obtain the VATelecom Permit for the organisation of Online Auction Operations.

The above value-added telecommunication businesses fall within the “restricted” category under the Foreign Investment Catalogue, restricting foreign-invested enterprises with foreign equity ratios of 50% or above from engaging in such business activities. Under the FITE Administrative Rules, foreign investors’ capital contribution to any entity in the PRC providing value-added telecommunications services shall not exceed 50% and a foreign investor intending to acquire any equity interest in a value-added telecommunications business in PRC must demonstrate a “good track record and operating experience” in providing value-added telecommunications services overseas (the “**Qualification Requirements**”). On 19 June 2015, MIIT issued the 2015 MIIT Notice removing the restrictions on foreign equity ratios for foreign-invested companies engaging in Transaction Processing VATelecom Services, allowing the foreign equity ratios of such companies to be increased to 100%. However, the other types of value-added telecommunication businesses (items (ii) and (iii) above) (collectively, the “**Restricted VATelecom Business Activities**”) are still subject to the foreign control restriction under the Foreign Investment Catalogue (“**VATelecom Foreign Control Restriction**”). Further, the 2015 MIIT Notice stipulates that the abovementioned foreign-invested companies should comply with other applicable regulations in relation to the conduct of foreign-invested telecommunication business (including but not limited to the Qualification Requirements under the FITE Administrative Rules). Since no written guidelines have been publicly issued by the MIIT which specify the criteria of the Qualification Requirements (such as what would constitute “a good track record” and “operating experience”), the MIIT retains reasonable discretion in granting approvals for the foreign investor’s commencement of value-added telecommunication business in PRC.

## CONTRACTUAL ARRANGEMENTS

On 22 December 2015, the Sole Sponsor and PRC Legal Advisers (together with some other professional parties involved in the Global Offering) had an interview with the head (處長) of the Division of Policies and Regulations (政策法規處) of Jiangsu Communications Administration and consulted with them regarding, among other business, the requirements and restrictions of foreign investment in Hexin Auction and the adoption of the Contractual Arrangements. Jiangsu Communications Administration confirmed that the following:

- (i) the Jiangsu Communications Administration would not approve any foreign investment in enterprises engaging in value-added telecommunications businesses (including online auctions);
- (ii) the online auctions fall within the scope of Transaction Processing VATElecom Services, allowing the foreign equity ratio of company providing such services to be increased to 100%, nevertheless, the Jiangsu Communications Administration would not approve any foreign investment in enterprises engaging in such services;
- (iii) if foreign investor is introduced into Hexin Auction, regardless of the proportion of shareholding of the foreign investor, Hexin Auction will not be allowed to continue to hold its VATElecom Permit and to engage in the organisation of online auctions;
- (iv) the Contractual Arrangements do not violate the provisions of the relevant PRC laws, administrative regulations and normative documents for so long as Hexin Auction is a domestic company without foreign shareholders; and
- (v) it is not necessary for Hexin Auction to obtain any approval from or effect any filing with the Jiangsu Communications Administration in relation to the Contractual Arrangements.

Our PRC Legal Advisers confirm that, (a) Jiangsu Communications Administration is the appropriate and competent authority supervising the licensing of value-added telecommunications businesses engaged by companies incorporated in Jiangsu province; and (b) the officer being interviewed has the authority to provide the confirmation above.

When the Contractual Arrangements are allowed to be and in fact unwound, under the FITE Administrative Rules, if we were to engage in the operation of Online Auction Operations (which involve the provision of the Restricted VATElecom Business Activities) via an equity-owned subsidiary, as a foreign-invested entity, we must satisfy the Qualification Requirements as summarised above and discussed in details in “Regulatory Overview — Regulation Relating to Telecommunication Services and Foreign Investment Restrictions — Laws and Regulations in Relation to Foreign Investments in the Value-added Telecommunications Industry”.

## CONTRACTUAL ARRANGEMENTS

### *Plans to Comply with the Qualification Requirements*

With the aim of fulfilling the Qualification Requirements, we have been taking steps to implement our plan (“**QR Plan**”) through Reliance Art HK, our wholly-owned subsidiary incorporated in Hong Kong: it has constructed an overseas website under the name of our Company targeting potential clients and other users in Hong Kong, Taiwan and other countries, and in late-June 2016, our overseas website has commenced its full operation and function. At the initial stage of its construction, the overseas website will provide links through which users will be re-directed to our Group’s domestic internet platform (i.e. our official website in PRC), where they can access to our Group’s online resources. As of the Latest Practicable Date, we have taken the following steps to implement the QR Plan:

- on 17 April 2016, Reliance Art HK entered into internet marketing and promotion service agreements with 3 artwork artists, pursuant to which Reliance Art HK agreed to provide online marketing and promotion services by allowing the artwork artists to publish and disseminate information in relation to themselves, some of their artworks (“**Published Artworks**”) and their contact details via our overseas website. Under the internet marketing and promotion service agreement, the artwork artist shall pay a fixed amount of monthly service fee to Reliance Art HK. In addition, if the artwork artist sells any Published Artworks to any third parties, Reliance Art HK shall be entitled to an agency fee, amounting to 10% of the purchase price of the Published Artworks;
- on 21 April 2016, Reliance Art HK entered into an information technology service agreement with an IT service provider, pursuant to which the IT service provider agreed to provide website development service to Reliance Art HK, including but not limited to: (i) web content planning service, (ii) client database management service, (iii) web and mail server hosting and uploading service, (iv) IT support and server maintenance service, and (v) website operation training and technical support. Under the information technology service agreement, a service fee of HK\$143,000 shall be payable by Reliance Art HK to the IT service provider in consideration for its service, as of 30 June 2016, HK\$100,100 was paid as part of the consideration;
- on 20 May 2016, we launched our overseas website — [www.cnartfin.com.hk](http://www.cnartfin.com.hk), which is currently providing users with global art industry news, information of artists and artworks, and an introduction of our Group’s business, and links to re-direct the users to our domestic website; and
- in June 2016, we recorded two transactions of Published Artworks.

As next step, we plan to further develop our overseas website to become a trading and promotional platform for Chinese artists especially Zisha artists. Under our business strategies and plans, our overseas website will in the long run be developed into an internet platform to support the future art auctions to be held in Hong Kong. It is expected that a total of approximately RMB1.8 million will be used for implementing the QR Plan, including the expenses for constructing and strengthening our online platforms (including our existing online auction platform and the online platform to be launched at our overseas website), as well as promoting such online platforms.



## CONTRACTUAL ARRANGEMENTS

On 28 March 2016, the Sole Sponsor and PRC Legal Advisers (together with some other professional parties involved in the Global Offering) had a telephone interview with an officer of the Communication Development Division (通信發展司) of MIIT and consulted with him regarding, among other business, the Qualification Requirements. Having preliminarily considered our plan to construct an overseas website, MIIT confirmed that there is currently no clear guidance as to what would constitute “a good track record” and “operating experience”, i.e. the Qualification Requirements and so long as the foreign investor conducts value-added telecommunications business outside PRC, subject to the submission of the application (together with the prescribed documents) under the prescribed procedure for our Group to engage in the provision of value-added telecommunication services in PRC as a foreign investor, the MIIT would consider our application after it has been submitted and may approve such application.

As confirmed by our PRC Legal Advisers, (a) the MIIT is the appropriate and competent authority supervising the licensing of value-added telecommunication businesses to foreign-invested enterprises; and (b) the officer being interviewed has the authority to provide the confirmation above. Taking into consideration that (i) there are no written guidelines to specify the criteria of the Qualification Requirements; (ii) the opinion or comment of the MIIT given at the interview as outlined above; and (iii) as well as the steps taken and to be taken by us under the QR Plan, our PRC Legal Advisers are of the view that the steps taken by our Group under the QR Plan for demonstrating compliance with the Qualification Requirements are reasonable and appropriate. Our PRC Legal Advisers also advise that the steps taken by our Group under the QR Plan as described in this prospectus are sufficient for filing an application with MIIT for VATElecom Permit as a foreign investor. In addition, the PRC Legal Advisers are of the view that MIIT shall have the discretion to decide whether the steps taken at the time of applying for VATElecom Permit are sufficient for demonstrating compliance with the Qualification Requirements. As of the Latest Practicable Date, the PRC Legal Advisers are not aware of any relevant PRC laws and regulations which indicate that the steps taken are insufficient for demonstrating compliance with the Qualification Requirements.

With a view of unwinding the Contractual Arrangements in relation to our Online Auction Operations as and when practicable and permissible under the prevailing PRC laws and regulations, we have undertaken to the Stock Exchange that we will (i) make periodic inquiries to relevant PRC regulatory authorities after the Listing to understand any new regulatory development, and assess whether we have sufficient track record and operating experience to meet the Qualification Requirement and (ii) provide updates semi-annually in our annual and interim reports after Listing to inform our Shareholders of our efforts and actions taken to comply with the Qualification Requirement.

### **The Contractual Arrangements are Narrowly Tailored to Achieve our Business Purposes**

#### ***Difficulty in obtaining a separate Approval Certificate for Auction Operation for online auction operations and possibility of losing current Approval Certificate for Auction Operation for on-site auction operations***

As advised by our PRC Legal Advisers, under the Auction Law and the Auction Measures, online auctions fall within the definition of “auction”. As such, auction enterprise engaging in online auctions activity is governed by the Auction Law and other relevant PRC laws and regulations, and such enterprise is required to obtain the Approval Certificate for Auction Operation to engage in online auction activity.

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On 2 March 2016, the Sole Sponsor and PRC Legal Advisers (together with some other professional parties involved in the Global Offering) had an interview with an officer of the relevant authority (namely, Jiangsu Commerce Department) and consulted him regarding, among other business, the Online Auction Operation and possible segregation of live and on-site biddings in art auction. Jiangsu Commerce Department confirmed the following:

- (i) if an auction enterprise engages in online auction operations, it will be governed by the Auction Law and other relevant PRC laws and regulations;
- (ii) according to the Auction Measures, management of online auction operations shall in principle be regulated under the Auction Measures and in accordance with specific measures to be separately promulgated. However, presently the MOFCOM has not yet promulgated any specific measures regulating online auction operations specifically. Accordingly, there are no specific rules and clear approval criteria for assessing the qualification of an auction enterprise that engages only in online auction operations to obtain the Approval Certificate for Auction Operation. Online and on-site auction operations are therefore subject to the same regulatory regime and cannot be separated. Jiangsu Commerce Department (a) had not received any application for Approval Certificate for Auction Operation from enterprises engaging only in online auction operations and (b) had not granted any Approval Certificate for Auction Operation to enterprises engaging only in online auction operations. Jiangsu Commerce Department further commented that it does not encourage or support auction enterprises to separately carry out online and on-site auction operations;
- (iii) if our online and on-site auction operations are separated, such that Hexin Auction engages only in online auction operations and a new auction enterprise is to be established to engage only in on-site auction operations:
  - (a) the continuity of Hexin Auction's existing auction operations will be disrupted and it may not be able to maintain its current auction house grading (i.e. the AA-Grade Auction Qualification awarded by China Association of Auctioneers) in PRC. Also, there is a risk that Hexin Auction's qualification to engage in auction operations may be adversely affected and might even fail the annual inspection with the relevant authority. Factors including the length of operation, past operating record, credibility, regulatory compliance and sustainable development are taken into consideration in assessing an auction house's grading. Jiangsu Commerce Department further commented that the auction house grading is an important intangible asset of an auction enterprise;
  - (b) for the new auction enterprise to be established to engage only in on-site auction operations, as it will not be able to obtain a relatively high auction house grading, such auction enterprise may not be able to meet the key qualification relevant to a high auction house grading for organising certain types of auctions, for example, auctions by PRC courts or governmental authorities;



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- (iv) if the operation of live and on-site biddings in an auction is separately managed by two distinct entities owned by the same group of ultimate beneficial owners (i.e. under common control), operation of each of the live and on-site biddings shall be presided by an auctioneer engaged by each of the auction enterprises under the Auction Law and the Auction Measures. This arrangement will pose difficulties in the operational logistics (particularly involving ascertaining the timing of the respective bidding prices of live and on-site bids), and may jeopardise the interests of consignors and bidders. In addition, there would be potential transfer of interests and competition between the two entities. On this basis, the Jiangsu Commerce Department does not encourage or support the separation of online and on-site auction operations to be managed by two distinct auction enterprises under common control. Jiangsu Commerce Department further confirmed that (a) it had not received any application for the establishment of two auction enterprises under common control and (b) it had not granted any Approval Certificate for Auction Operation to two auction enterprises under common control.

According to our PRC Legal Advisers, Jiangsu Commerce Department is the appropriate and competent authority supervising the auction operations conducted in Jiangsu province.

### ***The operation of our online and on-site auctions cannot be separated***

Separation of our on-site and online auction operations is not viable under the current PRC regulations and it is commercially not feasible for the following reasons:

- (a) according to Yixing Culture Bureau, our Group's on-site auction operations, which involve using an internet platform to provide synchronised live and on-site bidding channels and conduct online marketing activities, would be considered as indirectly participating in operational internet cultural activities under the IC Interim Provisions. Entities are required to apply for the NCB Permit to participate in operational internet cultural activities, which falls within the "prohibited" category under the Foreign Investment Catalogue. The NCB Permit would not be granted to a foreign-invested enterprise. On this basis, we will not be able to obtain the NCB Permit to run the existing on-site auction operations through establishing an equity-owned entity (i.e. a foreign-invested enterprise);
- (b) our Group's online auction operations are governed by the Auction Law and the Auction Measures which require auction enterprises to obtain the Approval Certificate for Auction Operation. Jiangsu Commerce Department considered that online and on-site auction operations are subject to the same regulatory regime and cannot be separately regulated by the current PRC laws and regulations;
- (c) Jiangsu Commerce Department further advised that it does not encourage or support the separation of online and on-site auction operations to be managed by two distinct auction enterprises owned by the same group of ultimate beneficial owners;

## CONTRACTUAL ARRANGEMENTS

- (d) Hexin Auction has established a proven track record of its on-site auctions and thus awarded the AA-Grade Auction Qualification (awarded under the relevant rules of China Association of Auctioneers which assesses the grading of auction enterprises according to relevant PRC laws and regulations). According to Jiangsu Commerce Department, if Hexin Auction terminates its on-site auction operations, the continuity of its existing auction operations will be disrupted, and it will be exposed to a risk of not being able to maintain its current auction house grading due to the discontinuance of its existing on-site auction operations and even fail the annual inspection with the relevant authority to renew its auction licence. If this occurs, it would significantly disrupt the existing business operation of our Group which is not in the best interest of our Company and our Shareholders as a whole; and
- (e) Hexin Auction currently holds both the Approval Certificate for Auction Operation and the NCB Permit to support on-site and online auction operations simultaneously. The same and single operational logistics are adopted for all of the our auctions. Operational logistics cannot be segregated for each of the online and on-site auction operations. If separate operations and teams of personnel have to be set up as a result of the division of businesses, there would be diversion and potential competition of resources and manpower between the two entities and extra operating costs would also be incurred.

### *No pure on-site auction would be conducted under the Contractual Arrangements*

From its establishment in May 2007, Hexin Auction, which was set up to operate our auction business, underwent substantial transformation from an asset auction company to an art auction company. During the Track Record Period, all asset auctions were held purely on-site. Starting from the 2015 Autumn Auction, Hexin Auction allowed synchronised live and on-site biddings at its principal art auctions; and in early 2016, Hexin Auction launched its pure online auctions. Under the currently applicable PRC laws and regulations, to engage in pure on-site auctions, only the Approval Certificate for Auction Operation shall be obtained, and the NCB Permit and the VATElecom Permit (which are required for the conduct of the Online Auction Operations) are not necessary.

Since Hexin Auction held its first art auction in 2011, Hexin Auction has placed its strategic focus on art auctions, instead of asset auctions. During the Track Record Period, the auction revenue derived from the art auctions grew rapidly from approximately RMB3.3 million in FY2013 (representing approximately 55.0% of the art and asset auction segment revenue) to RMB47.8 million in FY2015 (representing approximately 99.0% of the segment revenue), which achieved a CAGR of approximately 280.6%. In contrast, the auction revenue derived from asset auctions dropped from RMB2.7 million in FY2013 (representing approximately 45.0% of segment revenue) to RMB0.5 million in FY2015 (representing approximately 1.0% of segment revenue and approximately 0.5% of our Group's total revenue).

From 2015 onwards, synchronised live and on-site biddings are available for all Autumn Auctions and Spring Auctions and commencing from 2016, we also organise online auctions on a standalone basis. As no pure on-site auction has been organised since July 2015 up to the Latest Practicable Date and we have no plan to organise any pure on-site auction in the future, the Contractual Arrangements are narrowly tailored to control Hexin Auction, which only organise art auctions with synchronised live and on-site biddings channel and pure online auctions. Please refer to "Our Business — Art and Asset Auction Segment — Asset auction operation" in the Business section of this prospectus for further discussion on the development trend of our asset auctions (being the pure on-line auctions held by Hexin Auction).

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Notwithstanding that we do not have any plan to organise pure on-site auctions in the future and to ensure that the Contractual Arrangements are narrowly tailored, our Company further undertakes to the Stock Exchange that:

- Hexin Auction, which is held by our Group under the Contractual Arrangements to operate our auction business, will only engage in the operation of auctions with synchronised live and on-site biddings and pure online auctions, and will not engage in the operation of pure on-site auctions; and
- in the event that, according to the then industry environment and business development of our Group, we consider that it is in the interest of our Group as a whole to hold pure on-site auctions in the future, we will, subject to the obtaining of all necessary licences and permits, establish an entity (i.e. a direct or indirect equity-owned subsidiary of our Company) in PRC to operate pure on-site auctions.

Because of the foreign ownership prohibition and restriction in connection with the Online Auction Operations and other reasons set out above, our Company does not hold any direct or indirect equity interest in Hexin Auction, and will control Hexin Auction through the HA Structured Contracts.

### *The Contractual Arrangements are in the interest of our Shareholders*

After months of preparation starting from 2014, we conducted our Autumn Auction in 2015 with synchronised live and on-site biddings channel first available through our internet platform. The auction revenue derived from the art auctions increased from RMB12.0 million for FY2014 to RMB47.8 million for FY2015, representing an year-to-year increase of approximately 298%. The participation rate by live bidders (in terms of the percentage of auction lots that received live bids) was more than approximately 40%. Given that the synchronised live and on-site biddings were adopted on for the first time in the 2015 Autumn Auction, we are confident that the participation rate and popularity of live biddings will continue to grow in the future. We believe that the use of internet technology is one of the reasons for the success (based on the significant increase in auction revenue) of the 2015 Autumn Auction. It is considered that the provision of live bidding channels helped to enhance the competitive atmosphere throughout the whole bidding process in the 2015 Autumn Auction, and the marketing activities conducted through the internet platform helped to promote Hexin Auction and the auction event. Therefore, we believe that internet technology is vital for promoting interest in and bidding at art auctions and thus forms an integral part of our auction business.

According to Frost & Sullivan, the transaction value of China's online art auction grew rapidly from RMB0.4 billion in 2012 to RMB1.3 billion in 2015, at a CAGR of 43.5%. According to Frost & Sullivan, Hexin Auction's key competitors in the PRC auction business have already commenced to operate auction business through organising both on-site and online auctions.

If the Contractual Arrangements are not adopted, we will be unable to operate art auctions with synchronised live and on-site biddings channel and standalone online auctions under relevant PRC legal requirement and as a result:

- (a) our profitability will be adversely and materially affected as our revenue derived from the 2015 Autumn Auction (which was the art auction with synchronised live and on-site biddings channel first available) achieved significant growth and the art auction is an essential

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component of the revenue and business of our Group. Please refer to “Our Business — Art and Asset Auction Segment” in the Business section of this prospectus for further discussion on our art auction operation;

- (b) the competitiveness of our art auction operation will be adversely and materially affected and the future development of our art auction business will be greatly hindered if we were restricted to hold pure on-site auctions only, as other key competitors in the PRC auction business have already commenced to operate auction business through organising both on-site and online auctions.

For the reasons stated above, we believe that the benefits for adopting the Contractual Arrangements (in order to operate the art auctions with synchronised live and on-site biddings channel and standalone online auctions) shall outweigh the risks associated therewith, and that it is in the best interest of our Shareholders as a whole to adopt the Contractual Arrangements. Conversely, we consider that it is not in the best interest of our Shareholders as a whole to abandon live biddings in our art auctions in the future which has already been adopted during the Track Record Period and has proven to be successful.

### **Circumstances in Which We Will Unwind the Contractual Arrangements**

As regards the HP Structured Contracts, if and when MOFCOM and/or other relevant governmental departments promulgate any measures for the administration of foreign-invested enterprises engaging in pawn loan business or such entities invested by Hong Kong investors, depending on the limit of the percentage equity interest permitted to be held by foreign investors (if any), we will partially unwind the HP Structured Contracts and hold (directly or indirectly) equity interest in Hexin Pawn up to the percentage limit prescribed by such measures; and if there is no prescribed limit of the percentage equity interest permitted to be held by foreign investors and our Company would be allowed to directly hold 100% of the equity interests in Hexin Pawn, we will fully unwind the HP Structured Contracts and directly hold the entire equity interest in Hexin Pawn.

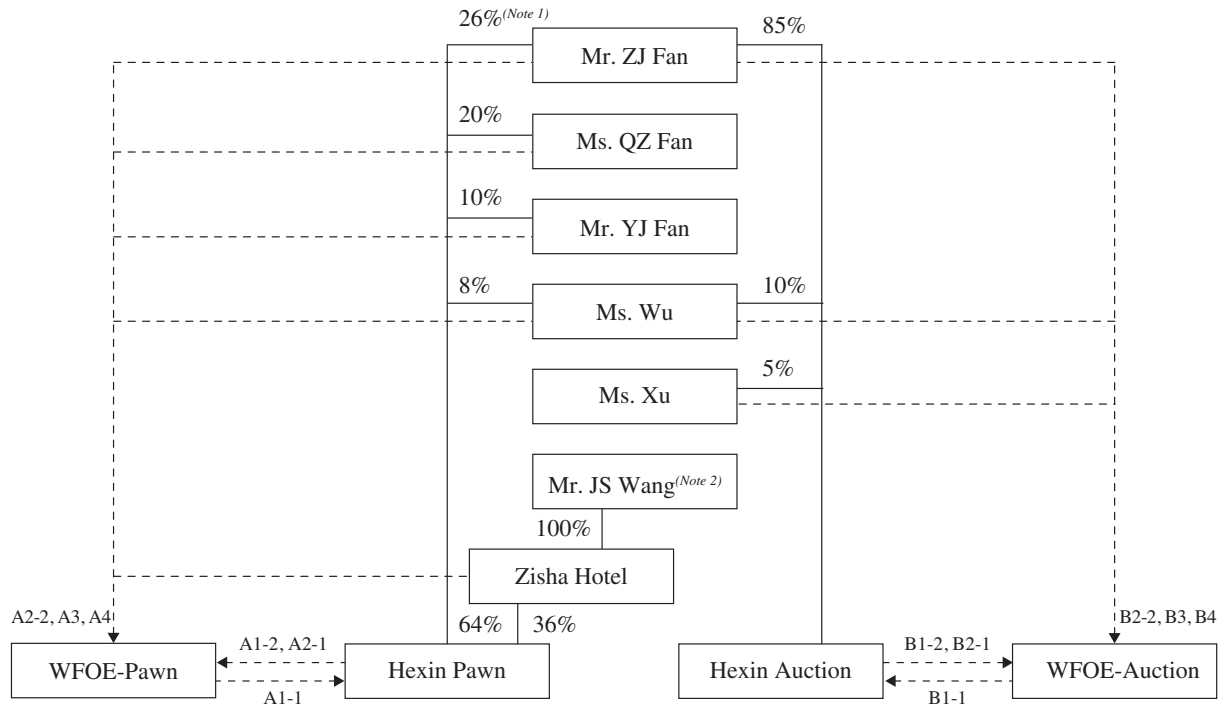
As regards the HA Structured Contracts, if and when the Qualification Requirements are removed or met by our Company and:

- (a) the ICB Foreign Ownership Restriction is removed, our Company will still be subject to the VATElecom Foreign Control Restriction which only enables our Company (as a foreign investor) to hold up to no more than 50% of the equity interest in an enterprise engaging in any of the Restricted VATElecom Business Activities. Accordingly, so long as the VATElecom Foreign Control Restriction is still in place, we will partially unwind the HA Structured Contracts and directly hold up to 50% of the equity interest in Hexin Auction; and
- (b) both the ICB Foreign Ownership Restriction and VATElecom Foreign Control Restriction are removed, we will fully unwind the HA Structured Contracts and hold (directly or indirectly) the entire equity interest in Hexin Auction.

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## OPERATION OF THE CONTRACTUAL ARRANGEMENTS

The Contractual Arrangements, comprising HP Structured Contracts and HA Structured Contracts, effectively transfer the economic benefits of our PRC Operating Entities and pass the risks associated therewith to our Group, as illustrated by the following simplified flowchart and related explanation:



————— denotes equity ownership

-----> denotes the Contractual Arrangements

Notes:

Details of the relevant activities and/or terms of agreements are further elaborated in the paragraph mentioned in each note below, which are set out in “Contractual Arrangements — Operation of Contractual Arrangements”.

- (1) Among the 26% registered capital of Hexin Pawn beneficially owned by Mr. ZJ Fan, 8% of the registered capital was registered in the name of Wuxi Culture, which is solely and beneficially owned by and registered in the name of Mr. ZJ Fan.
- (2) Among the 100% registered capital of Zisha Hotel beneficially owned by Mr. JS Wang, 30% of the registered capital was registered in the name of Wang Junqian (son of Mr. JS Wang) who has been holding such equity interest on trust for the benefit of Mr. JS Wang, and the remaining 10% was registered in the name of Wang Hui (daughter of Mr. JS Wang) who has been holding such equity interest on trust for the benefit of Mr. JS Wang.

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### *Structured Contracts:*

- (A1-1), (A1-2) *HP Exclusive Operation Services Agreement:* provision of exclusive technical services, management support services and consultancy services by WFOE-Pawn to Hexin Pawn, and payment of operation service fees by Hexin Pawn to WFOE-Pawn.
- (A2-1), (A2-2) *HP Exclusive Call Option Agreement:* exclusive call option to acquire all or part of Hexin Pawn's assets granted by Hexin Pawn to WFOE-Pawn, and exclusive call option to acquire all or part of the equity interest in Hexin Pawn granted by HP Equity-holders to WFOE-Pawn.
- (A3) *HP Equity Entrustment Agreement:* entrustment of equity-holders' rights in Hexin Pawn by HP Equity-holders to WFOE-Pawn.
- (A4) *HP Equity Pledge Agreement:* pledge of equity interest by the HP Equity-holders of their respective equity interest in Hexin Pawn to WFOE-Pawn.
- (B1-1), (B1-2) *HA Exclusive Operation Services Agreement:* provision of exclusive technical services, management support services and consultancy services by WFOE-Auction to Hexin Auction, and payment of operation service fees by Hexin Auction to WFOE-Auction.
- (B2-1), (B2-2) *HA Exclusive Call Option Agreement:* exclusive call option to acquire all or part of Hexin Auction's assets granted by Hexin Auction to WFOE-Auction, and exclusive call option to acquire all or part of the equity interest in Hexin Auction granted by HA Equity-holders to WFOE-Auction.
- (B3) *HA Equity Entrustment Agreement:* entrustment of equity-holders' rights in Hexin Auction by HA Equity-holders to WFOE-Auction.
- (B4) *HA Equity Pledge Agreement:* pledge of equity interest by the HA Equity-holders of their respective equity interest in Hexin Auction to WFOE-Auction.

### **Summary of the Material Terms of the Structured Contracts**

#### *Date of the Structured Contracts:*

All the HP Structured Contracts and the HA Structured Contracts were dated 15 April 2016. The parties to the HP Structured Contracts and the parties to the HA Structured Contracts each entered into a supplemental agreement (collectively, "**Supplemental Agreements**") dated 24 October 2016 to supplement and amend certain terms of the HP Structured Contracts and the HA Structured Contracts respectively.

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Component agreements which constitute the Structured Contracts and parties to such agreements:

(A) *HP Structured Contracts:*

<b>Component agreement</b>	<b>Parties to such component agreement</b>
1 Exclusive operation services agreement in relation to Jiangsu Hexin Pawn Company Limited (“ <b>HP Exclusive Operation Services Agreement</b> ”)	— WFOE-Pawn (as service provider) — Hexin Pawn (as service recipient) — all HP Equity-holders (i.e. Mr. ZJ Fan, Ms. QZ Fan, Mr. YJ Fan, Ms. Wu, Wuxi Culture and Zisha Hotel)
2 Exclusive call option agreement in relation to 100% equity interests of Jiangsu Hexin Pawn Company Limited (“ <b>HP Exclusive Call Option Agreement</b> ”)	— WFOE-Pawn (as option holder) — Hexin Pawn (as option grantor) — all HP Equity-holders (as option grantors)
3 Equity-holders’ rights entrustment agreement in relation to 100% equity interests of Jiangsu Hexin Pawn Company Limited (“ <b>HP Equity Entrustment Agreement</b> ”)	— WFOE-Pawn — Hexin Pawn — all HP Equity-holders (as principals)
4 Equity pledge agreement in relation to 100% equity interests of Jiangsu Hexin Pawn Company Limited (“ <b>HP Equity Pledge Agreement</b> ”)	— WFOE-Pawn (as pledgee) — Hexin Pawn — all HP Equity-holders (as pledgors)

(B) *HA Structured Contracts:*

<b>Component agreement</b>	<b>Parties to such component agreement</b>
1 Exclusive operation services agreement in relation to Jiangsu Hexin Auction Company Limited (“ <b>HA Exclusive Operation Services Agreement</b> ”)	— WFOE-Auction (as service provider) — Hexin Auction (as service recipient) — all HA Equity-holders (i.e. Mr. ZJ Fan, Ms. Wu and Ms. Xu)
2 Exclusive call option agreement in relation to 100% equity interests of Jiangsu Hexin Auction Company Limited (“ <b>HA Exclusive Call Option Agreement</b> ”)	— WFOE-Auction (as option holder) — Hexin Auction (as option grantor) — all HA Equity-holders (as option grantors)

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<b>Component agreement</b>	<b>Parties to such component agreement</b>
3    Equity-holders’ rights entrustment agreement in relation to 100% equity interests of Jiangsu Hexin Auction Company Limited (“ <b>HA Equity Entrustment Agreement</b> ”)	<ul style="list-style-type: none"> <li>—    WFOE-Auction</li> <li>—    Hexin Auction</li> <li>—    all HA Equity-holders (as principals)</li> </ul>
4    Equity pledge agreement in relation to 100% equity interests of Jiangsu Hexin Auction Company Limited (“ <b>HA Equity Pledge Agreement</b> ”)	<ul style="list-style-type: none"> <li>—    WFOE-Auction (as pledgee)</li> <li>—    Hexin Auction</li> <li>—    all HA Equity-holders (as pledgors)</li> </ul>

Principal terms and effect of the Structured Contracts (as amended and supplemented by the Supplemental Agreements) are set out below:

(A) *HP Structured Contracts:*

(A1) HP Exclusive Operation Services Agreement

*Services to be engaged:* Hexin Pawn agreed to engage (and all HP Equity-holders agreed for Hexin Pawn to engage) WFOE-Pawn on an exclusive basis to provide technical services, management support services and consultancy services in connection with and beneficial to Hexin Pawn’s business (as specified in Hexin Pawn’s business licence, including but not limited to the provision of pawn loan services).

*Operation service fees:* In consideration for the provision of such services by WFOE-Pawn, Hexin Pawn agreed to recognise operation service fees payable to WFOE-Pawn on a quarterly basis. The annual operation service fee comprises:

- (i) a basic service fee equals to the amount of Hexin Pawn’s total revenue before tax less all the related costs and expenses reasonably incurred by Hexin Pawn for the relevant financial year calculated in accordance with the PRC accounting standards, which is subject to audit and the determination by WFOE-Pawn at its discretion (“**Service Fee Discretion**”) having regard to the specific operational, financial and development needs of Hexin Pawn and the benefit brought to Hexin Pawn by the services provided by WFOE-Pawn; and
- (ii) an additional service fee to be agreed between WFOE-Pawn and Hexin Pawn for specific technical services, management support services and consultancy services to be provided by WFOE-Pawn upon Hexin Pawn’s request from time to time.

Within 3 months after the end of each financial year, the financial statements of Hexin Pawn shall be drawn up for audit, and WFOE-Pawn is entitled to adjust the time of payment and/or the amount of the operation service fees within the Service Fee Discretion. WFOE-Pawn has the right to, at its own discretion without obtaining Hexin Pawn’s consent, adjust and determine the amount of the operation service fees to ensure that its benefits are



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maximised WFOE-Pawn shall exercise such right to adjust the amount of the operation service fees having regard to the funds available for Hexin Pawn to grant pawn loans and the level of net assets and net profit of Hexin Pawn, and the future business operation of Hexin Pawn. Hexin Pawn does not have any right to make any adjustment to the amount of operation service fees as determined by WFOE-Pawn. WFOE-Pawn also has the right to adjust the frequency and the time of the payment of the operation service fees.

*No engagement of other parties to provide similar services:* Hexin Pawn and the HP Equity-holders agreed, among other restrictions and obligations, not to engage (whether by way of oral or written agreement) any third party to provide services similar or identical to those provided by WFOE-Pawn under the HP Exclusive Operation Services Agreement, unless prior written consent will have been obtained from WFOE-Pawn.

*Effect of the HP Exclusive Operation Services Agreement:* By providing Hexin Pawn with the services concerned, WFOE-Pawn will become entitled to the operation service fee. Our Directors believe that such arrangements will ensure that the economic benefits generated from the operations of Hexin Pawn will flow to WFOE-Pawn and hence, to our Group as a whole.

### (A2) HP Exclusive Call Option Agreement

*Options granted by HP Equity-holders:* the HP Equity-holders have jointly and severally granted on an irrevocable basis in favour of WFOE-Pawn an exclusive option to acquire, directly or through a nominee designated by WFOE-Pawn, the equity interest held by each HP Equity-holder in Hexin Pawn.

*Option granted by Hexin Pawn:* Hexin Pawn has irrevocably granted to WFOE-Pawn an exclusive option to acquire, directly or through a nominee designated by WFOE-Pawn, its assets (including all tangible and intangible assets, including but not limited to immovable property, movable property and intellectual property, owned or entitled to be disposed of by Hexin Pawn).

*Purchase price payable upon exercise of option(s):* the purchase price payable by WFOE-Pawn upon exercise of any option(s) shall be the minimum amount as may be permitted by the applicable PRC laws.

*Refund of purchase price:* Both the HP Equity-holders and Hexin Pawn agreed to refund all and any purchase price mentioned above to WFOE-Pawn without any further consideration.

*Time of exercise of option(s):* Under circumstances permitted by PRC law, WFOE-Pawn may at any time and from time to time exercise the options in respect of all or part of (as the case may be) the relevant equity interests and/or assets and in any manner at its sole discretion.

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*Undertakings given by HP Equity-holders:* The HP Equity-holders have given undertakings on a joint and several basis to perform certain acts or to refrain from performing certain other acts, including but not limited to the following:

- *Negative covenants given by HP Equity-holders:* unless prior written consent of WFOE-Pawn will have been obtained, the HP Equity-holders shall not:
  - (i) transfer or otherwise dispose of or create encumbrance or any other third party rights over the equity interest held by them in Hexin Pawn;
  - (ii) approve the increase or reduction of the registered capital in Hexin Pawn, or alter its equity structure;
  - (iii) approve Hexin Pawn to make any investment in any other entities, or engage in any merger or acquisition transactions;
  - (iv) approve the disposal (nor procure the management of Hexin Pawn to dispose) of any material assets of Hexin Pawn which include assets with a value that exceeds RMB100,000;
  - (v) approve the termination (nor procure the management of Hexin Pawn to terminate) any material contracts (which include any contract under which the amount involved exceeds RMB100,000, any contract which has material impact on the business or assets of Hexin Pawn, including the HP Exclusive Operation Services Agreement) entered into by Hexin Pawn, nor enter into any other contracts which are in conflict with any such material contracts;
  - (vi) approve or acquiesce to the declaration or distribution in substance by Hexin Pawn of any dividends or any other distributable profits;
  - (vii) alter the constitutional documents of Hexin Pawn;
  - (viii) approve or acquiesce to any lending or borrowings, or the provision of any guarantee or other forms of security, or the undertaking of any obligations in substance by Hexin Pawn, other than in its ordinary course of business;
  - (ix) approve or acquiesce to Hexin Pawn engaging in any transactions or actions which in substance may prejudice the assets, rights, obligations or operation of Hexin Pawn; and
- *Affirmative undertakings given by HP Equity-holders:* the HP Equity-holders have undertaken to the following:
  - (i) ensuring that Hexin Pawn will conduct all its operations in the normal course of business, and ensuring that Hexin Pawn validly exist and not be liquidated or dissolved in accordance with good financial and commercial standards and practices;

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- (ii) upon the request of WFOE-Pawn, ensuring that Hexin Pawn shall provide WFOE-Pawn with relevant information regarding the operation and financial status of Hexin Pawn;
- (iii) informing WFOE-Pawn on a timely basis of any litigation, arbitration or administrative procedures which will occur or may occur, which concerns the assets, business or income of Hexin Pawn or the equity interest held by the HP Equity-holders in Hexin Pawn;
- (iv) signing all necessary or appropriate documents and taking all necessary or appropriate actions (including those through legal proceedings), in order to secure the ownership of the equity interests held by them in Hexin Pawn;
- (v) appointing or removing any directors of Hexin Pawn as instructed by WFOE-Pawn and/or its nominee, and ensuring that Hexin Pawn has right to appoint or remove any member of senior management or core operating officer as instructed by WFOE-Pawn; and
- (vi) using their respective best endeavours to develop the business of Hexin Pawn and ensuring compliance with the laws and regulations by Hexin Pawn.

*Undertakings given by Hexin Pawn:* Hexin Pawn has given undertakings to perform certain acts or to refrain from performing certain other acts, including but not limited to the following:

- *Negative covenants given by Hexin Pawn:* unless prior written consent of WFOE-Pawn will have been obtained, Hexin Pawn shall not:
  - (i) assist or approve transfer or otherwise dispose of or create any encumbrance or any other third party rights over the equity interest held by any HP Equity-holder in Hexin Pawn; and
  - (ii) transfer or otherwise dispose of or create any encumbrance or any other third party rights over its material assets which include assets with a value that exceeds RMB100,000, or engage in any transactions or actions which in substance may prejudice the assets, rights, obligations or operation of Hexin Pawn.
- Hexin Pawn shall not engage in (nor allow) any actions or behaviour which may have any negative influence on the interests of WFOE-Pawn under the HP Exclusive Call Option Agreement, including but not limited to certain actions and behaviour stated under the paragraphs headed “Negative covenants given by HP Equity-holders” and “Affirmative undertakings given by HP Equity-holders” above.

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*Effect of the HP Exclusive Call Option Agreement:* By granting WFOE-Pawn (i) an option to acquire the equity interest in Hexin Pawn and (ii) an option to acquire the assets of Hexin Pawn, WFOE-Pawn is entitled to acquire the entire equity interest in Hexin Pawn, such that Hexin Pawn will (following completion of such acquisition upon exercise of the call option) become an equity-owned subsidiary of our Group, and/or all the assets of Hexin Pawn.

### (A3) HP Equity Entrustment Agreement

*Power of attorney granted by HP Equity-holders:* the HP Equity-holders have jointly and severally authorised on an irrevocable basis, by way of the power of attorney, any of WFOE-Pawn's directors, its members of senior management, successors or liquidators (to be nominated by WFOE-Pawn) to exercise all shareholders' rights of the HP Equity-holders under the prevailing effective articles of association or constitutional documents and the applicable PRC laws. To ensure that the power of attorney will not give rise to any potential conflict of interest, such power of attorney (in relation to the shareholders' rights of both the HP Equity-holders and the HA Equity-holders) was granted to Mr. Liu Xudong, a member of our senior management, who is unrelated to any of the HP Equity-holders and the HA Equity-holders).

*Rights exercisable by WFOE-Pawn:* the rights conferred by the HP Equity-holders to be exercised by WFOE-Pawn include but are not limited to the following: (i) calling and attending shareholders' meetings of Hexin Pawn as representative of each and every HP Equity-holder; (ii) exercising voting rights on all matters requiring shareholders' consideration and approval (including but not limited to the nomination and removal of directors) as representative of the HP Equity-holders; (iii) exercising voting rights as shareholders of Hexin Pawn on any other matters in accordance with the articles of association of Hexin Pawn; (iv) approving (or disapproving) the transfer or otherwise disposal of the equity interest in Hexin Pawn held by any HP Equity-holder; (v) acknowledging receipt of notice of shareholders' meetings, signing minutes of shareholders' meetings and shareholders' resolutions, and filing documents with relevant governmental departments as required for relevant approvals, registrations and/or filings in relation to the operation of Hexin Pawn as representative of the HP Equity-holders, in accordance with the wishes and instructions of WFOE-Pawn; and (vi) receiving the residual assets of Hexin Pawn upon its liquidation.

*Effect of the HP Equity Entrustment Agreement:* Before our Group acquiring and holding (whether directly or indirectly) any entire equity interest in Hexin Pawn as contemplated under the HP Exclusive Call Option Agreement, our Group may (by virtue of the HP Equity Entrustment Agreement) exercise the voting rights attaching to the equity interests held by the HP Equity-holders as if WFOE-Pawn were the ultimate beneficial owner of Hexin Pawn.

### (A4) HP Equity Pledge Agreement

*Pledge of equity interests created:* each of the HP Equity-holders has granted continuing first priority security interests over their respective equity interests in Hexin Pawn to and in favour of WFOE-Pawn as security for (i) performance of the HP Exclusive

## CONTRACTUAL ARRANGEMENTS

Operation Services Agreement, HP Exclusive Call Option Agreement and HP Equity Entrustment Agreement, (ii) all direct, indirect, consequential damages and foreseeable loss of interest incurred by WFOE-Pawn as a result of any event of default on the part of the HP Equity-holders and/or Hexin Pawn and (iii) all expenses incurred by WFOE-Pawn as a result of enforcement of its rights against the HP Equity-holders and/or Hexin Pawn under any of the HP Structured Contracts (“**Secured Indebtedness**”).

*Events of default:* Events of default under the HP Equity Pledge Agreement include (but are not limited to) the following:

- (a) any HP Equity-holder or Hexin Pawn commits any breach of any obligations under any of the HP Structured Contracts;
- (b) any representation or warranty given by any of the HP Equity-holders and/or Hexin Pawn under any of the HP Structured Contracts is proved to be incorrect in any material respect or misleading;
- (c) promulgation of any PRC law that results in any of the HP Equity-holders and/or Hexin Pawn becoming incapable of performing any of its obligations under any of the HP Structured Contracts; and
- (d) revocation, termination, suspension or alteration in substance of any governmental consent, licence, approval or authorisation that is required for the performance or validity of the HP Structured Contracts.

*Restrictions on transfer of equity interest in Hexin Pawn:* Unless the prior written consent of WFOE-Pawn will have been obtained, none of the HP Equity-holders shall transfer the pledged equity interest or create further pledge or encumbrance over such pledged equity interest or any part thereof or any interest therein. Any unauthorised transfer shall be invalid, and the proceeds of any transfer of the pledged equity interest shall be first used in the payment of the Secured Indebtedness or deposited with such third party as agreed to by WFOE-Pawn.

*Remedies:* Upon the occurrence of an event of default, WFOE-Pawn may enforce the HP Equity Pledge Agreement by written notice to the HP Equity-holders and (to the extent permitted by PRC laws) WFOE-Pawn may exercise its remedies and powers under the HP Structured Contracts, including but not limited to, selling the pledged equity interest by way of auction, or otherwise disposing of such pledged equity interest.

*Registration of the pledge with relevant AIC:* The pledge created under the HP Equity Pledge Agreement was registered with the relevant AIC of PRC on 18 April 2016 and became effective on the same date.

*Effect of the HP Equity Pledge Agreement:* If any of the HP Equity-holders and/or Hexin Pawn breaches any of the HP Exclusive Operation Services Agreement, HP Exclusive Call Option Agreement and HP Equity Entrustment Agreement, WFOE-Pawn will be entitled to enforce the HP Equity Pledge Agreement by acquiring the equity interest in Hexin Pawn or selling or otherwise disposing of such equity interest.

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(B) HA Structured Contracts:

The terms of each of the HA Structured Contracts are essentially the same as those stipulated in the respective HP Structured Contracts.

### DISPUTE RESOLUTIONS

#### Manner of Resolving Disputes Arising from or in Connection with the Structured Contracts

Each of the HP Structured Contracts and the HA Structured Contracts provides that:

- (a) any dispute arising out of or in connection with Structured Contracts shall be resolved through negotiation in a conciliatory manner;
- (b) if the parties are unable to settle the dispute within 30 days, the dispute shall be referred to and be finally resolved by arbitration by China International Economic and Trade Arbitration Commission in Beijing under the prevailing effective arbitration rules thereof. The arbitral decision shall be final and binding on all relevant parties;
- (c) the arbitration commission shall have the right to award remedies over the equity interest and/or property interest and/or other assets in or of the relevant PRC Operating Entities, injunctive relief (for the conduct of business or to complete the transfer of assets), or order the winding up of the relevant PRC Operating Entities; and
- (d) upon request by any party, the courts of competent jurisdictions shall have the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases. The courts of PRC, Hong Kong, the Cayman Islands and the place where the principal assets of the respective WFOEs and the relevant PRC Operating Entities are located shall be considered as having jurisdiction for the above purposes.

#### Views of PRC Legal Advisers on Such Dispute Resolution Mechanism

In connection with the dispute resolution mechanism set out in the Structured Contracts and the practical consequences, we are advised by our PRC Legal Advisers that under current PRC laws:

- (a) an arbitral body does not have the power to grant any interim injunctive relief (for example, for the purpose of preventing further breach by the HP Equity-holders or the HA Equity-holders (as the case may be) in case of disputes). As such, these remedies may not be available to our Group under PRC laws;
- (b) interim injunctive relief granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognised or enforceable by the PRC courts; accordingly, if we are unable to enforce any of the Structured Contracts, we may not be able to exert effective control over either or both of the PRC Operating Entities, and our ability to conduct our Group's business may be prejudiced;
- (c) before there is any final outcome of arbitration, upon the application of the parties involves, an arbitral body can apply to the PRC courts for interim remedies for the purpose of protecting the assets of or equity interest in our PRC Operating Entities (for example,

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freezing or detaining the assets of the HP Equity-holders or the HA Equity-holders (as the case may be)); however, the application by the arbitral body may not be recognisable or enforceable by the PRC courts;

- (d) however, PRC laws currently do not disallow the arbitral body to give award of transfer of assets of or an equity interest in each of our PRC Operating Entities at the request of arbitration applicant. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support such award of the arbitral body when deciding whether to take enforcement measures;
- (e) even if the abovementioned provisions may not be enforceable under PRC laws, the remaining provisions of the dispute resolution clauses are legal, valid and binding on the parties to the respective Structured Contracts.

In view of the above, if any of our PRC Operating Entities, the HP Equity-holders or the HA Equity-holders is in breach of any of the Structured Contracts, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our PRC Operating Entities and conduct our Group's business could be materially and adversely affected. Please refer to the paragraph headed "Risks Relating to the Contractual Arrangements" under the section headed "Risk Factors" of this prospectus for details.

### **PROTECTION IN THE EVENT OF DEATH, BANKRUPTCY OR DIVORCE OF THE HP EQUITY-HOLDERS OR THE HA EQUITY-HOLDERS**

Each of the Structured Contracts provides the following: in the event of dissolution of any corporate HP Equity-holders or corporate HA Equity-holders (as the case may be), or of the death or loss of capacity of any individual HP Equity-holders or individual HA Equity-holders (as the case may be), or of other circumstances which may prejudice the exercise of the rights attaching to their respective equity interest in the relevant PRC Operating Entities, their respective successors or guardians shall be treated as parties to the respective Structured Contracts and they shall succeed or bear all rights and obligations under the Structured Contracts.

Under each of the Structured Contracts, the parties further agree that, in the event of dissolution, reorganisation, merger or subdivision of any corporate HP Equity-holders or corporate HA Equity-holders (as the case may be), or of the death or loss of capacity of any individual HP Equity-holders or individual HA Equity-holders (as the case may be), or change in registered shareholders of the relevant PRC Operating Entities, or any reason which leads to change in the equity interest held by the HP Equity-holders or HA Equity-holders in the relevant PRC Operating Entities:

- (i) the rights, obligations and duties under the Structured Contract shall be binding upon the successors or succeeding entity;
- (ii) unless prior written consent of WFOE-Pawn or WFOE-Auction (as the case may be) will have been obtained, if any of the debt arrangement, reorganisation agreement or other legal documents are entered into by the HP Equity-holders or the HA Equity-holders (as the case may be), including their ultimate holder and connected parties, which involve dealing with



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the interest of Hexin Pawn or Hexin Auction (as the case may be) (including but not limited to its equity interest, debts and assets), such legal documents shall be subject to the content of the Structured Contracts.

In addition, the respective spouse of each of the individual equity-holders of our PRC Operating Entities and the equity-holders of corporate equity-holders of our PRC Operating Entities has irrevocably undertaken to the relevant PRC Operating Entities to the effect that:

- (i) such spouse confirms that, the equity interest in the relevant PRC Operating Entity (whether directly owned by the individual equity-holder or indirectly owned by the corporate equity-holder) and all interests incidental to such equity interest, and (if applicable) the equity interest in the corporate HP Equity-holders or corporate HA Equity-holders (as the case may be) and all interests incidental to such equity interest, shall not be considered as jointly owned by such spouse and his/her spouse (i.e. the individual equity-holder of the PRC Operating Entities);
- (ii) such spouse shall not participate in the operation, management, liquidation, dissolution and other matters of the relevant PRC Operating Entity or (if applicable) the corporate HP Equity-holders or corporate HA Equity-holders (as the case may be), and shall not assert any interest in the equity interest or assets of the relevant PRC Operating Entity or (if applicable) the corporate HP Equity-holders or corporate HA Equity-holders (as the case may be); such spouse further confirms that his/her spouse (i.e. the individual equity-holder of the PRC Operating Entities) is capable of making any decisions independently in regards to Hexin Pawn or Hexin Auction (as the case may be) or (if applicable) the corporate HP Equity-holders or corporate HA Equity-holders (as the case may be), and such effect is not affected by the decision of such spouse or himself/herself, whether or not a divorce occurs;
- (iii) such spouse authorises the respective equity-holders to execute all necessary documents and perform all necessary procedures from time to time for and on behalf of such spouse in relation to the performance of the Structured Contracts in order to safeguard the interest of the relevant PRC Operating Entities under the respective Structured Contracts.

### **PROTECTION IN THE EVENT OF DISSOLUTION OR LIQUIDATION OF OUR PRC OPERATING ENTITIES**

Pursuant to the HP Equity Entrustment Agreement (or, as the case may be, HA Equity Entrustment Agreement), in the event of the dissolution or liquidation of the relevant PRC Operating Entities, relevant WFOE shall have the right to exercise all shareholders' rights on behalf of the respective HP Equity-holders (or, as the case may be, the respective HA Equity-holders), and shall be entitled to receive the residual assets of the relevant PRC Operating Entities.

### **LOSS SHARING**

In the event that any of our PRC Operating Entities incurs any loss or encounters any operational crisis, Hexin Pawn and/or Hexin Auction (as the case may be) may, but is not obliged to, provide financial support to the relevant PRC Operating Entity. Under the Structured Contracts, none of our Company, WFOE-Pawn nor WFOE-Auction is obligated to share the losses of our PRC Operating Entities or provide financial support to our PRC Operating Entities. Each of our PRC Operating Entities



## **CONTRACTUAL ARRANGEMENTS**

shall be solely liable for its own debts and losses with assets owned by it. Under PRC laws and regulations, none of our Company, WFOE-Pawn nor WFOE-Auction is expressly required to share the losses of our PRC Operating Entities or provide financial support to our PRC Operating Entities. Despite the foregoing, given that our PRC Operating Entities' financial condition and results of operations are consolidated into our Group's financial condition and results of operations under the applicable accounting principles, our Company's business, financial condition and results of operations would be adversely affected if our PRC Operating Entities suffer losses. However, due to the negative covenants and affirmative undertakings contained in the Structured Contracts as disclosed in the respective sections headed "Operation of the Contractual Arrangements — Summary of the Material Terms of the Structured Contracts — (A) HP Structured Contracts — (A2) HP Exclusive Call Option Agreement" above, substantially same terms are set out in the HA Structured Contracts, the potential adverse effect on our Company, WFOE-Pawn and WFOE-Auction in the event of any loss suffered from our PRC Operating Entities can be limited to a certain extent.

### **TERMINATION OF THE CONTRACTUAL ARRANGEMENTS**

Each of the Structured Contracts provides that: (a) such Structured Contract shall be terminated upon completion of the transfer of all the equity interests or assets of the relevant PRC Operating Entities to the relevant WFOE or its nominees pursuant to the terms of the HP Exclusive Call Option Agreement or the HA Exclusive Call Option Agreement, save for the HP Equity Pledge Agreement and the HA Equity Pledge Agreement which shall continue to be in force until all obligations thereunder have been performed or all Secured Indebtedness will have been repaid in full; (b) relevant WFOE shall have the right to terminate the relevant Structured Contracts; and (c) each of our PRC Operating Entities and their respective equity-holders shall not be entitled to terminate unilaterally any of the Structured Contracts in any situation other than prescribed by laws.

### **INSURANCE**

Our Company has not maintained any insurance policy to cover the risks relating to the Contractual Arrangements.

### **ARRANGEMENT TO ADDRESS POTENTIAL CONFLICT OF INTEREST**

Pursuant to the HP Exclusive Operation Services Agreement and the HA Exclusive Operation Services Agreement, each of the equity-holders of the relevant PRC Operating Entities has undertaken that if any conflict of interest arises between the parties to such agreements, such equity-holders shall protect the interest of relevant WFOE, our Company and/or the investment holding companies of relevant WFOE (i.e. Reliance Art BVI and Reliance Art HK).

Our Directors are of the view that the measures we have adopted are sufficient to mitigate the risks associated with the potential conflicts of interests between the equity-holders of our PRC Operating Entities on the one hand, and our Company on the other hand.

## CONTRACTUAL ARRANGEMENTS

### LEGALITY OF THE STRUCTURED CONTRACTS

#### PRC Legal Opinions

Based on the above, our PRC Legal Advisers are of the opinion that in relation to the PRC Operating Entities and the Structured Contracts:

- (i) each PRC Operating Entity was duly incorporated and is validly existing, and its establishment is valid, effective and complies with the relevant PRC laws and regulations, and has independent legal capacity; each PRC Operating Entity has also obtained all necessary approvals and/or permits and completed all registration and filings as required by the PRC laws, regulations and rules and has the capacity to carry out business operations in accordance with its licences and approvals;
- (ii) each of the Structured Contracts is not in violation of the provisions of the articles of association of the respective PRC Operating Entities;
- (iii) the Structured Contracts are legally valid and binding on the parties thereto, enforceable under the PRC laws and regulations promulgated by the NPC and its Standing Committee subject to (a) the arbitral tribunal will not be able to order the winding up of the PRC Operating Entities pursuant to the current PRC laws; (b) interim remedies or enforcement order granted by overseas courts such as the courts of Hong Kong and the Cayman Islands may not be recognisable or enforceable in China; (c) the pledge of equity interests of each of the PRC Operating Entities shall become effective and enforceable after completion of registration with relevant branch of SAIC; and (d) the transfer of equity interest in or assets of the PRC Operating Entities contemplated under the Structured Contracts is subject to applicable approval and/or registration requirements under the then applicable PRC Laws. On 18 April 2016, each of the PRC Operating Entities has completed registering the pledge of the respective equity interest with the competent branch of SAIC; and
- (iv) the Structured Contracts are entered into by all the parties thereto on a voluntary basis without being subject to fraud or coercion, and do not violate the provisions of the Contract Law of PRC including “concealing illegal intentions with a lawful form”, the General Principles of the PRC Civil Law and other applicable PRC laws and regulations.

#### Directors’ Views on the Contractual Arrangements

Based on the above, our Company believe, and the Sole Sponsor concurs, that the Contractual Arrangements are narrowly tailored because the Contractual Arrangements are only used to enable our Group to consolidate the financial results of our PRC Operating Entities which engage in the provision of pawn loan services and Online Auction Operations, which are both, to a certain extent, subject to foreign investment prohibition or restriction in PRC and there are practical difficulties in obtaining the governmental approval for foreign investment in such businesses as stated in the paragraph headed “Background of the Contractual Arrangements” of this section.

## **CONTRACTUAL ARRANGEMENTS**

For each set of the Structured Contracts applicable to the relevant PRC Operating Entities, the relevant WFOE, the relevant PRC Operating Entity and the respective equity-holders of the relevant PRC Operating Entity are the signing parties, in particular, (i) pursuant to the relevant Exclusive Call Option Agreement, the respective equity-holders have irrevocably granted to relevant WFOE or its nominee the right to purchase all or part of the equity interest in the relevant PRC Operating Entity, and the relevant PRC Operating Entity has irrevocably granted the relevant WFOE or its nominee the right to purchase all or part of the assets in such PRC Operating Entity; (ii) pursuant to the relevant Equity Pledge Agreement, the respective equity-holders of the relevant PRC Operating Entity granted continuing first priority security interests over their respective equity interests in the relevant PRC Operating Entity to relevant WFOE as collateral security for the performance of the applicable Structured Contracts and all such loss and expenses incurred to relevant WFOE as a result of any event of default on the part of the such equity-holders and/or the relevant PRC Operating Entity; (iii) pursuant to the relevant Equity Entrustment Agreement and the power of attorney thereto, relevant WFOE has been irrevocably authorised to exercise all shareholders' rights of the relevant PRC Operating Entity to the extent permitted by the PRC laws.

As a result of the above, our Directors believe that the holding structure of our PRC Operating Entities will not prejudice the effectiveness of the Structured Contracts.

As of the Latest Practicable Date, we have not encountered any interference or encumbrance from any governing bodies in our plan to adopt the Structured Contracts so that the financial results of the operation of our PRC Operating Entities can be consolidated to those of our Group. Having regard to the advice of our PRC Legal Advisers, the Directors are of the view that the Structured Contracts are enforceable under the PRC laws and regulations, except for certain arbitration provisions as disclosed in the paragraph headed "Dispute Resolutions" in this section above.

The transactions contemplated under the Structured Contracts constitute continuing connected transactions of our Company under the Listing Rules upon Listing. It is impracticable and unduly burdensome for them to be subject to the relevant requirements under the Listing Rules as our Directors are of the view that the transactions contemplated under the Structured Contracts are fundamental to our Group's legal structure and business operations, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders taken as a whole. Please see the section headed "Connected Transactions and Notifiable Transactions" in this prospectus for more details.

### **CONSOLIDATED OF FINANCIAL RESULTS OF OUR PRC OPERATING ENTITIES**

Pursuant to the agreements and undertakings under the Contractual Arrangements, notwithstanding the fact that we do not hold direct equity interest in the PRC Operating Entities, the management considers that we have power over the financial and operating policies of each of the PRC Operating Entities and effectively receive substantially all of the economic benefits from their business activities. Accordingly, the financial results of each of the PRC Operating Entities have been accounted for and consolidated in our consolidated financial statements as if it were our indirect subsidiary during the Track Record Period. The basis of consolidated the results of our PRC Operating Entities is disclosed in Note 2 of the Accountants' Report contained in Appendix I to this prospectus.

### DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

#### Draft Foreign Investment Law and the Explanatory Notes

MOFCOM published the Draft Foreign Investment Law in January 2015 aiming to, upon its enactment (if enacted at all), replace the major existing laws and regulations governing foreign investment in China. While MOFCOM invited comments on this draft from January 2015 onward, substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The Draft Foreign Investment Law, if enacted as proposed, may materially impact the entire legal framework regulating foreign investments in China.

#### *“Actual control” test*

Among other things, the Draft Foreign Investment Law purports to introduce the principle of “actual control” in determining whether a company is considered as a foreign invested enterprise, or an foreign invested entity (“**FIE**”). The Draft Foreign Investment Law specifically provides that entities established in China but “controlled” by foreign investors will be treated as FIEs, whereas an entity organised in a foreign jurisdiction (but cleared by the authority in charge of foreign investment as “controlled” by PRC entities and/or citizens) would nonetheless be treated as a PRC domestic entity for investment in the “restricted category” on the “negative list” to be issued, subject to the examination of the relevant authority in charge of foreign investment. For these purposes, “control” is broadly defined in the draft law to cover any of the following summarised categories:

- (i) holding directly or indirectly 50% or more of the equity interest, assets, voting rights or similar equity interest of the subject entity;
- (ii) holding directly or indirectly less than 50% of the equity interest, assets, voting rights or similar equity interest of the subject entity but (a) having the power to directly or indirectly appoint or otherwise secure at least 50% of the seats on the board or other equivalent decision making bodies, (b) having the power to secure its nominated person to acquire at least 50% of the seats on the board or other equivalent decision making bodies, or (c) having the voting power to exert material influence over decision-making bodies, such as the shareholders’ meeting or the board; or
- (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity’s operations, financial, staffing and technology matters.

#### *Ultimate controlling person(s)*

In respect of “actual control”, the Draft Foreign Investment Law looks at the identity of the ultimate natural person or enterprise that controls the foreign-invested enterprise. “Actual control” refers to the power or position to control an enterprise through investment arrangements, contractual arrangements or other rights and decision-making arrangements. Article 19 of the Draft Foreign Investment Law defines “actual controllers” as the natural persons or enterprises that directly or indirectly control foreign investors or foreign-invested enterprises.

## CONTRACTUAL ARRANGEMENTS

### *Market entry clearance*

If an entity is determined to be an FIE, and its investment amount exceeds certain thresholds or its business operation falls within a “negative list” to be separately issued by the State Council in the future, market entry clearance by the authority in charge of foreign investment would be required.

### *Variable interest entity structures*

The “variable interest entity” (“VIE”) structure has been adopted by many PRC-based companies, and has been adopted by our Company in the form of the Structured Contracts, to establish control of our PRC Operating Entities by the relevant WFOE, through which we operate our pawn loan and Online Auction Operations in PRC. Under the Draft Foreign Investment Law, VIEs that are controlled via contractual arrangements would also be deemed as FIEs, if they are ultimately “controlled” by foreign investors. For companies with a VIE structure in an industry category that is in the “restricted category” on the “negative list,” it is possible that the existing VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality, PRC state-owned enterprises or agencies, PRC citizens, or domestic enterprises under the control of the PRC state-owned enterprises and/or agencies, and/or PRC citizens. Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as FIEs and any operation in the industry category on the “negative list” without market entry clearance may be considered as illegal.

Pursuant to the Draft Foreign Investment Law, as far as the new VIE structures are concerned, if a domestic enterprise under the VIE structure is controlled by Chinese nationals, such domestic enterprise may be treated as a Chinese investor and therefore the VIE structures may be regarded as legal. On the contrary, if the domestic enterprise is controlled by foreign investors, such domestic enterprise may be treated as a foreign-investor or foreign-invested enterprise, and therefore the operation of such domestic enterprise through VIE structures may be regarded as illegal if the domestic enterprise operates in a sector which is on the “negative list” and the domestic enterprise does not apply for and obtain the necessary permission.

### *“Negative list”*

According to the Draft Foreign Investment Law, the State Council will promulgate a “negative list” comprising certain industry sectors restricting foreign investment. The “negative list” set out in the Draft Foreign Investment Law purports to classify the relevant prohibited and restricted industries into the Catalogue of Prohibitions and the Catalogue of Restrictions, respectively.

Foreign investors are not allowed to invest in any sector set out in the Catalogue of Prohibitions. Where any foreign investor directly or indirectly holds shares, equities, properties or other interests or voting rights in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalogue of Prohibitions, unless otherwise specified by the State Council. Foreign investors are allowed to invest in sectors set out in the Catalogue of Restrictions, provided that the foreign investors are required to fulfill certain conditions and apply for permission before making such investment.

## CONTRACTUAL ARRANGEMENTS

*Possible approaches in dealing with foreign-invested enterprises with existing VIE structures and conducting business in an industry falling in the “negative list”*

Notwithstanding that the Explanatory Notes do not provide a clear direction in dealing with VIE structures existing before the Draft Foreign Investment Law becoming effective, which is still pending for further study as of the Latest Practicable Date, the Explanatory Notes contemplate three possible approaches in dealing with foreign-invested enterprises with existing VIE structures and conducting business in an industry falling in the “negative list”:

- (a) reporting: to make a declaration to the competent authority that the actual control is vested with Chinese investors, then the VIE structures may be retained for its operation;
- (b) verification: to apply to the competent authority for certification of its actual control vested with Chinese investors and upon verification by the competent authority, the VIE structures may be retained for its operation;
- (c) approval: to apply to the competent authority for permission and the competent authority together with the relevant departments shall make a decision after taking into account the actual control of the foreign-invested enterprise and other factors.

According to current contents of the Draft Foreign Investment Law and the Explanatory Notes, with respect to investment arrangement through VIE structure before the Draft Foreign Investment Law taking effect, if the relevant investment falls within restricted or prohibited industry category for foreign investment, as mentioned above, it will be subject to the (a) reporting, (b) verification or (c) approval requirements.

### ***Penalty***

Where foreign investors and foreign-invested enterprises circumvent the provisions of the Draft Foreign Investment Law (whether by entrusted holding, trust, multi-level re-investment, leasing, contracting, financing arrangements, protocol control, overseas transaction or otherwise) and make investments in sectors specified in the Catalogue of Prohibitions, or make investments in sectors specified in the Catalogue of Restrictions without permission or violate the information reporting obligations specified therein, penalty shall be imposed in accordance with Article 144 of (Investments in Sectors Specified in the Catalogue of Prohibitions), Article 145 (Violation of Provisions on Access Permission), Article 147 (Administrative Legal Liability for Violating the Information Reporting Obligation) or Article 148 (Criminal Legal Liability for Violating the Information Reporting Obligation) of the Draft Foreign Investment Law, as the case may be.

Where foreign investors make investments in the sectors specified in the Catalogue of Prohibitions or in the Catalogue of Restrictions without authorisation, the competent authorities of foreign investment of the people’s governments of provinces, autonomous regions and municipalities directly under the Central Government at the place where the investments are made shall order them to cease the implementation of such investments, dispose of equity or other assets within a prescribed time limit, confiscate illegal gains, if any, and impose a fine of not less than RMB100,000 but not more than RMB1 million or of not more than 10% of illegal investments.

## CONTRACTUAL ARRANGEMENTS

Where foreign investors or foreign-invested enterprises are in violation of the provisions of the Draft Foreign Investment Law, including failing to perform on schedule, or evading the performance of, the information reporting obligation, or concealing the truth or providing false or misleading information,

- (i) the competent authorities of foreign investment of the people's governments of provinces, autonomous regions and municipalities directly under the Central Government at the place where the investments are made shall order them to make rectifications within a prescribed time limit; if they fail to make rectifications within the prescribed time limit, or the circumstances are serious, a fine of not less than RMB50,000 but not more than RMB500,000 or of not more than 5% of the investments shall be imposed; or
- (ii) if the circumstances are extremely serious, a fine shall be imposed on the foreign investors or foreign-invested enterprises and the directly responsible person-in-charge and other persons liable shall be sentenced to fixed-term imprisonment of not more than one year or criminal detention.

### *Analysis on application of the Draft Foreign Investment Law (if enacted) to our Group*

If the Draft Foreign Investment Law is promulgated in the current draft form, on the basis that (i) before the Reorganisation and the Listing, Mr. ZJ Fan together with parties acting in concert with him (as a group of Controlling Shareholders), are interested in over 50% of the equity interest in our PRC Operating Entities; (ii) at the time of Listing, it is expected that Mr. ZJ Fan and the parties acting in concert with him (as a group of Controlling Shareholders) will (a) indirectly be interested in more than 50% of the issued share capital of our Company (even on a fully diluted basis taking into account of all Shares which may be issued and allotted upon the exercise of Over-allotment Option and options that may be granted under the Share Option Scheme in full), and (b) continue to be interested as registered equity holders of over 50% of the equity interest in our PRC Operating Entities, and (iii) our Company through WFOE-Pawn and WFOE-Auction exercises effective control over the PRC Operating Entities pursuant to the Structured Contracts, our PRC Operating Entities are and will be ultimate controlled by Mr. ZJ Fan together with parties acting in concert with him (as a group of Controlling Shareholders). Meanwhile, the status of each of Mr. ZJ Fan and party acting in concert with him as a natural person of Chinese nationality qualifies him or her as a "PRC investor or citizen" within the meaning of the Draft Foreign Investment Law.

### *Potential measures to maintain control over and receive economic benefits from the PRC Operating Entities*

If the Draft Foreign Investment Law is enacted in the current draft form without any amendment, as a measure to secure the passing of the "actual control" test in order for the Contractual Arrangements to remain a domestic investment under the interpretation of the Draft Foreign Investment Law so that our Group may maintain control over our PRC Operating Entities and receive all economic benefits derived from our PRC Operating Entities, each of Mr. ZJ Fan and parties acting in concert with him (as a group of Controlling Shareholders) has given an undertaking to our Company, and our Company has



## CONTRACTUAL ARRANGEMENTS

agreed with the Stock Exchange to enforce such undertaking, which shall become effective from the date of the Listing until compliance with the Draft Foreign Investment Law is not required and the Stock Exchange has consented to such termination:

- (a) he/she will continue to maintain his/her Chinese nationality and citizenship so as to be qualified as a “PRC investor or citizen” as defined under the Draft Foreign Investment Law; and
- (b) Mr. ZJ Fan together with each party acting in concert with him (as a group of Controlling Shareholders), will not dispose, directly or indirectly, any of his/her interests in our Company, such that they together would cease to control our Company (for the purpose of the undertaking, controlling our Company shall mean holding not less than 51% of the issued share capital of our Company or having control under the definition of the Draft Foreign Investment Law); and disposal of interest in our Company shall include (a) procuring our Company to issue or allot any Shares; (b) selling, transferring, assigning or giving Shares in our Company or any interest in the Shares ; or (c) creating any mortgage, chargee, pledge, lien or other security interests over the Shares; and
- (c) before entering into any transaction which may result in Mr. ZJ Fan together with each party acting in concert with him (as a group of Controlling Shareholders), ceasing to have control of our Company, he/she shall (1) demonstrate to our Company’s and the Stock Exchange’s satisfaction that the Contractual Arrangements will remain as a domestic investment for the purpose of the Draft Foreign Investment Law; (2) obtain prior written consent of our Company as to the identity of the transferee(s); and (3) procure the transferee(s) who will become the new controlling shareholder of our Company to provide an undertaking in the same terms and conditions as the one offered by him/her.

Based on the matters stated in the paragraph headed “Analysis on application of the Draft Foreign Investment Law (if enacted) to our Group”, our PRC Legal Advisers are of the view that, under the “actual control” test, we can apply for the recognition of the Contractual Arrangements as domestic investments and it is likely that the Contractual Arrangements will be allowed to be retained after complying with relevant procedures contained in the prevailing effective PRC laws and regulations.

Based on the view of our PRC Legal Advisers and the aforesaid undertaking given by Mr. ZJ Fan and parties acting in concert in him, our Directors are of the view that (i) the Contractual Arrangements are likely to be deemed as a domestic investment and to be permitted to continue after complying with relevant procedures contained in the prevailing effective PRC laws and regulations; and (ii) our Group can maintain control over our PRC Operating Entities and receive all economic benefits derived from our PRC Operating Entities.

Notwithstanding the above, as advised by our PRC Legal Advisers, the Draft Foreign Investment Law is currently only a discussion draft, which has not become effective and is non-legally binding. There are uncertainties as to whether the Draft Foreign Investment Law and which of the proposed solutions mentioned in the Explanatory Notes will be adopted or at all. And also there may be uncertainties that the above measures to maintain control over and receive the economic benefits from our PRC Operating Entities alone may not be effective in ensuring compliance with the Draft Foreign Investment Law (if and when it becomes effective). In the event that such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have a material adverse



## CONTRACTUAL ARRANGEMENTS

effect on the trading of our Shares. Please see the risk factor headed “The Draft Foreign Investment Law may have significant impact on our businesses which are controlled by foreign invested enterprises primarily through Contractual Arrangements and measures in ensuring compliance with the Draft Foreign Investment Law may not be effective” under the section headed “Risk Factors” in this prospectus for more details.

### COMPLIANCE WITH THE STRUCTURED CONTRACTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

- (a) as part of the internal control measures, major issues arising from implementation of the Contractual Arrangements will be reviewed by our Board on a regular basis which will be no less frequent than every quarter;
- (b) matters relating to compliance and regulatory enquiries from governmental authorities (if any) will be discussed at such regular or ad hoc meetings of our Board, if appropriate;
- (c) the relevant business units and operation divisions of our Group will report regularly (which will be no less frequent than on a monthly basis) to the senior management of our Company on the compliance and performance conditions under the Contractual Arrangements and other related matters;
- (d) (if required) legal advisers and/or other professionals will be retained to assist our Group to deal with specific issues arising from the Contractual Arrangements; and
- (e) control measures have been adopted by our Company to ensure that the company seals and the assets of our PRC Operating Entities are secured by and within the full control of the relevant WFOEs and prevent any unauthorised use by any of Hexin Pawn, Hexin Auction, the HP Equity-holders or the HA Equity-holders. Such measures include (i) the safe custody of the company seals and seals of legal representative of our PRC Operating Entities at the administrative departments of the relevant WFOEs; (ii) internal guidelines and authorisation procedures have been established for the use of the company seals, financial chops, seals of legal representative and business registration certificates of the PRC Operating Entities; and (iii) restricting the personnel who has access to the bank accounts of the PRC Operating Entities by requiring any use of fund of RMB500,000 or above to be approved by the Chief Administrative Officer of our Group, Mr. Liu Xudong.

## CONTRACTUAL ARRANGEMENTS

In addition, notwithstanding that one of our executive Directors, Mr. ZJ Fan, is also one of the HP Equity-holders and HA Equity-holders, we believe that our Directors are able to perform their roles in our Group independently and our Group is capable of managing its business independently after the Listing under the following measures:

- (a) the decision-making mechanism of the Board as set out in the Articles includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of the Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;
- (b) each of our Directors is aware of his fiduciary duties as a Director which requires, amongst other things, that he acts for the benefits and in the best interests of our Group;
- (c) we have appointed three INEDs, comprising over one-third of our Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and our Shareholders as a whole; and
- (d) we will disclose in our announcements, circulars, annual and interim reports in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by our Board (including INEDs) relating to any business or interest of each Director and his associates that competes or may compete with the business of our Group and any other conflicts of interest which any such person has or may have with our Group.

# BUSINESS

## OVERVIEW

We are a leading art finance service provider in China. According to F&S Report, in 2015, we were the largest art pawn loan service provider in China in terms of revenue and the second largest art pawn loan service provider in China in terms of the size of the art pawn loan portfolio and registered capital, the second largest art auction house in Jiangsu province in terms of aggregate art auction revenue and the largest auction house for Zisha Artworks in China in terms of Zisha Artwork auction revenue. In 2015, according to the F&S Report, in terms of revenue we had market shares of 0.33% and 0.50% in the PRC pawn loan industry and auction industry respectively. We are headquartered in Yixing city, Jiangsu, which is the only origin of Zisha clay, the major raw material for producing Zisha Artworks.

The following table sets out the details of our revenue for the periods indicated:

	FY2013		FY2014		FY2015		Six months ended 30 June			
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	2015 (RMB'000)	%	2016 (RMB'000)	%
<b>Revenue</b>										
<b>Art and asset pawn</b>										
Art pawn loan	30,985	77.7	41,341	71.7	58,639	54.5	28,446	97.5	31,310	47.2
Asset pawn loan	<u>2,873</u>	<u>7.2</u>	<u>2,340</u>	<u>4.0</u>	<u>620</u>	<u>0.6</u>	<u>332</u>	<u>1.1</u>	<u>300</u>	<u>0.5</u>
	<b><u>33,858</u></b>	<b><u>84.9</u></b>	<b><u>43,681</u></b>	<b><u>75.7</u></b>	<b><u>59,259</u></b>	<b><u>55.1</u></b>	<b><u>28,778</u></b>	<b><u>98.6</u></b>	<b><u>31,610</u></b>	<b><u>47.7</u></b>
<b>Art and asset auction</b>										
Art auction	3,292	8.3	12,027	20.8	47,845	44.5	—	—	34,712	52.3
Asset auction	<u>2,719</u>	<u>6.8</u>	<u>1,990</u>	<u>3.5</u>	<u>470</u>	<u>0.4</u>	<u>414</u>	<u>1.4</u>	<u>—</u>	<u>—</u>
	<b><u>6,011</u></b>	<b><u>15.1</u></b>	<b><u>14,017</u></b>	<b><u>24.3</u></b>	<b><u>48,315</u></b>	<b><u>44.9</u></b>	<b><u>414</u></b>	<b><u>1.4</u></b>	<b><u>34,712</u></b>	<b><u>52.3</u></b>
<b>Total</b>	<b><u>39,869</u></b>	<b><u>100</u></b>	<b><u>57,698</u></b>	<b><u>100</u></b>	<b><u>107,574</u></b>	<b><u>100</u></b>	<b><u>29,192</u></b>	<b><u>100</u></b>	<b><u>66,322</u></b>	<b><u>100</u></b>

Our focus is on artworks which are mainly contemporary Zisha Artworks, Paintings and Calligraphies, and Jewel Artworks. Revenue derived from artworks contributed to approximately 86.0%, 92.5%, 99.0% and 99.5% to our total revenue for the Track Record Period.

We achieved significant increase in revenue and profit attributable to owners of the Company in recent years. For the three years ended 31 December 2015, our revenue amounted to approximately RMB39.9 million, RMB57.7 million and RMB107.6 million, respectively, representing a CAGR of approximately 64.2% from 2013 to 2015. For the six months ended 30 June 2016, our revenue amounted to approximately RMB66.3 million. Our profit attributable to owners of the Company for the three years ended 31 December 2015 amounted to approximately RMB16.4 million, RMB25.9 million and RMB46.9 million, respectively, representing a CAGR of approximately 69.1% from 2013 to 2015. For the six months ended 30 June 2016, our profit attributable to owners of our Company amounted to approximately RMB27.9 million.

## BUSINESS

For the three years ended 31 December 2015, our art pawn revenue and our art auction revenue grew rapidly at respective CAGR of approximately 37.5% and approximately 280.6%. Our Directors believed that our Group achieved a higher growth rate for both our pawn loan and auction businesses during such period, as compared with the growth rate of the pawn loan market and auction market in PRC, primarily due to:

- (i) our Group's increasing focus on pawn loans secured by artworks as collaterals, which enjoys a higher composite administrative fee, as compared with other collaterals;
- (ii) at the beginning of the Track Record Period, our revenue was at a relatively low level, and accordingly, the increase in revenue will lead to a relatively significant percentage increase;
- (iii) we expanded the scale of our art auction: for FY2014, we included Paintings and Calligraphies, and for FY2015, we introduced Jewel Artworks as a new category of auction lot, both of which achieved satisfactory results; and
- (iv) there was also an increase in the total number of auction lots offered (from 189 in FY2013 to 434 in the 2015 Autumn Auction) and sold (from 125 in FY2013 to 326 in the 2015 Autumn Auction), which was mainly due to the expansion of our Group's auction lot composition; it is also our strategy to further expand our auction lot composition and increasingly focus on distinct value artworks.

### **Art and Asset Pawn Business**

We provide pawn loans secured by artworks and other assets as collaterals, which are regulated under the Pawning Measures. Our art pawn loan business is positioned as niche-credit serving customers who wish to unlock liquidity out of their artwork collection. During the Track Record Period, in terms of the principal amount of loan granted, majority of our pawn loans are collateralised by artworks and to a lesser extent, real properties, personal properties and equity interests. In terms of the number of new loan transactions, a majority of our pawn loan have maturity date in the range of one to three months during the Track Record Period. We charged fixed rates of composite administrative fees at agreed percentages of the loan amount generally ranging from 2.4% to 4.0% per month.

We have implemented a risk management system which we believe to be effective in reducing various risks involved in our art and asset pawn business, such as credit risks and liquidity risks. We had an impaired loan ratio of approximately 2.7%, 2.6%, 0% and 0% as of 31 December 2013, 2014 and 2015, and 30 June 2016 respectively. For each financial year during Track Record Period, revenue derived from art pawn loan contributed more than 90% of the segment revenue. Asset pawn loan operation is relatively less material in our art and asset pawn loan segment in terms of its revenue contribution. It is our general policy to offer art pawn loan at loan-to-value ratio not exceeding 75%, depending on the nature and value of the collaterals as well as customers need. All of the artwork collaterals are evaluated by our internal and/or external specialists before pawn loans are approved. Starting from 2015, revaluation of high-valued artwork collaterals is and will be performed by external artwork valuing entity at the end of each financial year, or more frequently if there is a material change in circumstances related to the pawn loans granted and/or the value of the collateral.

Our art and asset pawn business was funded by our registered capital and retained earnings. As of 30 June 2016, the paid-up registered capital of Hexin Pawn amounted to RMB100 million.

## BUSINESS

### Art and Asset Auction Business

Our art auction business specialises in auctioneering a wide variety of artworks with emphasis on Zisha Artworks as well as Paintings and Calligraphies and Jewel Artworks. We also provide auction services for other assets such as real properties, equity interests and automobiles.

In our role as an auction house, we generally function as an agent accepting auction lots on consignment, fostering market demand through professional marketing techniques and matching the needs of sellers (or consignors) to those of buyers (or bidders) through auctions.

Our art auction commission constituting our art auction revenue include buyer's commission and seller's commission, both of which are calculated as a percentage of the hammer price of artworks sold at auction. After bidding is confirmed following an auction, we typically collect payment from buyer for the purchase price of the auction lot plus buyer's commission, then deliver the auction lot to the buyer and eventually release to seller the net sale proceeds after deducting seller's commission and personal income tax to complete the auction transaction.

During the period from 2013 to 2015, we organised one Autumn Auction each year which was held in the fourth quarter of each calendar year. In the 2015 Autumn Auction, our aggregate hammer price reached RMB239.2 million, representing an increase of approximately 298.0% from that in 2014, of which the aggregate hammer price for Zisha Artworks amounted to approximately RMB153.5 million. The highlight of the auction — a Zisha teapot made by Master Gu Jingzhou — recorded the highest hammer price of approximately RMB38 million. Beginning in 2016, in addition to Autumn Auction, we organise one more principal art auction in (i.e. Spring Auction) each calendar year. The first Spring Auction took place in late-June 2016, which achieved an aggregate hammer price of approximately RMB164.6 million. To capture opportunities from the Chinese online auction market, one of the biggest markets worldwide in 2014, starting from the second half of 2015, we used our internet platform as an online marketing channel by enabling customers to access auction catalogue, view past auction records, and read art industry news. We launched our live bidding portal — [www.cnartfin.com](http://www.cnartfin.com) in December 2015 to allow online bidders to participate in our art auctions in real time. At our 2015 Autumn Auction, on a trial basis, online customers were able to use live bidding channel to participate in the auction together with on-site customers at the same time. We plan to arrange synchronised live and on-site biddings at all of our future Spring Auctions and Autumn Auctions. In January 2016, we conducted our first pure online auction.

### COMPETITIVE STRENGTHS

We believe the following competitive strengths allow us to enjoy the leading position in the art finance industry and will enable our sustainable growth in the near future.

#### **We have an established market leading position in the art finance industry and the first mover advantage in art pawn loan and online auction market**

We are a leading art finance service provider in China, offering principally art pawn loan and art auction services. In January 2013, Hexin Auction was awarded the AA-Grade Auction Qualification by China Association of Auctioneers. Jiangsu Province Association of Auctioneers (江蘇省拍賣行業協會) has confirmed that Hexin Auction is the only auction house in Yixing awarded with such auction house grading.

## BUSINESS

Since 2010, we have started to provide art finance services in respect of Zisha Artworks, Paintings and Calligraphies and other artworks. According to Frost & Sullivan, we were among the first financing service providers to offer pawn loans secured by artwork collateral in Jiangsu province and we were also among the first auction houses to organise online auctions in China. With around eight years' operation in the pawn loan services and auction industries, and more than five years' development of our artwork-related services, we have gained insight and experience in artwork-related operations, and also earned recognition of our clients. For the Track Record Period, revenue derived from artworks contributed approximately 86.0%, 92.5%, 99.0% and 99.5% to our total revenue.

Our management strives to provide quality, comprehensive, convenient services to our clients by way of constant improvement of existing services as well as expansion into new service areas by capturing market opportunities. For instance, as we realised the importance of online art market in China, we launched our online bidding portal in December 2015. We also keep working on diversification of our auction lot composition, for instance in the 2015 Autumn Auction, Jewel Artworks were first included as our auction lot composition.

Through years of effort, according to Frost & Sullivan, in 2015, we became the largest art pawn loan service provider in China in terms of revenue and the second largest art pawn service provider in China in terms of the size of the art pawn loan portfolio and registered capital and the largest auction house for Zisha Artworks in PRC in terms of revenue generated by Zisha Artworks.

We believe our well-established brandname and leading market position have raised public interest and confidence in our services, and assured the establishment of our good reputation in the industry. This not only secures clients' loyalty to our services but also improves our ability to source a greater number of high quality artworks and attracts potential bidders to participate in our art auctions.

Going forward, with our continuous focus on providing artwork-related services along with our strong ability to capture market opportunities and our well-established brandname in the industry, as well as the potential growth in the PRC art finance industry, we expect there will be sustainable growth in our art pawn loan and art auction operations in the foreseeable future, which in turn, would further consolidate and enhance our market position in the art finance industry, bring about growth in our market share and profitability.

### **We are located in Yixing, Jiangsu, having geographical advantages for art-related business development**

We are headquartered in Yixing city of Jiangsu province of PRC. Jiangsu province is one of the most economically developed provinces in China. Its nominal GDP amounted to RMB7,011.6 billion in 2015, ranking the second among China's provinces. The Yangtze River Delta region (which includes Jiangsu province) is the second largest market for Chinese art and antiques in China in 2015. Yixing has attained remarkable achievements in economic development in recent years, and it ranked the 7th among the top 100 counties of China in 2015. Yixing's GDP reached RMB130.4 billion in 2015 rising from RMB68.1 billion in 2009. Apart from its economic achievement, Yixing is well-known for Zisha Artworks. It is also the city where some of the famous Zisha Artworks as well as Paintings and Calligraphies masters are based.

## BUSINESS

We have established good and stable relationship with parties whom we believe are artwork interested parties including artworks artists, agents, masters, experts, merchants, collectors and art galleries and private museums, some of whom are based in Jiangsu or Yixing. They provide artwork collaterals for our art pawn loan and consign or purchase high value artworks at our art auctions. Our long-term market presence in Yixing city and good relationship with local artwork interested parties have enhanced our ability to source high-value Zisha Artworks and other artworks due to relatively ample supply in the proximity, which in turn attract potential buyers to participate in our art auctions. In addition, as pawn loan industry is relatively localised in nature, through years of operation, we have also accumulated in-depth local knowledge and built-up close working relationship with local existing and target customers. Securing high quality artworks as pawn loan collaterals and for our art auctions will in turn reduce our operation risks and improve our profitability.

Geographical advantages largely facilitate our operation and future development in assuring a constant and stable source of good quality artworks and maintaining a close business relationship with artwork interested parties. Locating in such economically prosperous region also support the development of our art-related services which provide a platform for circulation of artworks which are generally targeted to customers with relative high net worth and purchasing power.

### **We enjoy synergy brought by the operations of our art pawn loan and art auction**

From 2010 onward when we started to develop our operations along the art finance industry, we are among the few corporations in China which are capable to build an integrated business model through which we provide clients with a platform for trading of and financing with artworks. Between 2013 and 2015, we achieved a CAGR of approximately 64.2% of our total revenue from approximately RMB39.9 million to approximately RMB107.6 million, among which revenue attributable to art pawn loan increased from approximately RMB31.0 million in 2013 to approximately RMB58.6 million in 2015, representing a CAGR of approximately 37.5%, and revenue attributable to art auction increased from approximately RMB3.3 million in 2013 to approximately RMB47.8 million in 2015, achieving a CAGR of approximately 280.6%. Our total revenue increased from approximately RMB29.2 million for the six months ended 30 June 2015 to approximately RMB66.3 million for the six months ended 30 June 2016, representing a growth rate of approximately 127.1%, among which revenue attributable to art pawn loan increased from approximately RMB28.4 million to RMB31.3 million during such period, representing a growth rate of approximately 10.2%, and revenue attributable to art auction increased from nil to approximately RMB34.7 million during such period. Our ability of providing comprehensive services along artwork enhances our brand penetration in the art markets, concentrates our resources in developing high quality services along artworks and hence contributes to our success in art operations. Such business model and the synergy brought by these two complementary segments benefit us in (among others) the following manner:

- professionalism and expertise in artwork authentication and appraisal is one of the most important elements in both of our art pawn loan and art auction operations. We have built a professional authentication and appraisal team, which currently comprises three internal authentication members and five external experts, and they are divided into two units for appraisal of Zisha Artworks as well as Paintings and Calligraphies respectively, serving both our art pawn loan and art auction operations. We accept artworks as loan collaterals and for our art auction only if such artworks are approved under our authentication and valuation procedure.



## BUSINESS

- Over years of operation, we believe our brand name is recognised in the art finance industry by artwork interested parties. To the best knowledge of our Directors, some of these artwork interested parties are common clients of both of our business segments who are borrowers of our pawn loan and also customers in our art auctions as sellers and/or buyers of artworks.
- Our storage facilities for keeping our artworks as loan collaterals and for art auction are located at our headquarters and under our own management. Such storage facilities are equipped with security system according to statutory standard. We have also formulated specific measures on taking possession of, safekeeping and release of artworks into and out of our strong-rooms.

Those synergy effects brought by our ability to provide integrated art finance services enhance efficiency in our operation, reduce the overall operating costs and benefit us from economies of scale.

Further, as we operate in two complementary business activities, our Directors believe that we are able to establish multiple sources of revenue and effectively lower our exposure to risks associated with operation in a single line of business activities and the changing economic cycle. For example, under favourable economic conditions, market demand for artworks is relatively strong which may secure a larger number of auction transactions with higher hammer price, hence bringing us with higher commission income from auction operation. While during economic slowdown, our reduced art auction commission income may be compensated by the increased amount of composite administrative fee income, as we may receive more loan applications and/or some potential borrowers may be more willing to accept a lower loan-to-value ratio, which in turn lower our operating risk.

### **We have built up effective risk management and internal control systems**

We have been building, maintaining and constantly improving our internal control and risk management systems for our pawn loan and auction business. For our art and asset pawn operation, we have adopted and implemented a comprehensive set of specific measures at every stage of our art and asset pawn operation from receiving loan application up to repayment of loan. In particular, we adopt prudent artwork appraised loan-to-value ratio to reduce our risk exposure. Please refer to “Internet Control and Risk Management — Internal Control and Risk Management Policy for our Art and Asset Pawn Business” for details of such measures. As far as our art and asset auction business is concerned, we also adopt multiple steps in conducting screening, authentication and valuation of our auction lots. Please refer to “Internet Control and Risk Management — Authentication and Valuation” for details of our authentication procedures. We believe our risk management and internal control systems are effective and efficient in reducing various risks involved in our operations, as evidenced by our low impaired loan ratio of approximately 2.7%, 2.6%, 0% and 0% as of 31 December 2013, 2014 and 2015 and 30 June 2016, respectively and all art auction revenue generated from art auctions held during the Track Record Period were fully settled generally within one month from the date of auction.

By adopting and putting into practice such policy and systems, including the close monitoring of regulatory compliance for our operations, and our continuous effort to upgrade and enhance such systems along with our business development and expansion, we believe that interruption to our business and diversion of our management’s attention due to settling disputes with clients and non-compliance is minimised or eliminated. More importantly, our ability to maintain regulatory compliance and minimise risks related to our operations help building clients’ confidence to our services.



**We have an experienced and stable management team led by visionary founder**

Our management team comprises experienced industry experts who have spearheaded our rapid development in becoming a leading art finance service provider in China in recent years. Our Chairman, Chief Executive Officer and executive Director, Mr. ZJ Fan has accumulated over 14 years' practical experience in accounting, loan financing and risk management during his service with a national bank before he established our Group. Mr. ZJ Fan was born in an art family. His uncle, Mr. Fan Baowen (范保文) was a master of Chinese landscape painting. Mr. ZJ Fan has accumulated years of interest and knowledge on authenticating and appraising Chinese artworks. Mr. Fan Baowen was also one of the shareholders of Hexin Auction at its inception. In addition, we have a highly stable and experienced leadership team led by our Board whose members (except INEDs) possess an average tenure of over eight years with our Group. Furthermore, members of our management team possess cross-sector experience and expertise that complement each other and maximise synergy effect between our two business segments.

Given the nature of our art-related operations, we also established long-term relationship with external experts for conducting artworks authentication and valuation. The joint efforts of our senior management and experts have contributed to our development and growth as a specialised art pawn loan service provider and art auction house in China.

**STRATEGIES**

Our long-term objective is to become the largest integrated art finance service provider in China. We plan to achieve such long-term objective by pursuing the following strategies:

**Expansion in our art auction business**

We plan to expand our art auction business by way the following aspects:

*Further develop our art auction business, with more focus on online auction and online operation.* After years of preparatory work, we launched our live bidding portal in December 2015 through our Group's internet auction platform, allowing synchronised live and on-site biddings at our 2015 Autumn Auction and we started on pure online auction in 2016. We believe there is much room for improvement and expansion of our online auction in particular, by the following ways:

Firstly, we will expand our Group's online auction platform to adapt the market trend and to meet some of our clients' need. Commencing from 2016, we will organise two principal art auctions (i.e. Spring Auction and Autumn Auction) annually. For all of our future principal art auctions, synchronised live and on-site biddings are available for our art auction bidders. In addition, after the launch of our online auction in January 2016, we plan to hold three to four pure online auctions annually.

Secondly, we will continue to diversify our online marketing initiatives, including building an online discussion forum for customers to share and exchange information regarding artwork, art auctions and the art market, live broadcasting of on-site auctions with synchronised live bidding function, developing mobile applications with built-in social media functions and providing art-related online classes, etc. We are also committed to improving the recognition and popularity of our online auction channel and enriching the contents of our official website and internet information system so as to facilitate our clients and potential clients with convenient access to our integrated services via internet.

## BUSINESS

Thirdly, we commence to construct our overseas website which provides internet platform for facilitating art trading and organising overseas art auctions in the long run. For details of our strategies on this aspects, see “Background of the Contractual Arrangements — Plans to Comply with the Qualification Requirements”.

*Establish new branches or subsidiaries.* We intend to extend our business network and geographical presence in other major cities such as Beijing, Shanghai and Hong Kong with developed art markets, so that we may expand our sourcing channels for quality artworks, extend our client base and deepen our market penetration.

*Expand strategically our auction lot composition and increasingly focus on distinct value artworks.* We strive to expand our art categories available for auction, particularly focusing on distinct value segments in order to maintain our competitiveness in the PRC art auction industry. To achieve this, we plan to expand strategically our auction lot composition to include more art categories of high value and good market demand.

*Maintain existing and expanding client network.* We plan to broaden and extend the breadth and depth of relationships with major clients and to expand our client network. For such purpose, we would proactively contact and pay visit to major clients on a more regular basis, participate in additional art-related events, such as forum and exhibition. Further, to enhance our good business relationship with artwork interested parties and to secure a stable source of suitable artworks for our auctions, we will continue our effort to negotiate with additional artwork artists to sign artwork production and consignment agreement with us.

### **Expansion in our art pawn loan business**

In connection with our current art pawn loan business, we intend to achieve growth and expansion in the following aspects:

*Increase registered capital.* As of the Latest Practicable Date, the registered capital of Hexin Pawn was RMB100 million. Since our funding sources for art and asset pawn business consist primarily of paid-in capital and the Pawning Measures stipulates various statutory thresholds in connection with the level of pawn loans we may grant, we intend to increase the registered capital of Hexin Pawn so as to enlarge our funding available for lending and allow greater flexibility in granting pawn loans under the statutory limits. We intend to use approximately 50% of the net proceeds of the Global Offering as additional registered capital of Hexin Pawn. We plan to increase the registered capital of Hexin Pawn through the following steps: (i) injection of the relevant amount of the net proceeds of the Global Offering into the foreign currency accounts of WFOE-Pawn as its registered capital; (ii) injection of funds from WFOE-Pawn to the individual HP Equity-holders directly and to the corporate HP Equity-holders by way of entrusted loans via Chinese-invested financial institutions which fully comply with the General Lending Provisions (《貸款通則》) and other applicable rules and regulations of PRC; (iii) utilising the funds obtained by the HP Equity-holders for increasing the registered capital of Hexin Pawn; (iv) applying to the relevant department of commerce for approval to increase the registered capital of Hexin Pawn and (v) pledging of the equity interests of Hexin Pawn created by the increase in registered capital in favour of WFOE-Pawn. As advised by our PRC Legal Advisers, (i) there are no prohibitions against lending by WFOE-Pawn to individual HP Equity-holders under the General Lending Provisions and other applicable rules and regulations of PRC; and (ii) the injection of funds from WFOE-Pawn to the corporate HP Equity-holders by way of entrusted loan via Chinese-invested financial

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institutions is in compliance with the General Lending Provisions and other applicable rules and regulations of PRC. We expect the financial costs (including services charges to be paid to the Chinese-invested financial institution and relevant taxes) to be incurred for arranging entrusted loans to individuals HP Equity-holders in aggregate will not exceed 3% of the amount of registered capital injected via entrusted loans. The charges and taxes to be incurred in the future will be subject to factors, such as the changes in rate of service charges of the relevant financial institutions, its policies regarding entrusted loans and the terms of the contractual arrangements in the future.

*Focus on growing our loan portfolio.* We intend to focus on growing our loan portfolio, in particular, to improve our loan portfolio by giving priority to loan applicants with high quality artwork collateral with low loan-to-value ratio. In addition to the continuous emphasis on Zisha Artworks as well as Paintings and Calligraphies, we plan to diversify strategically our collateral composition to include more art categories which are of high value and with good market demand. We will closely monitor the art market to gain a better understanding of the latest preferences of collectors and popularity of particular types of artworks or particular artists, which shall form the basis for assessing the market demand of the art categories. Based on our assessment, we shall identify and engage experts for providing authentication and valuation services of the targeted art categories and we will put more effort on promoting and marketing on our extended capacity and business plan to accept other art categories as our pawn loan collaterals. Currently, our Group is in the process of engaging an external expert with a view of entering into a three-year consultancy contract for providing authentication and valuation services in relation to Jewel Artworks and Paintings and Calligraphies at a fixed annual service fee.

*Expand loan offices network.* As pawn loan business is relatively localised in nature, we intend to set up new loan offices in cities with relatively strong local economies so that we may extend our client base and deepen our market penetration. To achieve this, it is currently our plan to establish loan offices in other major cities in Jiangsu province and subsequently in other cities of China.

*Develop and utilise online platform.* We plan to provide convenience and increase accessibility to our pawn loan services by setting up an online loan financing platform. Through our online financing platform, intended loan applicants could apply for and/or renew pawn loan through our online loan application system by supplying preliminary personal information and requested documents. This can achieve saving in both time and costs in comparison to the traditional physical visit to our branches or offices for loan applications or in reducing the number of times or shorten the time for physical visit to us during the loan approval process. Further, it is intended that borrowers of our pawn loan would be able to obtain latest market information, our business development through our internet platform and other information in connection with the pawn loan, for instance, value of their collaterals.

### **Building one-stop art finance service platform by integrating our art pawn loan and art auction businesses**

During the Track Record Period, we had some customers who were common clients of both of our business segments as borrowers in our art pawn loan business and also customers in our art auctions as sellers and/or buyers of artworks. We also enjoy synergy benefits for operations in artwork-related industry as we build an artwork authentication and valuation team and we set up storage and securities facilities and systems which are shared between our two business segments. However, both segments have been operated separately under the benefits and advantages brought by the synergies. We have not yet in the past, formally and put substantial effort to integrate our pawn loan and auction businesses by

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promoting and encouraging our auction clients to borrow pawn loans from us to facilitate the auction transaction, nor our borrowers to collateralise their artworks bought at our auction. To further leverage and expand to the fullest extent the synergy effect brought by the operating of our art-related operations, we intend to capture the market opportunity by building up an one-stop art finance services platform. Subject to our satisfaction of the financial strength and good credit history of particular clients, integration of our art pawn loan and art auction operations can be achieved by (i) providing art pawn loan services to buyers of our art auctions in order to boost transaction rate and attract more bidders; (ii) providing art pawn loan services to potential sellers of our art auctions who may wish to invest in artwork market, thus helping us to source more artworks for our auction business; and (iii) promoting and introducing our art auction services to our art pawn loan borrowers who may wish to invest in artwork.

We also intend to enlarge our income source and broaden the scope of art finance service to include private art consignment sale and to establish dedicated sales exhibition gallery for private sale of artworks between sellers and buyers.

### **Possible merger and acquisition or alliance with enterprises in related business and IT companies**

To maximise returns to our Group, increase market share and save operational costs, we also look into opportunities to form partnership with, merge or acquire other local or overseas pawn loan companies or finance service providers, auction houses, artworks appraisal or advisory companies, whose scope of operations are similar to our business. We also plan to enhance our IT systems and internet platform by forming strategic partnership or acquiring IT companies in or outside of PRC. To better utilise our resources, we may also expand into providing art storage facilities, by, for instance, leasing part of our storage facilities to private artwork collectors or art trading enterprises.

## **OUR BUSINESS**

We provide art finance services under two business segments: art and asset pawn and art and asset auction businesses. We principally engage in the art pawn loan business and art auction business. Artworks of our focus are mainly contemporary artworks, which are recognised by industry players as those produced after the year 1949. Our premium artworks portfolio mainly includes Zisha Artworks, Paintings and Calligraphies.

### **Art and Asset Pawn Segment**

We offer pawn loans secured by artwork and asset as collaterals which are regulated under the Pawning Measures, and charge composite administrative fees. Distinguishing from the traditional understanding of the pawn loan business in China that such pawn loans are often secured by collateral such as real estate, personal property or equity interests, our pawn loans are mainly secured by artworks. During the Track Record Period, over 90% of new loan amount we granted were secured by artworks. Our artwork collateral portfolio mainly includes Zisha Artworks as well as Paintings and Calligraphies and Jewel Artworks. Our asset collateral portfolio includes real estates, personal properties (including gold, platinum, precious metal ornaments and jewellery ornaments) and equity interests (of non-listed enterprises).

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The following table sets forth the contribution to our revenue generated from art and asset pawn by type of collateral for the periods indicated:

	FY2013		FY2014		FY2015		Six months ended 30 June			
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	2015 (RMB'000)	%	2016 (RMB'000)	%
(Unaudited)										
<i>Pawn loan revenue generated from:</i>										
Artworks	30,985	91.5	41,341	94.6	58,639	99.0	28,446	98.8	31,310	99.1
Assets	<u>2,873</u>	<u>8.5</u>	<u>2,340</u>	<u>5.4</u>	<u>620</u>	<u>1.0</u>	<u>332</u>	<u>1.2</u>	<u>300</u>	<u>0.9</u>
<b>Total</b>	<b><u>33,858</u></b>	<b><u>100</u></b>	<b><u>43,681</u></b>	<b><u>100</u></b>	<b><u>59,259</u></b>	<b><u>100</u></b>	<b><u>28,778</u></b>	<b><u>100</u></b>	<b><u>31,610</u></b>	<b><u>100</u></b>

The Pawning Measures specifies collateral category for three types of pawn loans, namely, movable property pawn loan (collaterals including artworks and personal properties), real estate pawn loan, and property rights pawn loan (collaterals including equity interests). The loan amount that we grant to our clients depends on, and is at a discount to, the value of the collateral pledged by our clients.

During the Track Record Period, we generated all our revenue arising from art and asset pawn loan by charging generally fixed rates of composite administrative fee that is expressed as particular percentages to the principal amount of loan. When the loan is drawn, the monthly composite administrative fee for the entire loan period will first be deducted from the agreed principal amount, and the net loan amount will be released to the borrower. Please refer to “Pricing and loan-to-value ratios” below for the rates and basis for determination the same.

At the maturity of the loan period, a borrower is under the obligation to repay the principal amount of the loan in one lump sum or, alternatively, the borrower may make an application to us for a renewal of the pawn loan prior to or within 5 days after the maturity date of the loan period.

In 2010, we obtained the necessary licences for pawn loan operation for Hexin Pawn’s two branch offices in Nanjing and Wuxi. The branch office in Nanjing commenced operation in the same year. The branch office in Wuxi has not yet commenced its operation and we plan to launch its operation by the end of 2016.

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### *Key statutory requirements under the Pawning Measures and other applicable regulations*

Our art and asset pawn business is regulated as pawn loan under the Pawning Measures. Set out below are some of key statutory requirements under the Pawning Measures and Pawning Industry Provisions applicable to our art and asset pawn operation and status of our compliance during the Track Record Period:

#### **Key requirements**

#### **Compliance status**

##### *Term and renewal of pawn loan*

We complied with such requirement during the Track Record Period.

The maximum term of a pawn loan, whether for new application or renewal, is six months. Prior to a renewed loan to be granted, the borrower shall pay in full all accrued interest of previous loans and all composite administrative fees on the existing loan. In general, there is no limit on the number of times for which a pawn loan may be renewed.

				For the six months ended 30 June 2016
	FY2013	FY2014	FY2015	2016
Maximum term of a new pawn loan or a renewal of an existing pawn loan granted by our Group during the year (days)	120	90	120	120

##### *Maximum amount of pawn loan granted*

We complied with such requirement during the Track Record Period.

Where the registered capital of a pawn company amounted to RMB10 million or more, the maximum amount of any single pawn loan secured by real estate may not exceed 10% of its registered capital.

				For the six months ended 30 June 2016
	FY2013 (RMB million)	FY2014 (RMB million)	FY2015 (RMB million)	2016 (RMB million)
Maximum amount of a single pawn loan secured by real estate (A)	4	4	3.8	1.5
Registered capital of Hexin Pawn (B)	40	40	40 and 100 <i>(note)</i>	100
A/B (%)	10%	10%	9.5% and 3.8%	1.5%

*Note:* The registered capital of Hexin Pawn was approved to increase from RMB40 million to RMB100 million on 29 July 2015.

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### Key requirements

### Compliance status

#### *Total outstanding amount of pawn loan*

The total outstanding amount of pawn loans granted to the same legal person by a pawn company may not exceed 25% of its registered capital.

We complied with such requirement during the Track Record Period.

					For the six months ended 30 June 2016
	FY2013	FY2014	FY2015	FY2016	2016
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Maximum outstanding amount of pawn loans provided to any one legal person or natural person (A)	9	9	9.4 (before 29 July 2015) and 14.7 (on or after 29 July 2015)	100	15
Registered capital of Hexin Pawn (B)	40	40	40 and 100	100	100
A/B (%)	22.5%	22.5%	23.5% and 14.7%	100	15%

The total outstanding amount of pawn loans secured by property rights (including equity interests) may not exceed 50% of its registered capital.

We complied with such requirement during the Track Record Period.

					For the six months ended 30 June 2016
	FY2013	FY2014	FY2015	FY2016	2016
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Maximum outstanding amount of pawn loans secured by equity interests (A) (note)	10.2	n/a	n/a	100	n/a
Registered capital of Hexin Pawn (B)	40	40	40 and 100	100	100
A/B (%)	25.5%	n/a	n/a	100	n/a

*Note:* We have not granted any loans secured by equity interests for FY2014 and FY2015 and for the six months ended 30 June 2016.

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### Key requirements

The total outstanding amount of pawn loans secured by real estate may not exceed the registered capital.

### Compliance status

We complied with such requirement during the Track Record Period.

				For the six months ended 30 June 2016
	FY2013	FY2014	FY2015	2016
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Maximum outstanding amount of pawn loans secured by real estate	13	10.5	4.9	1.5
Registered capital of Hexin Pawn	40	40	40 and 100	100

### Maximum composite administrative fee

Maximum rates of monthly composite administrative fee of a pawn loan secured by movable properties (*note*), real estate and property rights (including equity interests) collaterals are 4.2%, 2.7% and 2.4% of the principal amount of the loan, respectively.

We complied with such requirement during the Track Record Period.

*Note:* Moveable properties include artworks and personal property.

				For the six months ended 30 June 2016
	FY2013	FY2014	FY2015	2016
<b>Maximum rates of monthly composite administrative fee secured by:</b>				
movable properties	4.0%	4.0%	4.0%	4.0%
real estate	2.7%	2.7%	2.7%	2.7%
equity interests	2.4%	n/a	n/a	n/a

### Interest rate

Monthly interest rate of a pawn loan may not exceed the statutory interest rate for a six month loan published by the PBOC as discounted by the term of the pawn loan. Interest of pawn loan shall not be deducted in advance.

During the Track Record Period, we have only charged composite administrative fees and have not charged loan interests.



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### Key requirements

### Compliance status

#### *Minimum amount of registered capital and working capital*

The minimum amount of registered capital of a pawn company is RMB3 million. The minimum amount of registered capital of a pawn company offering pawn loan secured by real estate and by property rights (including equity interests) is RMB5 million and RMB10 million respectively.

A pawn company shall not allocate less than RMB5 million as working capital of each of its branch offices and the total working capital of all the branch offices shall not exceed 50% of its registered capital.

During the Track Record Period, the registered capital of Hexin Pawn was not less than RMB10 million. We complied with such requirement during the Track Record Period.

We complied with such requirement during the Track Record Period.

				<b>For the six months ended 30 June 2016</b>
	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>2016</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
working capital allocated to Nanjing branch	5	5	5	5
working capital allocated to Wuxi branch	5	5	5	5
<b>Total (A)</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>
Registered capital of Hexin Pawn (B)	40	40	40 and 100	100
A/B (%)	25%	25%	25% and	10%
			10%	

During the Track Record Period, in relation to the compliance status as mentioned above, as advised by our PRC Legal Advisers, we complied with all key statutory requirements under the Pawning Measures as outlined above in all material aspects.

We are also restricted to accept cash deposits in any form, and we are not allowed to provide pawn loans to borrowers without any collateral.

During the Track Record Period and as of the Latest Practicable Date, as advised by our PRC Legal Advisers, according to the confirmation obtained from Jiangsu Commerce Department, we were not subject to any fees or administrative penalties by the relevant authorities due to failure to comply with any applicable laws and regulations applicable to our art and asset pawn operation.

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### *Loan breakdown as of the relevant year- and period-end dates*

The table below sets out the details of outstanding loans by collateral category we granted as of the dates indicated:

	<b>As of 31 December</b>			<b>As of</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>30 June</b>
				<b>2016</b>
<b>Gross loans amount (RMB'000)</b>				
<b>Artworks</b>				
Zisha Artworks	16,452	40,317	31,467	132,725
Paintings and Calligraphies	53,999	47,683	32,869	75,623
Jewel Artworks	—	—	—	—
<b>Sub-total</b>	<b>70,451</b>	<b>88,000</b>	<b>64,336</b>	<b>208,348</b>
<b>Assets</b>				
Real estates	11,941	8,380	1,432	1,458
Personal properties	1,829	1,011	368	321
<b>Sub-total</b>	<b>13,770</b>	<b>9,391</b>	<b>1,800</b>	<b>1,779</b>
<b>Total</b>	<b>84,221</b>	<b>97,391</b>	<b>66,136</b>	<b>210,127</b>
<b>Number of loans outstanding</b>				
<b>Artworks</b>				
Zisha Artworks	9	14	13	27
Paintings and Calligraphies	21	15	7	14
Jewel Artworks	—	—	—	—
<b>Sub-total</b>	<b>30</b>	<b>29</b>	<b>20</b>	<b>41</b>
<b>Assets</b>				
Real estates	3	1	1	1
Personal properties	69	77	47	65
<b>Sub-total</b>	<b>72</b>	<b>78</b>	<b>48</b>	<b>66</b>
<b>Total</b>	<b>102</b>	<b>107</b>	<b>68</b>	<b>107</b>
<b>Average loan amount (RMB'000)</b>				
<b>Artworks</b>				
Zisha Artworks	1,828	2,880	2,421	4,916
Paintings and Calligraphies	2,571	3,179	4,696	5,402
Jewel Artworks	—	—	—	—
<b>Average loan amount of artworks</b>	<b>2,348</b>	<b>3,034</b>	<b>3,217</b>	<b>5,082</b>
<b>Assets</b>				
Real estates	3,980	8,380	1,432	1,458
Personal properties	27	13	8	5

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The borrowers of art and asset pawn loans for each category of collaterals comprise mostly individuals with short term financing needs. Borrowers of our art pawn loan also include artworks interested parties. It is our strategy to target borrowers for our art pawn loan to those who could offer high value and good quality artworks as collateral in view of (i) larger single amount of composite administrative fee calculated at a fixed percentage to the principal loan amount we could receive as revenue, and (ii) more efficient loan monitoring measures as the span of our target high value client is relatively narrow.

In addition, the following tables set forth some key operating statistics for the pawn loans secured by artwork (Zisha Artworks, Paintings and Calligraphies, and Jewel Artworks) granted during the Track Record Period:

### Loans secured by artwork

	FY2013			Total
	Zisha Artworks	Paintings and Calligraphies	Jewel Artworks	
Number of outstanding loans as of year-end	9	21	0	30
Number of loans with revenue contribution	32	52	0	84
Number of new loans granted	25	40	0	65
New loan amount granted ( <i>RMB'000</i> )	52,450	103,000	0	155,450
Average new loan amount granted ( <i>RMB'000</i> )	2,098	2,575	n/a	2,392
Average initial loan term ( <i>days</i> )	41	36	n/a	38
Number of existing loans granted prior to the commencement of the year and which were renewed during such year	7	11	0	18
Renewal ratio for existing loans granted prior to the commencement of the financial year (%)	100	91.7	n/a	94.7
Number of new loans renewed	25	32	0	57
Renewal ratio of new loans (%)	100	80	n/a	87.7
Range of composite administrative fees charged for new loans ( <i>% per month</i> )	4	0.8–4	n/a	0.8–4
Loan default rate (%)	0	0	0	0
Impaired loan ratio (%)	0	0	0	0

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	FY2014			Total
	Zisha Artworks	Paintings and Calligraphies	Jewel Artworks	
Number of outstanding loans as of year-end	14	15	0	29
Number of loans with revenue contribution	57	71	0	128
Number of new loans granted	48	50	0	98
New loan amount granted ( <i>RMB'000</i> )	99,770	143,380	0	243,150
Average new loan amount granted ( <i>RMB'000</i> )	2,079	2,868	n/a	2,481
Average initial loan term ( <i>days</i> )	34	34	n/a	34
Number of existing loans granted prior to the commencement of the year and which were renewed during such year	7	18	0	25
Renewal ratio for existing loans granted prior to the commencement of the financial year (%)	77.8	85.7	n/a	83.3
Number of new loans renewed	40	40	0	80
Renewal ratio of new loans (%)	83.3	80	n/a	81.6
Range of composite administrative fees charged for new loans ( <i>% per month</i> )	1.5–4.0	0.75–4.0	n/a	0.75–4.0
Loan default rate (%)	0	0	0	0
Impaired loan ratio (%)	0	0	0	0

	FY2015			Total
	Zisha Artworks	Paintings and Calligraphies	Jewel Artworks	
Number of outstanding loans as of year-end	13	7	0	20
Number of loans with revenue contribution	39	50	1	90
Number of new loans granted	25	35	1	61
New loan amount granted ( <i>RMB'000</i> )	89,830	221,250	4,200	315,280
Average new loan amount granted ( <i>RMB'000</i> )	3,593	6,321	4,200	5,169
Average initial loan term ( <i>days</i> )	56	47	60	51
Number of existing loans granted prior to the commencement of the year and which were renewed during such year	13	10	0	23
Renewal ratio for existing loans granted prior to the commencement of the financial year (%)	92.9	66.7	n/a	79.3
Number of new loans renewed	20	31	1	52
Renewal ratio of new loans (%)	80.0	88.6	100.0	85.2
Range of composite administrative fees charged for new loans ( <i>% per month</i> )	4	1.5–4.0	4	1.5–4.0
Loan default rate (%)	0	0	0	0
Impaired loan ratio (%)	0	0	0	0

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	For the six months ended 30 June 2015			Total
	Zisha	Paintings and	Jewel	
	Artworks	Calligraphies	Artworks	
	(Unaudited)			
Number of outstanding loans as of period-end	8	18	0	26
Number of loans with revenue contribution	27	38	0	65
Number of new loans granted	13	23	0	36
New loan amount granted (RMB'000)	63,150	127,850	0	191,000
Average new loan amount granted (RMB'000)	4,858	5,559	n/a	5,306
Average initial loan term (days)	53	41	n/a	45
Number of existing loans granted prior to the commencement of the period and which were renewed during such period	13	10	0	23
Renewal ratio for existing loans granted prior to the commencement of the period (%)	92.9	66.7	n/a	79.3
Number of new loans renewed	10	15	0	25
Renewal ratio of new loans (%)	76.9	65.2	n/a	69.4
Range of composite administrative fees charged for new loans (% per month)	4	1.5-4.0	n/a	1.5-4.0
Loan default rate (%)	0	0	0	0
Impaired loan ratio (%)	0	0	0	0

	For the six months ended 30 June 2016			Total
	Zisha	Paintings and	Jewel	
	Artworks	Calligraphies	Artworks	
Number of outstanding loans as of period-end	27	14	0	41
Number of loans with revenue contribution	42	34	1	77
Number of new loans granted	29	27	1	57
New loan amount granted (RMB'000)	142,470	140,420	4,200	287,090
Average new loan amount granted (RMB'000)	4,913	5,201	4,200	5,037
Average initial loan term (days)	79	75	120	78
Number of existing loans granted prior to the commencement of the period and which were renewed during such period	7	4	0	11
Renewal ratio for existing loans granted prior to the commencement of the period (%)	53.8	57.1	n/a	55.0
Number of new loans renewed	7	13	0	20
Renewal ratio of new loans (%)	24.1	48.1	0	35.1
Range of composite administrative fees charged for new loans (% per month)	4	2.5-4	4	2.5-4
Loan default rate (%)	0	0	0	0
Impaired loan ratio (%)	0	0	0	0

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The following tables set forth some key operating statistics for the pawn loans secured by assets (real estate, personal properties, and equity interests) granted during the Track Record Period:

### Loans secured by assets

	FY2013			Total
	Real estate	Personal properties	Equity interests	
Number of outstanding loans as of year-end	3	69	0	72
Number of loans with revenue contribution	1	342	4	347
Number of new loans granted	0	207	1	208
New loan amount granted ( <i>RMB'000</i> )	0	3,776	3,500	7,276
Average new loan amount granted ( <i>RMB'000</i> )	n/a	18	3,500	35
Average initial loan term ( <i>days</i> )	n/a	42	30	42
Number of existing loans granted prior to the commencement of the year and which were renewed during such year	0	65	3	68
Renewal ratio for existing loans granted prior to the commencement of the financial year (%)	n/a	48.1	100	48.9
Number of new loans renewed	n/a	131	1	132
Renewal ratio of new loans (%)	0.0	63.3	100	63.5
Range of composite administrative fees charged for new loans ( <i>% per month</i> )	n/a	4	0.4–2.4	0.4–4
Loan default rate (%)	0	0	0	0
Impaired loan ratio (%)	19.1	0	0	16.6

	FY2014			Total
	Real estate	Personal properties	Equity interests	
Number of outstanding loans as of year-end	1	77	0	78
Number of loans with revenue contribution	4	240	0	244
Number of new loans granted	1	171	0	172
New loan amount granted ( <i>RMB'000</i> )	1,500	1,724	0	3,224
Average new loan amount granted ( <i>RMB'000</i> )	1,500	10	n/a	19
Average initial loan term ( <i>days</i> )	30	40	n/a	40
Number of existing loans granted prior to the commencement of the year and which were renewed during such year	0	39	0	39
Renewal ratio for existing loans granted prior to the commencement of the financial year (%)	0	56.5	n/a	54.2
Number of new loans renewed	1	123	0	124
Renewal ratio of new loans (%)	100	71.9	n/a	72.1
Range of composite administrative fees charged for new loans ( <i>% per month</i> )	2.7	4.0	n/a	2.7–4.0
Loan default rate (%)	0	0	0	0
Impaired loan ratio (%)	30.6	0	0	27.3

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	FY2015			Total
	Real estate	Personal properties	Equity interests	
Number of outstanding loans as of year-end	1	47	0	48
Number of loans with revenue contribution	4	206	0	210
Number of new loans granted	3	129	0	132
New loan amount granted ( <i>RMB'000</i> )	5,900	1,753	0	7,653
Average new loan amount granted ( <i>RMB'000</i> )	1,967	14	n/a	58
Average initial loan term ( <i>days</i> )	30	32	n/a	32
Number of existing loans granted prior to the commencement of the year and which were renewed during such year	0	51	0	51
Renewal ratio for existing loans granted prior to the commencement of the financial year (%)	0	66.2	n/a	65.4
Number of new loans renewed	1	92	0	93
Renewal ratio of new loans (%)	33.3	71.3	n/a	70.5
Range of composite administrative fees charged for new loans ( <i>% per month</i> )	2.7	4	n/a	2.7-4.0
Loan default rate (%)	0	0	0	0
Impaired loan ratio (%)	0	0	0	0

### For the six months ended 30 June 2015

	Real estate	Personal properties	Equity interests	Total
		(Unaudited)		
Number of outstanding loans as of period-end	0	59	0	59
Number of loans with revenue contribution	3	146	0	149
Number of new loans granted	2	69	0	71
New loan amount granted ( <i>RMB'000</i> )	4,400	1,202	0	5,602
Average new loan amount granted ( <i>RMB'000</i> )	2,200	17	n/a	79
Average initial loan term ( <i>days</i> )	30	36	n/a	36
Number of existing loans granted prior to the commencement of the period and which were renewed during such period	0	51	0	51
Renewal ratio for existing loans granted prior to the commencement of the period (%)	0	66.2	n/a	65.4
Number of new loans renewed	0	43	0	43
Renewal ratio of new loans (%)	0	62.3	n/a	60.6
Range of composite administrative fees charged for new loans ( <i>% per month</i> )	2.7	4	n/a	2.7-4
Loan default rate (%)	0	0	0	0
Impaired loan ratio (%)	0	0	0	0

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	For the six months ended 30 June 2016			
	Real estate	Personal properties	Equity interests	Total
Number of outstanding loans as of period-end	1	65	0	66
Number of loans with revenue contribution	2	154	0	156
Number of new loans granted	1	107	0	108
New loan amount granted (RMB'000)	1,500	633	0	2,133
Average new loan amount granted (RMB'000)	1,500	6	n/a	20
Average initial loan term (days)	60	48	n/a	48
Number of existing loans granted prior to the commencement of the period and which were renewed during such period	0	42	0	42
Renewal ratio for existing loans granted prior to the commencement of the period (%)	0	89.4	n/a	87.5
Number of new loans renewed	1	54	0	55
Renewal ratio of new loans (%)	100	50.5	n/a	50.9
Range of composite administrative fees charged for new loans (% per month)	2.7	4	n/a	2.7-4
Loan default rate (%)	0	0	0	0
Impaired loan ratio (%)	0	0	0	0

### *Some further operating statistics for our art pawn loan*

The overall average initial loan term of our art pawn loans was approximately 38 days, 34 days, 51 days and 78 days, for the Track Record Period, as we adopt the internal control and risk management policy of maintaining a short maturity date of new or renewed loan we granted, which lower the risk of significant deterioration of the value of the collateral and the financial condition of the borrower over a short period of time. For FY2013, FY2014, and FY2015 and the six months ended 30 June 2016, in respect of our art pawn loans, the overall average loan period granted/renewed was approximately 40 days, 37 days, 47 days and 67 days respectively. Our loan repayment period ranged from 1 to 9 months for each of the three years ended 31 December 2015, whereas that of the six months ended 30 June 2016 generally ranged from 1 to 5 months. The average loan repayment period were approximately 168 days, 129 days, 150 days and 94 days, respectively for the Track Record Period. The average loan repayment period represented the duration of the period from which a new loan is first granted until the relevant loan is repaid in full, regardless of whether the relevant loan is renewed or not, primarily to allow a better understanding of the duration of the operating cashflow cycle for our art pawn business. For the Track Record Period, the average number of renewals per new loan was approximately 3.2, 2.5, 2.2 and 0.4 respectively. For the six months ended 30 June 2016 (“**Stub Period**”), the average loan repayment period (94 days), the range of loan repayment period of new loans (1 to 5 months) and the average number of renewals per new loan (0.4) for our Group’s art pawn loan were lower than those of FY2013, FY2014 and FY2015, primarily due to the reason that the calculations only took into account the loans that were both first granted and subsequently repaid within the Stub Period, accordingly, those loans (in particular, renewed loans) with repayment dates beyond 30 June 2016 and the respective number of renewals of such loans will not be taken into account. Since we would re-valuate the artwork



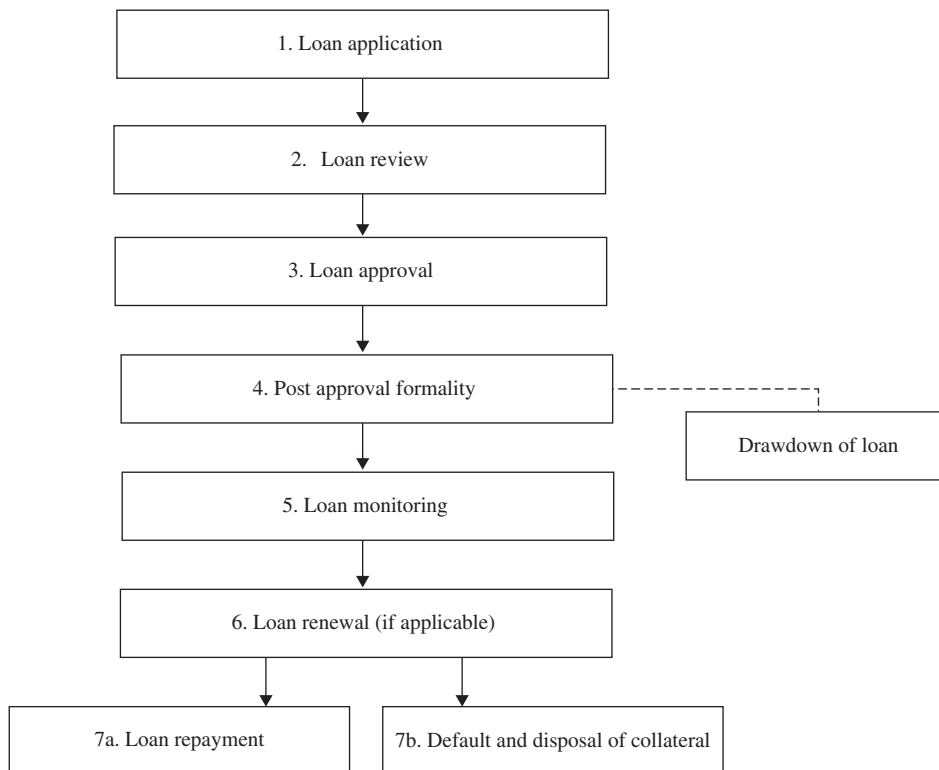
## BUSINESS

collateral during each loan renewal application, we would be able to monitor the change of value of the collateral at short interval and to reject the loan renewal application due to (among other factors) reduction of value of the collateral and/or adverse change to the financial condition of the borrower.

For our policies on impairment allowance, please refer to the section headed “Financial information — Certain items in the consolidated statements of financial position — Loans to customers for art and asset pawn business” in this prospectus for details.

### *Art pawn loan process*

The following chart sets out the main procedures of our art pawn loan process.



#### *1. Loan application*

An intended loan applicant generally visits our office or contacts us through our service hotline to apply for a pawn loan. We require a loan applicant to complete a loan application form, and we obtain from the loan applicant the necessary information (including the amount and term of the loan applied for, type and information of the artwork, and planned usage of the loan) and documents (including identification or corporate documents of loan applicant) we need to process a loan application. We also request loan applicant to provide documents to prove ownership, authenticity and value of the artwork (for instance, previous trading record and artist certificate).

2. *Loan review*

After receiving the loan application and obtaining the necessary information and documents from a loan applicant, the loan application will be subject to our initial review by inspecting the artwork and documents and conducting a preliminary assessment and due diligence over the applicant and the application. For artwork collateral, our appraisal team will inspect and provide their authentication and appraisal opinion on the relevant collateral and will give their endorsement on the appraisal to substantiate the authenticity and value of the artwork. The artwork would then be delivered to us under our custody.

3. *Loan approval*

After satisfying the initial review and assessment of the loan application and the collateral, the loan application will be submitted to senior management and relevant departments for the loan approval process.

Pursuant to our internal control and risk management policy, loan application for any principal amount shall be reviewed and approved progressively by the loan business department, the finance department, the risk management department and the general manager. Loan application for a principal amount of RMB1 million and above (“**Substantial Loan**”) shall be subject to the final review and approval by our risk control committee. Loan application is subject to rejection if any one or more of the above departments/committee or our general manager do not approve the application.

4. *Post approval formality*

After a loan application is approved and accepted, a number of formalities will be taken before the loan is released.

We will fill in and sign the nationwide standardised pawn ticket (全國統一當票) with the borrower and release net amount of the loan (after deducting the amount of composite administrative fee). For material information and terms of nationwide standardised pawn ticket, please refer to the paragraph headed “Documentation for the art and asset pawn” below.

The entire loan approval process (whether for a Substantial Loan or a loan with lower principal amount), from receiving loan application up to the release of approved loan amount to the borrower, will normally take not more than three business days after the applicant submits all required information and documentation, or after the completion of the pledge registration (where registration of pledge is required) (whichever is the later).

*5.-7. Loan monitoring, renewal (if applicable) and repayment*

During the loan period, we perform on-going monitoring actions both on the borrower and on the value and market condition of the collateral. Appropriate monitoring and remedial actions will be taken if we discover any adverse change to the financial condition of the borrower or deterioration of collateral value. A borrower may apply for renewing a pawn loan before or within five days after its expiration, such renewal application will be subject to our approval under substantially the same approval procedure as for a new loan. When the borrower repays all the principal amount of loan and accrued composite administrative fee (if any), the collateral will be released and the loan transaction will be discharged. In the circumstances that the loan is not repaid or renewed within five days after the due date, the loan will be treated as a default loan under the Pawning Measures. Appropriate enforcement actions will be taken to demand and collect default loans.

Please refer to “Internal Control and Risk Management — Internal Control and Risk Management Policy for our Art and Asset Pawn Business — Specific risk control measures for every stage of our art and asset pawn business” for the detailed internal control and risk management measures we adopt for every stage of our art and asset pawn operation.

***Asset pawn loan process***

Apart from artworks, we also accept asset as collaterals including real estate, personal properties and equity interests. Loan process for our art pawn loan operation is, in general, applicable to our asset pawn loan operation.

***Documentation for the art and asset pawn***

*Pawn ticket*

As we offer pawn loan, we as the lender are required under the Pawning Measures to issue a nationwide standardised pawn ticket under Hexin Pawn’s stamp, which shall be signed by our customer as the borrower. Other than the pawn ticket, we do not sign other loan agreement with the borrower. Major information or terms contained in the pawn ticket include description, quantity, appraised value and appraised loan-to-value ratio of the collateral, principal amount of loan and monthly rate and amount of composite administrative fee, loan period, and procedures for taking repossession and disposal of the underlying collateral setting forth under the Pawning Measures.

*Pledge agreement*

Under the Pawning Measures, registration of the pledge for certain types of collaterals (including real estate and equity interest as collaterals) is required. For pledge registration purpose, Hexin Pawn as the pledgee enters into a pledge agreement with borrower as the pledgor. The executed pledge agreement shall be submitted to the relevant governmental department for pledge registration purpose.

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Salient terms of the pledge agreement include description of the collateral and the indebtedness secured by the collateral, restriction to sell, dispose of or pledge the collateral, certain representations, undertakings and warranties given by the pledgor including the ownership or control of the collateral as well as completing the pledge registration within a prescribed time after signing of the pledge agreement, delivery of collateral or original title document to the pledgee (as the case may be), and event of defaults entitling the pledgee to enforce the pledge.

### *Pricing and loan-to-value ratios*

#### *Basis for charging composite administrative fees*

During the Track Record Period, we generated all our revenue arising from art and asset pawn loan by charging generally fixed rates of composite administrative fees for the pawn loans we grant. Maximum rates of monthly composite administrative fee for a pawn loan secured by movable properties, real estate and property rights as collaterals are 4.2%, 2.7% and 2.4% of the principal amount of the loan, respectively pursuant to the Pawning Measures. Due to the statutory maximum limit under the Pawning Measures, we have limited control over the composite administrative fee we can charge on our pawn loans. Please see “Risk Factors — We have limited control over the level of fees we can charge on our pawn loans”.

Under the Pawning Measures, we are entitled to charge both loan interests and composite administrative fee for each pawn loan granted. However, during the Track Record Period and up to the Latest Practicable Date, we have only charged composite administrative fees and have not charged loan interests. This is mainly because composite administrative fee for the entire loan period is directly deducted from the principal loan amount before releasing the net loan amount to the borrower, while loan interests are prohibited to be paid in advance by borrowers before the loan is released. Accordingly, our Directors consider our revenue generated from composite administrative fee would be more secure than interest income. Further, it is a general market practice in the Wuxi city (which includes general county-level cities including Yixing) that pawn loan providers do not charge interest (but generally charge composite administrative fee) for the loan granted. Our Directors believe that our competitiveness may be affected if we charge both composite administrative fee and interest for the loans we granted.

Under our operation policy, during the Track Record Period and as of the Latest Practicable Date, we charged fixed rates of monthly composite administrative fee for our pawn loan secured by artworks and personal property (both of which are classified as movable properties under the Pawning Measures), real estate and equity interest as collateral generally at the respective rate of 4.0%, 2.7% and 2.4% of the principal amount of the loan respectively.

For pawn loans which are overdue, having taken into consideration that the terms of the loans are relatively short and the outstanding amounts are secured by the collateral, we did not charge late fees or default interest at rates higher than the fixed rates of monthly composite administrative fee, but we require borrowers of overdue loans to pay composite administrative fee on the overdue amount for the overdue period based on the same rates charged on the loan.

For more details on our revenue generated from the art and asset pawn operation, please see “Financial Information — Major items in the consolidated statement of profit or loss and other comprehensive income — Revenue” in this prospectus.

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### *Appraised loan-to-value ratios*

Under our risk management policy, we adopt the target appraised loan-to-value ratio of not exceeding 75% for artwork as collateral at the time of the collateral appraisal.

The following table sets forth a breakdown for artwork collateral (i) range of appraised loan-to-value ratios; (ii) principal loan amount; (iii) appraised value of collateral at time of loan approval; and (iv) average appraised loan-to-value ratio:

	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>For the six months ended 30 June 2016</b>
Range of appraised loan-to-value ratios ( <i>Note 1</i> )	47% to 73%	44% to 70%	33% to 68%	40% to 68%
	<b>As of 31 December</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Principal loan amount ( <i>RMB'000</i> ) ( <i>Note 2</i> )	70,300	87,900	69,230	219,020
Appraised value of collateral at time of loan approval ( <i>RMB'000</i> )	115,390	153,110	124,183	410,904
Average appraised loan-to-value ratio ( <i>Note 3</i> )	60.9%	57.4%	55.7%	53.3%

*Notes:*

- (1) This refer to the range of actual appraised loan-to-value ratio during the indicated period. The appraised value of the underlying collateral as stated on the pawn ticket is used for calculation.
- (2) Principal loan amount refer to the aggregate loan amount as shown on the pawn tickets being outstanding as of the dates indicated.
- (3) Average appraised loan-to-value ratio of a loan is calculated by dividing the outstanding principal amount of the loan as of the calculation date by the appraised value of the underlying collateral. The loan-to-value ratio does not take into consideration composite administrative fee on the loan or any change in the collateral value during the term of the loan.

In connection with asset collaterals, we adopt the target appraised loan-to-value ratios of not exceeding 75%, 90% and 50% for real properties, personal properties and equity interest respectively.

An analysis of our loan receivables and the value of collaterals for each ageing category are set out in “Financial Information — Certain items in the consolidated statements of financial position — Loans to customers for art and asset pawn business” of this prospectus.

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### *Source of funding*

During the Track Record Period, funding sources for our art and asset pawn business consisted primarily of paid-in capital and retained earnings. During the Track Record Period and as of the Latest Practicable Date, we did not have any bank borrowings, and our operations were mainly financed by our internal resources. Shortly before the Latest Practicable Date, we obtained the Bank Facility (which was not yet drawn on the Latest Practicable Date), as disclosed in the “Financial Information — Indebtedness — Statement of Indebtedness” section.

Paid-in capital is capped at the approved registered capital amount. As of the Latest Practicable Date, the registered capital of Hexin Pawn was RMB100 million, which was fully paid up by its equity-holders. As Hexin Pawn’s registered capital is over RMB50 million, pursuant to the Pawning Measures and the Decision of the State Council on the Sixth Batch of Cancelled and Modified Administrative Examination and Approval Items (國務院關於第六批取消和調整行政審批項目的決定(國發[2012]52號) issued by the State Council in September 2012, any intended change of the registered capital of Hexin Pawn has to be approved by a competent department of commerce at the provincial level.

The following table sets out a breakdown of Hexin Pawn’s source of funding during the Track Record Period:

	<b>As of 31 December</b>			<b>As of</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>30 June</b>
	<i>(RMB’000)</i>	<i>(RMB’000)</i>	<i>(RMB’000)</i>	<i>(RMB’000)</i>
Internal resources in the form of cash and cash equivalents as of the beginning of the year (which originate from shareholders’ capital contribution and our Group’s cash flows)	23,880	39,733	168,127	44,948
Retained earnings	<u>58,936</u>	<u>84,185</u>	<u>119,300</u>	<u>135,815</u>
<b>Total</b>	<b><u>82,816</u></b>	<b><u>123,918</u></b>	<b><u>287,427</u></b>	<b><u>180,763</u></b>

### **Art and Asset Auction Segment**

Under our art and asset auction segment, we primarily engage in art auction operations including Spring Auction, Autumn Auction and online auction. We also hold asset auctions for real properties, equity interest and automobiles.

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The following table sets out the mode of operation and number of the auctions organised (and planned to be organised) by our Group through Hexin Auction per year during the Track Record Period and in the foreseeable future:

	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>From FY2016 onwards (planned)</b>
<b>Art auctions</b>	One (1) pure on-site Autumn Auction	One (1) pure on-site Autumn Auction	One (1) Autumn Auction allowing synchronised live and on-site biddings	<p><i>Principal art auctions</i></p> <p>Two (2), including one (1) Spring Auction and one (1) Autumn Auction (both of which allowing synchronised on-site and live biddings)</p> <p><i>Online art auctions</i></p> <p>Around three (3) to four (4) standalone online auction</p>
<b>Asset auctions</b>	25 pure on-site	22 pure on-site	7 pure on-site (only occurred in the first half of FY2015)	Hexin Auction has not organised any asset auction up to the Latest Practicable Date and has no plan to organise pure on-site asset auction in the future

Transforming from an asset auction house, Hexin Auction started its first art auction in 2011 and since then has placed its strategic focus on art auctions. During 2011 to 2014, our art auctions (i.e. Autumn Auctions) were organised annually usually at the last quarter of a calendar year, which were purely on-site art auctions. Starting from the 2015 Autumn Auction, in addition to on-site biddings, live bidding channel is provided to bidders through our Group's internet platform, which shows timely transaction information of the auction (including real-time bidding prices and hammer prices, whether through the on-site or online bidding channels). During such auction, all live and on-site biddings are synchronised and a final sale is determined by the highest bidder using any of the two bidding channels. From 2016 onwards, we begin to organise one more principal art auction, i.e. Spring Auction, which is planned to be held between March and August of a calendar year. The first Spring Auction was held in late-June 2016. From the 2015 Autumn Auction and onward, all future principal art auctions (including all Spring Auctions and Autumn Auctions) will allow synchronised live and on-site biddings. In addition, from 2016 onwards, we began to hold online auction on a standalone basis, the first of which was held in January 2016 and around three to four online auctions are planned to be held annually.

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The table below sets forth the revenue of our art and asset auction segment.

	FY2013		FY2014		FY2015		Six months ended 30 June			
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	2015 (RMB'000) (Unaudited)	%	2016 (RMB'000)	%
<b>Art auction revenue</b>										
Zisha Artworks	3,292	54.8	8,868	63.3	30,713	63.6	—	—	25,997	74.9
Paintings and Calligraphies	—	—	3,159	22.5	3,742	7.7	—	—	2,709	7.8
Jewel Artworks	—	—	—	—	13,390	27.7	—	—	6,006	17.3
	<u>3,292</u>	<u>54.8</u>	<u>12,027</u>	<u>85.8</u>	<u>47,845</u>	<u>99.0</u>	<u>—</u>	<u>—</u>	<u>34,712</u>	<u>100</u>
<b>Asset auction revenue</b>	<u>2,719</u>	<u>45.2</u>	<u>1,990</u>	<u>14.2</u>	<u>470</u>	<u>1.0</u>	<u>414</u>	<u>100</u>	<u>—</u>	<u>—</u>
<b>Total</b>	<u><u>6,011</u></u>	<u><u>100</u></u>	<u><u>14,017</u></u>	<u><u>100</u></u>	<u><u>48,315</u></u>	<u><u>100</u></u>	<u><u>414</u></u>	<u><u>100</u></u>	<u><u>34,712</u></u>	<u><u>100</u></u>

In the 2015 Autumn Auction, Jewel Artworks were first included as our auction lots. All of these Jewel Artworks were consigned by Mr. Ye Jinlong (葉金龍), a jade carving master and all such Jewel Artworks were under Mr. Ye's design and/or craftsmanship and are accompanied with authentication or artist certificate which confirms the authenticity of the Jewel Artwork. As for 2016 Spring Auction, the Jewel Artworks comprised jade artworks consigned by various consignors and were under the design, carving and/or craftsmanship of various well-known jade artists. Our Group engaged an external expert in jade to provide one-off authentication and valuation service in relation to the Jewel Artworks as auction lots of our 2016 Spring Auction. As all those Jewel Artworks were under the design and craftsman of artist, they are treated as artworks instead of ordinary jewel ornament. Further, according to F&S Report, those Jewel Artworks have higher appraisal value, because Jewel Artworks are well-designed by artists on certain concepts or theme. As we focus on artwork-related operations, in the foreseeable future, we will only accept Jewel Artworks which are classified or considered as artworks for our art auctions.

### *Art auction operation*

We act as agent by sourcing and accepting artworks on consignment, and match the needs of sellers to those of buyers at auctions. We collect commissions from both buyers and sellers upon settlement of auction sales. Being the main focus of the art and asset auction segment, art auction operation witnessed significant growth. During the Track Record Period, auction revenue derived from the art auctions grew rapidly from approximately RMB3.3 million in FY2013 (representing approximately 54.8% of the segment revenue) to approximately RMB47.8 million in FY2015 (representing approximately 99.0% of the segment revenue), which achieved a CAGR of approximately 280.6%. Auction revenue derived from art auctions increased from nil for the six months ended 30 June 2015 to approximately RMB34.7 million for the six months ended 30 June 2016, since no art auction was held during the first six months of 2015 and we expand to organise our first Spring Auction and two online auctions in the first half of 2016. In September 2016, we held our third online auction. Auction lots for our art auctions mainly include high-end contemporary Zisha Artworks, Paintings and Calligraphies and Jewel Artworks. We plan to diversify strategically the scope of our auction lots to include more art categories, such as gems and diamonds which are of high value and with strong market demand. Please refer to our strategy headed "Expansion in our art auction business — expand strategically our auction lot composition and increasingly focus on distinct value artworks" in the paragraph headed "Strategies" above for details. We have also accepted other high-value items such as wine on consignment for our previously held art auctions.



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Set out below are certain data and statistics in connection with our Autumn Auctions held during the Track Record Period and our Spring Auction held in June 2016:

	Autumn Auction held in			Spring Auction held in
	2013	2014	2015	2016
<b>Aggregate hammer price (RMB' million)</b>				
Zisha Artworks	16.5	44.3	153.5	120.5
Paintings and Calligraphies (Note 1)	—	15.8	18.7	12.3
Jewel Artworks (Note 2)	—	—	67.0	31.8
	<u>—</u>	<u>—</u>	<u>67.0</u>	<u>31.8</u>
<b>Total</b>	<b><u>16.5</u></b>	<b><u>60.1</u></b>	<b><u>239.2</u></b>	<b><u>164.6</u></b>
<b>Range of lowest and highest hammer price (RMB)</b>				
Zisha Artworks	4,000 to 3,000,000	5,000 to 7,800,000	8,000 to 38,000,000	12,000 to 15,000,000
Paintings and Calligraphies	—	3,000 to 2,400,000	1,000 to 2,800,000	3,000 to 3,800,000
Jewel Artworks	—	—	20,000 to 20,000,000	50,000 to 8,000,000
<b>Number of auction lots (or sets of items) offered</b>				
Zisha Artworks	189	198	178	170
Paintings and Calligraphies	—	225	217	163
Jewel Artworks	—	—	39	92
	<u>—</u>	<u>—</u>	<u>39</u>	<u>92</u>
<b>Total</b>	<b><u>189</u></b>	<b><u>423</u></b>	<b><u>434</u></b>	<b><u>425</u></b>
<b>Number of auction lots (or sets of items) sold</b>				
Zisha Artworks	125	165	150	126
Paintings and Calligraphies	—	147	152	118
Jewel Artworks	—	—	24	71
	<u>—</u>	<u>—</u>	<u>24</u>	<u>71</u>
<b>Total</b>	<b><u>125</u></b>	<b><u>312</u></b>	<b><u>326</u></b>	<b><u>315</u></b>
<b>Transaction rate<sup>(Note 3)</sup></b>				
Zisha Artworks	66.1%	83.3%	84.3%	74.1%
Paintings and Calligraphies	—	65.3%	70.0%	72.4%
Jewel Artworks	—	—	61.5%	77.2%
	<u>—</u>	<u>—</u>	<u>61.5%</u>	<u>77.2%</u>
<b>Average</b>	<b>66.1%</b>	<b>73.8%</b>	<b>75.1%</b>	<b>74.1%</b>

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*Notes:*

- (1) Paintings and Calligraphies were not within the scope of auction lots in the Autumn Auction held in 2013;
- (2) Jewel Artworks were not within the scope of auction lots in the Autumn Auctions held in 2013 and 2014.
- (3) Transaction rate is calculated by dividing the number of auction lots (or sets of items) sold by number of auction lots (or sets of items) offered.

The increase in the aggregate hammer price of Zisha Artworks in the 2014 Autumn Auction to approximately RMB44.3 million from approximately RMB16.5 million in the 2013 Autumn Auction was mainly due to additional number of Zisha Artworks sold and higher transaction rate from those in 2013 as we expanded our art auction business in 2014.

Notwithstanding the decrease in the number of Zisha Artworks sold in the 2015 Autumn Auction, the aggregate hammer price increased significantly by 246.5% to approximately RMB153.5 million mainly because we further expanded our art auction business in 2015 and put more effort to promote (including launching our online marketing channel for promotion) our 2015 Autumn Auction, being the fifth anniversary of operation of our art auction. In particular, as it was the 100th birthday of the deceased Master Gu Jingzhou in 2015, and his Zisha Artworks were particularly popular and chased after, 11 Zisha Artworks made by the late Master Gu Jingzhou were offered in the 2015 Autumn Auction, and 9 were sold at an aggregate hammer price of about RMB93.5 million, representing approximately 60% of total aggregate hammer price of Zisha Artworks for FY2015.

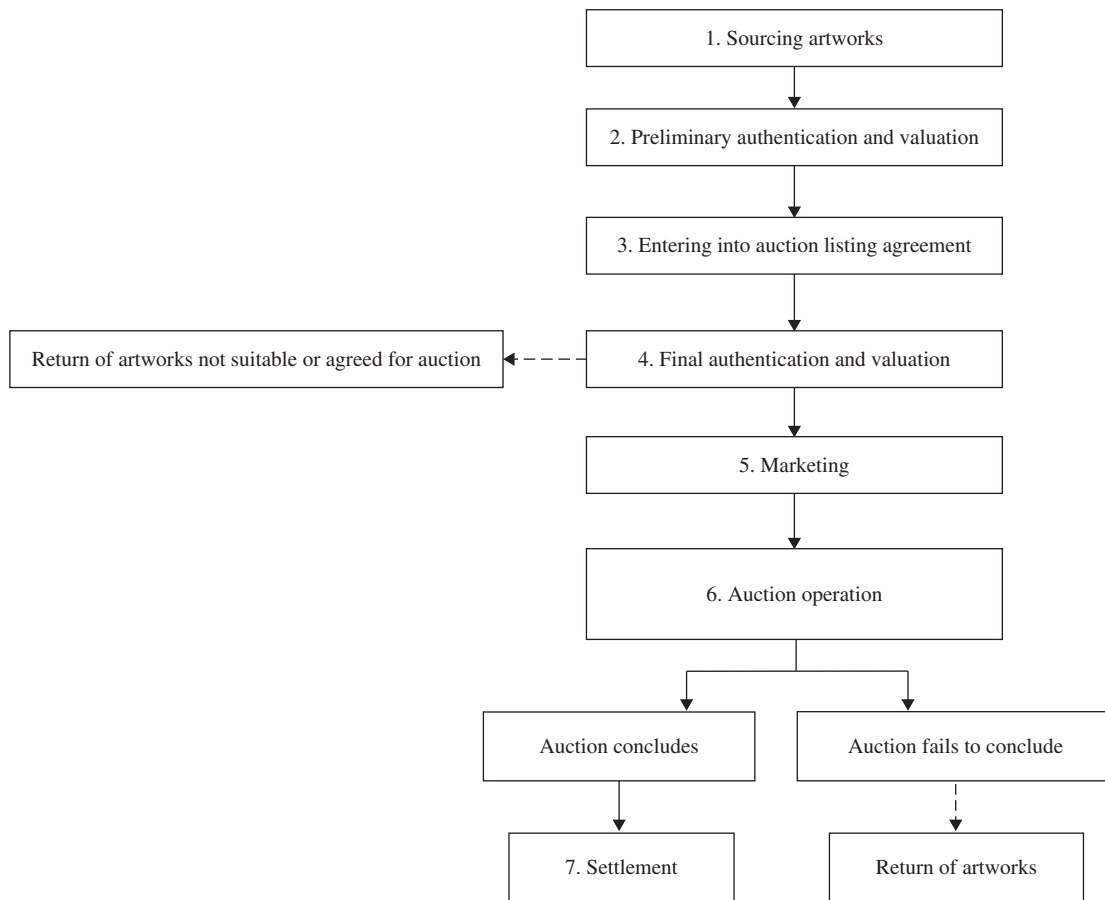
The respective total number of Zisha Artworks and Paintings and Calligraphies offered at our 2015 Autumn Auction slightly decreased from that of the 2014 Autumn Auction, the main reasons is that, we have first introduced Jewel Artworks as a new category of auction lot and the total number of auction lots offered in 2015 Autumn Auction in fact increased. As maintaining a competitive atmosphere is one of the important features for an auction, the duration of the auction should not be too long, therefore the number of other auction lots offered (i.e. Zisha Artworks and Paintings and Calligraphies) was reduced in order to control the duration of the auction.

The aggregate hammer price of the 2016 Spring Auction amounted to approximately RMB164.6 million, which was smaller than approximately RMB239.2 million of that in the 2015 Autumn Auction. This is primarily due to the relatively smaller scale (in terms of the total number of auction lots offered and sold) and the lower value of auction lots (in terms of the aggregate reserve price) of the 2016 Spring Auction. Further, as it was the business plan of our Group to introduce the Spring Auctions and online auctions beginning 2016 in order to expand our revenue base and reduce our reliability on a single principal art auction (i.e. the Autumn Auction) held each year, and that the targeted performance (in terms of aggregate hammer price achieved) of the 2016 Spring Auction was about 50% of that of the 2015 Autumn Auction, the Directors are of the view that the results or performance of the 2016 Spring Auction was better than expected and should not be directly comparable with those of the 2015 Autumn Auction (instead, a year-on-year comparison would be more appropriate).

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We strive to select and offer artworks of high value, with quality and high reception at our art auctions and it is our strategy to increasingly focus on distinct value artworks as our auction lots so as to attract more potential buyers and ensure success of our art auctions. According to F&S Report, it is anticipated that the market demand, popularity and growth in auction value of distinct value Zisha Artworks will be maintained in the foreseeable future. We will continue our effort to source distinct value artworks, in particular, Zisha Artworks in our future art auctions to achieve continual growth in our auction revenue. Further, as we start organising one more principal art auction (i.e. Spring Auction) and three to four online auctions annually beginning 2016, we expect the impact and pressure of seasonality on our auction revenue will be significantly reduced and we believe we are able to achieve stable growth and expansion in our art auction operation. However, we cannot guarantee the availability of high value and quality artworks for our art auctions. See the risk factor entitled “We are not able to predict the future trend of art auction market, the availability and popularity of artworks, which may materially and adversely affect our auction operations, thus the financial results of operations”.

The following chart sets out the main procedures of our art auction (including Spring Auction, Autumn Auction and online auction) operation.



## BUSINESS

### *1. Sourcing artworks*

We formulate our auction plan for the year at the beginning of a year. We source artworks mainly through private contact with existing clients and potential clients, including artwork interested parties in PRC. We have entered into 2, 2, 3 and 1 cooperation agreements with artwork interested parties for the Track Record Period. The parties to the cooperation agreements are mainly artwork interested parties including artists, masters, collectors, gallery and merchants of Zisha Artworks and Paintings and Calligraphies. The duration of cooperation agreements ranged from about three years to about six years. Under the cooperation agreements, the relevant artwork interested party agreed to provide consultancy services to us relating to market conditions and price trend of Zisha Artworks and Paintings and Calligraphies. Such artwork interested party would recommend Zisha Artworks and/or Paintings and Calligraphies for our art auction. We would assign priority to those recommended artworks but are not obliged to accept them for our art auction and we will not guarantee the sale of their recommended artworks. No service fee is payable by us to such parties under the cooperation agreements. Further, since 2011, we have set up a hotline through which potential consignors may contact us from time to time for items proposed to be offered for sale through our auctions.

In line with our expansion plan of organising more art auctions, as of the Latest Practicable Date, we signed a two-year artworks production and consignment agreements with eleven artwork artists and are in the course of negotiating with additional number of artwork artists for signing such agreement with us. All such eleven artwork artists with whom we signed the agreement are well-known Zisha artworks or Chinese ceramic artists of national level, among whom, one is Mr. Ji Yishun, one of our External Artwork Appraisal Experts. The other artists we are approaching or we intend to approach for cooperation shall be well-known Zisha artworks, Chinese ceramic, paintings and calligraphies and other artworks artists or masters of national level. Under such agreement, the artist undertakes to produce and consign to us for auction a minimum quantity of artworks for our Spring Auction and Autumn Auction every year. Such artists shall undertake that their artworks consigned to us shall be their new or recent products or products otherwise accepted by us and that their artworks would not involve in any money laundering and statutorily non-compliance matters. We are not obliged to accept his/her artworks for our auction and we do not guarantee the sale of his/her products in our art auction, however, his/her products shall be offered priority to other artworks of similar nature or category which are sourced by us in the same art auction. Under the said agreement, in the event that such artist's artwork is accepted as our auction lot, we agreed to promote such artwork as one of our important auction lots. No service fee is payable by us to the artist under the production and consignment agreements. Through such arrangement, our business relationship with such artists could be further enhanced. Further, we expect such arrangement is beneficial to securing the source of suitable artworks for our art auctions.

### *2. Preliminary authentication and valuation*

After sourcing a suitable artwork for auction from a potential consignor, we proceed with preliminary assessment, selection, authentication and valuation in accordance with our internal control procedures on artwork authentication and valuation.

Details of our internal control procedures on artwork authentication and valuation are set out in "Internal Control and Risk Management — Authentication and Valuation" below.

*3. Entering into auction listing agreement*

Based on positive results of our preliminary authentication and valuation, we negotiate terms of and (if agreed) sign the auction listing agreement with the consignor. Major terms of the auction listing agreement include title, quantity and description of the artworks for consignment (including specification of defects, if any), the preliminary auction reserve price (if any) and seller's commission rate. The auction listing agreement also contains ownership warranty clause by the consignor and the consent of the consignor to implement the artwork auction rules. The auction rules contain a disclaimer of our liability on the authenticity and/or defects of the auction lots and a clause that our Group has the right to reject at any time during a later stage, such consigned item being unsuitable for auction.

Upon signing of the auction listing agreement, we usually take possession of the consigned artwork which is kept in our storage facilities shortly before the auction is held. Pursuant to the auction listing agreement, we may be liable to indemnify the consignor any damage or loss of the consigned artworks which are under our custody unless such damage or loss is caused by force majeure event. During the Track Record Period, we have not experienced any disputes with or claims brought by our consignors in connection with damage or loss of the consigned artworks.

*4. Final authentication and valuation*

A final authentication and valuation of certain artworks is conducted by our External Artwork Appraisal Experts after we take possession of the consigned artworks. Artworks consigned by the artwork artists themselves are not subject to authentication by our External Artwork Appraisal Experts.

Currently, we engage five External Artwork Appraisal Experts divided into two teams for appraisal of Zisha Artworks as well as Paintings and Calligraphies respectively. Depending on the type of artwork, at least two external experts participate in the final authentication and valuation of a particular artwork before such artwork is accepted for auction.

Depending on the results of final authentication and valuation by our External Artwork Appraisal Experts, we may negotiate with the consignor for adjustment of auction reserve price (if necessary and as advised by our External Artwork Appraisal Experts). If the artwork is considered not suitable for our auction (for instance, we have doubt as to the authenticity of the artwork, or we believe that the particular item is of low market demand) or if the auction reserve price is not finally agreed with the consignor, we will return the artwork to the consignor. A list of auction lots will then be confirmed for a particular art auction.

Details of our internal control procedures on artwork authentication and valuation and the qualification of our External Artwork Appraisal Experts are set out in the sub-section headed "Internal Control and Risk Management — Authentication and Valuation" below.

5. *Marketing*

We conduct various marketing and promotional activities to stimulate market demand before auctions and to enhance our brand awareness from time to time. In recent years, we started to engage in marketing initiatives on the internet and social media. Major marketing and promotional activities include:

*Auction catalogue.* We produce and distribute self-designed auction catalogues for artworks consigned for our art auctions. Photos and description of each artwork, as well as expert opinion or comment on important or unique artworks are contained in the auction catalogue. The art auction rules are also set out in the auction catalogue. Starting from the 2015 Autumn Auction, our auction catalogues are also available in digital form which can be viewed on our Company's operation website at [www.cnartfin.com](http://www.cnartfin.com).

*Advertisement promotion.* We publish advertisements and marketing and auction information on newspapers, art magazines and/or internet (including our official website, other art website and social media platforms like WeChat).

*Preview exhibition.* We organise artwork preview exhibitions before art auction. Such preview exhibition is open to public and no entrance fee is charged. It usually lasts for two to three days prior to the particular art auction. For Spring Auction and Autumn Auction, preview exhibition is (and is planned to be) held in the same venue where such auction is organised.

6. *Auction*

During the Track Record Period, all of our Autumn Auctions and Spring Auction were held in hotels located in Yixing. Potential buyers who are interested in participating in the bidding are required to enroll for participation. Buyers need to provide relevant identity document, pay the bidding deposit, fill in the bidding registration slip (mainly sets out and acknowledges receipt of the amount of bidding deposit paid by the bidder), and sign the artwork bidding agreement (mainly sets out the buyer's commission and date of settlement, it also contains a disclaimer clause of our liability on the authenticity and quality of the auction lot) with us before we deliver a bidding paddle to the bidder. When an artwork lot is sold, we sign a sales confirmation agreement (mainly sets out title of auction lot, hammer price and buyer's commission rate) with the buyer on the auction site and arrange for settlement after the auction. If the bidding price is lower than the auction reserve price, the auction fails to conclude and we would return the artwork to the consignor. We also return bidding deposit or the remaining balance thereof (as the case may be), without interest, to unsuccessful bidders (or, where applicable, to successful bidders where the total settlement amount payable by them is less than the bidding deposit paid).

In the Autumn Auction held in December 2015, we allowed synchronised live bidding and on-site biddings for the first time. In addition, from 2016 onward, we plan to hold online auctions at a frequency of about three to four times per year, the first of which was held in January 2016. Each online bidder who has enrolled for participation of live bidding in Spring Auction or Autumn Auction is required to pay the same amount of bidding deposit payable by an on-site bidder. The amount of bidding deposit for online auction shall be determined according to the scale of the particular online auction. Although no written documents may be signed with online bidders who enroll for participation through the internet, those bidders are required to provide us with their personal information and to read and accept our online art auction rules through the internet before they are allowed to participate in and commence the online auction.

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### 7. Settlement

We charge buyers and sellers of artworks fixed commission rate of 12% and 8% respectively of the hammer price, irrespective of whether they buy and sell the artworks on-site or online. For each completed auction sale at art auctions, we are entitled to an aggregate commission at the rate of 20% of the hammer price.

As part of our internal control policy, we require buyers of artworks to settle the entire purchase price of the artworks (being the hammer price plus buyer's commission and deducting the bidding deposit) within seven days after the date of auction. To reduce the risk of default payment, we generally do not grant credit period for payment settlement. If the purchase price for an artwork is not fully settled by its buyer within seven days after the date of auction, we will commence chasing buyer for settlement. During the Track Record Period, the longest period for settlement was 31 days after the date of auction following our chasing actions through verbal demand by way of telephone call or physical visit. All revenue generated from art auctions held during the Track Record Period were fully settled. We have not engaged any third party debt-collecting agent nor have we commenced any legal action to demand for and collect payments from buyers.

We only deliver an artwork to its buyer after we have received full payment. Net sale proceeds (being the hammer price after deducting the seller's commission and the personal income tax equivalent to 3% of the hammer price) will subsequently be paid to the seller. Further, pursuant to our risk management policy, we do not make any payment to the consignor before the full amount of the purchase price for the artwork is received by us from the buyer.

### *Asset auction operation*

Apart from art auctions, we also organise auctions of assets including real estate, equity interest and automobiles. Consignors of assets for our asset auctions include Wuxi Courts, PRC governmental authorities, owners of State-owned assets and other private individual or corporate consignors.

The table below sets forth the breakdown of asset auction revenue for the periods indicated.

	FY2013		FY2014		FY2015		Six months ended 30 June			
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	2015 (RMB'000)	%	2016 (RMB'000)	%
<i>Asset auction revenue</i>										
Real properties	1,715	63.1	1,863	93.6	457	97.2	401	96.9	—	—
Equity interest <sup>(Note)</sup>	935	34.4	19	1.0	—	—	—	—	—	—
Automobiles and other assets	69	2.5	108	5.4	13	2.8	13	3.1	—	—
<b>Total</b>	<b>2,719</b>	<b>100</b>	<b>1,990</b>	<b>100</b>	<b>470</b>	<b>100</b>	<b>414</b>	<b>100</b>	<b>—</b>	<b>—</b>

*Note:* The asset auction revenue in connection with equity interest in the sum of RMB19,000 in FY2014 was compensation amount paid to us by Wuxi Courts due to its withdrawal of an asset auction for equity interest consigned to us.

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The table below sets forth the breakdown of the number of asset auctions held for the periods indicated.

	FY2013	FY2014	FY2015	Six months ended 30 June	
				2015	2016
<b><i>Number of asset auctions held</i></b>					
Wuxi Courts <sup>(Note)</sup>	19	13	—	—	—
State-owned assets owners allocated by Yixing Bidding Center	5	5	4	4	—
Other individual or corporate consignors	1	4	3	3	—
<b>Total</b>	<b>25</b>	<b>22</b>	<b>7</b>	<b>7</b>	<b>—</b>

*Note:* Other than Wuxi Courts, this also included one property located in Yixing consigned by Changzhou Qishuyan People's Court (常州市戚墅堰區人民法院) for our asset auction in 2013.

In terms of the total asset auction revenue for the three years ended 31 December 2015, a majority of the assets consigned for our auctions are real properties. Other assets which are consigned to us for auction include equity interests in enterprises and automobiles. We held 25, 22 and 7 asset auctions during FY2013, FY2014 and FY2015 respectively. The number of asset auctions held in 2015 significantly reduced mainly due to the commencement of utilising internet auction platform (for example, Taobao internet judicial auction platform (淘寶網網絡司法拍賣平台)) by courts in Jiangsu province (including Wuxi Courts) to sell judicial assets since 2014, and hence relying less on private auction houses to host on-site asset auctions. No judicial assets were assigned by Wuxi Courts to us for auction in 2015. For the six months ended 30 June 2016, no asset auction was held. Considering the market trend and our strategic development and focus on art auctions, we do not have any plan to organise pure on-site asset auction in the future because, among other factors, (i) we consider that our strategic focus on art auctions has been proven to be successful; (ii) as outlined above, with the introduction of the internet judicial auction platform, it is uncertain whether Wuxi Courts would consign judicial assets for our asset auctions in the future, and (iii) the commission rate for auction sale in art auctions are at least two times or more of that generated from asset auctions.

During the Track Record Period, operational logistics of our asset auctions were similar to those of our art auctions, other than the following features.

### *1. Sourcing assets*

Since March 2013, Hexin Auction has been designated by Wuxi Intermediate People's Court (無錫市中級人民法院) as its qualifying auction house. As of the Latest Practicable Date, we were the only auction house in Yixing city with the requisite qualification (i.e. AA-Grade) to organise auctions for judicial assets consigned by Wuxi Courts. Starting from 2009, we were also designated by Yixing Bidding Center as one of its auction houses to organise auctions for State-owned assets consigned through the center. We were also consigned by individual or corporate consignors who may visit our office or contact us through our business hotline for auction of their assets.



*2. Asset inspection, title verification and asset valuation*

After sourcing or identifying a suitable asset for auction, we conducted appropriate due diligence exercise against the consigned asset, including on-site inspection of real properties or other tangible assets, verification of authentication and completeness of title documents and ascertaining ownership of such assets.

Where assets for auction were consigned by Wuxi Courts, the auction reserve price was set out in the consignment letter or auction reserve price notification letter, while Yixing Bidding Center generally informed us about the auction reserve price through verbal communication. For consignment by a private consignor, we agreed with such consignor for an auction reserve price based on the results of our research on market price or our evaluation of the asset.

*3. Entering into auction listing agreement*

After satisfaction of the due diligence exercise, other than for judicial assets consigned by Wuxi Courts, we entered into an auction listing agreement with the consignor. For State-owned assets consigned to us through allocation by Yixing Bidding Center, we signed auction listing agreement with the owner of the State-owned assets. We did not sign auction listing agreement with Wuxi Courts or the original owner of the judicial asset. An auction listing agreement for asset auction contained detailed description of the asset for consignment, the agreed auction reserve price and (for private consignor) seller's commission rate, payment term and other terms required to be included under the applicable laws and regulations. The consignor also gave warranty under the auction listing agreement as to its good title and right of disposal of the asset.

*4. Auction announcement and asset inspection*

Prior to each asset auction, auction announcement setting out information of the auction and the asset shall be published on newspaper. We usually arranged tour for on-site asset inspection with interested buyers before the auction was held.

*5. Auction*

During the Track Record Period, auctions for assets consigned through Yixing Bidding Center were held at the auction room located in Yixing Bidding Center or in our headquarters, while other asset auctions were held in the auction room located in our headquarters.

Before the asset auction, an interested buyer was required to enroll for participation in the asset auction and to pay bidding deposit at a rate of about 10% of the auction reserve price of the subject asset. Operation of an asset auction was similar to that of an art auction. The bidding rules set out the rules for the conduct of asset auction, which included a disclaimer of our liability on defects of assets, (if any) buyer's commission rate and the deadline for the settlement of the hammer price by the buyer.

During the Track Record Period, asset auctions were held from time to time without any fixed timetable.

*6. Settlement*

For each completed auction sale at asset auctions, we are entitled to an aggregate commission at the rate ranging from 0.5% to 8% of the hammer price.

For asset consigned to us for auction by Wuxi Courts, according to the Regulations Regarding the Auction Sale of Assets under Civil Proceedings in People's Court promulgated by The Supreme People's Court of PRC (最高人民法院關於人民法院民事執行中拍賣、變賣財產的規定), we charged buyer of judicial asset a progressive commission rate ranging from 0.5% (where hammer price exceeds RMB100 million) to 5% (where hammer price is below RMB2 million) of the hammer price. For asset consigned to us for auction through Yixing Bidding Center, buyer's commission rate ranged from 2% to 5% of the hammer price, depending on the level of the hammer price (i.e. commission rate decreased progressively with higher amount of hammer price of the asset). For assets consigned to us for auction by other private customers, buyer's commission rate ranging from 2.5% to 5% of the hammer price.

A buyer was required to settle the entire purchase price of the asset (being the hammer price plus the buyer's commission and deducting the bidding deposit) within such payment date (which is usually set as five to seven days after the date of auction) as stipulated in the bidding rules. Buyers typically paid the hammer price to the seller and paid us the buyer's commission. During the Track Record Period, the average period for settlement was 33 days after date of auction following our chasing actions through verbal demand by way of telephone call or physical visit. All revenue generated from asset auctions held during the Track Record Period were fully settled. We have not engaged any third party collection agent nor have we commenced any legal action to demand and collect payments from buyers.

For any asset consigned to us for auction by Wuxi Courts and through Yixing Bidding Center, no commission was charged against the seller. We charged seller's commission for private seller at rate ranging from 1% to 3% of the hammer price.

The buyer and seller of the asset would typically arranged for the handover of assets and signing of relevant legal documents for the transfer and assignment of assets.

## **INTERNAL CONTROL AND RISK MANAGEMENT**

### **Overview**

Both of our art and asset pawn and art and asset auction businesses are subject to different levels of operating risks. We believe the core of our success relates greatly to our sound and effective internal control and risk management systems, through which we are able to identify, evaluate and manage various risks inherent to every step of our business operations. Our Board is at the highest level to supervise the overall operations of our internal control and risk management systems supported by our risk management committee and other working teams and committees of our separate business segment. We have also established two separate sets of internal control and risk management rules regulating the daily operations of our art and asset pawn and art and asset auction businesses.

Our risk management committee was set up in 14 October 2016 whose members currently consist of Mr. Chu Xiaoliang (chairman of the committee), Mr. Zhang Bin and Mr. Leung Shu Sun Sunny. The primary functions of the risk management committee include supervising the risk control measures in respect of the various types of risks in the operation of our business and supervising our risk

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management and internal control systems. For details of the functions of the risk management committee, please refer to “Directors and Senior Management — Board Committees — Risk Management Committee” of this prospectus.

### **Internal Control and Risk Management Policy for our Art and Asset Pawn Business**

We have adopted and implemented a comprehensive set of specific measures at every stage of our art and asset pawn operation from receiving loan application up to repayment of loan. Through such measures, we aim at managing and minimising the risk exposure of our art and asset pawn operation.

Set out below are the specific risk control measures we have established and put into practice for every stage of our art and asset pawn business.

#### *Specific risk control measures for every stage of our art and asset pawn business*

##### *Loan application*

We have formulated a checklist for information and documents to be obtained from loan applicants to process a loan application. Apart from basic information and documents we obtain from loan applicants, depending on the type of collaterals, we also request loan applicants to provide documents to prove and/or determine the ownership, authenticity, title and value of the collateral. For instance, for artworks and other personal property, we typically request previous private or auction transaction record and artist certificate (for Zisha Artworks); for real estate, we ask applicant to provide land use right certificate and building ownership certificate and for equity interest, we obtain filings and records retrieved from local branch of AIC, corporate record and financial statements.

We do not require third party guarantees for the pawn loans we grant as (1) under the Pawning Measures, where the appraised value of the collateral is RMB30,000 or more, the borrower is personally liable to pay us the shortfall if the proceeds from disposal of the collateral are insufficient to cover all outstanding amount owed to us, (2) we have stringent and well-established internal control and risk management systems in approving or rejecting loan applications, (3) the loan period is short and risk of significant deterioration of financial condition of borrower and/or value of collateral over such a short period is generally low, (4) we adopt prudent appraised loan-to-value ratios to reduce our risk exposure, in addition, for artwork collaterals, (5) we have an experienced team of internal authentication members and external experts to evaluate our artwork collateral, and we only accept good quality collaterals to secure our pawn loan, and (6) we believe our customers who offer artwork as loan collateral include artwork interested parties and entrepreneurs, and they usually have strong financial position and good credit history.

The amount and term of loan are usually proposed by loan applicant, subject to our approval pursuant to our internal control and risk management policy and the Pawning Measures. Pursuant to our risk management policy, we adopt the target appraised loan-to-value ratio for our artwork collateral of not exceeding 75% at the time of the collateral appraised. In accordance with the Pawning Measures, the maximum term for which property may be pawned is six months. A majority of the pawn loans we granted, in terms of the number of new loan transactions, have maturity dates in the range of one to three months from the drawdown date.

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### *Due diligence on loan applicant and verification and appraisal of collateral*

Due diligence on the loan applicant generally includes gaining an understanding, mainly through verbal enquiries with, paying visit to the applicant at his residence, working place or place of business and conducting available public searches of the applicant's background, financial strength, credit history, source of funds for repayment of the loan applied for, the intended usage of the loan, as well as assessing the significance of the loan to the applicant. For corporate applicant, it is a general practice to carry out further due diligence on its business and financial positions. In addition, we also conduct preliminary verification and fact finding exercises to ascertain whether the loan applicant has definitive ownership, title and/or right over the collateral and whether he has the legal right or authorisation to deposit and dispose of the proposed collateral.

The above preliminary assessment is mainly conducted by our loan operating officers, subject to substantial review and approval by higher level management and relevant departments as discussed below. We provide on-job training to our loan operating officers on risk management, conducting preliminary due diligence on loan applicants, and verification and appraisal of artworks.

We have adopted standardised procedures in verifying, valuing and appraising each type of our collateral. The following verification and appraisal procedures are applicable to various types of collaterals:

#### Artwork collateral

Verification, valuation and appraisal of artwork collateral are conducted by a team of internal authentication members and external experts. Such team is divided into two different units which are responsible for appraisal of Zisha Artworks as well as Paintings and Calligraphies respectively. For details of the qualification of the authentication members and experts and the artwork authentication and valuation workflow, please refer to the paragraph headed "Authentication and Valuation" below.

In accordance with our operation manual and risk management policy, we also require each loan applicant to give us a written undertaking on authenticity of the artwork as well as the legality of the source of the artwork and the loan applicant's ownership of the artwork.

#### Real estate collateral

Original definitive proof of ownership, title and/or right over the real estate (such as land use right certificate and building ownership certificate) shall be provided by the loan applicant. We will pay on-site visit to the real estate to ascertain its existence and to verify its status. We also verify the ownership and title of the loan applicant on the real estate by conducting public searches in the local real estate registrar office. We do not accept real estate collaterals which are subject to existing mortgage or third party right. Valuation of real estate collateral is conducted by a combination of steps of assessing the condition of the collateral based on physical inspection and obtaining market information including liquidity of the real estate, current comparable market price and transaction volume of similar or nearby properties from various sources such as real estate trading centers, realtors, websites providing real estate market transaction data and advertisements.

Personal property collateral

During the Track Record Period, we accepted gold, platinum, precious metal ornaments and jewellery ornaments as our asset pawn loan collaterals. Pawn loan applicants are requested to provide previous transaction records to substantiate the ownership of the property. Those documents may also contain historical purchase price and can be used as a reference to determine the appraised value of the property. We also require each loan applicant to give us a written undertaking on the authenticity and the legality of the source of the personal property and the loan applicant's ownership of such personal property. We have employed an internal expert who possesses the qualification to appraise and evaluate jewellery ornaments. Appraised value of personal property is generally determined based on a combination of our internal evaluation result, previous transaction price (if available) and prevailing market price (for instance, gold and platinum).

Equity interest collateral

Equity interest collaterals we accepted so far were equity interest in private enterprises. We will pay on-site visit to the enterprise whose equity interest is the proposed subject of the pledge in order to understand the operations of the enterprise. We also retrieve the records from local branch of AIC to verify the ownership and right of the loan applicant on the equity interest. We do not accept any equity interest collateral which is subject to existing charge or third party right. Appraised value of non-listed equity interest collateral is mainly determined based on the net asset value of the enterprise as reported in its most recent financial statement filed with the AIC and/or other financial data provided by the applicant with suitable liquidity discount for such non-listed equity interest. We also take into consideration the operating information (such as nature of business, scale of operation and goodwill of the enterprise) and the identity and credibility of loan applicant.

*Loan approval and loan rejection*

Depending on the amount of loan applied for, we have established a hierarchy for loan approval, which is applicable to both initial loan application and renewal of loan. Each level of personnel or department responsible for loan approval has specific duties and scope of work.

Review and approval by loan business department

The loan business department generally cross-checks the evaluation results with the underlying sources of information. Major duties of our loan business department in the loan approval process include:

1. ascertaining the eligibility, and conducting due diligence exercise on the loan applicant and whether the loan applicant has the legal right or authorisation to pledge and dispose of the proposed collateral;
2. ascertaining the authenticity, completeness and sufficiency of and reviewing the documents provided by the loan applicant;
3. analysing the reasonableness and acceptability of the appraised value of the collateral, amount and term of loan applied for and other information pertaining to the loan application;

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4. for real estate, equity interest and other collaterals where pledge registration is available or legally required, overseeing the completion of the pledge registration process and our retention of the collaterals or title documents after a loan is approved but before the loan amount is released to the borrower.

### Review and approval by finance department

During the loan approval process, our finance department is mainly responsible for ascertaining whether our Group has sufficient capital to grant the loan amount if approved. It also reviews and ensures that the appraised loan-to-value ratio of the loan is within the range of the target threshold as prescribed by our risk management policy.

### Review and approval by risk management department

Loan application is then subject to the third level loan approval process by the risk management department, which is mainly responsible for performing the following functions:

1. ascertaining internal policy and legal compliance, for instance, whether the amount and term of loan applied for, the type of collateral and the planned use of loan proceeds are in compliance with various PRC laws and regulations. In particular, compliance with various thresholds mandated by the Pawning Measures will be cross-checked;
2. analysing and verifying the information for the loan application, the completeness and reliability of documents, identifying suspicious application from the risk management perspective;
3. analysing and setting out the major risks involved in the loan application, providing advice and recommendation on adoption of appropriate risk management measures, offering risk evaluation opinion and monitoring the implementation of risk control measure; and
4. categorising various types of risks and proposing recommendation to manage and supervise loan monitoring and follow-up actions.

As of the Latest Practicable Date, the risk management department comprised three employees. The deputy head of the department possesses legal and public service related experience and has worked in Yixing People's Court for about thirty years, served as judge and division head of the enforcement division (deputy level).

### Review and approval by general manager

Mr. ZJ Fan, in his capacity as the general manager of Hexin Pawn will conduct a high-level review on each loan application who will give the final approval or rejection (as the case may be) of each loan application whose principal amount is less than RMB1 million, and he may, subject to legal compliance, determine the approved amount and term of loan and other conditions for the loan application. For details of Mr. ZJ Fan's biography, please refer to "Directors and Senior Management" of this prospectus.

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Review and approval by risk control committee

Applications for every Substantial Loan is subject to the final review and approval by our risk control committee. Our risk control committee comprises three members, namely, Mr. Jiang Caijun (蔣才君), Mr. Gu Weikang (顧衛康) and Mr. Cui Xiongzhi (崔雄志). Apart from Mr. Jiang Caijun, the remaining two members of the risk control committee are external consultants engaged by us.

The table below sets forth relevant experience and background of members of our risk control committee:

<b>Name</b>	<b>Position</b>	<b>Experience</b>
Jiang Caijun	Chief Risk Control Officer	Mr. Jiang has worked in the banking industry, mainly responsible for handling general banking transactions and loan services, for about 20 years before he joined our Group in early 2015. For details of Mr. Jiang's biography, please refer to "Directors and Senior Management" of this prospectus.
Gu Weikang	External risk control consultant	Mr. Gu obtained a Bachelor's degree in law from Nanjing University, PRC in July 1993 and is currently a partner of a PRC law firm. He has over 20 years' experience in legal practice in PRC.
Cui Xiongzhi	External risk control consultant	Mr. Cui has worked in the banking and finance industry, mainly responsible for handling general banking transactions, loan and finance guarantee services, for over 30 years.

The risk control committee is an independent functional unit of Hexin Pawn, and its major function is to give the highest level review and assessment of every application for Substantial Loan. Based their views and decisions on all the reports and documents provided and endorsed by the relevant departments and general manager, the said committee's main focus is to evaluate loan applications of Substantial Loan and ensure their compliance with laws and our internal control and risk management policy. The risk control committee also examines the findings and reports on risk evaluation conducted by the risk management department and analyses the reasonableness and sufficiency of such department's advice and recommendation on risk control measures. When necessary, the risk control committee also offers further advice and recommendations aimed at controlling and minimising the operating risks for our pawn loan business. Each member of our risk control committee has the right to veto a Substantial Loan application at his sole discretion. Written approval for granting the loan must be obtained from all three members of our risk control committee before the loan application may be further processed.



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### Rejection of loan applications

During the Track Record Period, we rejected a total of 103 cases for loan applications (inclusive of initial and renewal loan applications), representing approximately 6.8% of the total number of loan applications (inclusive of initial and renewal loan applications) received, among which 91 were initial loan applications and the remaining 12 were applications for loan renewal.

We generally refuse to grant a pawn loan (or its renewal) on any one or more of the following grounds:

- we are in doubt of the authenticity of the collateral or the collateral is materially defective;
- the appraised loan-to-value ratio exceeds the target threshold and either (1) the applicant is not able to provide additional collateral or (2) a lower amount of loan applied for is not accepted by the applicant;
- the applicant is found to have provided us (or there is reasonable ground for us to believe that such applicant has provided us) with any unreliable, misleading or deceitful information during the application process;
- the applicant is not proven to have sufficient financial resources to repay the loan;
- the applicant proposes to use (or there is reasonable ground for us to suspect that the applicant will use) the loan for any unlawful activities, businesses or investments or that the applicant's source of funding for repayment is suspected to be unlawful;
- the applicant is identified to have a poor credit record from our credit record system. For instance, such applicant was a previous client who has delayed or failed to make repayment;
- the applicant is identified to have a poor reputation in the society or industry, or has any record of illegal activities or is involved in any major unresolved civil lawsuits or economic disputes.

### *Post approval formality*

Our operation manual sets out steps to be taken after approval of the loan application is granted and prior to the release of loan, including the execution of pawn documentation, registration of collaterals (if available) and taking possession of collaterals or title documents.

As advised by our PRC Legal Advisers, under the applicable PRC laws and regulations, the registration of the pledge of certain types of collaterals (including real estate and equity interest collaterals) is required to ensure our priority in claims over the collateral and in order for the collaterals to be directly auctionable or saleable through application to PRC courts, while the registration of the pledge of other types of collaterals (such as artwork) is not required and the collaterals would already be directly auctionable or saleable through application to PRC courts. For the pledge of real estate or equity interest of an enterprise, a pledge or charge agreement will be made between the borrower (or collateral provider) as pledgor and Hexin Pawn as pledgee, and registration of the pledge with the relevant competent department shall be effected.



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As a measure of our risk management policy, before the loan is released and during the term of the loan, artwork and personal property collateral shall be delivered to and retained by us and for real estate or equity interest, the original ownership or title certificates and documents as well as registration document or certificate of the pledge shall be deposited with us and kept under our custody.

During the Track Record Period, we completed registration of pledges over all the collaterals where registration is required.

### *Loan monitoring*

We have formulated procedures in monitoring the financial conditions of the borrower as well as the value and condition of the collateral during the loan period.

We monitor outstanding loan by obtaining regular updates on the borrower's financial conditions and monitoring the value of the artwork collateral, both through direct contact with the borrower and publically available information. For loans the term of which exceed one month, we make contact with or visit the borrower on a monthly basis. Contact or visit is also made with the borrower whose loan repayment is about to be due in the forthcoming days, in order to remind timely repayment. We also obtain up-to-date market information from auctions or private transactions similar to our artwork collaterals to monitor their value.

To monitor the condition, usage and value of real estate and equity interest collaterals, we will visit the subject real property and the enterprise whose equity interest is pledged on a monthly basis to obtain up-to-date market information and value of our collaterals. For real estate and other personal property collaterals, information on liquidity, current comparable market price and transaction volume from various sources (such as real estate trading centers, websites and advertisements) will be gathered.

If we discover any adverse change to the financial condition of the borrower, reduction of value of the collateral, or other circumstances that may adversely affect the collectability of our outstanding loan receivables, as a matter of client relationship, we will usually discuss with the relevant borrower regarding the ways to resolve the matters before any enforcement action is taken. Resolutions generally include, (1) where the loan has not yet been due, (aa) closer or more intensive monitoring actions over the borrower will be taken or (bb) where the value of the collateral has significantly deteriorated, the borrower will be required either to repay a portion of the outstanding principal amount or to provide additional collateral to maintain the appraised loan-to-value ratio at the level within the range of the target threshold for the relevant collateral in accordance with our risk management policy, (2) where the loan has been due, (xx) subject to our policy on granting of renewed loan as outlined below, allowing for a renewal of the loan for borrower with good credibility, solid financial strength but merely in temporary financial difficulty and is able to pay interests and fees, (yy) requesting the borrower to repay a portion of the outstanding loan amount with the remaining be renewed under our renewal policy or repaid in such installments as agreed between us and the borrower, or (zz) demanding immediate repayment of outstanding loan and accrued interests and fees, if any. As the loan period of our loans is generally short, the chance of significant deterioration of value of the relevant collateral during loan period is relatively low.

Under our risk management policy for loan monitoring, we conduct a monthly stock take on the collaterals and title documents or certificates of collaterals which are kept under our custody.

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Starting from 2015, we have engaged Jiangsu Artwork Appraisal Center to conduct valuations of selective high-valued artwork collaterals which are under our custody at the time of valuation, in order to review and determine the aggregate and individual values of those artworks collaterals and the corresponding loan-to-value ratios on an annual basis. The valuation was conducted on the batch of the high-value artwork collaterals which were selected for the appraisal by Jiangsu Artwork Appraisal Center generally on the following bases: (a) artworks collaterals were shortlisted for valuation from the highest appraised value (as shown on the pawn ticket) in descending order; (b) the top 20 pieces of collaterals with the highest appraised value must be selected for valuation; (c) the total appraised value of collaterals selected for valuation shall not be less than 50% of the total appraised value of collaterals for all outstanding loan and (d) the total number of collaterals selected for valuation shall not be less than 15% of the total number of collaterals for all outstanding loan.

For the valuation conducted by Jiangsu Artwork Appraisal Center in January 2016, a total of 34 pieces of artwork collaterals were subject to valuation, including 22 pieces of Zisha Artworks and 12 pieces of Paintings and Calligraphies, representing approximately 20.5% of the total number of artwork collaterals which were under our custody to secure loan outstanding as of 31 December 2015. The aggregate appraised value of collaterals (as shown on the pawn tickets) subject to re-valuation amounted to approximately RMB93.63 million, representing approximately 75% of the total appraised value of collaterals for loan outstanding as of 31 December 2015. The aggregate value of those collaterals amounted to approximately RMB98.15 million according to the valuation reports issued by Jiangsu Artwork Appraisal Center.

For the valuation conducted by Jiangsu Artwork Appraisal Center in July 2016, a total of 38 pieces of artwork collaterals were subject to valuation, including 28 pieces of Zisha Artworks and 10 pieces of Paintings and Calligraphies, representing approximately 14% of the total number of artwork collaterals which were under our custody to secure loan outstanding as of 30 June 2016. The aggregate appraised value of collaterals (as shown on the pawn tickets) subject to re-valuation amounted to approximately RMB294.5 million, representing approximately 70% of the total appraised value of collaterals for loan outstanding as of 30 June 2016. The aggregate value of those collaterals amounted to approximately RMB295.9 million according to the valuation reports issued by Jiangsu Artwork Appraisal Center.

In 2016 and beyond, we plan to conduct such revaluation on a semi-annual basis or more frequently if there is any material change in circumstances related to the pawn loans granted and/or value of the collaterals. Jiangsu Artwork Appraisal Centre is the first artwork appraisal and valuation institution in Jiangsu province. It was set up by the Jiangsu Culture Department and comprises more than twenty artwork experts of the Jiangsu province to provide artwork authentications and valuation services. Jiangsu Artwork Appraisal Center entered into a long-term consultancy agreement with Hexin Pawn on 1 January 2016 for providing authentication, appraisal and valuation services of artworks including ceramic (such as Zisha Artworks), Painting and Calligraphies as our loan collaterals, at an agreed service fee.

*Loan renewal*

A borrower may apply for renewing a pawn loan before or within five days after expiration. Pursuant to the Pawning Measures, a borrower is required to apply for a loan renewal within five days after the expiration of the loan, or otherwise the loan becomes overdue unless it is repaid in full.

Upon receiving a loan renewal application, we will ascertain with the borrower the reason for the renewal application and the possible source of fund for the repayment and we will also review and reassess the renewal application as to whether the same terms and conditions for the initial loan would be applicable to and adopted for the proposed renewed loan. Loan renewal approval process is subject to substantially the same approval process as for a new loan, and all our internal control and risk management policy and measures on granting of a new loan are equally applicable to the loan renewal application. During a renewal application review, focus will be placed more on reviewing and ascertaining compliance with the Pawning Measures and other applicable rules and regulations, as well as our internal risk control policy, change in value of the collateral and change of financial conditions of the borrower. Before the renewal application is approved, the artwork collateral will be re-evaluated in order to ascertain the appraised loan-to-value ratio is within the range of the target threshold.

We only grant renewal of loans to borrowers who can demonstrate good credibility and financial strength with continued needs for the loan for legitimate purpose and whose outstanding amounts were sufficiently secured by the collateral. Before the renewal is approved, the full amount of the composite administrative fee chargeable for the renewal loan has to be settled in advance by the borrower. If it is revealed that the borrower's financial condition or the value of collateral has deteriorated significantly as compared with the situation or condition in the previous application(s) and where the borrower fails to provide additional collateral to maintain the appraised loan-to-value ratio at the level within the range of the target threshold for the relevant collateral, we will reject the renewal application and demand immediate repayment of all outstanding amount, even if the renewal application otherwise satisfies all criteria for approval of a new loan.

Depending on the tenure of the renewed loan as requested by the borrower at time of the renewal application which is subject to our approval, loan period for a renewed loan may not be the same as the initial loan period. Other than the loan period, substantially all other terms and conditions (including the applicable rate for the composite administrative fee) for a renewed loan are the same as those for its initial loan on the basis that the principal amount of the initial loan and the renewed loan is the same and such loan is secured by the same collateral which valuation (as evaluated by us) remains unchanged at time of the renewal application.

In accordance with the Pawning Measures, the maximum term for a pawn loan for each renewal is six months. However, no restriction is imposed under the Pawning Measures or other relevant laws or regulations on the aggregate maximum term for a pawn loan or on the number of times the same loan can be renewed. Notwithstanding the statutory flexibility, each renewal is subject to our loan renewal approval process as outlined above and we only allow repeat renewals upon our satisfactory evaluation on a case-by-case basis. In line with the industry practice of PRC pawn companies as advised by Frost & Sullivan, we do not set any cap or restriction on the total tenure of each loan (covering the tenure of initial loan and all renewed loan(s) if any) and/or the total number of renewals for each loan.

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### *Loan repayment and disposal of collateral*

We have set up detailed steps to demand and collect overdue loans and dispose of collateral.

If a borrower repays all the principal amount and also pays composite administrative fee in accordance with the terms of the pawn ticket, the collateral will be released and the loan transaction will be treated as discharged. We will generally contact the borrower whose loan repayment is about to be due in the few days before its maturity, in order to remind timely repayment of loan in accordance with the terms of the pawn ticket. Where loan is not renewed within five days after expiration of the loan and is not repaid in full, the loan becomes overdue.

We generally implement the following steps to demand and collect overdue loans. First, we will monitor the outstanding loans on a daily basis and contact the borrower by phone to demand repayment of any overdue amount of the loan, including overdue composite administrative fee. Second, if no repayment is made within the next few days, we will make personal visit to the borrower during which enquiries will be made with the borrower as to the reason for non-payment or delay repayment. If it is revealed that the borrower's financial condition or the value of collateral has deteriorated significantly as compared with situation or condition in the previous application(s) or if it is considered there is a risk that the loan may not be collected, we may demand immediate repayment and initiate the necessary procedure for collateral repossession and disposal. Conversely, if we consider there are continued needs for the loan for legitimate purpose, we may suggest the borrower to make a formal application for renewal of the loan or to propose a repayment schedule of the amount due. The renewal application or repayment schedule is subject to our normal loan renewal procedure. Finally, if the loan which is not renewed is still not repaid on repeated demands or if the borrower fails to follow the repayment schedule, the loan is treated to be in default, and we will initiate legal proceedings, including engaging external legal counsel to issue a demand letter followed by taking legal actions if full repayment is not made before the given deadline set out in the demand letter.

Pursuant to the Pawning Measures, where the appraised value of the collateral is less than RMB30,000, the creditor can directly dispose of such collateral by any method at its discretion, and any profit or loss resulting from such disposal will be taken up by the creditor. During the Track Record Period, we had not undertaken any disposal of collateral (whether artwork or non-artwork collaterals) with appraised value of less than RMB30,000 because all relevant loans were repaid and settled.

Where the appraised value of the collateral is RMB30,000 or more, the collateral may be disposed of pursuant to the Security Law of PRC or by way of auction as agreed between the creditor and the borrower in advance through an auction house appointed by the creditor. Any excess proceeds from the auction will be returned to the borrower after deducting the principal amount of the loan, accumulated and accrued interest and fees as well as expenses related to the auction. The borrower may however be claimed against payment for shortfall. Pursuant to the Security Law of PRC, in order to recover the outstanding loan amount of an overdue loan, we are entitled (but not obliged) to enter into an agreement with the borrower to convert the collateral into value or arrange for an auction or sale of the collateral which is deemed forfeited when the loan becomes overdue. If such agreement cannot be reached, we have the right to initiate legal proceedings to repossess and dispose of the collateral to recover the outstanding amount. Commencing from early 2016, we request our borrower to provide written consent and authorisation for us to dispose of the collateral by way of auction through an auction house to be appointed by us without going through any legal proceedings.

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During the Track Record Period, when the loan became overdue, we were able to receive full repayment of the principal amount of the loan and accrued composite administrative fee through verbal demand by way of telephone call or physical visit, other than one borrower involving aggregate principal amount of RMB9 million which repayment was collected with the aid of legal proceedings. For details of the legal proceedings, please refer to “Legal Proceedings” below. During the Track Record Period, we did not engage external collecting agents for collection of loans, as we have not experienced any substantial difficulty or resistance from borrowers when we took steps to collect overdue loans.

The above legal proceedings took about three months to conclude and the entire procedure from commencement of legal proceedings, sale of the collateral by way of auction up to recovery of settled amount took about two years. However, we expect the necessary procedure and time required for disposal of collateral in the future could be simplified and shortened to about 90 days to proceed with an auction sale of the collateral for those borrowers who have given us a written consent for us to dispose of the collateral by way of auction without going through any legal proceedings.

### *Credit risk management*

In operating our art and asset pawn business, credit risks faced by us include defaults of loans and/or deterioration of value of collateral. These have adverse impact on us due to borrowers’ failure or delay to repay loan and other overdue amount and/or insufficiency of proceeds generated from disposal of collaterals to cover the total outstanding amount owing to us. As outlined above, we have established and are implementing specific risk management measures at different stages of our loan operation. We also monitor the ageing of our loans and account receivables to identify any possible credit risks we may confront.

To reduce and control credit risks in connection with default of loans, we adopt a multi-level loan approval procedures to ensure that loans are secured by collateral of good value and quality and we only granted to borrowers with healthy financial background.

To monitor credit risks concerning possible deterioration of value of collateral, we put in place stringent procedures and policies in authentication and appraisal of collaterals. We adopt prudent appraised loan-to-value ratios to reduce our risk exposure. During the loan period, our loan monitoring actions are conducted against the conditions and value of the collaterals, in particular, we pay regular visit to collaterals including real properties and enterprises whose equity interests are pledged to us and obtain updated financial statements of the subject enterprises. Further, starting from 2015, as a step to further enhance our internal control and risk management systems, our Group has engaged Jiangsu Artwork Appraisal Center to conduct valuations of high-valued artwork collaterals on at least an annual basis. During the loan period, we also perform on-going monitoring actions on borrowers to obtain updates of or be acquainted with the borrowers’ then financial conditions.

If any material adverse change to the financial conditions of the borrowers and/or reduction of value of the collaterals or other circumstances that may negatively affect the collectability of our outstanding loan receivables are identified during the loan monitoring stage, we will take appropriate risk control measures under our internal control policy.

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During the Track Record Period, we did not experience any material defaults in repayment from our customers other than one borrower with aggregate principal loan amount of RMB9 million, which was secured by real estate collateral. For details of the legal proceedings taken in connection with such defaulted loan, please refer to “Legal Proceedings” below.

### *Liquidity risk management*

In operating our art and asset pawn business, we face liquidity risk including the possibility that we become unable to maintain sufficient reserves of cash to meet our liquidity requirements and that we are unable to meet our financial obligation as they fall due.

During the loan approval process, our finance department is mainly responsible for ascertaining whether our Group has sufficient capital to grant the loan amount if this is approved and whether the appraised loan-to-value ratio of the loan is within the range of the target threshold as prescribed by our risk management policy.

Our finance department is also responsible for managing liquidity as we aggregate and manage all our pawn loan at headquarters. Centralised management of our pawn loan services gives us a better understanding of our liquidity and enables us to utilise our equity capital efficiently, which in turn enables us to reduce our overall liquidity risk and achieve high efficiency in capital utilisation.

We continuously monitor our current and expected liquidity requirements as well as our cash and receivables in order to ensure that sufficient liquidity is maintained to meet our liquidity requirements. In the management of liquidity risk, our management monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance our operations and mitigate the effects of fluctuations in cash flows.

### *Compliance and legal risk management*

Our risk management department is primary responsible for ascertaining legal compliance, for instance, whether we (in particular, Hexin Pawn) have obtained and maintained all necessary licences and permits for our operation, whether the amount and term of loan applied for, the type of collateral and planned use of loan are in compliance with various PRC laws and regulations (such as the Pawning Measures, Property Law, Security Law, and Contract Law). Further, compliance with various thresholds prescribed under the Pawning Measures (such as the maximum rates for composite administrative fee and the maximum aggregate amount of loans which may be granted to a single customer) will be cross-checked by the risk management department.

In addition, during the Track Record Period, we have also engaged an external qualified PRC law firm to give us legal advice on various aspects in relation to our operation.

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### *Market risk*

We may suffer losses due to market factors including general economic recessions, unanticipated changes in the market interest rates, natural disaster, political turmoil or terrorist attacks, which would affect the overall performance of our art and asset pawn operation. We keep track of the key economic indicators (such as interest rates and any adverse economic trends), governmental policies, and any factors affecting the market from time to time so that we may stop granting or reduce the amount of the loans. We also closely monitor the operation of each loan transaction so that we could adopt adequate measures to minimise our loss due to market risk.

### **Authentication and Valuation**

Our collateral portfolio for our art and asset pawn business mainly comprises artwork. For our art and asset auction business, we focus mainly on art auction. Our artworks portfolio comprises substantially Zisha Artworks, Paintings and Calligraphies. A well-established internal control system and policy especially on authentication and valuation of artworks is therefore of utmost importance to our business. As the authentication and valuation of artworks are mostly rely on the subjective judgment of our management and experts, we devote plenty of resources in establishing solid internal control and risk management systems in artwork authentication and appraisal and in building up a strong management and expert team for the evaluation of artworks. We would also seek consultation and confirmation with living artists to verify artworks that were claimed to be their products if our internal authentication members and external experts are in doubt as to the authenticity of such artworks.

### *Working team and experts for authentication and valuation of artworks*

During the Track Record Period, authentication and valuation working team for our art pawn loan and art auction operations comprised seven members, three of which were Internal Artwork Appraisal Team and four were External Artwork Appraisal Experts. In March 2016, we engaged Mr. Bao Zhiqiang (鮑志強) as our additional External Artwork Appraisal Expert. The external experts are divided into two teams for appraisal of Zisha Artworks and Paintings and Calligraphies respectively. The table below sets forth those members' and experts' respective background and experience in artworks authentication and valuation:

#### *Internal Artwork Appraisal Team*

<b>Name</b>	<b>Position</b>	<b>Experience</b>
Mr. ZJ Fan (范志軍)	Chairman, executive Director and Chief Executive Officer	In December 2009, Mr. ZJ Fan was appointed as the vice-chairman of Jiangsu Xu Beihong Research Committee (江蘇省徐悲鴻研究會). Since our Group commenced artwork-related operations in about 2009, Mr. ZJ Fan has participated in the authentication and evaluation of artworks involved in our businesses.



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<b>Name</b>	<b>Position</b>	<b>Experience</b>
Mr. ZX Fan (范志新) (brother of Mr. ZJ Fan)	Chief Operations Officer	<p>Mr. ZJ Fan and Mr. ZX Fan were born in an art family. Their uncle, Mr. Fan Baowen (范保文) was a master of Chinese landscape painting. Mr. ZJ Fan and Mr. ZX Fan have accumulated years of interest and knowledge on authenticating and appraising Chinese artworks in particular, Zisha Artworks as well as Paintings and Calligraphies. Since he joined our Group in May 2010, Mr. ZX Fan has participated in the authentication and evaluation of artworks involved in our businesses.</p> <p>Detailed biography of each of Mr. ZJ Fan and Mr. ZX Fan is set out in the section headed “Directors and Senior Management” of this prospectus.</p>
Mr. Liang Bo (梁波)	Head of auction business division	Mr. Liang has accumulated around 7 years’ experience in conducting research, authenticating and appraising Chinese artworks (including Zisha Artworks, Paintings and Calligraphies). He joined Hexin Auction in August 2011 and has been responsible for artwork sourcing and appraisal.

Incorporated in June 2002, Yixing Ceramics Association (宜興市陶瓷行業協會) is a non-profit making social organization, voluntarily formed by Yixing ceramics enterprises, relevant business units and individuals. Its functions include organising technical training and professional knowledge education for the Chinese ceramics industry, organising cultural and commercial activities in connection with Chinese ceramics, etc. Yixing Ceramics Association has confirmed that each of Mr. ZJ Fan and Mr. ZX Fan has participated in seven training courses on authentication and evaluation of Zisha artworks (including the type of Zisha Artworks relate to our businesses) during 2003 to 2015 and that Mr. Liang Bo has participated in four training courses on authentication and evaluation of Zisha artworks (including the type of Zisha Artworks relate to our businesses) during 2009 to 2015 and that each of them has possessed related knowledge in authenticating and evaluating Zisha artworks.

Incorporated in 2001, Jiangsu Xu Beihong Research Committee (江蘇省徐悲鴻研究會) was set up to study and promote contemporary art with the artistic ideology of Xu Beihong. It organises galleries, exhibitions, forums and courses and other cultural activities for Chinese paintings and calligraphies. Jiangsu Xu Beihong Research Committee has confirmed that each of Mr. ZJ Fan and Mr. ZX Fan has participated in six training courses on authentication and evaluation of contemporary and modern paintings and calligraphies (including the type of Paintings and Calligraphies relate to our businesses) during 2002 to 2015 and that Mr. Liang Bo has participated in four training courses on authentication and evaluation of contemporary and modern paintings and calligraphies (including the type of Paintings and Calligraphies relate to our businesses) during 2009 to 2015 and that each of them has possessed related knowledge in authenticating and evaluating contemporary and modern paintings and calligraphies.



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Such training courses organised by Yixing Ceramics Association and Jiangsu Xu Beihong Research Committee and in which Mr. ZJ Fan, Mr. ZX Fan and Mr. Liang Bo have participated generally lasted for two to three days, which offered latest market news and value of the relevant artwork, organised professional knowledge and technical training courses on authenticating, appraising and evaluating Zisha artwork and paintings and calligraphies. Such courses were lectured by well-known Zisha or paintings and calligraphies (as the case maybe) masters, scholars or experts, including Mr. Xu Xiutang (徐秀棠) and Mr. Lu Xiaochen (呂曉臣) (for Zisha artworks), as well as Mr. Xiao Ping (蕭平) and Mr. Xu Jianming (徐建明) (for paintings and calligraphies).

### *External Artwork Appraisal Experts — Zisha Artwork team*

The Zisha Artwork team of our External Artwork Appraisal Experts comprises three individual members.

Each of our External Artwork Appraisal Experts of the Zisha Artwork team is a member of the China National Arts and Crafts Society (中國工藝美術學會).

<b>Name</b>	<b>Experience</b>
Ms. Wang Yinxian (汪寅仙)	Ms. Wang was awarded with the title of Chinese arts and crafts master (中國工藝美術大師) as assessed by the third session of adjudication committee of the Chinese arts and crafts master, with the certificate of such award be issued by China Light Industry Association (中國輕工總會) (now known as China National Light Industry Council (中國輕工業聯合會)) in 1993. She is currently a consultant of Yixing Zisha Art and Culture Research Committee (宜興紫砂文化藝術研究專委會) and was a vice president of Yixing Zisha Research Institute (宜興紫砂研究所) and has accumulated many years' experience in the research and authentication of Zisha artwork.
Mr. Ji Yishun (季益順)	Mr. Ji was awarded with the title of Jiangsu arts and crafts master (江蘇省工藝美術大師) by People's Government of Jiangsu Province (江蘇省人民政府) in 2008. He was also awarded with the title of Chinese ceramic art master (中國陶瓷藝術大師) as assessed by the second session of adjudication committee of the Chinese ceramic art master, with the certificate of such award be jointly issued by China National Light Industry Council (中國輕工業聯合會) and China Ceramics Industrial Association (中國陶瓷工業協會) in 2010. He is currently the Supervisor of Teapot Art Specialist Committee (壺藝專業委員會) and Supervisor of the Appraisal and Collection Specialist Committee (收藏鑒賞委員會) of Zisha Industry Association (紫砂行業協會). Mr. Ji has accumulated years' experience in the appraisal and authentication of Zisha artworks.

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Name	Experience
Mr. Bao Zhiqiang (鮑志強)	Mr. Bao was awarded with the title of Chinese ceramic art master (中國陶瓷藝術大師) as assessed by the first session of adjudication committee of the Chinese ceramic art master, with the certificate of such award be jointly issued by China National Light Industry Council (中國輕工業聯合會) and China Ceramics Industrial Association (中國陶瓷工業協會) in 2003. He was also awarded with the title of Chinese arts and crafts master (中國工藝美術大師) as assessed by the fifth session of adjudication unit of the Chinese arts and crafts master, with the certificate of such award be issued by NDRC in 2006 respectively. He is the vice president of Yixing Zisha Art and Culture Research Committee, a panel member of China Arts and Crafts (National Level) Masterpieces Review Committee (中國工藝美術 (國家級) 大師作品展評) and a panel member of the 5th and 6th Chinese Ceramic Art Review Committee (中國陶瓷藝術評審). Mr. Bao has in-depth experience in the research, review and adjudication of Zisha artworks.

China National Light Industry Council is the national council for light industry in China assigned with the duties to manage and regulate the arts and crafts industry. China Ceramics Industrial Association is the only industry organisation for ceramics in China and was allowed registration by the Ministry of Civil Affairs of the PRC (中華人民共和國民政部).

### *External Artwork Appraisal Experts — Paintings and Calligraphies team*

The Paintings and Calligraphies team of our External Artwork Appraisal Experts comprises two individual members.

Mr. Jiang Yi (蔣逸)	Mr. Jiang was awarded the qualification as a deputy researcher in September 2011 by Jiangsu Province Bureau of Human Resources and Social Security (江蘇省人力資源和社會保障廳). He is currently a deputy researcher of Nanjing Museum (南京博物院) and has years of practical experience in the research and study, as well as authentication and evaluation of paintings and calligraphies.
Mr. Xu Jianqing (徐建清)	Mr. Xu was the deputy supervisor of the authentication and sourcing unit of Nanjing Museum from 2004 to 2007. He is a member of the cultural relics authentication unit of Jiangsu Province Bureau of Cultural Relics (江蘇省文物局) and an expert committee member of Jiangsu Artwork Appraisal Center. Mr. Xu has accumulated years of experience in authenticating, sourcing and adjudicating paintings and calligraphies.

Other than Mr. Bao Zhiqiang, each of the above four individual external experts has entered into long-term consultancy contract with us for providing relevant artwork authentication and valuation services since 1 January 2011 whose tenure will expire on 31 December 2018 and a fixed annual service fee is paid to each expert. Mr. Bao Zhiqiang has entered into a three-year consultancy contract with us from 1 March 2016 to 28 February 2019 for providing Zisha Artwork authentication and valuation services at a fixed annual service fee.

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We may also make consultation or seek confirmation with living artists to verify artworks that were claimed to be their products if our internal authentication members and external experts are in doubt as to the authenticity of such artworks. In addition, in any future expansion of our artwork portfolio as our loan collateral and for our art auctions, we will also work closely with other external specialists and organisations to obtain relevant opinion and advice when we encounter difficulty in evaluating other kinds of artworks apart from Zisha Artworks and Paintings and Calligraphies.

### ***Basis for authentication and valuation of artworks***

Relevant factors taken into consideration by our Internal Artwork Appraisal Team and External Artwork Appraisal Experts (collectively, “**Appraisal Team**”) in ascertaining the authenticity of an artwork include, (i) previous transaction history of the artwork, (ii) opinion of external industry experts or the surviving artist creates or produces the particular artwork, (iii) authenticity opinion and reports issued on other artworks produced by the same artist and (iv) professional knowledge and experience of our internal authentication members and external experts in evaluating similar artworks.

The following factors are generally considered by our Appraisal Team in determining the value of the artwork: (i) recent or historical transaction prices of the particular artwork in previous auctions or private transactions; (ii) the market price and/or recent or historical transaction prices in previous auctions or private transactions for similar artworks or similar type of artworks of the same artists; (iii) quality, scarcity and uniqueness of the particular artwork; (iv) the reputation of the artist and the popularity of other artworks of the same artist; (v) price indicators for the relevant type of artworks released by artwork interested parties or professional parties; and (vi) the intended auction reserve price proposed by the consignor or the appraised value proposed by the loan applicant (as the case may be).

### ***Authentication and valuation workflow***

#### ***Authentication and valuation of collaterals for art and asset pawn***

Pursuant to our internal control and risk management policy, after receiving the loan application and certain basic and preliminary documents from a loan applicant, the loan application will be subject to the due diligence exercise and initial assessment process. Depending on the type of collaterals, we will proceed with a series of specific fact finding, assessment and selection exercises. Based on the positive results of the preliminary assessment, the artwork collateral will be passed to the Appraisal Team for verification, authentication and appraisal.

Each of our artwork collaterals is subject to verification and appraisal conducted by our Appraisal Team. We have also employed an internal expert who possesses the qualification to appraise and evaluate jewellery ornaments.

Depending on the type of artwork, at least three members of our Appraisal Team work together to verify and evaluate the artwork. During the Track Record Period and up to the Latest Practicable Date, the Appraisal Team for conducting authentication and valuation of each artwork for each of our loan applications consisted of one member of our Internal Artwork Appraisal Team and two members of our External Artwork Appraisal Experts, which was in compliance with our operation manual regarding the composition of our Appraisal Team for evaluation of artworks as collateral of pawn loan. The members of the Appraisal Team will meet to discuss and give their conclusion on the authenticity and valuation of the artwork. According to our internal control and risk management policy, in giving his conclusion

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on the authenticity of an artwork, each member of our Appraisal Team is given a veto right, and we will not accept a particular artwork as loan collateral if a veto vote is exercised by any team member. We will also make consultation and obtain confirmation with living artists to verify those artworks that were claimed to be their products or other external industry experts when members of our Appraisal Team are in doubt as to the authenticity of such artworks. Written approval as to the authenticity and value of the artwork collateral must be obtained from all evaluating members of the Appraisal Team before the loan application can proceed to the loan approval process.

To protect our Group against any possible claims and disputes over the ownership of the collaterals and to ensure that our art and asset pawn is secured by valued and quality collateral, we have adopted the following additional measures:

- (i) we conduct due diligence on the loan applicant, including making enquiry with the loan applicant and conducting available public searches of the applicant's background, financial strength, credit history and source of funds for loan repayment etc.;
- (ii) for artwork collateral, we request loan applicant to provide documents to prove ownership, authenticity and value of the artwork (for instance, previous trading record and artist certificate). For real property collateral, we obtain original proof of ownership from the loan applicant and we also pay on-site visit to and conduct public searches against the real property;
- (iii) we conduct public searches via the internet and from the public security and court record to retrieve any record of artworks or assets (for instance, whether they are stolen items or subject to title disputes or other legal issues);
- (iv) in accordance with our operation manual and risk management policy, we require each loan applicant who provides artwork or personal property collateral to give us a written undertaking on the authenticity and the legality of the source of the artwork as well as the loan applicant's ownership thereof;
- (v) we do not accept an artwork or a personal property as our loan collateral if such item is subject to any material flaws, ownership disputes, or if we are in doubt as to its legality of source or ownership;
- (vi) we do not accept a real estate or equity interest of an enterprise as our loan collateral if such item is subject to existing mortgage or third party right.

Further details of the due diligence exercise and title verification measures are set out in "Our Business — Art and Asset Pawn Segment — Art pawn loan process" and "Internal Control and Risk Management — Internal Control and Risk Management Policy for our Art and Asset Pawn Business — Specific risk control measures for every stage of our art and asset pawn business — Due diligence on loan applicant and verification and appraisal of collateral" of this section above.

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### *Authentication and valuation of artworks and assets for art and asset auction*

We have established a solid internal control system on the operation of our auction business with separate sets of policies regarding the control and management of risks involving art auction and asset auction, covering workflows on authentication and valuation of artworks and other assets. Processes and procedures on authentication and valuation of artworks are set out below.

In the course of our art auction operation, after a suitable artwork is identified for auction from a potential consignor, we will proceed with preliminary assessment and selection in accordance with our internal control procedures on artwork authentication mainly focus on ascertaining the source and ownership of the artwork, whether the item is within the scope of our auction, whether the item was materially defective, enquiring the proposed value of the artwork offered by the consignor. Steps taken by us include making detailed enquiries with the potential consignor as to the source of the artwork and examining every part and component of the artwork.

Having obtained the affirmative results of the preliminary assessment and selection, our Internal Artwork Appraisal Team is responsible for conducting preliminary authentication and valuation of the artwork, team members will also consider if the particular artwork would attract interest from bidders or is of strong market demand. At least one member of our Internal Artwork Appraisal Team may participate in the preliminary authentication and valuation of a particular artwork. Factors taken into consideration by our Internal Artwork Appraisal Team for authentication and valuation of artworks are set out in “Internal Control and Risk Management — Authentication and Valuation — Basis for authentication and valuation of artworks” of this section above.

Based on the positive results of the preliminary authentication and valuation by our Internal Artwork Appraisal Team, we will negotiate terms of and if so agreed, sign the auction listing agreement with the consignor, including the preliminary auction reserve price.

After the auction listing agreement is signed, a final authentication and valuation of artworks will be conducted by our External Artwork Appraisal Experts on certain artworks proposed for our auction. Artworks consigned by the artwork artists who produce the consigned artworks are not subject to authentication by our External Artwork Appraisal Experts, because those artists can confirm the authenticity of their products. External Artwork Appraisal Experts will however opine on the valuation of those artworks. Based on the External Artwork Appraisal Experts’ opinion on the value, we would discuss and agree with such artists on the auction reserve price of their artworks for our auction. The authentication and valuation process is conducted by not less than two members of our External Artwork Appraisal Experts depending on the particular type of artwork. Proceedings of the meetings of our External Artwork Appraisal Experts are similar to those of the meetings of the Appraisal Team for authenticating and valuing artwork collateral for our art pawn loan operation.

After an artwork is evaluated by our External Artwork Appraisal Experts, the final auction reserve price of such artwork is determined based on the experts’ valuation result, subject to negotiation with the relevant consignor. No authenticity and valuation report will be issued by us to the consignor and/or buyer nor a separate fee is charged on our customers on the authentication work conducted.

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In our Autumn Auction held in December 2015, we included a number of Jewel Artworks as our art auction lots. Those items were not appraised and evaluated by our External Artwork Appraisal Experts because all of these Jewel Artworks were made and consigned by an artwork artist who provided us with a written undertaking as to the authenticity and the unencumbered ownership of those items which were consigned for our art auction.

To protect our Group against any possible claims and disputes over the authenticity, ownership and defects of the artworks and assets for own art and asset auction, and for the purpose of safeguarding our reputation, we have adopted the following additional risk control measures:

- (i) after a suitable artwork or asset is identified for our auction, we would first, according to our due diligence checklist against consignor and auction lot, proceed with ascertaining the source, ownership of the artwork or asset as well as the information of the artwork or asset and the personal information of the consignor;
- (ii) for artwork auction lot, the consignor is requested to provide authentication or artist certificate or previous purchase record in auction or private transaction, if any. For asset auction lot, the consignor is requested to provide title documents of the assets (such as land use right certificate and building ownership certificate). We will also conduct on-site inspection of the real estate and public searches in the real estate registrar office to verify authenticity of the title documents and ownership of the property;
- (iii) we will conduct public searches via the internet and from the public security and court record to retrieve any record of artworks or assets;
- (iv) consignors of artwork or asset are required to give us representations and warranties as to the ownership and legality of source, and such representations and warranties are set out as an express term in the auction listing agreement;
- (v) for artwork auction lots where the total auction reserve price for all consigned items of the same consignor exceeds RMB3 million, in addition to the auction listing agreement, we require the consignor to give us a separate written undertaking on the legality of the source, the consignor's unencumbered ownership of the artwork(s) and that participation in the auction would not constitute money laundering activities of the consignor;
- (vi) all details of defects on the artwork are set out in the auction listing agreement. Prior to the auction, potential buyers are notified of all obvious defects by description in the auction catalogue. The auctioneer will also announce such defects during the auction operation when the auction transaction of the particular artwork is being conducted;
- (vii) no warranty, representation or guarantee is given by us on the authenticity and quality of auctioned artworks and a disclaimer of liabilities is set out in the art auction rules and the artwork bidding agreement which we enter into with the artwork bidders.

According to our internal control and risk management policy, where any of our External Artwork Appraisal Experts seeks our art pawn loan services and/or consigns artwork for our art auction, such expert shall not be involved in the authentication and valuation of his/her artwork to avoid any conflict of interest.

### **Custody and Storage of Artworks and Collaterals**

Collaterals for our art and asset pawn operation including artworks, personal properties (including gold, platinum and jewellery) and title and pledge documents of real estate and equity interest collaterals are kept in a strong-room which is located at our headquarters in Yixing. Artworks which are consigned to us for our art auction are kept in a separate strong-room which is also located at our headquarters.

Our strong-room for storage of loan collaterals was built in accordance with the requirements of the Pawning Measures and is installed with security facilities according to the industry standard of a strong-room for storage of collaterals of a pawn loan service provider. Such strong-room is equipped with video recording and fire safety facilities and security alarm system connected to the system of Yixing Public Security Bureau.

We have also formulated specific measures on taking possession of, safekeeping and release of artworks and other loan collaterals into and out of our strong-rooms. Part of such measures for our strong-room for storage of collaterals were adopted as required under the Pawning Measures. Other key measures we adopt for custody of collaterals and artworks for art auction include:

- for loan collaterals, owner of objects shall be present during the sealing and unsealing procedures, and written storage and release record shall be signed by the loan business department, finance department and storage department, as well as the owner of the object
- any entry into any of the strong-rooms shall be attended by two of our employees from the storage department and each entry is recorded in an entry register
- in addition to our storage employees whose daily duties include monitoring and managing the strong-rooms, we have engaged one full time employee and an external guard for a 24-hour real-time independent monitoring of the strong-rooms.
- our strong-rooms are installed with hygrometer and thermometer so that temperature and humidity of our strong-rooms are monitored, inspected, recorded and maintained at the suitable levels by our storage employees on a daily basis to ensure that temperature and humidity of our strong-rooms are at a suitable level for storage of our artworks and other assets
- no suspicious persons and/or objects are allowed to enter into or be placed in any of our strong-rooms
- stocktaking of objects stored in both of our strong-rooms is conducted at the end of each month
- we keep a register of collaterals stored in our strong-room for collaterals
- we keep a record of auction lots deposited into and released from our strong-room



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We believe our above custody and storage measures, in particular, (i) the video recording and security alarm system which connected to the system of the public security for our loan collateral strong room, (ii) no entry by one single person into any of our strong-rooms is allowed and (iii) the close monitoring and independent security over our strong-rooms, are effective custody and storage measures for all artworks and assets items regardless of the individual values of those items and such measures are effective to detect any theft (including employee collusion and frauds) on a timely basis.

### **Measures to govern transactions of closely related parties**

Our Company has established a policy on handling transactions of closely related parties which would constitute connected transactions or continuing connected transactions (both as defined under the Listing Rules) based on the requirements under Chapter 14A of the Listing Rules. The key measures under such policy include the following:

1. our Company Secretary shall regularly update the list of connected persons as defined under the Listing Rules and submit the list to the Board for review semi-annually;
2. approval from the Chairman of the Board shall be obtained before entering into any connected transactions or continuing connected transactions; if the Chairman of the Board or his associates has a material interest in the relevant transaction, he should abstain from approving the transaction and defer the matter to other non-interested Directors;
3. our Company Secretary shall maintain a list of all the connected transactions and continuing connected transactions approved, which summarises the transaction nature, identity of counter-party and its relationship with our Group, terms and amount of such transactions and basis of determination of transaction amount, and circulate the list in the monthly report for the review of the Board on a monthly basis;
4. transactions balances between our Group and connected persons would be counter-checked by our finance department at the end of each month and approved by the head of our finance department in order to closely monitor the transaction amount with connected persons and to take appropriate reporting, disclosure and/or approval actions as and when necessary;
5. loans and financial assistance to Directors, controlling shareholders or their respective close associates are prohibited unless approval from independent Shareholders is obtained; transactions (including the granting of pawn loans) with senior management of our Group would require the approval of our Chief Financial Officer; and
6. the Risk Management Committee will be responsible for reviewing and commenting on (i) whether the terms of the connected transaction are fair and reasonable; and (ii) whether the connected transaction is on normal commercial terms or better and in the ordinary and usual course of business of our Group.



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Our Company has also adopted a policy to prevent excessive credit exposures to group of closely related borrowers. Under the said policy, for each loan application, (a) where the principal amount exceeds the borrowing limit (calculated based on the lowest principal loan amount among the top 15% (in terms of principal loan amount) of the new loans granted during the preceding financial year) or (b) where the aggregate pawn loan revenue derived from such applicant will exceed 2% of our Group's pawn loan revenue for the preceding financial year, we require the loan applicant to provide additional information regarding his close associates (including but not limited to the spouse and children of the applicant). For corporate applicants, we will obtain the group chart (which includes the shareholders and directors of the members of the group) of the applicant. We would also require such applicants to provide us with a confirmation to confirm independence with our Group (unless any relationship with our Group is identified).

### **Anti-bribery and Anti-corruption Measures**

As part of our internal control and risk management measures, we have formulated procedures and measures against risk of bribery and corruption of our employees and as well as our Appraisal Team (including our External Artwork Appraisal Experts), including the following:

- We conduct background enquiries and inspections, including educational backgrounds, work experiences, criminal records, of any person to be employed.
- We have formulated written guidelines setting out our anti-bribery, anti-corruption and anti-misconduct policies which have been provided to all Directors, existing employees and members of Appraisal Team. All newly engaged or employed Directors, employees and members of Appraisal Team (if any) will also be provided with such policies.
- Under our anti-bribery and anti-corruption policies, providing or accepting any forms of gifts, bribes or rebates is prohibited. The guidelines outline other prohibited actions or misconducts, including theft or misappropriation of company assets, transfer of properties or businesses of company in exchange for personal benefit, leakage of confidential information, insider dealing, provision of incorrect or false information and other actions jeopardising the economic interests of our Group. The guidelines also set out a reporting and investigation mechanism for any cases or suspected cases of bribery, corruption or other misconduct as well as disciplinary actions for such misconduct (including dismissal and/or report to the regulatory authorities) and rewards for due reporters.
- As far as our Appraisal Team is concerned, as set out in our internal guideline, in case of receipt of bribes or rebates by any members of our Appraisal Team, or malicious collusion with customers to deceive our Group, we would dismiss or terminate our employment or engagement of such team member and reserve the rights to take legal actions for recovering of our economic losses and report the matters to the regulatory authorities. Our service contacts with those External Artwork Appraisal Experts also provide similar contractual term regarding the above.
- We conduct an assessment of risks of corruption and bribery each year.

Our authentication and valuation logistics for our artworks as loan collateral and auction lots are also designed to prevent possible bribery, corruption and conflict of interest of our Appraisal Team members. Where any of our External Artwork Appraisal Experts pledge or consign their artworks to secure a pawn loan or as our auction lot, such expert cannot participate in the authentication and valuation procedure of their own products to avoid any conflict of interest. For our artwork collateral, authentication and valuation is conducted by at least three members of our Appraisal Team. Each member of our Appraisal Team is given a veto right and we will not accept a particular artwork as loan collateral if a veto vote is exercised by any team member. For our art auction lots, the authentication and valuation process is conducted by one member of our Internal Artwork Appraisal Team plus not less than two members of our External Artwork Appraisal Experts. Each of our External Artwork Appraisal Experts is given a veto right and we will not accept a particular artwork as auction lot if a veto vote is exercised by any expert. Such multiple and collective authentication mechanism is targeted not only to ensure the accuracy and reasonableness of authentication and evaluation results, but also to prevent any possible bribery and corruption between client on the one part and our internal employees and external experts on the other part.

#### **Anti-money Laundering Measures**

As advised by our PRC Legal Advisers, we are not required by current laws and regulations in PRC to establish specific identification and reporting procedures relating to anti-money laundering activities. However, as part of our counter-party risk and credit control measures, we have been implementing measures to identify our clients and their background, which have effects to the requirements of anti-money laundering measures imposed in other jurisdictions.

Our internal control and risk management systems are designed to cover procedures and measures against money laundering activities. We require our employees to comply strictly with our internal policy and all relevant PRC laws and regulations regarding anti-money laundering.

The following summarises the major steps and measures adopted as our internal control policy to prevent anti-money laundering activities:

- (i) we verify the identity and understand the background of a new client before we enter into any business relation with him. Relevant identification documents and valid business licence are requested from natural person and legal person respectively. By understanding the background of customers, nature of its business and past track record of business activities in artworks and loan transactions, we may be able to analyse the possibility of risk that particular client may be involved in money laundering activities;
- (ii) we verify the authenticity and origin of the relevant artwork and property (please refer to the “Internal Control and Risk Management — Authentication and Valuation” above for our internal control and risk management policy on authentication and valuation of loan collaterals and auctions items);
- (iii) upon Listing, we plan to conduct anti-money laundering training to our business officers on a yearly basis;

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- (iv) in the event of a suspected money laundering transaction or a suspected client, we will promptly report the relevant transaction or customer to our management for further investigation;
- (v) we keep record of our customers and then transaction records for at least five years (or longer period under statutory requirement), we will review our list of customers, particularly our loan customers, and cross check with the black lists of anti-money laundering (such as wanted person, terrorists list and an anti-money laundering black list of SAFE) on a quarterly basis;
- (vi) we will report the suspected transaction and/or client to the relevant investigating authorities where necessary or where such report shall be made in compliance with the applicable anti-money laundering laws and regulations.

During the Track Record Period and as of the Latest Practicable Date, we were in compliance with all material obligations under the relevant legal and regulatory requirements relating to anti-money laundering and we have not received any notification imposing any penalty on or commencement of any investigation against us by applicable authorities with regard to such activities.

### CUSTOMERS

Our customers of art and asset pawn business for each category of collaterals comprise mostly individuals with short term financing needs. Customers of our art pawn loan operation also include artworks interested parties. We source customers for our pawn loans mainly through sales and marketing efforts by our management and operating officers or referrals by existing customers and third parties. In addition, our customers and some other walk-in clients may approach us directly through our headquarters in Yixing and branch office at Nanjing to apply for a loan. The table below sets forth the numbers of our customers in the art and asset pawn segment for the periods indicated:

	FY2013	FY2014	FY2015	For the six months ended 30 June 2016
<i>Customers by collateral</i>				
Artworks ( <i>note</i> )	80	118	81	54
Real estates ( <i>note</i> )	1	1	2	1
Personal properties	205	182	150	98
Equity interests	2	0	0	0
<b>Total</b>	<b>288</b>	<b>301</b>	<b>233</b>	<b>152</b>
<i>Customers by type</i>				
Repeat customers	191	187	169	101
New customers	97	114	64	51
<b>Total</b>	<b>288</b>	<b>301</b>	<b>233</b>	<b>152</b>

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	FY2013	FY2014	FY2015	For the six months ended 30 June 2016
<i>Customers by nature</i>				
Individual customers	287	299	231	152
Corporate customers	1	2	2	0
<b>Total</b>	<b>288</b>	<b>301</b>	<b>233</b>	<b>152</b>

*Note:* For the breakdown of customers by collateral for the six months ended 30 June 2016, among the 54 customers who offered artwork collaterals, 1 customer offered both artwork and real estate as collaterals.

Total number of customers in the art and asset pawn segment decreased for FY2015 mainly due to the fact that (i) as of the end of FY2014, the outstanding gross loans amount to customers was relatively significant (RMB97.4 million, in comparison with RMB84.2 million as of 31 December 2013), accordingly in early 2015, the amount of fund available for our lending was relatively less, and (ii) in July 2015, Hexin Pawn's registered capital increased from RMB40 million to RMB100 million. While the total fund available for lending increased, we gradually target to grant a larger single amount of loans to customers who could offer high value and quality artworks as collateral in view of larger single amount of composite administrative fee calculated at a fixed percentage to the principal loan amount we could receive as our pawn loan revenue. Under such business development, the average new loan amount secured by artwork we granted to customers in FY2015 increased significantly to RMB5.2 million from RMB2.5 million in FY2014 as the availability of fund for lending is primarily restricted to the fixed pool of paid-in capital and retained earnings and the total number of customers in our art and asset pawn segment reduced in 2015 as the span of our target high value customers is relatively narrow.

The table below sets forth the details of outstanding gross amount of loans to top five customers ("Major Borrowers") of Hexin Pawn (ranked by outstanding gross loan amount) as of the dates indicated:

	<b>Gross loan amount</b>	
	<b>As of 31 December 2013</b>	
	<i>(RMB'000)</i>	%
Borrower A	11,941	14.2
Borrower B	8,032	9.5
Borrower C	5,013	6.0
Borrower D	5,007	5.9
Borrower E	4,987	5.9
<b>Subtotal of the Major Borrowers</b>	34,980	41.5
Other customers	49,241	58.5
<b>Total</b>	<b>84,221</b>	<b>100</b>

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	<b>Gross loan amount</b>	
	<b>As of 31 December 2014</b>	
	<i>(RMB'000)</i>	%
Borrower A	8,380	8.6
Borrower F	8,011	8.3
Borrower G	7,989	8.2
Borrower H	7,009	7.2
Borrower I	<u>5,013</u>	<u>5.1</u>
<b>Subtotal of the Major Borrowers</b>	36,402	37.4
Other customers	<u>60,989</u>	<u>62.6</u>
<b>Total</b>	<u><u>97,391</u></u>	<u><u>100</u></u>

	<b>Gross loan amount</b>	
	<b>As of 31 December 2015</b>	
	<i>(RMB'000)</i>	%
Borrower J	13,310	20.1
Borrower K	8,830	13.3
Borrower L	5,993	9.1
Borrower M	4,344	6.6
Borrower N	<u>4,211</u>	<u>6.4</u>
<b>Subtotal of Major Borrowers</b>	36,688	55.5
Other customers	<u>29,448</u>	<u>44.5</u>
<b>Total</b>	<u><u>66,136</u></u>	<u><u>100</u></u>

	<b>Gross loan amount</b>	
	<b>As of 30 June 2016</b>	
	<i>(RMB'000)</i>	%
Borrower O	14,528	6.9
Borrower P	14,484	6.9
Borrower Q	14,151	6.7
Borrower J	14,135	6.7
Borrower R	<u>11,774</u>	<u>5.7</u>
<b>Subtotal of Major Borrowers</b>	69,072	32.9
Other customers	<u>141,055</u>	<u>67.1</u>
<b>Total</b>	<u><u>210,127</u></u>	<u><u>100</u></u>

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As of 31 December 2013, 2014 and 2015 and 30 June 2016, a substantial portion of our gross loan receivables were outstanding from a limited number of pawn loan customers. Among the Major Borrowers in terms of outstanding gross loan amount as of the respective year/period ends, only Borrower A and Borrower J remained as one of the Major Borrowers for more than one year/period and we have not relied on a particular or a limited number of repeated customer for our pawn loan business. Among the Major Borrowers, pawn loan to one borrower (Borrower A) was secured by real properties and the remaining borrowers offered artworks as loan collaterals. The gross loan amount due from Borrower A was due to his failure in repaying pawn loans with aggregate principal loan amount of RMB9 million, which was granted prior to the Track Record Period. The full principal amount of the loan and approximately 50% of the accrued composite administrative fees were recovered in April 2015. No pawn loans were granted to or renewed for Borrower A during the Track Record Period. Each of the loan applicants and loan applications was assessed and approved on an individual and single basis, in particular, taking into consideration the value and quality of the collateral. During the Track Record Period, the aggregate pawn loan revenue derived from the Major Borrowers (being the top 5 customers in terms of outstanding gross loan amount for the relevant year or period) accounted for approximately 11.9%, 6.4%, 6.7%, and 9.0% respectively, of our Group's total revenue.

The Major Borrowers were all individuals with short term financing needs comprising owners and senior management of private enterprises, artwork interested parties and artists. To the best knowledge of our Directors, they were not aware that any of the Major Borrowers are closely connected or related with each other (being his immediate family members as defined under Chapter 14A of the Listing Rules). Each of the loan applications of the Major Borrowers was assessed and approved on an individual and separate basis. Other than two borrowers (Borrower H and Borrower P), none of the Major Borrowers has any past or present relationship with any member of our Group, our Shareholders, Directors or any of their respective close associate (other than the provision of pawn services and/or auction services by us). Borrower H, being the fourth largest borrower in terms of outstanding gross loan amount as of 31 December 2014, is the spouse of Mr. YJ Fan. During the Track Record Period, a total of three loans were granted to and/or renewed for Borrower H, which generated approximately RMB0.3 million, RMB0.1 million, RMB2.2 million and nil to our pawn loan revenue, representing approximately 0.8%, 0.2%, 2.0% and nil of our total revenue for the respective year or period during the Track Record Period. As of 7 December 2015, all pawn loans granted to Borrower H were fully settled. Borrower P, being the second largest borrower in terms of outstanding gross loan amount as of 30 June 2016, is a cousin of Mr. ZJ Fan. During the Track Record Period, a total of three loans were granted to and/or renewed for Borrower P, which generated approximately RMB0.7 million, nil, RMB2.4 million and RMB1.5 million to our pawn loan revenue, representing approximately 1.8%, nil, 2.2% and 2.3% of our total revenue for the respective year or period during the Track Record Period. As of 1 July 2016, all pawn loans granted to Borrower P were fully settled. All such pawn loans granted to and/or renewed for Borrower H and Borrower P were in the ordinary and usual course of our art pawn business, on normal commercial terms, which were not more favourable to them than those available to other borrowers who are Independent Third Parties. In addition, the same risk control measures and due diligence exercise had been adopted and applied to the loan application and loan renewal application of each of Borrower H and Borrower P. Since the pawn loan transaction with Borrower H and Borrower P were fully settled, we have not entered into other pawn loan transactions with them and we have no intention of continuing the pawn loan business with Borrower H and Borrower P.

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To cope with and reduce the relevant operation and credit risks for our pawn loan business, our Group had set up specific measures on conducting due diligence on loan applicants, including making enquiry with the loan applicant and conducting available public searches of the applicant's background, financial strength, credit history and source of funds for loan repayment etc., details of the due diligence measures are set out in "Internal Control and Risk Management — Internal Control and Risk Management Policy for our Art and Asset Pawn Business — Specific risk control measures for every stage of our art and asset pawn business — Due diligence on loan applicant and verification and appraisal of collateral" of this section above. Further, we have set up and put into practice specific risk control measures on each of the loan applications. In particular, we have established multi-level loan approval procedures and adopted target appraised loan-to-value ratios for each category of collaterals as a measure to control our credit risk. For details of our Group's credit risk management, please refer to "Internal Control and Risk Management — Internal Control and Risk Management Policy for our Art and Asset Pawn Business — Credit risk management" of this section above. Our Group has also set up policies on handling transactions of closely related parties, for details of the policy please refer to "Internal Control and Risk Management — Measures to govern transactions of closely related parties".

Our Directors are of the view that it was in the best interest of the Company and its Shareholders as a whole to grant the pawn loans to the Major Borrowers on the bases that, (i) our Group has adopted and implemented specific risk control measures on each of the loan applications (including the Major Borrowers), in particular, the pawn loans to each of the customers were secured by collaterals having passed our verification, valuation and appraisal procedures, (ii) the appraised loan-to-value ratio for each of the pawn loans granted to the Major Borrowers was within the range of the target threshold as prescribed by our risk management policy, and (iii) as disclosed above, our Group gradually targets to grant a larger single amount of pawn loans to borrowers who could offer high value and quality artworks as collateral in view of larger single amount of composite administrative fee calculated at a fixed percentage to the principal loan amount we could receive as our pawn loan revenue.

In our art and asset auction segment, our customers primarily include sellers and buyers of artworks or assets in our auctions. To the best knowledge of our Directors, customers generally comprise artwork interested parties including artworks artists, agents, masters, experts, merchants, collectors and art galleries and private museums. Our customers of the asset auction also include private sellers and buyers of assets.

The table below sets forth the numbers of our customers in the art and asset auction segment for the periods indicated:

	FY2013	FY2014	FY2015	For the six months ended 30 June 2016	
				Online auctions	Spring Auction
<i>Sellers by auction lots</i>					
Artworks (Note)	26	62	65	34	66
Assets	8	8	6	—	—
<b>Total</b>	<b>34</b>	<b>70</b>	<b>71</b>	<b>34</b>	<b>66</b>

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*Note:* For FY2013, all auction lots in the 2013 Autumn Auction were Zisha Artworks and hence the 26 artworks sellers were all sellers of Zisha Artworks.

For FY2014, in the 2014 Autumn Auction, among the 62 artworks sellers, 38 were sellers of Zisha Artworks, 16 were sellers of Paintings and Calligraphies and 8 were sellers of both Zisha Artworks and Paintings and Calligraphies.

For FY2015, in the 2015 Autumn Auction, among the 65 artworks sellers, 36 were sellers of Zisha Artworks, 24 were sellers of Paintings and Calligraphies, 1 was seller of Jewel Artworks and 4 were sellers of both Zisha Artworks and Paintings and Calligraphies.

For the six months ended 30 June 2016, for the two online auctions, among the 34 artworks sellers, 19 were sellers of Zisha Artworks, 14 were sellers of Paintings and Calligraphies and 1 was seller of both Zisha Artworks and Paintings and Calligraphies; as for the 2016 Spring Auction, among the 66 artworks sellers, 33 were sellers of Zisha Artworks, 31 were sellers of Paintings and Calligraphies, 1 was seller of Jewel Artworks and 1 was seller of both Zisha Artworks and Paintings and Calligraphies.

	FY2013	FY2014	FY2015	<b>For the six months ended 30 June 2016</b>	
				Online auctions	Spring Auction
<b>Buyers by auction lots</b>					
Artworks ( <i>Note</i> )	38	54	68	39	92
Assets	<u>24</u>	<u>29</u>	<u>15</u>	<u>—</u>	<u>—</u>
<b>Total</b>	<b><u>62</u></b>	<b><u>83</u></b>	<b><u>83</u></b>	<b><u>39</u></b>	<b><u>92</u></b>
<b>Buyers by mode of biddings</b>					
on-site bidders	62	83	81	n/a	78
online bidders	<u>—</u>	<u>—</u>	<u>2</u>	<u>39</u>	<u>14</u>
<b>Total</b>	<b><u>62</u></b>	<b><u>83</u></b>	<b><u>83</u></b>	<b><u>39</u></b>	<b><u>92</u></b>

*Note:* For FY2013, all auction lots in the 2013 Autumn Auction were Zisha Artworks and hence the 38 artworks buyers were all buyers of Zisha Artworks.

For FY2014, in the 2014 Autumn Auction, among the 54 artworks buyers, 19 were buyers of Zisha Artworks, 17 were buyers of Paintings and Calligraphies and 18 were buyers of both Zisha Artworks and Paintings and Calligraphies.

For FY2015, in the 2015 Autumn Auction, among the 68 artworks buyers, 27 were buyers of Zisha Artworks, 8 were buyers of Paintings and Calligraphies and 33 were buyers of more than one type of artworks, including Zisha Artworks, Paintings and Calligraphies and Jewel Artworks.

For the six months ended 30 June 2016, for the two online auctions, among the 39 artworks buyers, 21 were buyers of Zisha Artworks, 12 were buyers of Paintings and Calligraphies and 6 were buyers of both Zisha Artworks and Paintings and Calligraphies; as for the 2016 Spring Auction, among the 92 artworks buyers, 32 were buyers of Zisha Artworks, 15 were buyers of Paintings and Calligraphies, 5 were buyers of Jewel Artworks and 40 were buyers of more than one category of artworks.



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Total number of customers in the art auction increased for FY2014 from that of FY2013 was mainly due to the corresponding increase in the number of auction lots offered and sold during the period.

During the Track Record Period, our revenue derived from our five largest customers accounted for less than 30% of our total revenue for the year.

### SALES AND MARKETING

For our art and asset pawn business, our primary marketing strategies are through referrals and our own sales channels. New clients are introduced to us from time to time through referrals from third parties and our existing customers. During the Track Record Period, we did not pay any referral fee to third parties for the referral of customers to us. We also conduct sales and marketing activities by leveraging the industry expertise and local knowledge of our operating officers at our headquarter in Yixing and branch office in Nanjing. Having accumulated years of experience in the pawn industry, we have established a database of potential customers and our operating officers approached them regularly through telephone calls and text messages to understand their requests and financing needs, to promote our pawn business, and to establish or maintain close relationships with them. In the second half of 2015, we started joint promotion via outdoor media with a business partner and will continue those joint promotion campaigns to expand our customer coverage.

Our marketing activities are mostly conducted in relation to our art and asset auction business. Prior to each Spring Auction and Autumn Auction, we conduct various marketing and promotional events to stimulate awareness of our art auction. Such events included (1) producing and distributing auction catalogues, (2) publishing advertisements and marketing and auction information on newspapers, art magazines and internet, and (3) organising artworks preview exhibition. For our asset auction operation, prior to each asset auction, we are required under the Auction Law to publish auction announcement on newspaper. An auction announcement generally contain information as required under the Auction Law. For details of our sales and marketing effort in the art auction operation, please refer to “Our Business — Art and Asset Auction Segment — Art auction operation — 5. Marketing” above.

Since we are specialised in the artwork industry, our customers in both pawn loan and auction segments are overlapping. As such, our sales and marketing activities for each segment are generally targeted for customers in both business segments. We also advertise our services and promote brand awareness through a variety of media channels, including promotion through our Company website and publication of advertisements on magazines. When we were sourcing for artworks for our auctions, operating officers from our pawn loan segment also participated in client visits to promote our art auction business. The devoted promotional effort of our Group through our online marketing platform as well as the synergistic marketing effect for the 2015 Autumn Auction and 2016 Spring Auction also helped to promote the reputation of our Group and both our pawn loan and auction segments.

During the Track Record Period, we incurred approximately RMB0.3 million, RMB0.5 million, RMB0.8 million and RMB0.5 million, for each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, respectively, for our sales and marketing activities.

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### SUPPLIERS

Our suppliers mainly relate to our auction operation including property owners who provide venue for artwork preview exhibition and auction operation, and suppliers of printing and delivery services for our auction catalogues.

Our top five suppliers for the Track Record Period accounted for approximately 77.4%, 97.5%, 74.3% and 66.8% of our total purchases of the corresponding financial years respectively. Our largest supplier accounted for approximately 32.7%, 47.9%, 22.6% and 17.4% of our total purchases for the Track Record Period respectively.

Among the five largest suppliers for FY2015 and the six months ended 30 June 2016, Zisha Hotel (which is beneficially owned by Mr. JS Wang, one of our Controlling Shareholders), a 36% equity-holder of Hexin Pawn, leased its hotel premises for Autumn Auction (and the relevant preview exhibition) held in 2015 and Spring Auction (and the relevant preview exhibition) held in 2016 at the respective leasing fees of approximately RMB0.1 million and RMB0.1 million, respectively.

Save as disclosed above, none of our Directors or their respective close associates or any Shareholder, which to the knowledge of our Directors owns more than 5% of our Company's issued share capital, had any interest in any of our suppliers during the Track Record Period and as of the Latest Practicable Date.

### COMPETITION

Competition of our art and asset pawn business is intensive and the industry is relatively localised in nature. We operate our pawn loan business in Yixing and Nanjing and our main loan competitors are other pawn loan or short-term finance service providers in these areas. New pawn loan providers and other short-term finance service providers may enter the industry provided that they meet the entry requirement and are granted with the requisite licences and permits under the applicable PRC laws and regulations.

For our art and asset auction segment, we mainly compete against domestic auction houses in China markets with capacities for collection, authentication, and valuation of artworks. Some of our competitors have competitive advantages over us in terms of their financial capacity, network coverage and brand recognition.

For more discussion on the competitive landscape of our art pawn loan and art auction operations, please refer to "Art Pawn Loan Industry in China — Competition" and "Art Auction Industry in China — Competition" in the "Industry Overview" section of this prospectus.

Despite the emerging competition landscape, we believe that we could maintain and further develop our leading market position in the foreseeable future because of our competitive advantages. Please see "Competitive Strengths" in this section above for detailed discussion.

## **BUSINESS**

### **INFORMATION TECHNOLOGY**

We rely on our IT systems to manage our business, including transaction processing, financial management and risk management. In managing our art and asset auction segment, we have established an electronic database which allows us to keep track of historical transaction details and authentication and valuation results of a variety of artworks in our art auctions. Our auction catalogues are also available in digital format which can be viewed on our company website.

In December 2015, our Autumn Auction first allowed synchronised live and on-site bidding on a trial basis. In addition, since 2016, we started to hold standalone online auction generally each quarter, the first of which was held in January 2016. In support of our online auction operation, we have upgraded and enhanced our IT system. We have recruited additional IT personnel and offer relevant regular training to our IT personnel in line with our expansion in connection with online operation. To cope with our strategy of expanding both of our pawn loan and auction operations by developing and utilising online platform, we will continue to upgrade our IT system in support of our business expansion.

Our IT personnel have extensive IT knowledge and experience, and have collaborated with third party software companies to design and maintain our IT systems. We have formulated and implemented an internal policy to regulate our IT system, including inspection and maintenance of our internet services to ensure non-disturbance, anti-virus protection and safety measures on storage and maintain confidentiality of information.

### **INSURANCE**

As of the Latest Practicable Date, Hexin Pawn purchased insurance for the artwork collaterals kept in our strong-room at headquarters for a term of one year up to 14 March 2017, which covered an initial aggregate insurance coverage of approximately RMB125 million for Zisha Artworks and Paintings and Calligraphies collaterals, which was increased to approximately RMB435 million with effect from 25 October 2016. The increased insurance coverage amount mainly took into account the aggregate appraised value of approximately RMB435 million of the artwork collaterals (as shown on the pawn tickets) of all loans outstanding as of the Latest Practicable Date. On this basis, our Directors believe that at the time of increasing the aggregate insurance coverage amount, it was adequate to cover the aggregate appraised value of the artwork collaterals in our possession as of the Latest Practicable Date. Under the insurance policy, subject to the terms and conditions of the insurance contract, the insurance company shall compensate Hexin Pawn against direct damages and losses over artworks kept in our strong-room caused by natural disasters or accidents, as well as consequential damages and losses over the artworks and necessary and reasonable expenses incurred due to any rescue, remedy, loss prevention actions in case of occurrence of any insurance event. In the future, the Directors will closely monitor the insurance coverage over the artwork collaterals in our possession and consider to make adjustments to the insurance coverage amount with reference to the then aggregate value of the artwork collaterals. In line with industry practice and due to unavailability of insurance covering risks of our art and asset auction business at reasonable price, we do not purchase insurance for artworks we have been consigned for art auctions. Please refer to “Risk Factors — We are exposed to loss for artworks in our possession, which may be subject to damage or theft, and insurance coverage may be difficult to obtain or insufficient”. As of the Latest Practicable Date, we had not made nor been the subject of any material insurance claims.

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### QUALITY CONTROL

Our Group highly values the importance of the quality of artworks as our collateral and for our art auction, as well as the high quality of our services. As far as our art and asset pawn service is concerned, we only accept good quality artworks as our loan collateral after passing through the authentication and appraisal procedure under our risk management policy. Further, buyers who attend our art auctions evaluate us in terms of the quality of the artworks offered to be sold and our professional services, we believe we have been able to maintain our clients in the long run. Please refer to “Internal Control and Risk Management — Authentication and Valuation” for the authentication and appraisal procedure. Securing high quality of our artworks will in turn minimise our operation risks, enhance our brand image, strengthen our market position and improve our profitability. Further, we believe our quality of services and competitiveness are assured by our team of experienced management, officers as well as internal and external experts and our strict internal control and quality controls procedures in particular, relating to authentication and valuation of artworks.

We strictly abide by laws and regulations governing our operations and have implemented quality control standards and measures. During the Track Record Period and as of the Latest Practicable Date, we have not experienced any material litigation, disputes or arbitration against us in relation to the quality of our service or products.

### PROPERTIES

Our headquarters are located in Northern side of Jiefang East Road, Yicheng Street, Yixing city, China. As of the Latest Practicable Date, we did not have any owned properties and we leased five properties in China.

We are exempted from compliance with the requirement of including a property valuation report under Chapter 5 of the Listing Rules and section 342(1)(b) of the COWUMPO. Pursuant to Rule 5.01A of the Listing Rules, if the carrying amount of the property interests that do not form part of a listing applicant’s property activities are below 15%, the prospectus will be exempted from compliance with the requirement of including a property valuation report. In respect of the requirements under section 342(1)(b) of the COWUMPO and paragraph 34(2) of the Third Schedule to the COWUMPO, similar exemption are also available under section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

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These leased properties are used as our headquarters, branch office for our operation and office of our PRC subsidiaries. The table below summarises brief information of our leased properties interests:

Location	Usage	GFA/ leasable area (sq.m.)	Lessor	Lessee	Term of tenure	Annual rental amount (RMB)
1. Part of first and second floors of Northern side of Jiefang East Road, Yicheng Street, Yixing City, China (中國宜興市宜城街道解放東路北側)	office of Hexin Pawn	414	Mr. ZJ Fan, Mrs. Fan, Ms. QZ Fan	Hexin Pawn	1 January 2013 to 31 December 2022	300,000
2. Part of first and second floors of Northern side of Jiefang East Road, Yicheng Street, Yixing City, China (中國宜興市宜城街道解放東路北側)	office of Hexin Auction	415	Mr. ZJ Fan, Mrs. Fan, Ms. QZ Fan	Hexin Auction	1 October 2015 to 30 September 2025	300,000
3. Room 101, No. 199 Guangzhou Road, Gulou District, Nanjing City, China (中國南京市鼓樓區廣州路199號101室)	office	140	Nanjing Zhengda Economic Development Company Limited	Hexin Pawn, Nanjing branch	14 November 2014 to 13 November 2017	160,000
4. Part of 12/F., No. 296 Jingxi Zhong Road, Yicheng Street, Yixing City, China (中國宜興市宜城街道荊溪中路296號十二層部份)	office	200	Ms. Ren Tingting	Yixing Hanxin	1 March 2016 to 28 February 2019	140,000
5. Part of No. 300 Longtan West Road, Yicheng Street, Yixing City, China (中國宜興市宜城街道龍潭西路300號部份)	office	126	Ms. Jiang Huiling	Yixing Ziyu	1 March 2016 to 28 February 2019	90,000

Among the above leased properties, our leases from Mr. ZJ Fan and his family members of offices as our headquarters and offices for each of Hexin Pawn and Hexin Auction are deemed to be an exempted continuing connected transactions under Chapter 14A of the Listing Rules. For more details, please see “Connected Transactions and Notifiable Transactions” in this prospectus.

The relevant property owner of each of above leased properties possesses valid title documents showing ownership of the relevant property.

As of the Latest Practicable Date, we have completed the registration of the lease agreements with the competent authority for items 1 and 2 of the above leased properties and are in the course of liaising and assisting the property owners of other leased properties for the registration of the lease agreements with the competent authority. As advised by our PRC Legal Advisers, failure to register such leasing agreements will not affect the validity of the same and the agreement is still valid, however, we may be subject to sanctions imposed by the Chinese authorities due to such non-registration. We may also be ordered by competent Chinese authorities to make rectification for any non-registration within a specified period of time and may be subject to a fine in an amount ranging from RMB1,000 to RMB10,000 per non-registration in the event of any delay in making such rectification. As of the Latest

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Practicable Date, we were not subject to any fees or administrative penalties by the relevant housing department in China due to our failure to complete the lease registration procedures, and we were not aware of any challenges from third parties on our interests under the lease agreements that might affect our current occupation.

### QUALIFICATIONS, LICENCES AND AWARDS

Our pawn loan and auction operations are highly regulated and are subject to special licencing regime in China. The following table summarises certain particulars of the special licences and qualification required for our business activities.

Principal business activities	Licence/ qualification holder	Special licence/ qualification	Issuing authority	Date of issue of the licence/ qualification	Validity period or expiry date of the licence/ qualification
Pawn loan	Hexin Pawn	Pawn Operation Permit	Jiangsu Commerce Department	5 September 2013	6 years
		Special Industry Permit	Wuxi Public Security Bureau (無錫市公安局)	16 December 2014	Not specified
	Hexin Pawn (Nanjing branch)	Pawn Operation Permit	Jiangsu Commerce Department	27 January 2016	6 years
		Special Industry Permit	Nanjing Public Security Bureau (南京市公安局)	30 April 2010	Not specified
	Hexin Pawn (Wuxi branch)	Pawn Operation Permit	Jiangsu Commerce Department	17 August 2016 (Note 1)	6 years
		Special Industry Permit	Wuxi Public Security Bureau	11 June 2010	Not specified
Auction	Hexin Auction	Approval Certificate for Auction Operation	Jiangsu Commerce Department	1 February 2016	31 January 2026
		Value-added Telecommunications Service Operating Permit (中華人民共和國增值電信業務經營許可證) (Note 2)	Jiangsu Communications Administration	8 October 2015	8 October 2020
		Network Cultural Business Permit (Note 2)	Jiangsu Culture Department	28 December 2015	28 December 2015 to 27 December 2018
		AA-Grade Auction Qualification (中國拍賣行業AA企業) (Note 3)	China Association of Auctioneers	January 2013	Not specified

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### Notes:

- (1) The previous Pawn Operation Permit of Hexin Pawn (Wuxi branch) expired on 2 February 2016. On 17 August 2016, Hexin Pawn obtained the renewed permit from the relevant governmental authority. As Hexin Pawn (Wuxi branch) has not commenced its operation, as advised by our PRC Legal Advisers, the expiry of and delay in the application for renewal of such permit would not constitute any breach or non-compliance by Hexin Pawn with the Pawning Measures and other relevant laws, rules and regulations in China. Our Directors are of the view that the above matter would not have any material adverse effect on our business and financial conditions.
- (2) VA Telecom Permit and NCB Permit are licences required and maintained by us to conduct online auction business.
- (3) As of March 2016, as confirmed by Jiangsu Province Association of Auctioneers (江蘇省拍賣行業協會), Hexin Auction was the only auction house in Yixing awarded with the AA-Grade auction qualification.

As of the Latest Practicable Date, we held all the necessary licences and permits for the operation of our business. According to the relevant PRC laws and regulations, we are subject to regular examination to renew relevant licences. During the Track Record Period, save as disclosed above, we have not experienced any rejection or delay in the application for or renewal of our licences nor imposition of special conditions for the grant of any licences which materially and adversely affected our operations. Please see the section headed “Risk Factors — Our operations are subject to highly regulated regime. There is no assurance that we will be able to obtain and renew all necessary licences etc. for our operation, failure of which may cause a halt to our business”.

Since our inception, we have been awarded with various local level awards, including:

### Hexin Pawn

- 2006 Advanced Enterprise (先進集體) (jointly awarded by CPC Yixing Municipal Committee (中共宜興市委) and Yixing municipal government)
- 2008 Brilliant Private Enterprise (私營企業光彩之星) (jointly awarded by the Administration of Industry and Commerce of Yixing, Wuxi City and Yixing Private Enterprise and Individual Economic Association (宜興市私營個體經濟協會))
- AAA-Level Enterprise of “Honouring Contracts and Keeping Promise” of Wuxi City (無錫市AAA級重合同守信用企業) (awarded by the Wuxi municipal government in 2008)
- AAA-Grade Corporate Credit Rating (企業資信等級) (assessed by Jiangsu Hengda Credit Rating Company Limited (江蘇恒大信用評價有限公司) in 2009 and 2010)
- AA-Grade Business Credit Evaluation (商務誠信評價AA級信用企業) (assessed by Wuxi General Chamber of Commerce (無錫商業聯合會), Wuxi Pawn Trade Association (無錫典當行業協會) and Wuxi Dongwu Enterprise Credit Rating Co., Ltd. (無錫東吳企業信用徵信評估有限公司) in February 2016)

### Hexin Auction

- 2008 and 2012 Advanced Enterprise (先進集體) (jointly awarded by CPC Yixing Municipal Committee and Yixing municipal government)
- 2010 and 2015 Top 10 Modern Services Enterprise (現代服務業十強) (jointly awarded by CPC Yixing Municipal Committee and Yixing municipal government)

# BUSINESS

## INTELLECTUAL PROPERTY RIGHTS

As of the date of this prospectus, we had one registered trademark in PRC and had applied for registration of a series of two trademarks in PRC and a series of two trademarks in Hong Kong. The registered trademark and trademarks under applications relate to our corporate name and logo. As of the date of this prospectus, we were also the registered owner of three domain names. For further details of our intellectual property rights, please refer to paragraph 2.2 under Appendix IV — “Statutory and General Information” to this prospectus.

During the Track Record Period and as of the Latest Practicable Date, we have not experienced any litigation, arbitration or investigation in relation to any infringement of our intellectual property rights by third parties nor our infringement of intellectual property rights owned by other parties which caused material adverse effect to our operations.

## EMPLOYEES

As of the Latest Practicable Date, we had 38 full-time employees. Most of our employees are located in China. The following table shows a breakdown of our full-time employees by functions as of the Latest Practicable Date.

Department/Function	Number of employees			Sub-total
	Art and Asset Pawn Segment	Art and Asset Auction Segment	General Staff	
Management	—	—	7	7
Operations	8	11 <sup>(Note)</sup>	—	19
Finance and accounting	2	2	—	4
IT and Administration	4	1	—	5
Risk management	3	—	—	3
<b>Total</b>	<b><u>17</u></b>	<b><u>14</u></b>	<b><u>7</u></b>	<b><u>38</u></b>

*Note:* This included a PRC registered auctioneer engaged by Hexin Auction.

We strive to build and maintain a strong team of employees as we believe we owe much of our success to our people. Our recruiting policy emphasises the importance of attracting competent employees through a combination of competitive salary and welfare incentives, on-the-job training and opportunities for development. As of the Latest Practicable Date, we had not established any labor union.

We enter into employment contracts with our employees where we set forth terms of employment, payments and welfares and their job responsibilities. Pursuant to the applicable PRC regulations, we have made contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for our employees. For the Track Record Period, we incurred staff costs of approximately RMB2.6 million, RMB2.3 million, RMB3.1 million and RMB1.9 million, for each of the years ended 31 December 2013,



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2014 and 2015 and the six months ended 30 June 2016, respectively. As of the Latest Practicable Date, we were in compliance with all statutory social insurance and housing fund obligations applicable to us under PRC laws in all material aspects. We maintained good relationships with our employees. During the Track Record Period, we have not experienced any significant disputes with our employees that have materially affected our operations or any that are expected to materially affect our operations.

We highly value the importance of training and continue development of our employees in order to groom talents for sustained development of our business, in particular, we provide regular on-job trainings to our relevant employees and officers on risk management and verification and appraisal of artworks. We have developed and retained a team of experts who specialise in authentication and valuation of different types of artworks.

### **ENVIRONMENTAL COMPLIANCE**

We are not subject to any significant environmental regulations in any of the business segments we engage in. We did not have any environmental liabilities and did not incur any environmental liabilities or compliance cost during the Track Record Period. We do not expect to incur such liabilities or costs that could have any material impact on our financial condition or business operations in the foreseeable future.

### **LEGAL PROCEEDINGS**

During the Track Record Period, we initiated one legal action arising in the ordinary course of our asset pawn loan business in connection with the recovery of payment from a borrower with aggregate principal loan amount of RMB9 million, which was advanced in January 2012 and was secured by real estate collateral. The legal action was concluded in the People's Court of Yixing City, Jiangsu province in July 2013. The court ordered the borrower to repay to Hexin Pawn the principal loan amount of RMB9 million as well as accrued composite administrative fee (calculated at the rate as stipulated in the judgement) and other legal and court fee by the sale proceeds of the charged properties. After prolonged delay in repayment of the outstanding amount notwithstanding repeated demand, as agreed between us and the borrower, in March 2015, we agreed with the borrower to reduce half of the outstanding composite administrative fee payment in the sum of about RMB2.3 million provided that the borrower would agree to settle all outstanding payment within the next 60 days. In April 2015, the full principal amount of the loan and approximately 50% of the accrued composite administrative fee were recovered and collected by us after the collateral was disposed of by way of an auction.

Save as disclosed in this prospectus, as of the Latest Practicable Date, we were not aware of any litigation, arbitration, claim or investigation of material importance against us or our Directors, and no litigation, arbitration, claim or investigation or material importance was known to our Directors to be pending or threatened by or against us or our Directors, that would cause a material adverse effect to our business operations or financial results.

During the Track Record Period and as of the Latest Practicable Date, as advised by our PRC Legal Advisers, with our continuous efforts, we complied with all relevant PRC laws and regulations in all material aspects for our business operations in PRC and did not have any material non-compliance with the law, rules and regulations in China which, in the opinion of our Directors, is likely to have material adverse effect on our business, financial condition or results of operations.

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

### OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering, and without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, Intelligenesis Inv will directly hold approximately 62% of the issued share capital of our Company. Intelligenesis Inv is held as to approximately 70% by Golden Sand Inv and approximately 30% by Yubo Inv. Golden Sand Inv is owned as to approximately 74% by Mauve Jade Inv and as to the remaining approximately 26% by other parties acting in concert with Mr. ZJ Fan. Mauve Jade Inv is owned as to approximately 67% and 33% by Mr. ZJ Fan and Ms. QZ Fan respectively. Yubo Inv is solely owned by Mr. JS Wang. For the purpose of the Listing Rules, Intelligenesis Inv, Golden Sand Inv, Mauve Jade Inv, Mr. ZJ Fan, Ms. QZ Fan, Mr. YJ Fan, Ms. Wu, Ms. Xu, Yubo Inv and Mr. JS Wang are the Controlling Shareholders of our Company as of the Latest Practicable Date, and Mr. ZJ Fan, Ms. QZ Fan, Mr. YJ Fan, Ms. Wu and Ms. Xu are a group of Controlling Shareholders acting in concert.

As of the Latest Practicable Date, other than the art finance services carried on through art and asset pawn loan and auction business in PRC by our Group, some of our Controlling Shareholders and their close associates had interest (having such meaning ascribed in the note to Rule 8.10(1) of the Listing Rules) in the following companies (collectively, the “**Other Business**”). These companies are engaged in businesses of sectors different from our Group which do not compete or is not likely to compete either directly or indirectly with our Group’s business. Brief details of each of the companies under the Other Business are as follows:

Name of company	Directorship and/or percentage of interest held by the relevant Controlling Shareholders and their close associates	Principal activities under the permitted scope of business licence
1. Wuxi Culture <i>(Note 1)</i>	Mr. ZJ Fan: sole director and 100%	Organisation of culture and art exchange activities; sale of stationery
2. Jiangsu Yingxin Venture Investment Company Limited (江蘇盈信創業投資有限公司) <i>(Note 2)</i>	Mr. ZJ Fan: sole director and 80%	Venture investment, providing agency, consultancy and management services for venture investment
3. Zisha Hotel <i>(Note 3)</i>	Mr. JS Wang: sole director and 100%	Operation of hotel, catering services and retailing of commodities
4. Yixing Ruize Materials Trading Company Limited (宜興市瑞澤物資貿易有限公司) (“ <b>Ruize Materials</b> ”) <i>(Note 4)</i>	Mr. JS Wang and his spouse: 100%	Sale of metal and construction materials, environmental protection equipment

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Name of company	Directorship and/or percentage of interest held by the relevant Controlling Shareholders and their close associates	Principal activities under the permitted scope of business licence
5. Jiangsu Ningyi Property Company Limited (江蘇寧宜置業有限公司)	Mr. JS Wang: a director	Property development, sale of construction materials
6. Yixing Chengxiang Materials Trading Company Limited (宜興程翔物資貿易有限公司) (“Chengxiang Materials”) (Note 5)	Mr. ZJ Fan: 2% Ms. QZ Fan: 2% Mr. YJ Fan: 1% Mr. JS Wang: 1% Ms. Wu: 1% Ms. Xu: 1% Mr. ZX Fan: 20% Mr. Zhang Bin: 72%	Sale of metal and construction materials, environmental protection equipment

*Notes:*

- (1) Wuxi Culture is a registered shareholder of Hexin Pawn, holding 8% of its registered capital. On 18 March 2016, the permitted scope of business of Wuxi Culture was approved by Yixing AIC to change from “sale of arts and crafts, paintings and calligraphies and stationery” to “organisation of culture and art exchange activities and sale of stationery”. To the best knowledge and information of the Directors having made all reasonable enquiries with Mr. ZJ Fan, Wuxi Culture has not carried on any business in connection with the sale of arts and crafts, paintings and calligraphies. The business scope was changed to avoid possible confusion and potential competition between the businesses of Wuxi Culture and those of our Group.
- (2) The remaining 20% registered capital in Jiangsu Yingxin Venture Investment Company Limited is held by Mr. ZX Fan, a member of our senior management and a brother of Mr. ZJ Fan.
- (3)
  - (a) Zisha Hotel is a registered shareholder of Hexin Pawn, holding 36% of its registered capital. Mr. JS Wang is the 60% registered equity-holder of Zisha Hotel, the remaining 40% was registered in the names of Wang’s Family Members who are holding those equity interests on trust for the benefit of Mr. JS Wang.
  - (b) On 15 April 2016, the permitted scope of business of Zisha Hotel was approved by its shareholders to change from “accommodation; hairdressing; Chinese catering services; retailing of prepacked food, cigarette, cigar, arts and crafts, daily commodities; car-parking, chess and laundry services” to “accommodation; hairdressing; Chinese catering services; retailing of prepacked food, cigarette, cigar, daily commodities; car-parking, chess and laundry services”. The above change in the permitted scope of business was approved by the relevant government authority on 17 May 2016. To the best knowledge and information of the Directors having made all reasonable enquiries with Mr. JS Wang, Zisha Hotel has not carried on any business in connection with the sale and retailing of arts and crafts. The business scope was changed to avoid possible confusion and potential competition between the businesses of Zisha Hotel and those of our Group.
- (4) Ruize Materials is owned as to 40% by Mr. JS Wang and 60% by his spouse. On 14 April 2016, the permitted scope of business of Ruize Materials was approved by its shareholders to change from “sale of metal materials, construction materials, metal hardware, environmental protection equipment, mechanical engineering equipment and components and ceramic products” to “sale of metal materials, construction materials, metal hardware, environmental protection equipment, mechanical engineering equipment and components”. The above change in the permitted scope of business was approved by the relevant government authority on 4 May 2016. To the best knowledge and information of the Directors having made all reasonable enquiries with Mr. JS Wang, Ruize Materials has not carried on any business in connection with the sale of ceramic products and other artworks. The business scope was changed to avoid possible confusion and potential competition between the businesses of Ruize Materials and those of our Group.

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- (5) (a) On 17 March 2016, the permitted scope of business of Chengxiang Materials was approved by Yixing AIC to change from “sale of metal materials, metal hardware, construction materials, environmental protection equipment, general mechanical equipment and components and ceramic products” to “sale of metal materials, metal hardware, construction materials, environmental protection equipment, general mechanical equipment and components”. To the best knowledge and information of the Directors having made all reasonable enquiries with the management of this company, Chengxiang Materials has not carried on any business in connection with the sale of ceramic products and other artworks. The business scope was changed to avoid possible confusion and potential competition between the businesses of Chengxiang Materials and those of our Group.
- (b) The respective interest of Mr. ZJ Fan and Mr. JS Wang in Chengxiang Materials is 2% and 1%. Other than Mr. Zhang Bin (our executive Director) and Mr. ZX Fan (our senior management), some or all other equity-holders of Chengxiang Materials are also the equity-holders (direct or indirect) of our PRC Operating Entities.

Our Directors have considered that it is either unnecessary or not in the best interest of our Group to include the Other Business in our Group for the purpose of Listing in order for our Group to focus on our principal business of art finance services.

Prior to the Listing, some of our Controlling Shareholders and their close associates had interest (having such meaning ascribed in the note to Rule 8.10(1) of the Listing Rules) in the following companies (collectively, the “**Disposed Companies**”) whose directorship had terminated and/or whose equity-interests had been disposed of (“**Disposal**”) and approved by the relevant governmental authorities or completion of formality for such changes. Brief details of each of the Disposed Companies are as follows:

Name of company	Directorship and/or percentage of interest held by the relevant Controlling Shareholders and their close associates prior to the Disposal	Principal activities under the permitted scope of business licence
1. Yixing Ruixin Investment Guarantee Company Limited (宜興市瑞信投資擔保有限公司) (formerly known as Hexin Investment Guarantee Company Limited (和信投資擔保有限公司)) (“ <b>Hexin Guarantee</b> ”) (Note 1)	Mr. ZJ Fan: a director and 38% Mr. JS Wang: a director and 12%	Providing various types of financing guarantee services and related advisory services

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Name of company	Directorship and/or percentage of interest held by the relevant Controlling Shareholders and their close associates prior to the Disposal	Principal activities under the permitted scope of business licence
<p>2. Yixing Ruixin Rural Microfinancing Company Limited (宜興市瑞信農村小額貸款有限公司) (formerly known as Yixing Hexin Rural Microfinancing Company Limited (宜興市和信農村小額貸款有限公司)) (“Hexin Microfinancing”) (Note 2)</p>	<p>Hexin Guarantee: 30% Mr. ZJ Fan: a director</p>	<p>Providing loans to small and medium enterprises and offering financing guarantee services with the focus on three rural issues: agriculture, rural areas and farmers</p>
<p>3. Yixing Taodu Rural Microfinancing Company Limited (宜興市陶都農村小額貸款有限公司) (“Taodu Microfinancing”) (Note 3)</p>	<p>Zisha Hotel: 25% Yixing Lanshan Property: 40% Mr. JS Wang: a director</p>	<p>Providing loans with a focus on three rural issues: agriculture, rural areas and farmers and offering financing guarantee</p>

*Notes:*

- (1) (a) On 7 April 2016, the company name of Hexin Guarantee was approved by its shareholders to be changed from Hexin Investment Guarantee Company Limited (和信投資擔保有限公司) to Yixing Ruixin Investment Guarantee Company Limited (宜興市瑞信投資擔保有限公司).
- (b) On 7 April 2016, Mr. ZJ Fan entered into an equity transfer agreement for the disposal of 38% of the equity interest in Hexin Guarantee (being all the equity interest of Hexin Guarantee then owned by Mr. ZJ Fan) to an Independent Third Party at a consideration of RMB61.6 million, equivalent to the amount of capital contribution attributable to such equity interest being disposed of.
- (c) On 7 April 2016, Mr. JS Wang entered into an equity transfer agreement for the disposal of 12% of the equity interest in Hexin Guarantee (being all the equity interest of Hexin Guarantee then owned by Mr. JS Wang) to an Independent Third Party at a consideration of RMB19.4 million, equivalent to the amount of capital contribution attributable to such equity interest being disposed of.
- (d) Each of Mr. ZJ Fan and Mr. JS Wang had tendered his resignation as a director of Hexin Guarantee, whose resignation was approved by Hexin Guarantee’s shareholders on 7 April 2016.
- (e) Change of company name of Hexin Guarantee (as outlined in sub-paragraph (a) above), the Disposal of equity interests of Hexin Guarantee (as outlined in sub-paragraphs (b) and (c) above) were approved by the relevant government authority on 29 July 2016, and the resignation of directors was approved by the relevant government authority on 28 June 2016. As advised by the PRC Legal Advisers, the agreements for the Disposal of equity interest of Hexin Guarantee as outlined in sub-paragraphs (b) and (c) above were valid and binding among the parties.

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- (2) (a) On 20 March 2016, the company name of Hexin Microfinancing was approved by its directors to be changed from Yixing Hexin Rural Microfinancing Company Limited (宜興市和信農村小額貸款有限公司) to Yixing Ruixin Rural Microfinancing Company Limited (宜興市瑞信農村小額貸款有限公司).
- (b) Mr. ZJ Fan had tendered his resignation as a director of Hexin Microfinancing, whose resignation was approved by Hexin Microfinancing's shareholders on 20 August 2015.
- (c) Change of company name of Hexin Microfinancing (as outlined in sub-paragraph (a) above) and the resignation of director (as outlined in sub-paragraph (b) above) were approved by the relevant government authority on 14 June 2016.
- (3) (a) Prior to the Disposal, Taodu Microfinancing was owned as to 25% by Zisha Hotel, 40% by Yixing Lanshan Property and 35% by an enterprise which is wholly-owned by Mr. Wang Yunsong (王雲松) (the brother of Mr. JS Wang) and other relatives of Mr. JS Wang (not being his close associate).
- (b) On 15 April 2016, Mr. JS Wang entered into an equity transfer agreement for the disposal of 25% of the equity interest in Yixing Lanshan Property (being all the equity interest of Yixing Lanshan Property then owned by Mr. JS Wang) to the spouse of Mr. Wang Yunsong at a consideration of RMB9.5 million, equivalent to the amount of capital contribution attributable to such equity interest being disposed of.
- (c) On 13 April 2016, Zisha Hotel entered into an equity transfer agreement for the disposal of 25% of the equity interest in Taodu Microfinancing (being all the equity interest of Taodu Microfinancing then owned by Zisha Hotel) to an enterprise which is wholly-owned by Mr. Wang Jianyuan (王建元), a brother of Mr. JS Wang, at a consideration of RMB31.3 million, equivalent to the amount of capital contribution attributable to such equity interest being disposed of.
- (d) Mr. JS Wang had tendered his resignation as a director of Taodu Microfinancing, whose resignation was approved by Taodu Microfinancing's shareholders on 15 April 2016.
- (e) Disposal of equity interests of Yixing Lanshan Property (as outlined in sub-paragraph (b) above) was approved by the relevant government authority on 12 May 2016. Disposal of equity interests of Taodu Microfinancing (as outlined in sub-paragraph (c) above) and the resignation of director of Taodu Microfinancing (as outlined in sub-paragraph (d) above) were approved by the relevant government authority on 17 May 2016. As advised by the PRC Legal Advisers, the agreements for the Disposal of equity interest of Yixing Lanshan Property and Taodu Microfinancing as outlined in sub-paragraph (b) and (c) above were valid and binding among the parties.

Our Directors have considered that each of the Disposed Companies is engaged in financing services of different nature of our art and asset pawn business under the Pawning Measures. While we provide art finance services focusing on artwork related operations, the financing services provided by those Disposed Companies are not secured by collaterals and not related to artworks. Further, an important group of our Group's clients are artwork interested parties, while the target customers of the Disposed Companies are mainly small and medium enterprises and individual with short-term financing need. Accordingly, our Directors consider that none of the Disposed Companies' businesses compete or is likely to compete, either directly or indirectly, with those of our Group. The Disposed Companies are disposed of by those relevant Controlling Shareholders to avoid possible confusion and potential competition between the businesses of those Disposed Companies and those of our Group. Further, our Directors have considered that it is either unnecessary or not in the best interest of our Group to include the Disposed Companies in our Group for the purpose of Listing in order for our Group to focus on our principal business of art finance services. The Disposed Companies were not included in our Group based on the business strategy of our Group, details of which are mentioned above. It is not the intention of our Directors to exclude the Disposed Companies in order to enable our Company to meet

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the basic listing qualification requirement or to enhance our Group's apparent attractiveness. Our Directors believe that even if the Disposed Companies had been included in our Group, we would have been able to comply with the profit test requirement under Rule 8.05(1)(a) of the Listing Rules.

### **INTEREST IN THE PRC OPERATING ENTITIES HELD BY MR. ZJ FAN**

Immediately following completion of the Reorganisation, Mr. ZJ Fan or his wholly-owned company will remain the registered equity-holder of 26% and 85% of the equity interest in Pawn and Hexin Auction respectively. The equity interests in the PRC Operating Entities are neither directly nor indirectly held by our Company. As part of the Reorganisation and in preparation for the Global Offering, we have entered into the Structured Contracts with the PRC Operating Entities, by virtue of which the PRC Operating Entities are accounted for as subsidiaries of our Group. For details of the Contractual Arrangements, please refer to the section headed "Contractual Arrangements".

### **INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS**

Save as disclosed in this section and "Connected Transactions and Notifiable Transactions" in this prospectus, our Directors do not expect that there will be any other significant transactions between our Group and our Controlling Shareholders upon or shortly after the Listing. Our Group is capable of carrying on our business independently from and does not place undue reliance on our Controlling Shareholders, taking into consideration the following factors:

#### **Management Independence**

Our Board comprises two executive Directors and three INEDs. Mr. ZJ Fan, one of our executive Directors, is one of the Controlling Shareholders of our Company.

Each of our Directors is aware of his fiduciary duties as a Director, which require (among other things) that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. If there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum.

Apart from our executive Directors who oversee the daily operations of our Group, we have an independent management team to carry out the business decisions of our Group and to perform all essential management functions without unduly requiring the support of our Controlling Shareholders. Our INEDs have sufficient and competent industry knowledge and experience, and will bring independent judgment to the decision making process of our Board, taking into account the advice of the senior management of our Group.

Our Directors are satisfied that our senior management team is able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the Listing.



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### Business Independence

Mr. JS Wang, one of our Controlling Shareholders, is the sole beneficial owner of Zisha Hotel. Zisha Hotel is a registered shareholder of Hexin Pawn (holding 36% of its registered capital) and was one of our five largest suppliers for FY2015 and the six months ended 30 June 2016, which leased its hotel premises for Autumn Auction (and the relevant preview exhibition) held in 2015 and Spring Auction (and the relevant preview exhibition) held in 2016 at the respective leasing fees of RMB120,000 and RMB110,000, which was settled by us on as of 31 March 2016 and 11 August 2016 in full.

Save as disclosed above and other than the related party transactions disclosed in Note 28 of the Accountants' Report in Appendix I to this prospectus and the connected transactions disclosed in "Connected Transactions and Notifiable Transactions" in this prospectus, there were no material business dealings between our Group and the Controlling Shareholders during the Track Record Period.

During the Track Record Period and up to the Latest Practicable Date, our Group and our Controlling Shareholders did not have any common or shared facilities or resources. Our Group has independent access to the sources of supplies for the provision of our art finance services. Other than Zisha Hotel owned by Mr. JS Wang as disclosed above, neither our Controlling Shareholders nor any of their respective close associates is a supplier or an intermediary for our Group's supplies. We have independent access to our customers. Our Directors believe that our Group has not unduly relied on the Controlling Shareholders or their respective close associates to carry on its business during the Track Record Period.

### Financial Independence

During the Track Record Period, we principally financed our operations through a combination of paid-in capital and retained earnings. Except the amounts due to Controlling Shareholders are disclosed below, we have not obtained borrowings from our Controlling Shareholders and their respective close associates. As of the year-end or period-end during the Track Record Period:

- (a) nil, nil, RMB120,000 and RMB895,000 were respectively due from us to our Controlling Shareholders and their respective close associates, in respect of which no interest was carried. The sum of RMB120,000 due from us as of 31 December 2015 owing to Zisha Hotel was leasing fees payable by us for the rental of venue for our 2015 Autumn Auction, which was fully settled as of 31 March 2016. Among the sum of RMB895,000 due from us as of 30 June 2016, approximately RMB710,000 (equivalent to approximately HK\$830,000) owing to Mr. ZJ Fan was used as the working capital of Reliance Art HK, which will be settled upon Listing; RMB110,000 owing to Zisha Hotel was leasing fees payable by us for rental of venue for our 2016 Spring Auction, which was fully settled as of 11 August 2016; and RMB75,000 owing to Mr. ZJ Fan was leasing fees payable by us for rental of warehouse and office for Hexin Auction for the second quarter of 2016, which was fully settled as of 31 August 2016; and
- (b) save as disclosed in "Financial Information — Indebtedness — Amounts due to related parties and a director", we did not have any loans or borrowings; save and except the personal guarantee provided by Mr. ZJ Fan which will be released upon Listing as



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disclosed in “Financial Information — Indebtedness — Statement of Indebtedness”, no guarantees or any securities were provided by our Controlling Shareholders or their respective close associates.

As disclosed above, upon Listing, all loans, advances and balances due to and from our Controlling Shareholders and their respective close associates will be fully settled.

Save as mentioned above, our source of funding is independent from our Controlling Shareholders and none of our Controlling Shareholders or their respective close associates financed our operations during the Track Record Period.

During the Track Record Period and up to the Latest Practicable Date, we had independent financial and accounting and internal control systems, independent treasury function for receiving cash and making payments and we had independent access to third party financing. Our Group is capable of making financial decisions according to our own business needs. Our Directors also believe that we are able to obtain financing independent from our Controlling Shareholders and their respective close associates.

Save as aforesaid, our Group does not rely on our Controlling Shareholders and/or their respective close associates by virtue of their provision of financial assistance.

### **Operational Independence**

Our Group has our own management team to carry out our business and operations, including business development, marketing and sales operations, which will operate separately and independently from the Controlling Shareholders. Such management team comprises managers who have considerable experience in art finance services carried on through pawn loan and art and asset auction businesses in PRC. Our Group does not rely on referral of business opportunities from the Controlling Shareholders, and the management team of our Group will be able to seek business opportunities for our Group. Our Group is able to continue to operate independently from the Controlling Shareholders.

## COMPETITION AND CONFLICT OF INTERESTS

### **Undertakings Given by Controlling Shareholders**

Each of our Controlling Shareholders has represented and warranted to our Company that currently he/she/it and/or his/her/its close associates is/are neither engaged, nor interested in, and has undertaken to us that subject to certain exceptions as set out below, he/she/it shall not and shall procure that his/her/its close associates at any time during the Relevant Period (as defined below) not to engage or interest in any business (other than our Group) which, directly or indirectly, competes or may compete with our business.

To protect our Group from any potential competition, the Controlling Shareholders have executed the Deed of Non-competition in favour of our Company on 14 October 2016, pursuant to which each of our Controlling Shareholders has, among other matters, unconditionally and irrevocably undertaken to us on a joint and several basis that, each of them shall, and shall procure that his/her/its close associates and/or companies controlled by him/her/it (other than our Group):

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- (i) at any time during the Relevant Period not, directly or indirectly, alone or jointly with another person, in any form be interested, involved, engaged in or assist or support any third party in the operation of, or invest, participate, acquire or hold any right or interest (in each case whether for his/her/its own account or for that of any person, firm or company (other than any member of our Group) and whether through medium of any company which is its close associate (for which purpose there shall be aggregated with its shareholding or ability to exercise control the shares held or controlled by any of its close associates) or as a principal, shareholder, partner, director, employee, consultant, agent or otherwise and whether for profit, reward or otherwise (“**Relevant Capacity**”)) in any business (other than our Group) or is about to be engaged in any business (other than our Group) which is the same or similar to that carried on by our Group and/or which competes or may compete directly or indirectly with the business currently and from time to time engaged by our Group (including but not limited to the engagement of art finance services carried on through pawn loan business and auction business and businesses ancillary thereto) in PRC, Hong Kong and any other country or jurisdiction, and other principal business activities engaged by us from time to time (the “**Restricted Activity**”);
- (ii) unless and until the Shares cease to be listed on the Stock Exchange, at any time during which securities of our Company are listed on the Stock Exchange and for so long as the Controlling Shareholders and/or their respective close associates directly or indirectly hold, whether individually or taken together, 30% or more of the issued shares in our Company or are regarded as the controlling shareholders of our Company under the Listing Rules and for a period of two years thereafter, in any Relevant Capacity:
  - (A) not directly or indirectly solicit, interfere with, employ or endeavour to entice away from any members of our Group any person who, to his/her/its knowledge, is now, or has during the 12 months preceding the date of the Deed of Non-competition been, a client, customer, supplier or employee of our Group for employment by or otherwise dealing with him/her/it or his/her/its close associates (excluding our Group); and/or
  - (B) other than for the purpose of conducting business of or relating to our Group, at any time, not use the name or trading style of any member of our Group, or any trademarks, patents or logos or device or intellectual property rights similar in appearance to those of any member of our Group, in PRC, Hong Kong or any other part of the world, or represent himself/herself/itself as carrying on or continuing or being connected with any member of our Group or our business for any purposes whatsoever.
- (iii) not, without prior consent from our Company, disclose to any person or make use of any information pertaining to the business, accounts or finances of our Group or any of our clients’, suppliers’ or customers’ transactions or affairs, which may, or may have come to his/her/its knowledge in his/her/its capacity as a shareholder and/or a Director (as the case may be) for any purpose and shall use his/her/its best endeavours to prevent the publication or disclosure of such information; and
- (iv) at any time during the Relevant Period if there is any project or new business opportunity that relates to the Restricted Activity, first refer such project or new business opportunity to our Company within a reasonable period of time for consideration. In this connection, we have the right within one month thereafter to take up such opportunity and in the event that

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we decide to take up the opportunity, each of our Controlling Shareholders will and will procure his/her/its close associate(s) to use his/her/its best endeavour to assist us to obtain such opportunity.

### *Approvals for allowing the Controlling Shareholders to participate in Restricted Activity*

The above undertaking (i) is subject to the exception that any of the Controlling Shareholders and/or his/her/its close associates (excluding our Group) is entitled to invest, participate and be engaged in any Restricted Activity or any project or business opportunity containing or for the pursuit of the Restricted Activity, regardless of value, which project or business opportunity has been offered or made available to our Group and rejected by the Board only after step of careful scrutiny and approval from the Board will have been taken, provided always that information about the principal terms thereof has been disclosed to our Company and our Directors.

The steps to be taken by the Board include that the relevant Board meeting shall be participated by our INEDs who should have been allowed a reasonable period of time to consider the subject matters and without the attendance by any Director with beneficial interest in such project or business opportunities at the meeting, in which resolutions have been duly passed by the majority of the INEDs that our Group has rejected such project or business opportunity and/or otherwise not to be involved or engaged, or not to participate, in the relevant Restricted Activity and that the principal terms on which that relevant Controlling Shareholder and/or his/her/its close associate(s) invest, participate or engage in the Restricted Activity are substantially the same as or not more favourable than those disclosed to and considered by our Company. Subject to the above, if the relevant Controlling Shareholder and/or his/her/its close associate(s) decide to be involved, engaged, or to participate in the relevant Restricted Activity, whether directly or indirectly, the terms of such involvement, engagement or participation must be disclosed to our Company and our Directors as soon as practicable.

The factors which our Directors would take into account when deciding whether or not our Group shall take up such new projects or business opportunities include, among others, the costs and risks involved, the short-term and long-term benefits expected to be brought to our Group, possible compliance issues and whether such opportunities are in the interests of our Group and Shareholders as a whole.

Notwithstanding his taking up of the new projects or business opportunities (if any), Mr. ZJ Fan shall, as a Director, always perform his duties in good faith and in the interest of our Company, and shall not allow his commitment to devote substantially all of his time to our Group be undermined in any way.

### *Other exceptions for the Controlling Shareholders to participate in Restricted Activity*

Notwithstanding the undertakings given under the Deed of Non-competition, the undertakings given by the Controlling Shareholders of not to compete with our Group are subject to the exception that any of the Controlling Shareholders and their respective close associates (excluding our Group) are entitled to invest, participate and be engaged in any Restricted Activity or any project or business opportunity, regardless of value, which (i) are the direct or indirect investments of the relevant Controlling Shareholder and/or his/her/its close associates (excluding our Group and any associated companies of our Company) in any member of our Group or such associated companies, and/or (ii) any other companies which the relevant Controlling Shareholder does not hold more than 5% interest and

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does not participate in the management of such company and at all times there is a holder of such shares or securities holding (together, where appropriate, with its close associate(s)) a larger percentage of the shares or securities of such company than the Controlling Shareholder and his/her/its close associate(s) together hold.

### *First rights of refusal agreed to be given by the Controlling Shareholders to our Group*

Pursuant to the Deed of Non-competition, the Controlling Shareholders, jointly and severally, have also granted an option and/or first rights of refusal to our Group for acquiring from the relevant Controlling Shareholder and/or his/her/its close associates any new business (not being the Restricted Activity) then engaged or invested by such Controlling Shareholder and/or his/her/its close associates, which option and/or rights may be exercisable by us at any time when we engage or start engaging in any such business.

### *Undertakings by the Controlling Shareholders to provide information etc*

Each of our Controlling Shareholders has also undertaken under the Deed of Non-competition that he/she/it shall:

- (i) provide or procure the provision to us and/or our Directors (including our INEDs) from time to time all information necessary for the annual review by our INEDs with regard to compliance with the terms of the Deed of Non-competition by the relevant Controlling Shareholder and his/her/its close associates;
- (ii) allow our Directors, their respective representatives and the auditors of our Group to have sufficient access to the records of the relevant Controlling Shareholder and his/her/its close associates to ensure their compliance with the terms and conditions under the Deed of Non-competition;
- (iii) issue an annual declaration to our Company on compliance with the terms of the Deed of Non-competition, setting out therein his/her/its interests (if any) in any projects or business opportunities (including any changes thereof) and consenting to the disclosure of such declaration in our annual reports or the announcements published by our Company regarding the decisions of the INEDs on matters referred to in the Deed of Non-competition;
- (iv) supply to our Company upon signing of the Deed of Non-competition with full and accurate details of any business or interest (if any) which the relevant Controlling Shareholder and/or his/her/its close associates have or may have which competes or may compete with the business from time to time carried on by our Group and any other conflicts of interests (if any) which the relevant Controlling Shareholder has or may have with our Group and whether the relevant Controlling Shareholder and/or his/her/its close associates intend or do not intend to inject such business or interest into our Group;
- (v) at any time during which the Shares of our Company are listed on the Stock Exchange and for so long as the relevant Controlling Shareholder and/or his/her/its close associates are regarded, whether individually or taken together, as controlling shareholders of our Company within the meaning of the Listing Rules, notify our Company forthwith of any changes of the details and information referred to in paragraph (iv) above so as to enable our Company to, if so required by the Stock Exchange or pursuant to the Listing Rules, disclose such

## **RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS**

information by way of an announcement and include such information in such circulars, annual reports, half-year reports and/or quarterly reports required to be issued by our Company pursuant to the Listing Rules;

- (vi) procure any Director from time to time nominated by the relevant Controlling Shareholder:
  - (a) to disclose to our Company upon signing of the Deed of Non-competition and at any time during which the Shares of our Company are listed on the Stock Exchange full and accurate details of any business or interest (if any) which such Director and/or his close associates have or may have which competes or may compete with the business from time to time carried on by our Group and any other conflicts of interest (if any) which such Director has or may have with our Group;
  - (b) to notify our Company forthwith of any changes of the details and information referred to in paragraph (vi)(a) above, including any such business or interest acquired by such Director and/or his close associates after the Listing so as to enable our Company to, if so required by the Stock Exchange or pursuant to the Listing Rules, disclose such information by way of an announcement and include such information in such circulars, annual reports, half-year reports and/or quarterly reports required to be issued by our Company pursuant to the Listing Rules.

The Controlling Shareholders acknowledge that and, if so required by our Company, procure such Director(s) referred to in paragraph (vi) above to acknowledge that the information supplied to our Company pursuant to paragraphs (iv), (v) and/or (vi) above will or may be disclosed by our Company in this prospectus, circulars, reports, announcements and other statements to the Stock Exchange and/or any regulatory authorities and their respective officers and employees from time to time issued by our Company and that such disclosure is required by our Company in order to comply with the requirements of the Stock Exchange and/or other regulatory bodies.

### **Conditions precedent to the Deed of Non-competition becoming effective**

The provisions contained in the Deed of Non-competition are conditional on the conditions stated in the paragraph “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus being fulfilled or, to the extent permitted, waived by the relevant party. If such conditions are not fulfilled or, to the extent permitted, waived on or before the date falling 30 days from the date of this prospectus, or such later date as the parties under the Deed of Non-competition may agree, such deed shall become null and void and cease to have effect.

### **Relevant Period**

For the above purpose, the “Relevant Period” means the period commencing from the Listing Date and shall expire on the earlier of the dates below:

- (i) the date on which our Controlling Shareholders and their respective close associates (individually or taken as a whole) cease to own at least 30% of the then issued share capital of our Company directly or indirectly or cease to be the controlling shareholders of our Company for the purpose of the Listing Rules and do not have power to control our Board and there is at least one other Shareholder holding more Shares than the Controlling Shareholders and their close associates then taken together; and

## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- (ii) the date on which our Shares cease to be listed on the Stock Exchange.

### Confirmation Given by Directors

Each Director confirms that he does not have any competing business with our Group.

### Corporate Governance

In order to properly manage any potential or actual conflict of interests between us and our Controlling Shareholders in relation to compliance and enforcement of the Deed of Non-competition, we have adopted the following corporate governance measures:

- (a) the INEDs would review, at least on an annual basis, the compliance with and enforcement of the terms of the Deed of Non-competition by our Controlling Shareholders and if any, the options, pre-emptive rights or first rights of refusals provided by our Controlling Shareholders and/or their respective close associates on their existing or future competing businesses. Such options, pre-emptive rights or first rights of refusals relate to business which our Group may engage in the future (and, in such context, does not mean the art finance services carried on through pawn loan and auction businesses currently engaged by our Group);
- (b) our Company shall disclose decisions with basis on matters reviewed by the INEDs relating to non-compliance and enforcement of the Deed of Non-competition (including whether to take up the options, pre-emptive rights or first rights of refusals) either through annual report, or by way of announcement and/or other documents issued or published by our Company as required under the Listing Rules;
- (c) our Company shall disclose in the corporate governance report of the annual reports on how the terms of the Deed of Non-competition are complied with and enforced;
- (d) in the event that any of our Directors and/or their respective close associates has material interest in any matter to be deliberated by our Board in relation to compliance and enforcement of the Deed of Non-competition or other proposed transactions in which such Directors and/or their respective close associates have material interest, such Director(s) may not vote on the resolutions of our Board considering and approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles; and
- (e) where the advice from independent professional, such as that from financial adviser, is reasonably requested by our Directors (including the INEDs), the appointment of such independent professional will be made at our Company's expenses.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and their respective close associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

## CONNECTED TRANSACTIONS AND NOTIFIABLE TRANSACTIONS

### CONNECTED TRANSACTIONS

#### (I) Exempt Continuing Connected Transactions

##### *Overview*

The following table sets out the transactions (“**Lease Transactions**”) between our Group and our connected persons, which will (upon and after Listing) continue and constitute exempt continuing connected transactions of our Group under the Listing Rules:

<b>Parties Involved</b>	<b>Nature of Transaction</b>
(i) Mr. ZJ Fan, Ms. QZ Fan and Mrs. Fan, as joint landlords (collectively, the “ <b>Relevant Landlords</b> ”) and (ii) Hexin Pawn as tenant	Tenancy agreement in respect of the lease to Hexin Pawn of part of the first and the second floor and a warehouse located in the basement of the building (“ <b>Yixing Building</b> ”) located at a site at Northern side of Jiefang East Road, Yicheng Street, Yixing City, Jiangsu Province, China (“ <b>Yixing Site</b> ”) for the carrying out of its business
(i) The Relevant Landlords, as joint landlords and (ii) Hexin Auction as tenant	Tenancy agreement in respect of the lease to Hexin Auction of part of the first and the second floor and a warehouse located on the first floor of the Yixing Building for the carrying out of its business

Mr. ZJ Fan is an executive Director and one of our Controlling Shareholders. Mrs. Fan is the spouse of Mr. ZJ Fan and Ms. QZ Fan is a daughter of Mr. ZJ Fan, both Mrs. Fan and Ms. QZ Fan are associates of Mr. ZJ Fan under Chapter 14A of the Listing Rules. Accordingly, the Relevant Landlords are all connected persons of our Company under Rule 14A.07 of the Listing Rules.

Upon Listing, the Lease Transactions will constitute continuing connected transactions exempt from the shareholders’ approval, annual review and disclosure requirements under Rule 14A.76(1) of the Listing Rules.



## CONNECTED TRANSACTIONS AND NOTIFIABLE TRANSACTIONS

### *Hexin Pawn Tenancy Agreement*

Hexin Pawn as tenant entered into a tenancy agreement (“**Hexin Pawn Tenancy Agreement**”) with the Relevant Landlords as joint landlords in December 2012 with respect to the tenancy of Hexin Pawn Property (as defined below). The principal terms of the Hexin Pawn Tenancy Agreement are set out below:

Date: 25 December 2012

Parties: (1) The Relevant Landlords as joint landlords  
(2) Hexin Pawn as tenant

As explained above, the Relevant Landlords are all connected persons of our Company.

By virtue of the Contractual Arrangements, Hexin Pawn is accounted for as a subsidiary of our Company.

Location of the property: Part of the first and the second floor and a warehouse located in the basement of Yixing Building (having aggregate floor area of approximately 414 sq.m.) on the Yixing Site (“**Hexin Pawn Property**”).

Term: For a period of 10 years from 1 January 2013 to 31 December 2022

Annual rent payable by the tenant: RMB300,000 (exclusive of all outgoings such as utilities, security, property management fees and taxes in respect of the Hexin Pawn Property, which shall be borne by Hexin Pawn).

Jiangsu Sudi Renhe Land and Real Estate Valuation and Consultation Co., Ltd. (江蘇蘇地仁合土地房地產評估諮詢有限公司) (“**Jiangsu Sudi**”), an independent property valuer and consultant, has reviewed the rent payable under the Hexin Pawn Tenancy Agreement. According to the valuation result of Jiangsu Sudi as of 22 March 2016, the annual rent payable by Hexin Pawn under the Hexin Pawn Tenancy Agreement is within the range of the prevailing market rates.

Use: The Hexin Pawn Property shall be used for commercial purpose as the office and warehouse of Hexin Pawn.



## CONNECTED TRANSACTIONS AND NOTIFIABLE TRANSACTIONS

### *Hexin Auction Tenancy Agreement*

Hexin Auction as tenant entered into a tenancy agreement (“**Hexin Auction Tenancy Agreement**”) with the Relevant Landlords as joint landlords in September 2015 with respect to the tenancy of the Hexin Auction Property (as defined below). The principal terms of the Hexin Auction Tenancy Agreement are set out below:

Date:	29 September 2015
Parties:	(1) The Relevant Landlords as joint landlords (2) Hexin Auction as tenant
	By virtue of the Contractual Arrangements, Hexin Auction is accounted for as a subsidiary of our Company.
Location of the property:	Part of the first and the second floor and a warehouse located on the first floor of Yixing Building (having aggregate floor area of approximately 415 sq.m.) on the Yixing Site (“ <b>Hexin Auction Property</b> ”).
Term:	For a period of 10 years from 1 October 2015 to 30 September 2025
Annual rent payable by the tenant:	RMB300,000 (exclusive of outgoings such as utilities, security, property management fees and taxes in respect of the Hexin Auction Property which shall be borne by Hexin Auction).  Jiangsu Sudi has reviewed the rent payable under the Hexin Auction Tenancy Agreement. According to the valuation result of Jiangsu Sudi as of 22 March 2016, the annual rent payable by Hexin Auction under the Hexin Auction Tenancy Agreement is within the range of the prevailing market rate.
Use:	The Hexin Auction Property shall be used for commercial purpose as the office and warehouse of Hexin Auction.

### *Reasons for the transactions and Directors’ view*

The Hexin Pawn Property and the Hexin Auction Property are located in the same site (i.e. the Yixing Site) and in the same building (i.e. Yixing Building). They occupy different parts of the building except that usage of certain common areas are shared between the two companies. The leased properties have been used by Hexin Pawn and Hexin Auction as their respective office and warehouse and will continue to be so used after Listing.

## CONNECTED TRANSACTIONS AND NOTIFIABLE TRANSACTIONS

Our Directors note that by entering into the Hexin Pawn Tenancy Agreement and Hexin Auction Tenancy Agreement, Hexin Pawn and Hexin Auction have an established operation base without the need to acquire the relevant property (or, as the case may be, lease other properties for office and warehouse use) and/or to incur additional capital expenditure and cost of removal and renovation. Our Directors (including our INEDs), after taking into account the valuation conducted by the independent property valuer that the rent payable by each of Hexin Pawn under the Hexin Pawn Tenancy Agreement and Hexin Auction under the Hexin Auction Tenancy Agreement is within the range of the prevailing market rate, consider that each of the Lease Transactions has been entered into on normal commercial terms or better (as defined under the Listing Rules) and in the ordinary and usual course of business of our Group, which terms are fair and reasonable and are in the interests of our Group and our Shareholders as a whole.

### *Listing Rules implications*

The aggregate annual rentals payable by our Group under the Hexin Pawn Tenancy Agreement and Hexin Auction Tenancy Agreement is RMB600,000 (equivalent to approximately HK\$702,000). It is less than HK\$3 million and the highest of the applicable percentage ratios for such aggregate annual rentals is less than 5% on an annual basis. Accordingly, the Lease Transactions are exempt from the disclosure, annual review and independent shareholders' approval requirements applicable to connected transactions under Rule 14A.76(1) of the Listing Rules.

## **(II) Continuing Connected Transactions Subject to Disclosure, Annual Review and Independent Shareholders' Approval Requirements**

### *Background for the Contractual Arrangements*

Our Group is principally engaged in art and asset pawn and art and asset auction business through the PRC Operating Entities in PRC: (i) Hexin Pawn is engaged in the provision of pawn loan services secured by artworks and assets as collaterals, regulated under the Pawning Measures; and (ii) Hexin Auction (in addition to its traditional on-site art auction) is engaged in online art auction operation.

The operation of the pawn loan business of Hexin Pawn and online art auction operation of Hexin Auction are, to a certain extent, subject to foreign investment prohibition in PRC and there are practical difficulties in obtaining governmental approval for foreign investment in these businesses. For such reasons the details of which are set out in "Contractual Arrangements — Background of the Contractual Arrangements" of this prospectus, we do not hold any equity interest in Hexin Pawn and Hexin Auction. To enable our Group to maintain an effective control over the finance, management and operation of the PRC Operating Entities and that we are entitled to the economic benefits derived from the operations of the PRC Operating Entities, the Structured Contracts were entered into.

Pursuant to the Contractual Arrangements between each of (1) Hexin Pawn and HP Equity-holders on the one part and WFOE-Pawn on the other part and (2) Hexin Auction and HA Equity-holders on the one part and WFOE-Auction on the other part, we conduct our business operations in PRC through the PRC Operating Entities by way of the Contractual Arrangements. Each of the PRC Operating Entities will continue to engage in its existing business activities.

## CONNECTED TRANSACTIONS AND NOTIFIABLE TRANSACTIONS

### *Parties to the Structured Contracts*

#### *(A) Structured Contracts with Hexin Pawn*

- (1) WFOE-Pawn
- (2) Hexin Pawn
- (3) HP Equity-holders, including Mr. ZJ Fan, Ms. QZ Fan and Mr. YJ Fan, Wuxi Culture, Zisha Hotel and Ms. Wu

Among those HP Equity-holders, Mr. ZJ Fan is one of our Directors, a directors or the sole director of each member of our Group and also one of our Controlling Shareholders. Ms. QZ Fan is a daughter of Mr. ZJ Fan, hence an associate of Mr. ZJ Fan, Ms. QZ Fan is also a director of Hexin Pawn and one of our Controlling Shareholders. Mr. YJ Fan is one of our Controlling Shareholders and a director of Hexin Pawn and a former Director. Wuxi Culture is solely owned by Mr. ZJ Fan, hence Wuxi Culture is Mr. ZJ Fan's associate. Zisha Hotel is solely (and beneficially) owned by Mr. JS Wang, one of our Controlling Shareholders, hence, Zisha Hotel is Mr. JS Wang's associate. Ms. Wu is one of our Controlling Shareholders and a director of Hexin Pawn. They are all connected persons of our Company under Rule 14A.07(1) of the Listing Rules.

WFOE-Pawn is a wholly equity-owned subsidiary of our Company.

Hexin Pawn is accounted for as our Company's subsidiary by virtue of the Contractual Arrangements. Further, Mr. ZJ Fan and some of the parties acting in concert with him are, as a group of our Controlling Shareholders, directly or indirectly interested in 64% of the equity interest of Hexin Pawn, Mr. JS Wang is indirectly interested in the remaining 36% equity interest. Hexin Pawn is an associate of the above Controlling Shareholders, hence is also a connected person of our Company under Rule 14A.12(1)(c) of the Listing Rules.

#### *(B) Structured Contracts with Hexin Auction*

- (1) WFOE-Auction
- (2) Hexin Auction
- (3) HA Equity-holders, including Mr. ZJ Fan, Ms. Wu and Ms. Xu

As discussed above, each of Mr. ZJ Fan and Ms. Wu is a connected person of our Company. Ms. Xu is one of our Controlling Shareholders and is a connected person of our Company under Rule 14A.07(1) of the Listing Rules.

WFOE-Auction is a wholly equity-owned subsidiary of our Company.

Hexin Auction is accounted for as our Company's subsidiary by virtue of the Contractual Arrangements. Further, Mr. ZJ Fan is interested in 85% of the registered capital of Hexin Auction, Hexin Auction is Mr. ZJ Fan's associate, hence is also a connected person of our Company under Rule 14A.12(1)(c) of the Listing Rules.

## CONNECTED TRANSACTIONS AND NOTIFIABLE TRANSACTIONS

### *Principal terms of the Structured Contracts*

The Contractual Arrangements comprise the following Structured Contracts (name of such contracts are defined in the section headed “Contractual Arrangements” in this prospectus):

*Structured Contracts with Hexin Pawn* — HP Exclusive Operation Services Agreement, HP Exclusive Call Option Agreement, HP Equity Entrustment Agreement and Pawn HP Equity Pledge Agreement (which were supplemented and amended by the Supplemental Agreements).

*Structured Contracts with Hexin Auction* — HA Exclusive Operation Services Agreement, HA Exclusive Call Option Agreement, HA Equity Entrustment Agreement and HA Equity Pledge Agreement (which were supplemented and amended by the Supplemental Agreements).

Brief details of the continuing connected transactions (i.e. the transactions contemplated by the above Structured Contracts which constitute the Contractual Arrangements) entered into between the relevant connected persons with WFOE-Pawn and WFOE-Auction respectively are set out in the section headed “Contractual Arrangements” of this prospectus.

### *Reasons for the Contractual Arrangements and the view of our Directors on the continuing connected transactions*

As advised by our PRC Legal Advisers, the Contractual Arrangements are in compliance with and, to the extent governed by the PRC laws currently in force, are enforceable under the current PRC laws and that in the event of any breach or default by:

- (1) any of HP Equity-holders or Hexin Pawn, WFOE-Pawn can take legal actions against any one of them; and/or
- (2) any of HA Equity-holders or Hexin Auction, WFOE-Auction can take legal actions against any one of them.

Our Directors (including all the INEDs) are of the view that the Contractual Arrangements are fundamental to our Group’s legal structure and business operations, and they are on normal commercial terms or better (as defined under the Listing Rules) and in the ordinary and usual course of our Group’s business, which terms are fair and reasonable and are in the interests of our Group and our Shareholders taken as a whole.

Our Directors also believe that such legal structure enables the financial results of the PRC Operating Entities to be consolidated into our Group’s financial statements as if they were our Group’s wholly owned subsidiaries, and the economic benefit of their business to flow to our Group, hence places our Group in a special position in relation to the connected transaction rules. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions for the purposes of Chapter 14A of the Listing Rules, our Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administration costs of our Company, for all

## CONNECTED TRANSACTIONS AND NOTIFIABLE TRANSACTIONS

transactions contemplated under the Contractual Arrangements to be subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among other things, the announcement and approval of the independent Shareholders.

To ensure sound and effective operation of our Group after the adoption of the Contractual Arrangements, management of our Group plans to take the following measures:

- (a) as part of the internal control measures, major issues arising from implementation of the Contractual Arrangements will be reviewed by the Board on a regular basis which will be no less frequent than every quarter;
- (b) matters relating to compliance and regulatory enquiries from governmental authorities (if any) will be discussed at such regular meetings or ad hoc meetings of the Board, if appropriate;
- (c) the relevant business units and operation divisions of our Group will report regularly (which will be no less frequent than on a quarterly basis) to the senior management of our Company on the compliance and performance conditions under the Contractual Arrangements and other related matters;
- (d) our Company will comply with the conditions prescribed under the waiver given by the Stock Exchange in connection with the continuing connected transactions contemplated under the Contractual Arrangements; and
- (e) (if required) legal advisers and/or other professionals will be retained to assist our Group to deal with specific issues arising from the Contractual Arrangements.

### *Application for and conditions of waiver*

In view of the above, we have applied to the Stock Exchange pursuant to Rule 14A.105 of the Listing Rules for, and the Stock Exchange has granted, a waiver from (i) strict compliance with the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) setting a maximum aggregate annual value (i.e. an annual cap) for the fees payable by the PRC Operating Entities to WFOE-Pawn and WFOE-Auction under the Contractual Arrangements; and (iii) fixing the term of the Contractual Arrangements to three years or less, for so long as Shares are listed on the Stock Exchange, subject however to the following conditions:

- (a) *No change without INEDs' approval:* No changes to the terms of any of the Structured Contracts will be made without the approval of the INEDs.
- (b) *No change without independent Shareholders' approval:* Save as described in paragraph (d) below, no changes to the terms of any of the Structured Contracts will be made without the approval of our Company's independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders, except for those described above, will be required under Chapter 14A of the Listing Rules, unless and until further changes are

## CONNECTED TRANSACTIONS AND NOTIFIABLE TRANSACTIONS

proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

- (c) *Economic benefits flexibility:* The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the PRC Operating Entities through: (i) our Group's potential right (if and when so allowed under the applicable PRC laws) to acquire the equity interests in the PRC Operating Entities; (ii) the business structure under which the revenue generated by the PRC Operating Entities is substantially retained by WFOE-Pawn and WFOE-Auction (such that no annual caps shall be set on the amount of services fees payable to WFOE-Pawn and WFOE-Auction under the HP Exclusive Operation Services Agreement and HA Exclusive Operation Services Agreement respectively); and (iii) WFOE-Pawn's and WFOE-Auction's right to control the management and operation of, as well as, in substance, all of the voting rights of the PRC Operating Entities.
  
- (d) *Renewal and cloning:* On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on one hand, and the PRC Operating Entities, on the other hand, that framework may be renewed and/or cloned upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as described under the section headed "Contractual Arrangements" above of this prospectus. Such new wholly foreign-owned enterprise or operating company (including branch company) may be established by our Group for expansion into the market due to potential business growth. If and when the term of operation of the PRC Operating Entities as set out in their respective operating licences comes to an end in future, our Group may also establish new companies as and when considered necessary. The directors, chief executive or substantial shareholders (as defined in the Listing Rules) of any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group (which our Group may establish when justified by business expediency) will, upon renewal and/or cloning of the Contractual Arrangements, however be treated as our Group's connected persons and transactions between these connected persons and our Group (other than those under similar Contractual Arrangements) shall comply with Chapter 14A of the Listing Rules. This condition is subject to the relevant laws, regulations and approvals of PRC.

## CONNECTED TRANSACTIONS AND NOTIFIABLE TRANSACTIONS

- (e) *Ongoing reporting and approvals:* our Group will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:
- (1) The Contractual Arrangements in place during each financial period will be disclosed in our Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules.
  - (2) Our INEDs will review the Contractual Arrangements annually and confirm in our Company's annual report and accounts for the relevant year that: (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Structured Contracts, have been operated so that the revenue generated by the PRC Operating Entities has been substantially retained by WFOE-Pawn and WFOE-Auction; (ii) no dividends or other distributions have been made by the PRC Operating Entities to the respective holders of their equity interests which are not otherwise subsequently assigned or transferred to our Group; and (iii) any new contracts entered into, renewed or reproduced between our Group and the PRC Operating Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of the Shareholders as a whole.
  - (3) Our Company's auditors will carry out procedures in accordance with HKFRS issued by HKICPA on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange, at least ten business days before our Company bulk prints its annual report, reporting their findings whether that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by the PRC Operating Entities to the respective holders of their equity interests which are not otherwise subsequently assigned or transferred to our Group.
  - (4) For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the PRC Operating Entities will be treated as our Company's wholly owned subsidiaries, but at the same time, the respective directors, chief executives or substantial shareholders (as defined in the Listing Rules) of the PRC Operating Entities and their respective associates will be treated as our Company's "connected persons" (excluding for this purpose the PRC Operating Entities) and transactions between these connected persons and our Group (including for this purpose the PRC Operating Entities) other than those under the Contractual Arrangements shall comply with Chapter 14A of the Listing Rules.
  - (5) The PRC Operating Entities will undertake that, for so long as the Shares are listed on the Stock Exchange, they will provide our Group's management and our Company's auditors with full access to their relevant records for the purpose of procedures to be carried out by our Company's auditors' on the connected transactions.



## CONNECTED TRANSACTIONS AND NOTIFIABLE TRANSACTIONS

### *Confirmation from the Sole Sponsor*

The Sole Sponsor is of the view that the terms of the agreements constituting the Structured Contracts and the Contractual Arrangements are entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and are in the interests of our Shareholders taken as a whole.

### **NOTIFIABLE TRANSACTIONS AND DISCLOSURE PURSUANT TO CHAPTERS 13 AND 14 OF THE LISTING RULES**

Under Rule 13.13 of the Listing Rules, a general disclosure obligation arises (upon Listing) where the relevant advance to an entity exceeds 8% of the total assets of our Company.

While the art and asset pawn service provided by us to our customers is provided in our ordinary and usual course of business, it also falls under the definition of “financial assistance” under the Listing Rules. Under Rule 14.04(1)(e) of the Listing Rules (which allow exceptions for financial assistance provided in the ordinary and usual course of business by particular types of companies not to be treated as notifiable transactions), the term “ordinary and usual course of business” (in the context of such exceptions) is only applicable to a banking company or a securities house, and is not extended to a secured lending or pawn loan service provider. Hence, if any of the applicable percentage ratios in respect of a loan provided by our Group in the ordinary and usual course of business to our customer reaches the thresholds set out in Chapter 14 of the Listing Rules, such provision of loan will (upon Listing) constitute a notifiable transaction under Chapter 14 of the Listing Rules and become subject to the notification, announcement and/or shareholders’ approval requirements.

Having regard to the above requirements, as of the Latest Practicable Date, in respect of the loans we granted, none of such advance exceeded 8% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules, which trigger a general disclosure obligation under Rules 13.13 and 13.15 of the Listing Rules. Further, as none of applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of any loan provided by us equal to or more than 5%, none of the provision of such loan constituted a notifiable transaction under Chapter 14 of the Listing Rules subject to the notification, publication and shareholders’ approval requirements thereunder.

Our Group has put in place procedures to ensure that the requirements of the Listing Rules, including those relating to Chapters 13 and 14 above will be complied with after Listing.

As part of our efforts to monitor and ensure compliance with the applicable requirements under Rule 13.13 and Chapter 14 of the Listing Rules in respect of our loans outstanding from time to time after Listing, we will review each granted loan as part of the loan approval process, in order to ensure that any loan granted to a particular borrower will be granted in compliance with the requirements under the applicable rules. Our Directors further confirm that if we intend to dispense with the disclosure obligations under Rule 13.13 and Chapter 14 of the Listing Rules for a particular transaction or series of transactions, we will make a separate application for waiver.



## DIRECTORS AND SENIOR MANAGEMENT

### OVERVIEW

The following table sets forth certain information in respect of our Directors:

Name	Age	Position/Title	Date of joining our Group	Date of first becoming a Director	Roles and responsibilities
Mr. Fan Zhijun (范志军先生) (formerly known as Fan Zhijun (范志君))	50	Chairman Executive Director Chief Executive Officer	May 2004	2 November 2015	Planning our business and marketing strategies, supervising the overall operations of our Group, and overseeing the daily management of our pawn loan and auction businesses
Mr. Zhang Bin (张斌先生) (formerly known as Zhang Qiqi (张琦琦))	41	Executive Director	August 2010	16 March 2016	Responsible for financial planning and management, accounting and treasury functions of our Group
Mr. Leung Shu Sun Sunny (梁树新先生)	53	INED	14 October 2016	14 October 2016	Participating in meetings of the Board to bring an independent judgment on issues which are material to our Group as and when required; taking the lead where potential conflicts of interest arise and serving on the audit committee, remuneration committee, the nomination committee and risk management committee (as the case may be)
Mr. Liu Jian (刘健先生)	62	INED	14 October 2016	14 October 2016	
Mr. Chu Xiaoliang (储晓良先生)	65	INED	14 October 2016	14 October 2016	

The following table sets forth certain information in respect of our senior management:

Name	Age	Position/Title	Date of joining our Group and becoming a member of the senior management	Roles and responsibilities
Mr. Tang Man Joe (鄧文祖先生)	43	Chief Financial Officer and Company Secretary	October 2015	Overseeing the finance, accounting and company secretarial matters of our Group
Mr. Fan Zhixin (范志新先生)	46	Chief Operations Officer	May 2010	Participating in the daily management and operations of our Group
Mr. Liu Xudong (柳旭东先生)	39	Chief Administrative Officer	March 2007	Overseeing the human resources and administration of our Group
Ms. Xu Yiyun (徐逸云女士)	39	Chief Internal Control Officer	July 2015	Overseeing the internal control and risk management policies of our Group; assisting the Chief Financial Officer in financial and accounting matters of our Group
Mr. Jiang Caijun (蒋才君先生)	61	Chief Risk Control Officer	February 2015	Assisting the Chief Internal Control Officer with internal control matters and risk management of our Group; overseeing the operation of the risk control committee of loan operations

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

Our Board is responsible for and has general powers for managing and leading our business. Our Board consists of two executive Directors and three INEDs.

#### Executive Directors

**Mr. Fan Zhijun (范志軍先生) (formerly known as Fan Zhijun (范志君))**, aged 50, is the Chairman of our Board, Chief Executive Officer and an executive Director. He is primarily responsible for planning our business and marketing strategies, supervising the overall operations of our Group and overseeing the daily management of our pawn loan and auction businesses. Mr. ZJ Fan was appointed as our Director on 2 November 2015 upon the incorporation of our Company and was re-designated as an executive Director on 18 April 2016. Mr. ZJ Fan is a brother of Mr. ZX Fan, a senior management of our Group.

As one of the founders of our Group, Mr. ZJ Fan started his career in the banking industry for about 14 years from August 1990 to December 2004, during which he held various senior management positions in the risk control department, operations department and accounting department of China Construction Bank. With such background and experience, Mr. ZJ Fan has been placing strong emphasis on risk management and internal control when managing and supervising our Group's businesses. In May 2004, together with some business partners, Mr. ZJ Fan set up Hexin Pawn, the first member of our Group, which commenced pawn loan business in the same year. Since its incorporation in May 2004, Mr. ZJ Fan has been serving as the general manager, one of the directors, the chairman of the board and the legal representative of Hexin Pawn. In 2007, we diversified our business and started operation in the auction industry after the establishment of Hexin Auction in May 2007. Since then Mr. ZJ Fan has been serving as its general manager, one of its directors, the chairman of the board and the legal representative, until August 2009 when Hexin Auction ceased to have a board of directors and Mr. ZJ Fan was re-appointed and has since then been acting as its sole director. Since their respective establishments, Mr. ZJ Fan has been responsible for overseeing the daily operations and planning of business strategies and development of Hexin Pawn and Hexin Auction. For the preparation of the Listing, we underwent a series of corporate reorganisation pursuant to which a number of subsidiaries, namely, Reliance Art BVI, Reliance Art HK, WFOE-Pawn and WFOE-Auction, were set up. Mr. ZJ Fan has been the sole director of each of the above subsidiaries since their respective incorporations.

Mr. ZJ Fan was born in an art family, his uncle, Mr. Fan Baowen (范保文) was a master of Chinese landscape painting. Mr. ZJ Fan has accumulated years of interest and knowledge on authenticating and appraising Chinese artworks. Mr. ZJ Fan is also a member of our internal authentication team for authenticating and appraising Zisha Artworks and Paintings and Calligraphies for our pawn loan and auction operations.

Mr. ZJ Fan completed his studies in accounting (會計學專業) at Soochow University (蘇州大學), PRC in July 2004 and obtained an executive master of business administration (EMBA) degree from the Cheung Kong Graduate School of Business (長江商學院), PRC in September 2013.

Mr. ZJ Fan and his daughter, Ms. QZ Fan, are interested in the entire equity interest (among which Mr. ZJ Fan is directly interested in approximately 67% therein) in Mauve Jade Inv. Mauve Jade Inv and parties acting in concert with Mr. ZJ Fan as a group of Controlling Shareholders are interested in the entire equity interest (among which Mauve Jade Inv is directly interested in approximately 74% therein)

## DIRECTORS AND SENIOR MANAGEMENT

in Golden Sand Inv. Golden Sand Inv is interested in approximately 70% of the entire equity interest in Intelligenes Inv, one of our Controlling Shareholders directly holding 996,000,000 Shares representing approximately 62% of the total issued share capital of our Company immediately following completion of the Global Offering (taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme). By virtue of the SFO, Mr. ZJ Fan is deemed to be interested in the Shares held by Intelligenes Inv.

**Mr. Zhang Bin (張斌先生) (formerly known as Zhang Qiqi (張琦琦))**, aged 41, is an executive Director. He is primarily responsible for financial planning and management, accounting and treasury functions of our Group. Mr. Zhang was appointed as our executive Director on 16 March 2016.

Mr. Zhang joined our Group as Hexin Pawn's financial controller in August 2010 and was then responsible for the finance and accounting matters of Hexin Pawn. Since August 2015, he was reallocated and has been serving as Hexin Auction's financial controller.

Mr. Zhang completed his studies in finance and accounting (財務會計專業) from Jiangsu Radio and TV University (江蘇廣播電視大學), PRC, in July 1995. In May 2001 and October 2004, Mr. Zhang obtained a qualification certificate as an intermediate accountant (中級會計師) from the Ministry of Finance of PRC (中華人民共和國財政部) and an auditor (審計師) certificate from the National Audit Office of PRC (中華人民共和國審計署) respectively.

Mr. Zhang has over 13 years of experience in overseeing finance matters in Hanguang Group (漢光集團), in Jiangsu province, a group of companies principally engaged in manufacturing of food additives, chemical products and Zisha Ceramics. Mr. Zhang had served as the head of finance department in various companies of Hanguang Group during the period from 1996 to 2009.

Mr. Zhang was a supervisor of Yixing Dabang Decorative Materials Company Limited (宜興大邦裝飾材料有限公司) (“**Yixing Dabang**”), a company incorporated in PRC, and was principally engaged in the sales and installation of wooden floor and other decorative materials before its dissolution in February 2003. As confirmed by Mr. Zhang, Yixing Dabang was solvent at the time of its dissolution and so far as he was aware, the dissolution of Yixing Dabang has not resulted in any liability or obligation being imposed against him.

### INEDs

**Mr. Leung Shu Sun Sunny (梁樹新先生)**, aged 53, was appointed as our INED on 14 October 2016.

Mr. Leung obtained a professional diploma in Accountancy from the Hong Kong Polytechnic, Hong Kong (currently known as the Hong Kong Polytechnic University), in November 1987, and a Master of Business Administration degree from the University of South Australia, Australia in December 1997 by attending long distance learning courses. He is a fellow member of the Chartered Association of Certified Accountants, a member of HKICPA and a member of Certified General Accountants Association of Canada. He has over 25 years of experience in accounting and finance matters.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. Leung has been serving as an INED of Pan Asia Environmental Protection Group Limited (“**Pan Asia**”), a company whose shares are listed on the main board of the Stock Exchange (stock code: 556) and Xiwang Special Steel Company Limited, a company whose shares are listed on the main board of the Stock Exchange (stock code: 1266), since December 2007 and February 2012 respectively.

From December 2005 to June 2007, Mr. Leung also served as the financial controller, accountant and company secretary at Xiwang Property Holdings Company Limited (formerly known as Xiwang Sugar Holdings Company Limited), a company whose shares are listed on the main board of the Stock Exchange (stock code: 2088).

Mr. Leung was a director of the following companies, which were dissolved with details as follows:

Name of company	Principal business activity immediately before dissolution	Date of dissolution
JPR Entertainment Space Limited	Media	18 October 2007
Tixan Financial and Tax Consultants Limited	Property holding	22 May 2015
Universal Link International Consultancy Limited	Immigration Consultancy	14 August 2015

*Note:* Each of the above companies was a Hong Kong incorporated company deregistered either under section 291AA of the predecessor Companies Ordinance (Chapter 32 of the Laws of Hong Kong), which was repealed by the Companies Ordinance on 3 March 2014, or sections 750 and 751 of the Companies Ordinance, an application for deregistration can only be made if, among others (a) all the members of such company agreed to such deregistration; (b) such company has never commenced business or operation, or has ceased to carry on business or ceased operation for more than three months immediately before the application; and (c) such company has no outstanding liabilities.

Mr. Leung confirmed that all such companies above were solvent immediately prior to their respective dates of dissolution and the dissolution of such companies had not resulted in any liability or obligation imposed against him.

**Mr. Liu Jian** (劉健先生), aged 62, was appointed as our INED on 14 October 2016.

Mr. Liu studied in Computer Sciences (電子計算機專業) and graduated from Shanghai Jiao Tong University (上海交通大學), PRC in August, 1978.

Mr. Liu has over 14 years of investment banking experience, during the period from 1995 to 2009, he held senior management position in the investment banking division or initial public offering projects in various investment banks including DBS Asia Capital Limited, CITIC Capital Market Holdings Limited and CITIC Securities International Company Limited. Prior to that, Mr. Liu worked for China Resources Holdings Company Limited and the then Ministry of Foreign Economic Relations and Trade of the PRC (中華人民共和國對外經濟貿易部).

## DIRECTORS AND SENIOR MANAGEMENT

During the period from March 2013 to December 2013, Mr. Liu was an executive director of Carnival Group International Holdings Limited, a company whose shares are listed on the main board of the Stock Exchange (stock code: 996). From July 2002 to May 2013, he was also an INED of Hans Energy Company Limited (formerly known as SC Industrial Development Company Limited), a company whose shares are listed on the main board of the Stock Exchange (stock code: 554).

**Mr. Chu Xiaoliang** (儲曉良先生), aged 65, was appointed as our INED on 14 October 2016.

Mr. Chu completed studies in law (法律專業) at the Party School of the Central Committee of the Communist Party of China (中共中央黨校), PRC in December 1999.

Mr. Chu has over 33 years of legal and public service related experience. From August 1995 to March 2006, Mr. Chu served as the deputy president and a member of the judicial committee of Yixing People's Court (宜興市人民法院), he was responsible for the adjudication of civil and commercial matters and disputes. From October 1983 to August 1985 and from July 1988 to July 1995, Mr. Chu served as the deputy head (副局長) of the Yixing Public Security Bureau (宜興市公安局), and was responsible for security, household registration and legal administrative matters.

### General

Save as disclosed above, there is no other information relating to our Directors that needs to be disclosed under the requirements under Rule 13.51(2) of the Listing Rules.

Save as disclosed above, none of our Directors:

- (i) held any other positions in our Company or other members of our Group as of the Latest Practicable Date;
- (ii) had any other relationship with any Directors, senior management or Substantial Shareholders or Controlling Shareholders of our Company as of the Latest Practicable Date;
- (iii) held any other directorships in listed public companies in the three years prior to the Latest Practicable Date; and
- (iv) is a director or an employee of a company which has an interest or short position in the Shares and underlying Shares of our Company.

As of the Latest Practicable Date, except for such interests of Mr. ZJ Fan in the Shares which are disclosed above and in paragraph 3.1 under Appendix IV — “Statutory and General Information” to this prospectus, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO. Each of our Directors has confirmed that none of them is engaged in, or interested in any business (other than our Group) which, directly or indirectly, competes or may compete with our business.

Each of our executive Directors has entered into a service contract with our Company for an initial term of three years commencing from 15 October 2016.

## DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed above, to the best of the knowledge, information and belief of our Directors after having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

### SENIOR MANAGEMENT

**Mr. Tang Man Joe** (鄧文祖先生), aged 43, is the Chief Financial Officer and Company Secretary of our Company who joined our Group in October 2015. He is mainly responsible for overseeing the finance, accounting and company secretarial matters of our Group.

Mr. Tang graduated from University of Wisconsin-Madison, the United States in December 1996 with a Bachelor's degree in Business Administration, Mr. Tang is a member of the HKICPA and AICPA. He has over 18 years of experience in accounting and finance matters, including about 8 years of working experience in handling finance matters and company secretarial matters of the following listed companies in Hong Kong and Singapore.

Prior to joining our Group, Mr. Tang was in service with Deloitte Touche Tohmatsu as an accountant for about five years. He also worked in various companies including the following listed companies in Hong Kong and Singapore, and his major responsibilities in such companies include overseeing and handling finance matters, company secretarial matters, corporate finance projects and mergers and acquisitions, as well as maintaining investors relations and corporate compliance matters:

Period of services	Name of employer/entity	Office/Position
From February 2014 to September 2015	Soundwill Holdings Limited (stock code: 878)	Financial controller and Company secretary (resigned as company secretary on July 2015)
From July 2013 to January 2014	Fantasia Holdings Group Co., Ltd. (stock code: 1777)	Deputy general manager of investor relations department
From June 2007 to March 2011	Central China Real Estate Limited (stock code: 832)	Financial controller and company secretary
From December 2004 to May 2007	China Hongxing Sports Limited, a company listed on the Singapore Exchange	Chief financial officer and company secretary

**Mr. Fan Zhixin** (范志新先生), aged 45, is the Chief Operations Officer of our Group, and he is mainly responsible for participating in the daily management and operations of our Group. When Mr. ZX Fan joined our Group in May 2010, he served as the manager of the Nanjing branch office of Hexin Pawn, and was then in charge of overseeing the management and operations of the Nanjing branch office. Mr. ZX Fan assumed the office of deputy general manager of Hexin Auction in January 2014 and has since been responsible for assisting the general manager with the management and operations of Hexin Auction.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. ZX Fan is a brother of Mr. ZJ Fan, our Chairman, Chief Executive Officer and an executive Director. Mr. ZX Fan is also a member of our internal authentication team for authenticating and appraising Zisha Artwork and Paintings and Calligraphies for our pawn loan and auction operations.

Mr. ZX Fan completed his studies in economic management (經濟管理專業) from the Party School of Jiangsu Committee of Communist Party of China (中共江蘇省委黨校), PRC, in June 2000.

Prior to joining our Group, Mr. ZX Fan worked as a supervisor of the economic department of Yixing Dingshu Town Radio and Television Station (宜興市丁蜀鎮廣播電視站), a company engaging in cable television broadcasting from July 1991 to April 2010. Mr. ZX Fan was mainly responsible for overseeing the business plans and expansion of that company.

**Mr. Liu Xudong** (柳旭東先生), aged 39, is the Chief Administrative Officer of our Group, and he is mainly responsible for overseeing the human resources and administration of our Group. Mr. Liu joined our Group as the head of general administration department of Hexin Pawn in March 2007 and was appointed as the secretary to the board of directors of Hexin Pawn in January 2009. He has also been working as the head of general administration department and assistant to general manager of Hexin Auction since May 2007 and March 2011 respectively.

Mr. Liu completed his studies in business administration from China University of Petroleum (中國石油大學), PRC by attending long distance learning courses in July 2013. In December 2009, Mr. Liu obtained a second level qualification certificate as a human resources professional (二級人力資源管理師) from the Occupational Skill Appraisal Center of the Ministry of Human Resources and Social Security, PRC (中華人民共和國人力資源和社會保障部職業技能鑒定中心).

**Ms. Xu Yiyun** (徐逸雲女士), aged 39, is the Chief Internal Control Officer of our Group, and she is mainly responsible for overseeing the internal control and risk management policies of our Group; and assisting the Chief Financial Officer in financial and accounting matters of our Group. Ms. Xu joined our Group in July 2015 as the head of the finance department of Hexin Pawn.

Ms. Xu completed her studies in accounting from The Open University of China (中央廣播電視大學), PRC, in July 2007. Ms. Xu is a certified tax agent registered with the Chinese Certified Tax Agents Association (中國註冊管理稅務師協會) and an accountant registered with the Financial Bureau of Yi Xing City (宜興市財政局).

Prior to joining our Group, Ms. Xu worked as the head of the finance department of Wuxi Pan Asia Environmental Protection Technologies Limited (無錫泛亞環保科技有限公司), (a subsidiary of Pan Asia), a company engaging in the manufacturing and sales of environmental protection products and equipment from January 2001 to April 2013. Her main duties include overseeing financial and accounting matters of that company.

**Mr. Jiang Caijun** (蔣才君先生), aged 61, is the Chief Risk Control Officer of our Group, and he is mainly responsible for assisting the Chief Internal Control Officer with internal control matters and risk management of our Group, and overseeing the operation of the risk control committee of loan operations. Mr. Jiang joined our Group in February 2015 as the chief risk control officer of Hexin Pawn.

Mr. Jiang completed studies in public administration (行政管理專業) from the Party School of the Central Committee of the Communist Party of China, PRC, in July 1999.



## **DIRECTORS AND SENIOR MANAGEMENT**

Prior to joining our Group, Mr. Jiang held various senior positions as branch office supervisor, branch manager and head of housing credit department of Yixing branch of China Construction Bank for about nineteen years from January 1996 to January 2015.

Save as disclosed above, none of our senior management members held any other directorships in listed public companies in the three years prior to the Latest Practicable Date.

### **HUMAN RESOURCES**

Our Company maintains good employee relations. Our Company has not experienced any significant problems with the recruitment or retention of experienced employees. In addition, our Company has not suffered from any material disruption of normal business operations as a result of labour disputes or strikes. The remuneration payable to our employees includes salaries and allowances.

As of the Latest Practicable Date, we had 38 employees, most of whom are located in PRC. Please refer to the paragraph headed “Employees” in the section headed “Business” in this prospectus for details of breakdown of our employees by function.

### **BENEFITS AND SOCIAL INSURANCE**

As required by the Chinese regulations on social insurance, our Company participates in the social insurance schemes operated by the relevant local government authorities which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance, maternity insurance and housing fund.

For the three years ended 31 December 2015 and the six months ended 30 June 2016, our Group accrued (i) staff’s salaries and allowance in the sum of approximately RMB2.2 million, RMB2.0 million, RMB2.6 million and RMB1.6 million, for each of the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016, respectively and (ii) retirement benefits scheme contributions in the sum of approximately RMB0.1 million, RMB0.1 million, RMB0.1 million and RMB0.1 million, for each of the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016, respectively.

### **REMUNERATION POLICY**

The aggregate amounts of remuneration of our Directors for the three years ended 31 December 2015 and the six months ended 30 June 2016 were approximately RMB0.3 million, RMB0.3 million, RMB0.3 million and RMB0.2 million respectively. Details of the arrangement for remuneration are set out in Note 11 of the Accountants’ Report in Appendix I to this prospectus. Under such arrangement and pursuant to the Directors’ service agreements and letters of appointment referred to in paragraph 3.2 under Appendix IV — “Statutory and General Information” to this prospectus, the aggregate amount of Directors’ fee and other emoluments payable to our Directors for the year ending 31 December 2016 is estimated to be approximately RMB0.8 million, excluding any discretionary bonuses.

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of our Group. Our Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to our Company or executing their functions in relation to its operations. Our Company regularly reviews and determines the remuneration and compensation packages of our Directors and senior management.



## DIRECTORS AND SENIOR MANAGEMENT

After Listing, the remuneration committee of our Company will review and determine the remuneration and compensation packages of our Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group. During the Track Record Period, no remuneration was paid by our Company to, or received by, our Directors as an inducement to join or upon joining our Company.

### BOARD COMMITTEES

The audit committee, remuneration committee, nomination committee and risk management committee of our Company were approved to be established by resolutions passed by our Board on 14 October 2016. The membership of such committees is as follows:

Name of Director	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee
<i>Executive Directors</i>				
Mr. Fan Zhijun	—	Member	Chairman	—
Mr. Zhang Bin	—	—	—	Member
<i>INEDs</i>				
Mr. Leung Shu Sun Sunny	Chairman	—	Member	Member
Mr. Liu Jian	Member	Member	—	—
Mr. Chu Xiaoliang	Member	Chairman	Member	Chairman

Each of the above committees has written terms of reference. The functions of the above four committees are summarised as follows:

#### **Audit Committee**

Our audit committee has written terms of reference in compliance with Code C.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee of our Company are mainly to make recommendations to the Board on the appointment and dismissal of the external auditor, review the financial statements and material and provide advice in respect of financial reporting, risk management and oversee the internal control systems of our Company.

#### **Remuneration Committee**

Our Company has written terms of reference in compliance with Code B.1 of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. The primary functions of the remuneration committee of our Company are to make recommendation to the Board on the overall

## DIRECTORS AND SENIOR MANAGEMENT

remuneration policy and the structure relating to all Directors and senior management of our Group; to review performance-based remuneration and ensure none of our Directors determine their own remuneration.

### **Nomination Committee**

Our Company has written terms of reference in compliance with Codes A.5 of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. The primary functions of the nomination committee of our Company are to review the structure, size and composition (including the skills, knowledge and experiences) of the Board at least annually and make recommendation to the Board on any proposed changes to the Board to complement our Company's corporate strategy; to identify individuals suitably qualified as potential board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; to assess the independence of INEDs; and to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning of Directors, in particular that of our Chairman and the Chief Executive Officer.

### **Risk Management Committee**

The primary functions of our risk management committee include supervising the risk control condition in respect of credit risks, liquidity risks, operation risks, compliance risks, information technology risks and reputation risks; assessing our risk policies, management, tolerance and capacity; supervising our risk management and internal control systems, and making proposals on the improvement plans of our risk management and internal control; discussing our risk management and internal control systems with the Board to ensure the effectiveness of such systems; and conducting regular review of and supervising the effectiveness of our risk management system.

## **CORPORATE GOVERNANCE**

Our Directors recognise the importance of incorporating elements of corporate governance in the management structures and internal control of our Group in order to achieve accountability to our Shareholders.

Our Company has adopted the provisions stated in the Corporate Governance Code as set forth in Appendix 14 to the Listing Rules. Our Board has a balanced composition of executive Directors, non-executive Director and INEDs, allowing the Board to effectively exercise independent judgment.

Save as for the deviation from A.2.1 of the Corporate Governance Code, our Company's corporate governance practices have adhered to the provisions of the Code. Pursuant to A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Currently, Mr. ZJ Fan is both the Chairman and the Chief Executive Officer. In view of Mr. ZJ Fan's role in the day-to-day management and operations of the Group and as the chairman of Hexin Pawn since May 2004 and as the sole director of other members of our Group, the Board believes that it is in the best interests of our Group for Mr. ZJ Fan to take up the dual roles of Chairman and Chief Executive Officer. Therefore, our Board considers that the deviation from Code A.2.1 is appropriate in such circumstance and that there are sufficient checks and balances in place.

## DIRECTORS AND SENIOR MANAGEMENT

Our board will continue to review and consider splitting the roles of Chairman and Chief Executive Officer at a time when it is appropriate and suitable by taking into account the circumstances of our Group as a whole.

Our Directors are aware that we are expected to comply with the Corporate Governance Code. Any deviation from the Code should be carefully considered and disclosed in the interim and annual report. Save as disclosed above, we will continue to comply with the Code to protect the best interests of our Shareholders upon and after Listing.

### COMPLIANCE ADVISER

We have appointed Halcyon Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us on, among other matters, the following:

- (a) (before its publication) any regulatory announcement, circular or financial report;
- (b) a transaction being contemplated, which might be a notifiable or connected transaction or will involve Share issues and Share repurchases;
- (c) where our Company proposes to use the net proceeds of the Global Offering in a manner different from that set out in this prospectus or where our business activities, development or results deviate from any forecast, estimate, or other information in this prospectus; and
- (d) where the Stock Exchange makes any inquiry of us under Rule 13.10 of the Listing Rules.

The term of appointment of our compliance adviser will commence on the Listing Date and will end on the date of despatch of our annual report in respect of our financial results for the first full financial year commencing after the Listing Date. Such appointment may be subject to extension by mutual agreement.

## SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or chief executive of our Company as of the date of this prospectus and immediately following the completion of the Capitalisation Issue and the Global Offering and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme, the following persons (other than a Director or chief executive of our Company) will have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group:

### Long Positions in Shares of our Company

Name of Shareholder	Nature of interest/Capacity	As of the date of this prospectus		Immediately after the Capitalisation Issue and the Global Offering	
		Number of Shares	Approximate percentage of Shareholding in our Company	Number of Shares	Approximate percentage of Shareholding in our Company
Intelligenesis Inv	Beneficial owner	8,300	83%	996,000,000	62.25%
Golden Sand Inv	Interest of controlled corporation (Note 1)	8,300	83%	996,000,000	62.25%
Mauve Jade Inv	Interest of controlled corporation (Note 2)	8,300	83%	996,000,000	62.25%
Ms. QZ Fan	Interests of controlled corporation and held jointly with other persons (Notes 2 and 3)	8,300	83%	996,000,000	62.25%
Mr. YJ Fan	Interests held jointly with other persons (Note3)	8,300	83%	996,000,000	62.25%
Ms. Wu	Interests held jointly with other persons (Note3)	8,300	83%	996,000,000	62.25%
Ms. Xu	Interests held jointly with other persons (Note 3)	8,300	83%	996,000,000	62.25%
Mr. Lai	Beneficial owner	1,700	17%	204,000,000	12.75%

*Notes:*

- (1) The said 996,000,000 Shares will be held in the name of Intelligenesis Inv. Intelligenesis Inv is held as to 69.5% by Golden Sand Inv. By virtue of the SFO, Golden Sand Inv is deemed to be interested in the same parcel of Shares in which Intelligenesis Inv is interested.
- (2) Intelligenesis Inv is held as to 69.5% by Golden Sand Inv, which is in turn held as to 74.1% by Mauve Jade Inv, which is in turn held as to 67.2% by Mr. ZJ Fan and 32.8% by Ms. QZ Fan. By virtue of the SFO, Mauve Jade Inv and Ms. QZ Fan are deemed to be interested in the same parcel of Shares in which Intelligenesis Inv is interested.

## SUBSTANTIAL SHAREHOLDERS

- (3) Mr. ZJ Fan, Ms. QZ Fan, Mr. YJ Fan, Ms. Wu and Ms. Xu have entered into a confirmation (“Act-in-Concert Confirmation”) dated 15 April 2016 according to which, among other things, they acknowledge and confirm that they shall act in concert and give unanimous consent, approval or rejection on any material issues and decisions in relation to the business of our Group and in the event of any contrary view within the concert group, the view of Mr. ZJ Fan shall prevail. As such, immediately after the Capitalisation Issue and the Global Offering, Mr. ZJ Fan, Ms. QZ Fan, Mr. YJ Fan, Ms. Wu and Ms. Xu together control 996,000,000 Shares representing approximately 62.25% interest of the total issued share capital of our Company through Mauve Jade Inv, Golden Sand Inv and Intelligenes Inv. As a result, each of Mr. ZJ Fan, Ms. QZ Fan, Mr. YJ Fan, Ms. Wu and Ms. Xu are deemed to be interested in such 996,000,000 Shares representing 62.25% interest in the total issued share capital of our Company.

### Long positions in Shares of associated corporations

Name of Shareholder ( <i>Note 1</i> )	Name of associated corporation	Capacity/Nature	Approximate percentage of Shareholding
Zisha Hotel	Hexin Pawn	Beneficial owner	36%
Mr. JS Wang	Hexin Pawn	Interest of controlled corporation ( <i>Note 2</i> )	36%
Ms. QZ Fan	Hexin Pawn	Beneficial owner	20%
Mr. YJ Fan	Hexin Pawn	Beneficial owner	10%
Ms. Wu	Hexin Auction	Beneficial owner	10%

*Notes:*

- (1) The respective equity-holders of Hexin Pawn and Hexin Auction and their respective shareholdings from the date of this prospectus to the Listing Date shall remain the same.
- (2) Zisha Hotel is solely and beneficially owned by Mr. JS Wang. By virtue of the SFO, Mr. JS Wang is deemed to be interested in the equity interest in Hexin Pawn held by Zisha Hotel.

Saved as disclosed above, so far as is known to any Director or chief executive of our Company, no person (other than a Director or chief executive of our Company) has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group once the Shares are listed on the Stock Exchange.

## SHARE CAPITAL

### SHARE CAPITAL

The following is a summary of the authorised and issued share capital of our Company as of the date of this prospectus and immediately after completion of the Global Offering:

<i>Number</i>	<i>HK\$</i>
<i>Authorised share capital:</i>	
<u>5,000,000,000</u> Shares	<u>50,000,000</u>
<i>Issued and to be issued and fully paid or credited as fully paid:</i>	
10,000 Shares in issue as of the date of this prospectus	100
1,199,990,000 Shares to be issued pursuant to the Capitalisation Issue	11,999,900
<u>400,000,000</u> Shares to be issued pursuant to the Global Offering	<u>4,000,000</u>
<u>1,600,000,000</u> Total (Note)	<u>16,000,000</u>

### Assumptions

The above table assumes the Global Offering becomes unconditional and the issue of Shares pursuant to the Global Offering is made as described herein. It does not take into account any Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme or the Over-allotment Option or of any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors.

*Note:* The share capital of our Company will be enlarged by up to an additional 60 million Shares in the event that the Over-allotment Option is exercised in full.

### MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1)(a) of the Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of the total number of issued Shares of our Company in the hands of the public (as defined in the Listing Rules).

### RANKING

The Offer Shares and the Shares which may be issued under the Over-allotment Option or upon the exercise of any options which may be granted under the Share Option Scheme will rank equally with all of the Shares now in issue or to be issued, and will qualify for all dividends or other distributions declared, made or paid on the Shares after the date of this prospectus, except for entitlement under the Capitalisation Issue.

For the circumstances under which general meeting are required, please see the summary of the Articles of Association of the Company in Appendix III — “Summary of the Constitution of the Company and Cayman Islands Company Law”.

## SHARE CAPITAL

### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out in paragraph 3.5 under Appendix IV — “Statutory and General Information” to this prospectus.

### GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted the Issuing Mandate to allot, issue and deal in a total number of Shares of not more than the aggregate of:

- (i) 20% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue, but excluding any Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme; and
- (ii) the total number of our Shares repurchased by our Company (if any) pursuant to the Repurchase Mandate.

The Issuing Mandate does not apply to situations where our Directors allot, issue or deal in Shares by way of a rights issue, scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or in part of any dividend in accordance with the Articles, or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares, or pursuant to the exercise of any options that may be granted under the Share Option Scheme, or under the Global Offering or the Capitalisation Issue or upon the exercise of the Over-allotment Option. Our Directors may, in addition to the Shares which they are authorised to issue under the Issuing Mandate, allot, issue and deal in Shares pursuant to a rights issue, the exercise of subscription rights attaching to any warrants of our Company, scrip dividends or similar arrangements or the exercise of any options that may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

The Issuing Mandate will expire upon the earliest occurrence of any of the following:

- at the conclusion of our next annual general meeting;
- on the date by which our next annual general meeting is required by the Articles or any applicable laws to be held; or
- when the authority given to our Directors is revoked or varied by an ordinary resolution passed by our Shareholders in general meeting.

For further details of the Issuing Mandate, please see paragraph 1.3 under Appendix IV — “Statutory and General Information” to this prospectus.

## SHARE CAPITAL

### GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted the Repurchase Mandate to exercise all the powers of our Company to repurchase Shares with an aggregate number of Shares of not more than 10% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue, but excluding any Shares that may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme.

The Repurchase Mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the Listing Rules. A summary of the relevant requirements under the Listing Rules is set out in paragraph 1.7 in Appendix IV — “Statutory and General Information” to this prospectus.

The Repurchase Mandate will expire upon the earliest occurrence of any of the following:

- at the conclusion of our next annual general meeting;
- on the date by which our next annual general meeting is required by the Articles or any applicable laws to be held; or
- when the authority given to our Directors is revoked or varied by an ordinary resolution passed by our Shareholders in general meeting.

For further details of the Repurchase Mandate, see paragraph 1.3 under Appendix IV — “Statutory and General Information” to this prospectus.



## FINANCIAL INFORMATION

*You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements as of and for the three years ended 31 December 2013, 2014 and 2015 and as of and for the six months ended 30 June 2016 and the accompanying notes included in the Accountants' Report set out in Appendix I to this prospectus. The Accountants' Report has been prepared in accordance with HKFRSs. Potential investors should read the whole of the Accountants' Report set out in Appendix I to this prospectus and not rely merely on the information contained in this section.*

*The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by our Group in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors our Group believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet our Group's expectations and projections depends on a number of risks and uncertainties over which our Group does not have control. For further information, you should refer to the section "Risk factors" in this prospectus.*

### OVERVIEW

We are a leading art finance service provider in China. According to F&S Report, in 2015, we were the largest art pawn loan service provider in China in terms of revenue and the second largest art pawn loan service provider in China in terms of the size of the art pawn loan portfolio and registered capital; we were the second largest art auction house in Jiangsu province in terms of aggregate art auction revenue and the largest auction house for Zisha Artworks in China in terms of Zisha Artwork auction revenue. In 2015, according to the F&S Report, in terms of revenue we had market shares of 0.33% and 0.50% in the PRC pawn loan industry and auction industry respectively in PRC.

Our revenue has been reported under two segments: (1) art and asset pawn, and (2) art and asset auction. We principally engage in the art pawn loan and art auction businesses. During the Track Record Period, the art and asset pawn segment accounted for about 84.9%, 75.7%, 55.1% and 47.7% of our total revenue, whereas the art and asset auction segment accounted for about 15.1%, 24.3%, 44.9% and 52.3% of our total revenue. Our focus is on artworks which are mainly contemporary Zisha Artworks, as well as Painting and Calligraphies and Jewel Artworks.

For the art and asset pawn segment, we provide pawn loans secured by artworks and other assets. During the Track Record Period, in terms of the principal amount of loan granted, majority of our pawn loans are collateralised by artworks and to a lesser extent, real properties, personal properties and equity interests.

For the art and asset auction segment, we specialise in auctioneering a wide variety of artworks with emphasis on Zisha Artworks, as well as Paintings and Calligraphies and Jewel Artworks. We also provide auction services for other assets such as real properties, equity interests and automobiles.

## FINANCIAL INFORMATION

### **BASIS OF PRESENTATION**

Our Company was incorporated as a limited liability company in the Cayman Islands on 2 November 2015. In preparation of the Listing, our Group underwent the Reorganisation, and details of the Reorganisation are set out in the section headed “History, Reorganisation and Development” in this prospectus. Upon the Contractual Arrangements becoming effective on 15 April 2016, our Company has become the ultimate holding company of the equity-held companies and the PRC Operating Entities (controlled through the Contractual Arrangements) now comprising our Group.

The financial information has been prepared by our Directors based on the accounting policies which are in accordance with HKFRSs issued by HKICPA, on the basis of presentation as set out in Note 2 of the Accountants’ Report contained in Appendix I to this prospectus.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of our Group for the Track Record Period which include the results, changes in equity and cash flows of the companies comprising our Group have been prepared as if the current group structure had been in existence throughout the Track Record Period, or since the respective dates of incorporation or establishments of the combining companies, whichever is a shorter period.

The consolidated statements of financial position of our Group as of 31 December 2013, 2014 and 2015 and 30 June 2016 have been prepared to present the assets and liabilities of the companies now comprising our Group at such respective dates, as if the current group structure had been in existence as of those dates.

### **FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

#### **Our Financial Condition and Results of Operation Depend on the Art Market of PRC**

Both our art pawn loan business and our art auction business focus on artwork, either as a collateral or auction lot. Accordingly, our results of operations and financial position depend on the development trends and prosperity of the art market of PRC, which is hard to predict and largely depend on a number of factors, many of which are beyond our control. These factors include, for instance, overall economic and political environment, changing trends in the art market as to which collecting categories and artists are most sought after, collecting preference of individual collectors, willingness of potential buyers or sellers to purchase or sell particular artworks.

#### **The Supply and Demand of China’s Art Market is Difficult to Predict, as well as Quality for Artworks, this Limits our Ability to Obtain Quality Artworks for our Art Auction Business**

The conditions for China’s art market are relatively unpredictable and influenced by various factors, many of which are not under our control, such as those mentioned in the preceding paragraph. In addition, whether a transaction takes place is influenced by various factors including personal financial resources and availability of certain artworks. A decrease in market supply and/or demand may attract fewer bidders to our art auctions, resulting in fewer auction transactions to be completed, hence lowering commission income to be earned by us.

## FINANCIAL INFORMATION

In addition, the availability of high quality artworks may not be assured. In general, we do not accept artworks for our art auctions if we are not satisfied with their quality. If good quality artworks cannot be sourced by our Group, our art auction business, the reputation of our Group and our profitability may be adversely affected.

### **Our Ability to Authenticate and Appraise Artworks and Other Collaterals**

A majority of our pawn loans are secured by artworks, primarily consist of Zisha Artworks, Paintings and Calligraphies, and other artworks. We rely on our internal and external experts to perform authentication and valuation for artworks. The authentication, appraisal and valuation of artworks rely, to a certain extent, on the knowledge and judgment of our experts and management. If any artwork collateral is proven to be counterfeit or the market price of the artwork collateral is substantially lower than the amount of the loan granted to the borrower, we may not be able to fully recover the outstanding amount of the loan in the event that the borrower defaults.

### **Our Credit Risk may be Subject to Unanticipated Changes**

Our results of operations and financial position are affected by the credit risk in relation to our loans to customers. Our financial statements have been prepared in accordance with HKFRSs. Based on our credit policy, we review our Group's loan portfolio to assess impairment at least on a semi-annual basis. Individually assessed impairment allowances and collectively assessed impairment allowances will be made after completing the assessment and having regard to our impairment policy. As of 31 December 2013, 2014 and 2015 and 30 June 2016, the balance of our impairment allowances account were approximately RMB3.7 million, RMB4.3 million, RMB1.3 million and RMB4.2 million respectively, representing 4.4%, 4.5%, 2.0% and 2.0% of the gross loan amount outstanding as of the indicated dates.

If unanticipated changes occur in the PRC economy or to any customers, our impairment allowance may be inadequate. We may then need to recognise additional impairment allowances or adjust the assessments criteria for determining the impairment allowances. As such, our revenue, profitability, and operating cash flow could be significantly affected.

To monitor and minimise the credit risk, we have implemented risk management policies, including rigorous and multi-level approval procedures, authentication and appraisal procedures and policies, and loan monitor actions. For details of our risk management policies, please see the section headed "Business — Internal Control and Risk Management — Internal Control and Risk Management Policy for our Art and Asset Pawn Business" in this prospectus.

### **The Scale of our Art and Asset Pawn Business is Limited by Registered Capital of Hexin Pawn**

During the Track Record Period, the registered capital of Hexin Pawn, our principal operating entity engaged in art and asset pawn business, was increased from RMB40 million to RMB100 million in July 2015. Since our funding sources for art and asset pawn business consist primarily of paid-in capital and the Pawning Measures stipulates various statutory thresholds in connection with the level of loans we may grant, the size of the current registered capital of Hexin Pawn limits the amount of loan we may grant. This in turn limits the composite administrative fees we charge for the loans granted. Our profitability and financial performance will depend on our ability to obtain sufficient and/or alternative fundings on reasonable terms.

## FINANCIAL INFORMATION

### **The Value of Collateral is Subject to Variation**

We offer short-term loans secured by collaterals, including artworks, real estates, personal properties and equity interest. The value of the collaterals may decrease due to various reasons such as: damage, loss, oversupply, devaluation or reduced market demand of the collateral or, in the case of equity interest collateral, any downturn in the business or financial condition of the relevant company and the disputes involving equity-holders of such company.

Where the value of the collateral has significantly deteriorated, we may require the borrower either to repay a portion of the outstanding principal amount or to provide additional collateral to maintain the target appraised loan-to-value ratio at the level below the threshold for the relevant collateral in accordance with our risk management policy. However, such measures may not always be done in a cost-efficient way, or at all. We also face higher credit risk in case of reduction of value of the collateral and/or the deterioration of financial condition of a borrower.

### **Some of the Financial Indications of our Group are Subject to Fluctuation in Connection with the Time of Holding our Art Auctions**

During the Track Record Period, we organised the Autumn Auction in the last quarter each year. Accordingly, in FY2013, FY2014 and FY2015, the art auction revenue derived from the Autumn Auction represented a major portion of the total auction revenue. Our 2015 Autumn Auction took place in mid-December 2015. As a result, on 31 December 2015, the buyer's commission of approximately RMB97,000 and the purchase prices for artwork of approximately RMB1.6 million had not been received by us, and we have not make payment of approximately RMB41.2 million to the sellers. This leads to a significant increase in our trade receivables, other receivables and payables on behalf of customers in respect of art and auction business as of 31 December 2015.

Commencing from 2016, we organise both the Spring Auction and the Autumn Auction annually. In addition, as part of our business plan we also hold an online auction generally at quarterly interval starting from 2016. The first Spring Auction took place in late-June 2016, it achieved an aggregate hammer price of approximately RMB164.6 million and contributed to approximately RMB31.0 million of our total revenue.

The time of holding our art auctions will have significant impact on our revenue, current assets and current liabilities. For such reasons, comparison of sales, operating results and liquidity between different periods in a single financial year for our art auction business segments, or between the same periods in different financial years, are not necessarily meaningful, and should not be relied on as indicators of our future performance.

Please refer to the section "Risk factors" of this prospectus for further information on the above factors and other factors that may affect our revenue.

## FINANCIAL INFORMATION

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial statements have been prepared in accordance with HKFRSs issued by HKICPA. Our significant accounting policies are set forth in Note 4 of the Accountants' Report in Appendix I to this prospectus. The preparation of our consolidated financial statements requires our management to make judgments, estimates and assumptions that affect the amounts reported in our consolidated financial statements. These judgments, estimates and assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, and actual results could differ significantly. We have identified the following accounting policies as critical to an understanding of our financial condition and results of operations, because the application of these policies requires significant management judgments, estimates and assumptions, and the reporting of materially different amounts could result if different judgments were made or different estimates or assumptions were used.

The following paragraphs discuss those that are most critical in preparing our financial statements:

#### **Accounting Policies**

##### ***Revenue recognition***

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services provided in the normal course of business.

##### ***Revenue from art and asset pawn services and composite administrative fee***

Under the PRC regulatory framework, we are entitled to charge both loan interests and composite administrative fee for each pawn loan granted. However, during the Track Record Period and up to the Latest Practicable Date, we have not charged other loan interests apart from the composite administrative fees. Under relevant accounting standards, such composite administrative fee is in substance treated as interest income from accounting perspective. Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to us and when the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

##### ***Revenue from art and asset auction services***

For our art and asset auctions, we charge commission from buyers and/or sellers for the art and asset auction service we provide. Art and asset auction services revenue is generally recognised when related services are provided. Art and asset auction services revenue includes buyer's commission and seller's commission, which are based on a percentage of the hammer price of the auction sales.

##### ***Financial assets***

Our financial assets are generally classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

## FINANCIAL INFORMATION

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market for art and asset pawn business. Subsequent to initial recognition, loans and receivables (including loans to customers for art and asset pawn business, trade receivables, other receivables, amounts due from a director and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest income is recognised on an effective interest basis for debt instruments.

### *Impairment loss of financial assets*

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial asset (such as loans to customers for art and asset pawn business and trade receivables), our Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statements of profit or loss and other comprehensive income.

## FINANCIAL INFORMATION

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of our Group's grading process that considers collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in value of collateral assets, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by our Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statements of profit and loss and other comprehensive income.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and loans to customers for art and asset pawn business, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or a loan to customer for art and asset pawn business is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.



## FINANCIAL INFORMATION

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the amortised cost would have been had the impairment not been recognised.

Details of the accounting policies in relation to financial liabilities and equity instruments and derecognition of financial assets and financial liabilities are set out in Note 4 of the Accountants' Report in Appendix I to this prospectus.

### **Critical Accountant Judgement and Key Sources of Estimation Uncertainty**

#### *Estimated allowances on loans to customers for art and asset pawn business*

Our Group reviews its loan portfolios to assess impairment at least on a semi-annual basis. In determining whether an impairment loss should be recorded in the profit or loss, our Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in our Group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. As of 31 December 2013, 2014 and 2015 and 30 June 2016, the carrying amounts of our Group's loans to customers for art and asset pawn business are approximately RMB80.5 million, RMB93.0 million, RMB64.8 million and RMB205.9 million respectively net of allowance of approximately RMB3.7 million, RMB4.3 million, RMB1.3 million and RMB4.2 million respectively.

#### *Estimated allowance of trade receivables*

When there is an objective evidence of impairment loss, we take into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the trade receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As of 31 December 2013, 2014 and 2015 and 30 June 2016, the carrying amounts of our trade receivables are approximately nil, nil, RMB0.1 million and RMB13.8 million respectively.



## FINANCIAL INFORMATION

### *Contractual Arrangements*

The operation of the pawn loan business of Hexin Pawn and online art auction operation of Hexin Auction are, to a certain extent, subject to foreign investment prohibition or restriction in PRC and there are practical difficulties in obtaining governmental approval for foreign investment in these businesses. The current registered equity-holders of (i) Hexin Pawn are Mr. ZJ Fan, Ms. QZ Fan, Mr. YJ Fan, Ms. Wu, Wuxi Culture and Zisha Hotel; and (ii) Hexin Auction are Mr. ZJ Fan, Ms. Wu and Ms. Xu. A series of agreements, which constitute the Contractual Arrangements, was entered into between each of (i) WFOE-Pawn, Hexin Pawn and the equity-holders of Hexin Pawn, and (ii) WFOE-Auction, Hexin Auction and the equity-holders of Hexin Auction. Details of the Contractual Arrangements are disclosed in the section headed “Contractual Arrangements” in this prospectus. Pursuant to the agreements and undertakings under the Contractual Arrangements, notwithstanding the fact that we do not hold direct equity interest in Hexin Pawn and Hexin Auction, our management considers that we have power over the financial and operating policies of Hexin Pawn and Hexin Auction and receive a majority of the economic benefits from their business activities. Accordingly, each of Hexin Pawn and Hexin Auction has been treated as our indirect subsidiary during the Relevant Period.

## FINANCIAL INFORMATION

### CONSOLIDATED RESULTS OF OPERATIONS

The following table sets forth our consolidated statements of profit or loss and other comprehensive income for the periods indicated:

	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>Six months ended</b>	
				<b>30 June</b>	
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<b>2015</b>	<b>2016</b>
				<i>(RMB'000)</i>	<i>(RMB'000)</i>
				(Unaudited)	
Revenue	39,869	57,698	107,574	29,192	66,322
Other income	92	164	306	90	362
Other gains and losses	—	—	27	—	(131)
Business tax and surcharges	(2,325)	(3,362)	(6,099)	(1,661)	(2,006)
Operating expenses	(1,389)	(1,535)	(2,133)	(501)	(1,206)
(Allowance) reversal of allowance on loans to customers for art and asset pawn business, net	(329)	(611)	710	(331)	(2,879)
Administrative expenses	(3,663)	(3,796)	(4,991)	(2,123)	(3,854)
Listing expenses	—	—	(6,330)	—	(10,872)
<b>Profit before tax</b>	<b>32,255</b>	<b>48,558</b>	<b>89,064</b>	<b>24,666</b>	<b>45,736</b>
Income tax expense	(8,064)	(12,139)	(26,670)	(6,856)	(14,305)
<b>Profit for the year/period</b>	<b><u>24,191</u></b>	<b><u>36,419</u></b>	<b><u>62,394</u></b>	<b><u>17,810</u></b>	<b><u>31,431</u></b>
<b>Profit and total comprehensive income for the year/period attributable to:</b>					
— Owners of the Company	16,435	25,901	46,854	11,259	27,915
— Non-controlling interests	7,756	10,518	15,540	6,551	3,516
	<b><u>24,191</u></b>	<b><u>36,419</u></b>	<b><u>62,394</u></b>	<b><u>17,810</u></b>	<b><u>31,431</u></b>
Earnings per share for profit attributable to owners of the Company, basic <i>(RMB cents)</i>	<b><u>4.25</u></b>	<b><u>6.70</u></b>	<b><u>7.93</u></b>	<b><u>2.91</u></b>	<b><u>2.73</u></b>

## FINANCIAL INFORMATION

### MAJOR ITEMS IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

#### Revenue

Our Group records revenue under two reportable and operating segments, namely, (i) art and asset pawn and (ii) art and asset auction. The following table sets forth a breakdown of our revenue for the periods indicated:

	FY2013		FY2014		FY2015		Six months ended 30 June			
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	2015 (RMB'000) (Unaudited)	%	2016 (RMB'000)	%
<b>Revenue</b>										
<b>Art and asset pawn segment</b>										
Art pawn loan	30,985	77.7	41,341	71.7	58,639	54.5	28,446	97.5	31,310	47.2
Asset pawn loan	<u>2,873</u>	<u>7.2</u>	<u>2,340</u>	<u>4.0</u>	<u>620</u>	<u>0.6</u>	<u>332</u>	<u>1.1</u>	<u>300</u>	<u>0.5</u>
	<u><b>33,858</b></u>	<u><b>84.9</b></u>	<u><b>43,681</b></u>	<u><b>75.7</b></u>	<u><b>59,259</b></u>	<u><b>55.1</b></u>	<u><b>28,778</b></u>	<u><b>98.6</b></u>	<u><b>31,610</b></u>	<u><b>47.7</b></u>
<b>Art and asset auction segment</b>										
Art auction	3,292	8.3	12,027	20.8	47,845	44.5	—	—	34,712	52.3
Asset auction	<u>2,719</u>	<u>6.8</u>	<u>1,990</u>	<u>3.5</u>	<u>470</u>	<u>0.4</u>	<u>414</u>	<u>1.4</u>	<u>—</u>	<u>—</u>
	<u><b>6,011</b></u>	<u><b>15.1</b></u>	<u><b>14,017</b></u>	<u><b>24.3</b></u>	<u><b>48,315</b></u>	<u><b>44.9</b></u>	<u><b>414</b></u>	<u><b>1.4</b></u>	<u><b>34,712</b></u>	<u><b>52.3</b></u>
<b>Total</b>	<u><b>39,869</b></u>	<u><b>100</b></u>	<u><b>57,698</b></u>	<u><b>100</b></u>	<u><b>107,574</b></u>	<u><b>100</b></u>	<u><b>29,192</b></u>	<u><b>100</b></u>	<u><b>66,322</b></u>	<u><b>100</b></u>

Due to our management decision to focus on artwork over other assets as collaterals, revenue from our art pawn loan business increased from approximately RMB31.0 million for FY2013 to approximately RMB41.3 million for FY2014 and further to approximately RMB58.6 million for FY2015, and revenue from our asset pawn loan business decreased from approximately RMB2.9 million for FY2013 to approximately RMB2.3 million for FY2014 and further to approximately RMB0.6 million for FY2015. Revenue from art pawn loan business increased from approximately RMB28.4 million for the six months ended 30 June 2015 to approximately RMB31.3 million for the six months ended 30 June 2016, while revenue from asset pawn loan business remained stable at approximately RMB0.3 million for the six months ended 30 June 2015 and 2016.

## FINANCIAL INFORMATION

The following table sets forth the average monthly composite administrative fee rate for our pawn loan by type of collateral for the periods indicated:

	FY2013	FY2014	FY2015	For the six months ended 30 June 2016
<b>Average monthly composite administrative fee rate (%) (Note)</b>				
Artwork	3.8	3.9	3.9	4.0
Real estates	2.7	2.7	2.7	2.7
Personal properties	4.0	4.0	4.0	4.0
Equity interest	1.4	—	—	—

*Note:* Average monthly composite administrative fee rate is calculated by dividing the aggregate amount of the monthly composite administrative fee derived from the loans granted during the indicated financial year or period by the principal amount of loan to customers during the same financial year or period and multiplying by 100%.

Other than art pawn loan business, we also put a strong focus on art auction business. Our revenue from art auction business increased from approximately RMB3.3 million for FY2013 to approximately RMB12.0 million for FY2014 and further to approximately RMB47.8 million for FY2015, representing approximately 8.3%, approximately 20.8% and approximately 44.5% respectively of our total revenue for FY2013, FY2014 and FY2015. Since the quality of Zisha Artworks, our major auction lots, sourced by us generally improved, the aggregate hammer price of Zisha Artworks auction lots increased during the Track Record Period. Particularly in the period from FY2014 to FY2015, the aggregate hammer price of Zisha Artworks increased from approximately RMB44.3 million to approximately RMB153.5 million and the transaction rate from approximately 83.3% to approximately 84.3% for the same period. Furthermore, our auction lots included Painting and Calligraphies in the 2014 Autumn Auction with the aggregate hammer price of approximately RMB15.8 million and the transaction rate at 65.3%. In the 2015 Autumn Auction, we included Jewel Artworks as new auction lots with the aggregate hammer price of approximately RMB67.0 million and the transaction rate at 61.5%.

Our revenue from art auction business increased from nil for the six months ended 30 June 2015 to approximately RMB34.7 million for the six months ended 30 June 2016, as a result of our expansion to organise (i) our first Spring Auction, which contributed to approximately RMB31.0 million, and (ii) two online auctions in January and April 2016 respectively, which contributed to approximately RMB3.7 million. In the 2016 Spring Auction, Zisha Artworks auction lots achieved an aggregate hammer price of RMB120.5 million with a transaction rate of 74.1%, Paintings and Calligraphies auctions lots achieved an aggregate hammer price of RMB12.3 million with a transaction rate of 72.4%, and Jewel Artworks auction lots achieved an aggregate hammer price of RMB31.8 million with a transaction rate of 77.2%.

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### **Other Income**

Our Group's other income primarily represents the bank interest income. Our other income for FY2013, FY2014 and FY2015 was approximately RMB0.1 million, RMB0.2 million and RMB0.3 million, respectively. Our other income increased from approximately RMB0.1 million for the six months ended 30 June 2015 to approximately RMB0.4 million for the six months ended 30 June 2016. The increases in other income were primarily due to the increase in bank deposits.

### **Business Tax and Surcharges**

Our Group's business tax and surcharges for FY2013, FY2014 and FY2015 was approximately RMB2.3 million, RMB3.4 million and RMB6.1 million, respectively. The increase in business tax and surcharges was primarily due to the increase in our total revenue. Our business tax and surcharges increased from approximately RMB1.7 million for the six months ended 30 June 2015 to approximately RMB2.0 million for the six months ended 30 June 2016. Due to the VAT in lieu of BT becoming effective on 1 May 2016, our Group started to pay value-add tax, which was deducted from our revenue derived from both segments, rather than business tax. As a result, the rate of increase of our business tax and surcharges for the six months ended 30 June 2016 as compared with that of the corresponding period of 2015 was substantially lower than the rate of increase in our revenue of the corresponding period.

### **Gross Profit**

Due to the nature of our Group's business, we do not have any cost of goods sold and hence do not record gross profit.

### **Operating Expenses**

Our operating expenses primarily consist of (i) staff costs for our operating officers, (ii) advertising expenses, (iii) rental expenses for auction venues, and (iv) printing fees for auction catalogues. Others primarily included decoration fees for the auction venue. Operating expenses accounted for approximately 3.5%, 2.7%, 2.0% and 1.8%, respectively, of our revenue during the Track Record Period.

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The following table sets forth a breakdown of our operating expenses for the periods indicated:

	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>Six months ended</b>	
				<b>30 June</b>	
	<b>(RMB'000)</b>	<b>(RMB'000)</b>	<b>(RMB'000)</b>	<b>2015</b>	<b>2016</b>
				<b>(RMB'000)</b>	<b>(RMB'000)</b>
				(Unaudited)	
Staff costs for operating officers	995	1,004	1,214	465	558
Advertising expenses	157	84	394	—	186
Rental expenses for auction venues	129	88	120	—	110
Printing fee for auction catalogues	59	359	180	—	131
Others	<u>49</u>	<u>—</u>	<u>225</u>	<u>36</u>	<u>221</u>
<b>Total</b>	<b><u>1,389</u></b>	<b><u>1,535</u></b>	<b><u>2,133</u></b>	<b><u>501</u></b>	<b><u>1,206</u></b>

### (Allowance) Reversal of Allowance on Loans to Customers for Art and Asset Pawn Business, Net

Allowance on loans to customers consists of individually assessed impairment allowance and collectively assessed impairment allowance. The following table sets forth the contribution of each type of allowance for the indicated periods:

	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>Six months ended</b>	
				<b>30 June</b>	
	<b>(RMB'000)</b>	<b>(RMB'000)</b>	<b>(RMB'000)</b>	<b>2015</b>	<b>2016</b>
				<b>(RMB'000)</b>	<b>(RMB'000)</b>
				(Unaudited)	
Net charge (reversal) of impairment allowance					
Individually assessed	251	276	(253)	(253)	—
Collectively assessed	<u>78</u>	<u>335</u>	<u>(457)</u>	<u>584</u>	<u>2,879</u>
	<b><u>329</u></b>	<b><u>611</u></b>	<b><u>(710)</u></b>	<b><u>331</u></b>	<b><u>2,879</u></b>

We recognised impairment allowance of approximately RMB0.3 million and RMB0.6 million, respectively, for FY2013 and FY2014. For FY2015, we reversed impairment allowance of approximately RMB0.7 million. During the six months ended 30 June 2016, we recognised impairment allowance of approximately RMB2.9 million primarily due to the substantial increase in the gross loan amount outstanding from approximately RMB66.1 million as at 31 December 2015 to approximately RMB210.1 million as at 30 June 2016. All impairment allowance and reversal of impairment allowance recognised were related to the loans granted to customers by our Group.

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### Administrative Expenses

Our administrative expenses primarily consist of (i) general staff cost, (ii) rental expenses, and (iii) depreciation charge. Others primarily included travelling expenses, transportation costs and (for FY2015 and the six months ended 30 June 2016) listing-related expenses. Administrative expenses accounted for approximately 9.2%, 6.6%, 4.6% and 5.8%, respectively, of our revenue during the Track Record Period.

The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	FY2013 <i>(RMB'000)</i>	FY2014 <i>(RMB'000)</i>	FY2015 <i>(RMB'000)</i>	Six months ended 30 June	
				2015 <i>(RMB'000)</i>	2016 <i>(RMB'000)</i>
				(Unaudited)	
General staff cost	1,590	1,345	1,859	600	1,294
Rental expenses	712	793	732	405	552
Depreciation charge	508	817	822	413	407
Others	<u>853</u>	<u>841</u>	<u>1,578</u>	<u>705</u>	<u>1,601</u>
<b>Total</b>	<u><u>3,663</u></u>	<u><u>3,796</u></u>	<u><u>4,991</u></u>	<u><u>2,123</u></u>	<u><u>3,854</u></u>

### Listing Expenses

Listing expenses mainly represent payment made to relevant professional parties in relation to the Global Offering. During the Track Record Period, our listing expenses amounted to nil, nil, RMB6.3 million and RMB10.9 million, for each of the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016, respectively. We commenced preparation for the Global Offering in 2015, and the expenses incurred in FY2015 and the six months ended 30 June 2016 primarily related to the audit fees and other professional parties' fees.

### Income Tax Expense

Pursuant to the laws and regulations of the Cayman Islands, our Group is not subject to any income tax in the Cayman Islands during the Track Record Period.

No provision for Hong Kong profits tax was made as the income of our Group neither arises in nor is derived from Hong Kong during the Track Record Period.

Our effective tax rates during the Track Record Period were approximately 25.0%, 25.0%, 29.9% and 31.3%, for each of the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016, respectively. Our effective tax rates for FY2013 and FY2014 are in line with the statutory tax rate of 25% applicable to our PRC subsidiaries. For FY2015, the higher effective tax rate was primarily due to (i) non tax-deductible listing expenses of approximately RMB6.3 million for the year, (ii) non tax-deductible offset of investment income of Hexin Auction in consolidating the financial statements of approximately RMB8.8 million, and (iii) recognition of bad debt written off, which

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however cannot be deducted for tax purposes in PRC of approximately RMB2.3 million. For the six months ended 30 June 2016, the higher effective tax rate was primarily due to non tax-deductible listing expenses of approximately RMB10.9 million for the period.

### **Profit and Total Comprehensive Income Attributable to Owners of the Company and Non-controlling Interests**

During the Track Record Period, our profit and total comprehensive income attributable to owners of the Company amounted to approximately RMB16.4 million, RMB25.9 million, RMB46.9 million and RMB27.9 million, for each of the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016, respectively.

During the Track Record Period, our profit and total comprehensive income attributable to non-controlling interests amounted to approximately RMB7.8 million, RMB10.5 million, RMB15.5 million and RMB3.5 million, for each of the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016, respectively. The profit attributable to non-controlling interests represents the profit and total comprehensive income attributable to minority shareholders of Hexin Pawn and Hexin Auction.

For FY2013, FY2014 and FY2015, the changes in our profit and total comprehensive income attributable to non-controlling interests were mainly caused by the increase in the profit generated from our PRC Operating Entities. On 15 April 2016, our Group entered into the two series of agreements (as amended and supplemented by supplemental agreements entered into on 24 October 2016) which constitute the Contractual Arrangements. These Contractual Arrangements effectively transfer the economic benefits and pass the risks associated therewith of Hexin Pawn and Hexin Auction to our Group. As a result, starting from 15 April 2016, the entirety of our profit and total comprehensive income has become attributable to owners of our Company. Accordingly, there was a substantial decrease in our profit and total comprehensive income attributable to non-controlling interests for the six months ended 30 June 2016. For details of the Contractual Arrangements, please see the section headed “Contractual Arrangements” in this prospectus.

## **REVIEW OF HISTORICAL RESULTS OF OPERATIONS**

### **Six Months Ended 30 June 2016 Compared to Six Months Ended 30 June 2015**

#### ***Revenue***

Our revenue increased by approximately RMB37.1 million, or approximately 127.1%, from approximately RMB29.2 million for the six months ended 30 June 2015 to approximately RMB66.3 million for the six months ended 30 June 2016, primarily due to (i) the substantial increase in our auction revenue of approximately RMB34.3 million as a result of organising our first Spring Auction and two online auctions in the first half of 2016 and (ii) the increase in our art and asset pawn revenue of approximately RMB2.8 million. The reasons for the increase in our art and asset pawn revenue and art auction revenue in the six months ended 30 June 2016 are set out in the subsection “Discussion of our results by segment — Segment revenue” in this section below.



## FINANCIAL INFORMATION

### *Other income*

Our other income increased by approximately RMB0.3 million, or approximately 300.0%, from approximately RMB0.1 million for the six months ended 30 June 2015 to approximately RMB0.4 million for the six months ended 30 June 2016, primarily due to (i) increase in bank deposit and (ii) the service fees of approximately RMB3,000 in connection with publishing artworks for artwork artists on our overseas website.

### *Business tax and surcharges*

Our business tax and surcharges increased by approximately RMB0.3 million, or approximately 17.6%, from approximately RMB1.7 million for the six months ended 30 June 2015 to approximately RMB2.0 million for the six months ended 30 June 2016. The relatively small increase in our business tax and surcharges as compared to the increase in our revenue was primarily due to the implementation of the VAT in lieu of BT commencing from 1 May 2016.

### *Operating expenses*

Our operating expenses increased by approximately RMB0.7 million, or approximately 140.0%, from approximately RMB0.5 million for the six months ended 30 June 2015 to approximately RMB1.2 million for the six months ended 30 June 2016, primarily due to (i) the advertising expenses, the rental expenses for auction venue and printing fee for auction catalogues of approximately RMB0.4 million in aggregate incurred in organising the 2016 Spring Auction and (ii) the increase in others in operating expenses of approximately RMB0.2 million mainly representing the service fee incurred for the valuation services provided by Jiangsu Artwork Appraisal Centre in January 2016.

### *(Allowance) reversal of allowance on loans to customers for art and asset pawn business*

During the Track Record Period, we only recognised individually assessed impairment allowance in relation to one borrower with an aggregate principal loan amount of RMB9 million (“**Default Real Estate Loans**”), and was secured by real estate collateral. During the six months ended 30 June 2015, the principal amount of the Default Real Estate Loans and half of the outstanding composite administrative fee in the sum of about RMB2.3 million were recovered and collected by us. As a result, we reversed individually assessed impairment allowance of approximately RMB0.3 million and the remaining portion of approximately RMB2.3 million, was written off against loans to customers.

The collectively assessed impairment allowance recognised by our Group substantially increased by approximately RMB2.3 million, or approximately 383.3%, from approximately RMB0.6 million for the six months ended 30 June 2015 to approximately RMB2.9 million for the six months ended 30 June 2016, primarily due to the substantial increase in the gross loan amount outstanding from approximately RMB66.1 million as at 31 December 2015 to approximately RMB210.1 million as at ended 30 June 2016.

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### *Administrative expenses*

Our administrative expenses increased by approximately RMB1.8 million, or approximately 85.7%, from approximately RMB2.1 million for the six months ended 30 June 2015 to approximately RMB3.9 million for the six months ended 30 June 2016, primarily due to (i) the increase in other administrative expenses of approximately RMB0.9 million mainly as a result of the increase in listing-related expenses (including transportation, accommodation and other fees incurred in connection with the Listing) incurred during the six months ended 30 June 2016 and (ii) the increase in general staff cost of approximately RMB0.7 million for the expansion of our respective management teams of both segments and the engagement of a member of our senior management.

### *Listing expenses*

Our listing expenses for the six months ended 30 June 2016 amounted to RMB10.9 million, which primarily consisted of the service fees we paid to auditors and other professional parties in connection with our preparation for the Global Offering.

### *Profit before tax*

As a result of the foregoing, our profit before tax increased by approximately RMB21.0 million, or approximately 85.0%, from approximately RMB24.7 million for the six months ended 30 June 2015 to approximately RMB45.7 million for the six months ended 30 June 2016.

### *Income tax expense*

Our income tax expenses increased by approximately RMB7.4 million, or approximately 107.2%, from approximately RMB6.9 million for the six months ended 30 June 2015 to approximately RMB14.3 million for the six months ended 30 June 2016, primarily due to an increase in our Group's taxable income. For the reasons leading to the increase in our income tax expenses in the six months ended 30 June 2016, please refer to the paragraph headed "Major items in the Consolidated Statement of Profit or Loss and Other Comprehensive Income — Income tax expenses".

### *Profit and total comprehensive income for the period attributable to owners of the Company and non-controlling interests*

Our profit and total comprehensive income for the period attributable to owners of the Company increased by approximately RMB16.6 million, or approximately 146.9%, from approximately RMB11.3 million for the six months ended 30 June 2015 to approximately RMB27.9 million for the six months ended 30 June 2016, primarily due to (i) the entirety of our profit and total comprehensive income has become attributable to owners of our Company upon the Contractual Arrangements becoming effective on 15 April 2016 and (ii) the increase in our profit for the period.

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Our profit and total comprehensive income for the period attributable to non-controlling interests decreased by approximately RMB3.1 million, or approximately 47.0%, from approximately RMB6.6 million for the six months ended 30 June 2015 to approximately RMB3.5 million for the six months ended 30 June 2016, primarily due to the effect of the Contractual Arrangements which caused the cessation of the attribution of our profit and total comprehensive income to non-controlling interests since 15 April 2016, the effect of which was partially offset by the increase in our profit for the period from 1 January 2016 up to 14 April 2016.

### *Discussion of our results by segment*

#### *Segment revenue*

Our art and asset pawn revenue increased by approximately RMB2.8 million, or approximately 9.7%, from approximately RMB28.8 million for the six months ended 30 June 2015 to approximately RMB31.6 million for the six months ended 30 June 2016. The following table sets forth a breakdown of our art and asset pawn revenue by the type of collaterals secured for the pawn loans during the six months ended 30 June 2015 and 2016:

Art and asset pawn revenue	<b>Six months ended 30 June</b>			
	<b>2015</b>		<b>2016</b>	
	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%
	<i>(Unaudited)</i>			
Loans secured by artworks	28,446	98.8	31,310	99.1
Loans secured by assets <i>(Note)</i>	332	1.2	300	0.9
<b>Total</b>	28,778	100	31,610	100

*Note:* Assets include real estates, personal properties and equity interests.

The increase in our art and asset pawn revenue in the six months ended 30 June 2016 was primarily due to the increase in the loan amount (from approximately RMB191.0 million for the six months ended 30 June 2015 to RMB287.1 million for the six months ended 30 June 2016) of new art pawn loans granted during the period.

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Our art and asset auction revenue substantially increased by approximately RMB34.3 million, or approximately 85.8 times, from approximately RMB0.4 million for the six months ended 30 June 2015 to RMB34.7 million for the six months ended 30 June 2016. The following table sets forth a breakdown of our art and asset auction revenue by the type of auctions and category of the auction lots during the six months ended 30 June 2015 and 2016:

Art and asset auction revenue	Six months ended 30 June			
	2015		2016	
	(RMB'000)	%	(RMB'000)	%
	(Unaudited)			
Art auctions:				
Spring Auction:				
— Zisha Artworks	—	—	22,999	66.3
— Calligraphies and Paintings	—	—	2,056	5.9
— Jewel Artworks	—	—	6,006	17.3
	—	—	31,061	89.5
Online auctions:				
— Zisha Artworks	—	—	2,997	8.6
— Calligraphies and Paintings	—	—	654	1.9
— Jewel Artworks	—	—	—	—
Subtotal	—	—	3,651	10.5
Asset auctions	414	100	—	—
<b>Total</b>	414	100	34,712	100

The increase in our art and asset auction revenue in the six months ended 30 June 2016 was primarily due to the revenue derived from our first Spring Auction and the two online auctions in the first half of 2016.

### *Segment profit*

Segment profit of the art and asset pawn segment increased by approximately RMB0.2 million, or approximately 0.8%, from approximately RMB26.5 million for the six months ended 30 June 2015 to approximately RMB26.7 million for the six months ended 30 June 2016. Segment profit margin decreased from 92.2% for the six months ended 30 June 2015 to 84.6% for the six months ended 30 June 2016.

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Segment profit of the art and asset auction segment substantially increased by approximately RMB33.3 million, or approximately 166.5 times, from approximately RMB0.2 million for the six months ended 30 June 2015 to approximately RMB33.5 million for the six months ended 30 June 2016. Segment profit margin increased from 40.8% for the six months ended 30 June 2015 to 96.5% for the six months ended 30 June 2016.

### **FY2015 compared to FY2014**

#### ***Revenue***

Our revenue increased by approximately RMB49.9 million, or approximately 86.5%, from approximately RMB57.7 million for FY2014 to approximately RMB107.6 million for FY2015, primarily due to (i) the increase in our art and asset auction revenue of approximately RMB34.3 million and (ii) the increase in our art and asset pawn revenue of approximately RMB15.6 million. Meanwhile, in July 2015, the registered capital in Hexin Pawn increased from RMB40 million to RMB100 million, which allowed our Group to lend larger loan amounts for each transaction. The reasons for the increase in our art and asset pawn revenue and art and asset auction revenue in FY2015 are set out in the subsection “Discussion of our results by segment — Segment revenue” in this section below.

#### ***Other income***

Our other income increased by approximately RMB0.1 million, or approximately 50.0%, from approximately RMB0.2 million for FY2014 to approximately RMB0.3 million for FY2015, primarily due to increase in bank deposit.

#### ***Business tax and surcharges***

Our business tax and surcharges increased by approximately RMB2.7 million, or approximately 79.4%, from approximately RMB3.4 million for FY2014 to approximately RMB6.1 million for FY2015, this was primarily due to the increase in our total revenue.

#### ***Operating expenses***

Our operating expenses increased by approximately RMB0.6 million, or approximately 40.0%, from approximately RMB1.5 million for FY2014 to approximately RMB2.1 million for FY2015, primarily due to (i) the increase in advertising expenses of approximately RMB0.3 million and (ii) the increase in the staff costs for operating officers of approximately RMB0.2 million.

#### ***(Allowance) reversal of allowance on loans to customers for art and asset pawn business***

For FY2015, as a result of the recovery of the principal amount of the Default Real Estate Loans and the outstanding composite administrative fee incurred thereon, we reversed individually assessed impairment allowance of approximately RMB0.3 million.

We also reversed collectively assessed impairment allowance of approximately RMB0.5 million as a result of the decrease in the gross loan amount outstanding from approximately RMB97.4 million as of 31 December 2014 to RMB66.1 million as of 31 December 2015.

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### *Administrative expenses*

Our administrative expenses increased by approximately RMB1.2 million, or approximately 31.6%, from approximately RMB3.8 million for FY2014 to approximately RMB5.0 million for FY2015, primarily due to (i) the increase in other administrative expenses of approximately RMB0.7 million mainly as a result of listing-related expenses incurred in FY2015, (ii) the increase in general staff cost of approximately RMB0.5 million that was mainly attributable to the salaries and bonuses for new employees of our auction segment.

### *Listing expenses*

Our listing expenses for FY2015 amounted to RMB6.3 million, which primarily consisted of the service fees we paid to auditors and other professional parties in connection with our preparation for the Global Offering.

### *Profit before tax*

As a result of the foregoing, our profit before tax increased by approximately RMB40.5 million, or approximately 83.3%, from approximately RMB48.6 million for FY2014 to approximately RMB89.1 million for FY2015.

### *Income tax expense*

Our income tax expenses increased by approximately RMB14.6 million, or approximately 120.7%, from approximately RMB12.1 million for FY2014 to approximately RMB26.7 million for FY2015, primarily due to an increase in our Group's taxable income. For the reasons leading to the increase in our income tax expenses in FY2015, please refer to the paragraph headed "Major items in the Consolidated Statement of Profit or Loss and Other Comprehensive Income — Income tax expenses".

### *Profit and total comprehensive income for the year attributable to owners of the Company and non-controlling interests*

Primarily due to an increase in our profit for the year, (i) profit and total comprehensive income for the year attributable to owners of the Company increased by approximately RMB21.0 million, or approximately 81.1%, from approximately RMB25.9 million for FY2014 to approximately RMB46.9 million for FY2015, while (ii) profit and total comprehensive income for the year attributable to non-controlling interests increased by approximately RMB5.0 million, or approximately 47.6%, from approximately RMB10.5 million for FY2014 to approximately RMB15.5 million for FY2015.

## FINANCIAL INFORMATION

### *Discussion of our results by segment*

#### *Segment revenue*

Our art and asset pawn revenue increased by approximately RMB15.6 million, or approximately 35.7%, from approximately RMB43.7 million for FY2014 to approximately RMB59.3 million for FY2015. The following table sets forth a breakdown of our art and asset pawn revenue by the type of collaterals secured for the pawn loans during FY2014 and FY2015:

Art and asset pawn revenue	<b>FY2014</b>		<b>FY2015</b>	
	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%
Loans secured by artworks	41,341	94.6	58,639	99.0
Loans secured by assets <i>(Note)</i>	<u>2,340</u>	<u>5.4</u>	<u>620</u>	<u>1.0</u>
<b>Total</b>	<b><u>43,681</u></b>	<b><u>100</u></b>	<b><u>59,259</u></b>	<b><u>100</u></b>

*Note:* Assets include real estates, personal properties and equity interests.

The increase in our art and asset pawn revenue in FY2015 was primarily due to the increase in the loan amount (from approximately RMB243.2 million for FY2014 to RMB315.3 million for FY2015) of new art pawn loan granted during the year.

Our art and asset auction revenue increased by approximately RMB34.3 million, or approximately 245.0%, from approximately RMB14.0 million for FY2014 to approximately RMB48.3 million for FY2015. The following table sets forth a breakdown of our art and asset auction revenue by the type of auctions and category of the auction lots during FY2014 and FY2015:

Art and asset auction revenue	<b>FY2014</b>		<b>FY2015</b>	
	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%
Art auctions:				
— Zisha Artworks	8,868	63.3	30,713	63.6
— Calligraphies and Paintings	3,159	22.5	3,742	7.7
— Jewel Artworks	<u>—</u>	<u>—</u>	<u>13,390</u>	<u>27.7</u>
Subtotal	12,027	85.8	47,845	99.0
Asset auctions	<u>1,990</u>	<u>14.2</u>	<u>470</u>	<u>1.0</u>
<b>Total</b>	<b><u>14,017</u></b>	<b><u>100</u></b>	<b><u>48,315</u></b>	<b><u>100</u></b>

The increase in our art and asset auction revenue in FY2015 was primarily due to (i) the substantial increase in the aggregate hammer price (from approximately RMB60.1 million for FY2014 to RMB239.2 million for FY2015) in relation to art auctions and (ii) the inclusion of Jewel Artworks as new auction lots for FY2015, with the aggregate hammer price of approximately RMB67.0 million.

## FINANCIAL INFORMATION

### *Segment profit*

Segment profit of the art and asset pawn segment increased by approximately RMB16.1 million, or approximately 40.5%, from approximately RMB39.8 million for FY2014 to approximately RMB55.9 million for FY2015. Segment profit margin increased from 91.2% for FY2014 to 94.4% for FY2015.

Segment profit of the art and asset auction segment increased by approximately RMB31.8 million, or approximately 258.5%, from approximately RMB12.3 million for FY2014 to approximately RMB44.1 million for FY2015. Segment profit margin increased from 88.1% for FY2014 to 91.3% for FY2015.

### **FY2014 compared to FY2013**

#### ***Revenue***

Our revenue increased by approximately RMB17.8 million, or approximately 44.6%, from approximately RMB39.9 million for FY2013 to approximately RMB57.7 million for FY2014, primarily due to (i) the increase in our art and asset pawn revenue of approximately RMB9.8 million and (ii) the increase in our art and asset auction revenue of approximately RMB8.0 million. The reasons for the increase in our art and asset pawn revenue and art and asset auction revenue in FY 2014 are set out in “Discussion of our results by segment — Segment revenue” in this section below.

#### ***Other income***

Our other income increased by approximately RMB0.1 million, or approximately 100.0%, from approximately RMB0.1 million for FY2013 to approximately RMB0.2 million for FY2014, primarily due to increase in bank deposit.

#### ***Business tax and surcharges***

Our business tax and surcharges increased by approximately RMB1.1 million, or approximately 47.8%, from approximately RMB2.3 million for FY2013 to approximately RMB3.4 million for FY2014, this was primarily due to the increase in our total revenue.

#### ***Operating expenses***

Our operating expenses slightly increased by approximately RMB0.1 million, or approximately 7.1%, from approximately RMB1.4 million for FY2013 to approximately RMB1.5 million for FY2014, primarily due to the increase in printing fee for auction catalogues of approximately RMB0.3 million, the effect of which was partially offset by the decrease in advertising expenses and rental expenses for auction venues of approximately RMB0.1 million in aggregate.

#### ***(Allowance) reversal of allowance on loans to customers for art and asset pawn business, net***

The impairment allowance recognised by our Group increased by approximately RMB0.3 million or approximately 100.0%, from approximately RMB0.3 million for FY2013 to approximately RMB0.6 million for FY2014, primarily due to the increase in the gross loan amount outstanding from approximately RMB84.2 million as of 31 December 2013 to RMB97.4 million as of 31 December 2014.



## FINANCIAL INFORMATION

### *Administrative expenses*

Our administrative expenses slightly increased by approximately RMB0.1 million, or approximately 2.7%, from approximately RMB3.7 million for FY2013 to approximately RMB3.8 million for FY2014, primarily due to the increase in depreciation charge of approximately RMB0.3 million, the effect of which was partially offset by the decrease in staff cost of approximately RMB0.2 million.

### *Listing expenses*

Our listing expenses was nil for FY2013 and FY2014.

### *Profit before tax*

As a result of the foregoing, our profit before tax increased by approximately RMB16.3 million, or approximately 50.5%, from approximately RMB32.3 million for FY2013 to approximately RMB48.6 million for FY2014.

### *Income tax expense*

Our income tax expenses increased by approximately RMB4.0 million, or approximately 49.4%, from approximately RMB8.1 million for FY2013 to approximately RMB12.1 million for FY2014, primarily due to an increase in profit before tax.

### *Profit and total comprehensive income for the year attributable to owners of the Company and non-controlling interests*

Primarily due to an increase in our profit for the year, (i) profit and total comprehensive income for the year attributable to owners of the Company increased by approximately RMB9.5 million, or approximately 57.9%, from approximately RMB16.4 million for FY2013 to approximately RMB25.9 million for FY2014, while (ii) profit and total comprehensive income attributable to non-controlling interests increased by approximately RMB2.7 million, or approximately 34.6%, from approximately RMB7.8 million for FY2013 to approximately RMB10.5 million for FY2014.

## FINANCIAL INFORMATION

### *Discussion of our results by segment*

#### *Segment Revenue*

Our art and asset pawn revenue increased by approximately RMB9.8 million, or approximately 28.9%, from approximately RMB33.9 million for FY2013 to approximately RMB43.7 million for FY2014. The following table sets forth a breakdown of our art and asset pawn revenue by the type of collaterals secured for the pawn loans during FY2013 and FY2014:

Art and asset pawn revenue	<b>FY2013</b>		<b>FY2014</b>	
	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%
Loans secured by artworks	30,985	91.5	41,341	94.6
Loans secured by assets <i>(Note)</i>	<u>2,873</u>	<u>9.5</u>	<u>2,340</u>	<u>5.4</u>
<b>Total</b>	<u><u>33,858</u></u>	<u><u>100</u></u>	<u><u>43,681</u></u>	<u><u>100</u></u>

*Note:* Assets include real estates, personal properties and equity interests.

The increase in our art and asset pawn revenue in FY2014 was primarily due to the increase in the loan amount (from RMB155.5 million for FY2013 to RMB243.2 million for FY2014) of new art pawn loan granted during the year.

Our art and asset auction revenue increased by approximately RMB8.0 million, or approximately 133.3%, from approximately RMB6.0 million for FY2013 to approximately RMB14.0 million for FY2014. The following table sets forth a breakdown of our art and asset auction revenue by the type of auctions and category of the auction lots during FY2013 and FY2014:

Art and asset auction revenue	<b>FY2013</b>		<b>FY2014</b>	
	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%
Art auctions:				
— Zisha Artworks	3,292	54.8	8,868	63.3
— Calligraphies and Paintings	—	—	3,159	22.5
— Jewel Artworks	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Subtotal	3,292	54.8	12,027	85.8
Asset auctions	<u>2,719</u>	<u>45.2</u>	<u>1,990</u>	<u>14.2</u>
<b>Total</b>	<u><u>6,011</u></u>	<u><u>100</u></u>	<u><u>14,017</u></u>	<u><u>100</u></u>

The increase in our art and asset auction revenue in FY2014 was primarily due to (i) the increase in the aggregate hammer price (from RMB16.5 million for FY2013 to RMB60.1 million for FY2014) in relation to art auctions and (ii) the inclusion of Calligraphies and Paintings as auction lots for FY2014, with the aggregate hammer price of RMB15.8 million.

## FINANCIAL INFORMATION

### *Segment profit*

Segment profit of the art and asset pawn segment increased by approximately RMB9.0 million, or approximately 29.2%, from approximately RMB30.8 million for FY2013 to approximately RMB39.8 million for FY2014. Segment profit margin remained relatively stable at 90.8% and 91.2% for FY2013 and FY2014.

Segment profit of the art and asset auction segment increased by approximately RMB7.2 million, or approximately 141.2%, from approximately RMB5.1 million for FY2013 to approximately RMB12.3 million for FY2014. Segment profit margin increased from 84.4% for FY2013 to 88.1% for FY2014.

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth our consolidated statements of financial position as of the dates indicated below:

	<b>As of 31 December</b>			<b>As of 30 June</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
<b>Non-current assets</b>				
Property, plant and equipment	3,215	2,842	2,036	1,638
Deferred tax asset	933	1,085	331	1,051
	4,148	3,927	2,367	2,689
<b>Current assets</b>				
Loans to customers for art and asset pawn business	80,490	93,049	64,813	205,925
Trade receivables, other receivables and prepayments	307	305	4,624	171,844
Amount due from a director	29	48	79	—
Bank balances and cash	36,594	64,059	292,837	127,569
	117,420	157,461	362,353	505,338
<b>Current liabilities</b>				
Other payables and accrual	1,583	2,903	54,992	160,711
Amount due to a director	—	—	—	785
Amounts due to related parties	—	—	6,526	15,998
Tax liabilities	2,431	4,512	14,835	10,735
	4,014	7,415	76,353	188,229
<b>Net current assets</b>	113,406	150,046	286,000	317,109
<b>Total assets less current liabilities</b>	117,554	153,973	288,367	319,798
<b>Net assets</b>	117,554	153,973	288,367	319,798

## FINANCIAL INFORMATION

	As of 31 December			As of
	2013	2014	2015	30 June
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
<b>Capital and reserves</b>				
Paid-in capital/share capital	31,900	31,900	73,500	—
Reserves	<u>46,827</u>	<u>72,728</u>	<u>127,942</u>	<u>319,798</u>
<b>Equity attributable to owners</b>	78,727	104,628	201,442	319,798
Non-controlling interests	<u>38,827</u>	<u>49,345</u>	<u>86,925</u>	<u>—</u>
<b>Total equity</b>	<u><u>117,554</u></u>	<u><u>153,973</u></u>	<u><u>288,367</u></u>	<u><u>319,798</u></u>

Our net current assets, being the difference between our total current assets and current liabilities, remained positive during the Track Record Period. As of 31 December 2013, 2014 and 2015 and 30 June 2016, we had net current assets of approximately RMB113.4 million, RMB150.0 million, RMB286.0 million and RMB317.1 million, respectively.

### CERTAIN ITEMS IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

#### Property, Plant and Equipment

Our property, plant and equipment consists of (i) leasehold improvement, (ii) furniture, fixtures and equipment and (iii) motor vehicles. The carrying amount of our property, plant and equipment decreased from approximately RMB3.2 million as of 31 December 2013 to approximately RMB2.8 million as of 31 December 2014, primarily due to depreciation charge during 2014. The carrying amount of our property, plant and equipment decreased from approximately RMB2.8 million as of 31 December 2014 million to approximately RMB2.0 million as of 31 December 2015, primarily due to depreciation charge during 2015. Primarily due to the same reason, the carrying amount of our property, plant and equipment further decreased from approximately RMB2.0 million as of 31 December 2015 to approximately RMB1.6 million as of 30 June 2016.

#### Loans to Customers for Art and Asset Pawn Business

As of 31 December 2013, 2014 and 2015 and 30 June 2016, our loans to customers for our art and asset pawn business were approximately RMB80.5 million, RMB93.0 million, RMB64.8 million and RMB205.9 million, respectively, and accounted for 68.6%, 59.0%, 17.9% and 40.7% of our current assets as of the indicated dates.

## FINANCIAL INFORMATION

The following table sets forth our gross loan amount outstanding by type of collateral and the percentage of each type as to the gross loan amount as of the indicated dates:

	As of 31 December				As of 30 June			
	2013		2014		2015		2016	
	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%
Loans secured by artworks	70,451	83.7	88,000	90.4	64,336	97.3	208,348	99.2
Loans secured by assets <i>(Note)</i>	<u>13,770</u>	<u>16.3</u>	<u>9,391</u>	<u>9.6</u>	<u>1,800</u>	<u>2.7</u>	<u>1,779</u>	<u>0.8</u>
<b>Gross loan amount outstanding</b>	<b>84,221</b>	<b>100</b>	<b>97,391</b>	<b>100</b>	<b>66,136</b>	<b>100</b>	<b>210,127</b>	<b>100</b>
Total impairment allowance	<u>3,731</u>		<u>4,342</u>		<u>1,323</u>		<u>4,202</u>	
<b>Net loan amount outstanding</b>	<b><u>80,490</u></b>		<b><u>93,049</u></b>		<b><u>64,813</u></b>		<b><u>205,925</u></b>	

*Note:* Assets include real estates, personal properties and equity interests.

The gross loan amount outstanding increased by 15.7% from approximately RMB84.2 million as of 31 December 2013 to RMB97.4 million as of 31 December 2014, primarily due to the increase in new art pawn loan granted in the fourth quarter of 2014. The gross loan amount of loans outstanding decreased by 32.1% from approximately RMB97.4 million as of 31 December 2014 to approximately RMB66.1 million as of 31 December 2015, primarily due to the repayment of art pawn loan in the fourth quarter of 2015. The gross loan amount outstanding substantially increased by 217.9% from approximately RMB66.1 million as of 31 December 2015 to approximately RMB210.1 million as of 30 June 2016. Apart from the reason that a substantial amount of art pawn loans were repaid in the fourth quarter of 2015, such substantial increase was primarily due to the expansion in new art pawn loan granted in the second quarter of 2016 in terms of (i) the significant outstanding gross loan amount granted to 16 new customers of approximately RMB100.3 million in relation to new art pawn loans; (ii) the increase in the average loan amount (from approximately RMB3.2 million for the new art pawn loans outstanding as of 31 December 2015 to approximately RMB5.1 million for the new art pawn loans outstanding as of 30 June 2016) of new art pawn loans mainly due to the increase in the registered capital of Hexin Pawn from RMB40 million to RMB100 million in July 2015, and the average capital balance has increased to RMB100 million, as a result, the total outstanding amount of pawn loans allowed to be granted to the same legal person by us under the Pawning Measures, being 25% of the registered capital of Hexin Pawn, increased from RMB10 million to RMB25 million. Following such increase, we gradually target to grant a larger single amount of loans to customers who could offer high value and quality artworks as collateral in view of larger single amount of composite administrative fee calculated at a fixed percentage to the principal loan amount we could receive as our pawn loan revenue. As of 30 June 2016, 7 pawn loans each with a principal amount exceeding RMB10 million were outstanding (as of 31 December 2015, only 1 pawn loan with such size was outstanding); and (iii) the



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the aging of all of our Group's outstanding balance of loan receivables with reference to the Initial Pawn Ticket Dates, regardless of whether the loan receivables were contributed by new loans or renewed loans, is in compliance with the requirements of the Listing Rules and represented the date our management took into account in determining when our cash operating cycle starts.

### Impairment Allowance

Individually assessed impairment allowances and collectively assessed impairment allowances will be made after completing the assessment and having regard to our impairment policy. According to our impairment policy, our Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Our Group considers the following factors when assessing objective evidence of impairment: (i) the aggregate renewal period granted exceeds six months; (ii) the borrower fails to pay the composite administrative fee; (iii) no application was made by the borrower for renewal of the pawn loan within 5 days after the maturity date of the loan period; (iv) the value of the collateral substantially decreases and exceeds the threshold stipulated in the risk management policy of the Group; (v) legal action was initiated to recover payment of default loan; (vi) the borrower was enlisted on the credit black lists of judgment defaulters after a legal action or due to other reasons; and (vii) other circumstances causing the borrower to be in default of the loan principal. If we determine that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the end of each reporting period on a case-by-case basis. The assessment normally encompasses collateral held and the anticipated receipts for that individual account, taking into account the customer's financial standing, current ability to pay, quality and value of collateral, past experience, and information specific to the customer as well as pertaining to the economic environment in which the customer operates. Collectively assessed impairment allowances are provided for: (i) portfolios of outstanding loans that have been individually assessed with no objective evidence of impairment by the collateral; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques of the business locally.

As of 30 June 2016, the aggregate carrying amount of approximately RMB196.0 million were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. Personal property backed art and asset pawn loans are included in this category as their repayments can be effected by disposal of forfeited personal property collateral, which carries higher values than the carrying amount of the loan. Based on the above, our Directors considered that our Group's provision for loan impairment were adequate.

The average appraised loan-to-value ratio for artwork collateral was approximately 60.9%, 57.4%, 55.7% and 53.3% as of 31 December 2013, 2014 and 2015 and 30 June 2016, respectively. For further details of the average appraised loan-to-value ratio, please refer to "Business — Our Business — Art and asset pawn segment — Pricing and loan-to-value ratios — Appraised loan-to-value ratios" of this prospectus.

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As of 31 December 2013, 2014 and 2015 and 30 June 2016, we had balance of impairment allowances of approximately RMB3.7 million, RMB4.3 million, RMB1.3 million and RMB4.2 million respectively, representing approximately 4.4%, 4.5%, 2.0% and 2.0% of the gross loan amount to customers as of the indicated dates.

As of 31 August 2016, approximately 22.6% of our Group's loan receivables outstanding as of 30 June 2016 have not reached their respective maturity dates, 24.8% (based on gross loan amount, i.e. the principal amount of loan granted together with the amount of composite administrative fee accrued on the loan granted up to 30 June 2016) were fully settled in cash, 49.6% were renewed as of 31 August 2016 and the remaining 3.0% were past due as of 31 August 2016 and were subsequently repaid or renewed on 1 September 2016, which was within five days upon their maturity, accordingly, such loans would not be treated as default under the Pawning Measures.

The following table sets forth the impairment allowance individually and collectively assessed as of the indicated dates:

	As of 31 December			As of
	2013	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Gross loan amount outstanding</b>	<u>84,221</u>	<u>97,391</u>	<u>66,136</u>	<u>210,127</u>
— Individually assessed impairment allowance	2,286	2,562	—	—
— Collectively assessed impairment allowance	<u>1,445</u>	<u>1,780</u>	<u>1,323</u>	<u>4,202</u>
Total impairment allowance	<u>3,731</u>	<u>4,342</u>	<u>1,323</u>	<u>4,202</u>
<b>Net loan amount outstanding</b>	<u><u>80,490</u></u>	<u><u>93,049</u></u>	<u><u>64,813</u></u>	<u><u>205,925</u></u>

During the Track Record Period, we recognise collectively assessed impairment allowances calculated at 2% of the gross loans amount outstanding (without taking into account the portion of the gross loans amount outstanding for which individually assessed impairment allowances were made) as of 31 December 2013, 2014 and 2015 and 30 June 2016. For FY2013 and FY2014, we recognised individually assessed impairment allowances for the Default Real Estate Loans. During FY2015, the full principal amount of the loan and half of the composite administrative fee were recovered and collected by us. As a result, during FY2015, no individually assessed impairment allowance was recognised by us. For the six months ended 30 June 2016, we did not recognise any individually assessed impairment allowance.



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The following table sets forth our gross loan amount outstanding by impairment treatment and the percentages to the gross loan amount as of the indicated dates:

	2013		As of 31 December		2015		As of 30 June	
			2014				2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Neither past due nor impaired	36,646	43.5	66,437	68.2	66,136	100	195,992	93.3
Past due but not impaired	35,634	42.3	22,574	23.2	—	—	14,135	6.7
Past due and subject to partial impairment	11,941	14.2	8,380	8.6	—	—	—	—
<b>Gross loan amount outstanding</b>	<b>84,221</b>	<b>100</b>	<b>97,391</b>	<b>100</b>	<b>66,136</b>	<b>100</b>	<b>210,127</b>	<b>100</b>

- (i) *Neither past due nor impaired:* The amount of loans that were neither overdue nor impaired were RMB36.6 million, RMB66.4 million, RMB66.1 million and RMB196.0 million as of 31 December 2013, 2014 and 2015 and 30 June 2016, respectively, representing 43.5%, 68.2%, 100% and 93.3% of our gross loan amount outstanding of the corresponding dates.
- (ii) *Past due but not impaired:* The amount of loans that were past due but not impaired were RMB35.6 million, RMB22.6 million, nil and RMB14.1 million as of 31 December 2013, 2014 and 2015 and 30 June 2016, respectively, representing 42.3%, 23.2%, 0% and 6.7% of our gross loan amount outstanding of the corresponding dates. The amount of loans that were past due but not impaired represented the loans with the maturity date of the loan period falling on or before the corresponding dates and the respective borrowers did not make an application to us for a renewal of the loan on or before such dates. Pursuant to the Pawning Measures, a borrower may apply for a loan renewal within five days, or otherwise the loan becomes overdue unless it is repaid in full. As of 31 December 2013, 2014 and 2015 and 30 June 2016, all loans that were past due but not impaired were in relation to customers with good repayment track records with our Group. As of 30 June 2016, the amount of loans that were past due but not impaired represented one single pawn loan with gross loan amount of approximately RMB14.1 million with a maturity date on 29 June 2016, which was past due on 30 June 2016, such pawn loan was subsequently renewed on 1 July 2016 (within five days after its maturity date and was not treated as a default loan pursuant to the Pawning Measures) with a maturity date of the renewed loan period on 27 September 2016. Having considered that the loans that were past due but not impaired as of 31 December 2013, 2014 and 2015 and 30 June 2016 were secured by collaterals with a market value higher than the aggregate outstanding loan receivables or the loans balances were subsequently settled, we believed that no impairment allowance was necessary.

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- (iii) *Past due and subject to partial impairment:* The amount of loans that were past due and subject to partial impairment were RMB11.9 million, RMB8.4 million, nil and nil as of 31 December 2013, 2014 and 2015 and 30 June 2016, respectively, representing 14.2%, 8.6%, 0% and 0% of our gross loan amount outstanding of the corresponding dates. The amount of loans that were past due and subject to partial impairment relates to the Default Real Estate Loans. During FY2015, the full principal amount of such loan and half of the composite administrative fee and interest income were recovered and collected by us. As a result, as of 31 December 2015 and 30 June 2016, no individually assessed impairment allowance was recognised by us.

### Trade Receivables, Other Receivables and Prepayments

The following table sets forth our trade receivables, other receivables and prepayments as of the indicated dates:

	As of 31 December			As of
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Trade receivables for art and asset auction services	—	—	97	13,823
Other receivable and prepayments:				
Receivables from customers in respect of art and asset auction business	—	—	1,629	152,572
Others receivables	56	87	131	—
Deferred listing costs	—	—	2,625	5,294
Prepayments	251	218	142	155
	<u>307</u>	<u>305</u>	<u>4,624</u>	<u>171,844</u>

As of 31 December 2013, 2014 and 2015 and 30 June 2016, our trade receivables represented the buyer's commission receivable by us in respect of our art auction amounted to approximately nil, nil, RMB0.1 million and RMB13.8 million, respectively. The increase in our trade receivables as of 31 December 2015 and 30 June 2016 was primarily due to the time of holding our 2015 Autumn Auction was in mid-December 2015 and that of our 2016 Spring Auction was in late-June 2016. As of 31 July 2016, all of the trade receivables were settled.

As of 31 December 2013, 2014 and 2015 and 30 June 2016, our receivables from customers represented the purchase price for artwork in respect of art and asset auction business not yet received by us from buyers, which amounted to approximately nil, nil, RMB1.6 million and RMB152.6 million, respectively. Such significant increase in our receivables from customers as of 31 December 2015 and 30 June 2016 was primarily due to the time of holding our 2015 Autumn Auction in mid-December 2015 and that of our 2016 Spring Auction was in late-June 2016, and a shorter period elapsed from our 2016 Spring Auction to the respective period-end date as compared with the period from our 2015 Autumn Auction to the respective year-end date. As of 31 July 2016, all of the receivables from customers in respect of art and asset auction business were settled.

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Deferred listing costs represent listing expenses (that are directly attributable to the issue of new shares and will therefore be accounted for as a deduction from equity upon Listing). The increase in deferred listing costs from approximately RMB2.6 million as of 31 December 2015 to approximately RMB5.3 million as of 30 June 2016 was primarily due to the recognition of listing expenses.

Prepayments represent prepayments of our administrative expenses and operating expenses. The prepayments remained relatively stable at approximately RMB0.3 million, RMB0.2 million, RMB0.1 million and RMB0.2 million as of 31 December 2013, 2014 and 2015 and 30 June 2016.

### Other Payables and Accrual

The following table sets forth our other payables and accrual as of the dates indicated:

	As of 31 December			As of
	2013	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Payables on behalf of customers in respect of art and asset auction business	—	—	41,234	146,514
Other payables for art and asset auction business	201	88	478	416
Accrued staff costs	539	400	580	196
Other tax payables	763	2,355	9,958	7,448
Other payable for listing expenses	—	—	2,248	6,069
Others	<u>80</u>	<u>60</u>	<u>494</u>	<u>68</u>
	<u>1,583</u>	<u>2,903</u>	<u>54,992</u>	<u>160,711</u>

As of 31 December 2013, 2014 and 2015 and 30 June 2016, our payables on behalf of customers represented the purchase price for artwork in respect of art and asset auction business not yet paid by us to the sellers, which amounted to approximately nil, nil, RMB41.2 million and RMB146.5 million, respectively. Such significant increase in our payables on behalf of customers as of 31 December 2015 and 30 June 2016 was primarily due to the time of holding our 2015 Autumn Auction in mid-December 2015 and that of our 2016 Spring Auction was in late-June 2016, and a shorter period elapsed from our 2016 Spring Auction to the respective period-end date as compared with the period from our 2015 Autumn Auction to the respective year-end date. As of 31 July 2016, all of the payables on behalf of customers in respect of art and asset auction business were settled.

Other payables for art and asset auction business represented accrued administrative expenses and operating expenses. Such increase from approximately RMB0.1 million as of 31 December 2014 to approximately RMB0.5 million as of 31 December 2015 was primarily due to the recognition of the accrued service fees for setting up our internet auction platform and accrued decoration fees for the auction venue. Other payables for art and asset auction business as of 30 June 2016 of approximately RMB0.4 million primarily represented accrued operation expenses incurred in connection with the 2016 Spring Auction.

## FINANCIAL INFORMATION

Other tax payables primarily included business tax and surcharges payable. Other tax payables increased from approximately RMB0.8 million as of 31 December 2013 to approximately RMB2.4 million as of 31 December 2014, primarily due to the increase in auction revenue derived from our 2014 Autumn Auction held in mid-November 2014. Other tax payables further increased from approximately RMB2.4 million as of 31 December 2014 to approximately RMB10.0 million as of 31 December 2015, primarily due to the increase in auction revenue derived from our 2015 Autumn Auction held in mid-December 2015. Other tax payables as of 30 June 2016 of approximately RMB7.4 million primarily comprises tax payable on our auction revenue derived from our 2016 Spring Auction held in late-June 2016.

We recognised other payables for listing expenses of approximately RMB2.2 million and RMB6.1 million as of 31 December 2015 and 30 June 2016.

Others primarily included accrued listing-related expenses. The increase in others in other payables from approximately RMB0.1 million as of 31 December 2014 to approximately RMB0.5 million as of 31 December 2015 is primarily due to the recognition of the accrued listing-related expenses.

### LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, our working capital and other capital requirements were principally satisfied by cash generated from our operations and the paid-in capital of a subsidiary of approximately RMB63.2 million.

The following table sets forth our cash flows for the period indicated:

	FY2013 (RMB'000)	FY2014 (RMB'000)	FY2015 (RMB'000)	Six months ended 30 June	
				2015 (RMB'000) (Unaudited)	2016 (RMB'000)
Net cash from (used in) operating activities	22,744	27,764	149,992	(8,536)	(175,961)
Net cash (used in) from investing activities	(1,448)	(299)	260	70	436
Net cash from financing activities	—	—	78,526	—	10,257
Net increase (decrease) in cash and cash equivalents	<u>21,296</u>	<u>27,465</u>	<u>228,778</u>	<u>(8,466)</u>	<u>(165,268)</u>
<b>Cash and cash equivalents at the beginning of the year or period</b>	<u>15,298</u>	<u>36,594</u>	<u>64,059</u>	<u>64,059</u>	<u>292,837</u>
<b>Cash and cash equivalents at the end of the year or period</b>	<u><u>36,594</u></u>	<u><u>64,059</u></u>	<u><u>292,837</u></u>	<u><u>55,593</u></u>	<u><u>127,569</u></u>

## FINANCIAL INFORMATION

### Net Cash (Used in) from Operating Activities

For FY2013, we had profit before tax of approximately RMB32.3 million and net cash from operating activities of approximately RMB22.7 million. The difference of approximately RMB9.6 million was primarily attributable to (i) income tax paid of approximately RMB7.3 million, and (ii) an increase in loans to customers for art and asset pawn business of approximately RMB3.5 million, the effect of which was partially offset by (i) an increase in other payables and accrual of approximately RMB0.7 million, (ii) adjustments for depreciation of property, plant and equipment of approximately RMB0.5 million, and (iii) adjustments for impairment allowance on loans to customers for art and asset pawn business of approximately RMB0.3 million.

For FY2014, we had profit before tax of approximately RMB48.6 million and net cash from operating activities of approximately RMB27.8 million. The difference of approximately RMB20.8 million was primarily attributable to (i) an increase in loans to customers for art and asset pawn business of approximately RMB13.2 million and (ii) income tax paid of approximately RMB10.2 million, the effect of which was partially offset by (i) an increase in other payables and accrual of approximately RMB1.3 million, (ii) adjustments for depreciation of property, plant and equipment of approximately RMB0.8 million, and (iii) adjustments for impairment allowance on loans to customers for art and asset pawn business of approximately RMB0.6 million.

For FY2015, we had profit before tax of approximately RMB89.1 million and net cash from operating activities of approximately RMB150.0 million. The difference of approximately RMB60.9 million was primarily attributable to (i) an increase in other payables and accrual of approximately RMB52.1 million and (ii) a decrease in loans to customers for art and asset pawn business of approximately RMB28.9 million, the effect of which was partially offset by (i) income tax paid of approximately RMB15.6 million, and (ii) an increase in trade receivables, other receivables and prepayments of approximately RMB4.3 million.

For the six months ended 30 June 2016, we had profit before tax of approximately RMB45.7 million and we experienced negative operating cash flow of approximately RMB176.0 million. The net cash outflow from operating activities was primarily attributable to (i) an increase in trade receivables, other receivables and prepayments of approximately RMB167.2 million, (ii) an increase in loans to customers for art and asset pawn business of approximately RMB144.0 million as a result of the increasing customer demand for art pawn loans services from our Group and increase in the principal amount of the pawn loans granted to our customers, and (iii) income tax paid of approximately RMB19.1 million, the effect of which was partially offset by the increase in other payables and accruals of approximately RMB105.7 million. As of 31 July 2016, all of our trade receivables and other receivables were settled.

## FINANCIAL INFORMATION

### **Net Cash Used in or from Investing Activities**

For FY2013, our net cash used in investing activities was approximately RMB1.4 million. This was primarily due to purchase of property, plant and equipment of approximately RMB1.5 million, the effect of which was partially offset by bank interest income of approximately RMB0.1 million.

For FY2014, our net cash used in investing activities was approximately RMB0.3 million. This was primarily due to purchase of property, plant and equipment of approximately RMB0.4 million, which was partially offset by bank interest income of approximately RMB0.2 million.

For FY2015 and the six months ended 30 June 2016, our net cash from investing activities was approximately RMB0.3 million and RMB0.4 million, respectively. This was primarily due to bank interest income.

### **Net Cash from Financing Activities**

For FY2013 and FY2014 no net cash was used in or generated from financing activities.

For FY2015, our net cash from financing activities was approximately RMB78.5 million. This was due to (i) increase in paid-in capital of a subsidiary of approximately RMB60.0 million, (ii) special capital contribution from a shareholder of a subsidiary of approximately RMB12.0 million and (iii) increase in advance from related parties of approximately RMB6.5 million.

For the six months ended 30 June 2016, our net cash from financing activities was approximately RMB10.3 million. This was due to (i) increase in advance from related parties of approximately RMB9.5 million and (ii) increase in advance from a director of approximately RMB0.8 million.

### **Working Capital**

Taking into account our existing cash and cash equivalents, anticipated cash flow from our operating activities, bank facility available and the estimated net proceeds from the Global Offering, our Directors are satisfied, after due and careful inquiry, that we have sufficient working capital available to satisfy our liquidity requirements for at least 12 months following the date of this prospectus.

## FINANCIAL INFORMATION

### Net current assets

As of 31 August 2016, based on the unaudited consolidated accounts of the Company, we had net current assets of approximately RMB326.2 million, comprising current assets of approximately RMB353.5 million and current liabilities of approximately RMB27.3 million. The following table sets out the key composition of our unaudited current assets and liabilities as of 31 August 2016:

	<b>As of 31 August 2016</b> <i>RMB'000</i> (unaudited)
<b>Current assets</b>	
Loans to customers for art and asset pawn business	211,849
Trade receivables, other receivables and prepayments	6,024
Bank balances and cash	<u>135,617</u>
	<u>353,490</u>
<b>Current liabilities</b>	
Other payables and accrual	8,382
Amount due to a director	716
Amounts due to related parties	17,145
Tax liabilities	<u>1,080</u>
	<u>27,323</u>
<b>Net current assets</b>	<u><u>326,167</u></u>

### RELATED PARTY TRANSACTIONS

It is the view of our Directors that each of the related party transactions set out in Note 28 of the Accountants' Report in Appendix I to this prospectus were conducted in the ordinary and usual course of business and on normal commercial terms between the relevant parties. Certain of the related party transactions set out in Note 28 of the Accountants' Report in Appendix I to this prospectus will continue after the Listing. For more details, please see the section headed "Connected Transactions and Notifiable Transactions" in this prospectus.

## FINANCIAL INFORMATION

### CAPITAL EXPENDITURE

Our capital expenditure primarily consist of expenditure on purchase of property, plant and equipment. The following table sets forth our capital expenditures for the periods indicated:

	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>For the six months ended 30 June 2016</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
<b>Property, plant and equipment</b>				
Leasehold improvement	1,700	58	—	—
Furniture, fixtures and equipment	206	7	33	—
Motor vehicles	—	380	—	—
	1,906	445	33	—
<b>Total</b>	1,906	445	33	—

### CAPITAL COMMITMENT

As of 31 August 2016 our Group did not have any significant capital commitments.

As of the Latest Practicable Date, the capital commitment in connection with the unpaid registered capital of WFOE-Pawn and WFOE-Auction amounted to HK\$0.5 million and HK\$0.5 million respectively.

### OPERATING LEASE COMMITMENT

Our Group leases its office premises under non-cancellable operating lease arrangements. Leases are negotiated and rentals are fixed for terms of 2–10 years. The following table sets forth our total future minimum lease payments under the non-cancellable operating leases as of the dates indicated:

	<b>As of 31 December</b>			<b>As of 30 June</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Within 1 year	676	690	767	940
Between 1 and 5 years	1,348	1,493	2,547	2,498
Over 5 years	1,200	900	2,025	1,725
	3,224	3,083	5,339	5,163
<b>Total</b>	3,224	3,083	5,339	5,163



## FINANCIAL INFORMATION

### INDEBTEDNESS

#### Amounts Due to Related Parties and a Director

As of 31 December 2013, 2014 and 2015 and 31 August 2016, we had amounts due to related parties of approximately nil, nil, RMB6.5 million and RMB17.1 million, respectively and amount due to a director of approximately nil, nil, nil and RMB0.7 million, respectively. The amounts are non-trade, unsecured and unguaranteed, interest-free and repayable on demand. Our Directors confirm that all amounts due to related parties and amount due to a director will be fully settled upon Listing.

Our Directors have confirmed that our Group has not had any material delay or default in payment with regards to any borrowings during the Track Record Period and up to the Latest Practicable Date.

Save and except the amounts due to related parties and a director as disclosed above, we did not have any bank loans or other borrowings during the Track Record Period.

#### Statement of Indebtedness

As of 31 August 2016, being the latest practicable date for the purpose of this indebtedness statement, save as disclosed in subsection headed “Amounts Due to Related Parties and a Director” in this prospectus, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding. Shortly before the Latest Practicable Date, we entered into a letter agreement for term loan facility (“**Bank Facility**”) of up to HK\$30 million for the purpose of paying Listing expenses which were paid by related parties on behalf of the Company during the Track Record Period and up to the Latest Practicable Date. The Bank Facility was not yet drawn as of the Latest Practicable Date. The Bank Facility is secured by, among other collaterals, a personal guarantee provided by Mr. ZJ Fan, and such guarantee will be released upon Listing. Save for the Bank Facility, our Group did not have any other banking facilities.

Since 31 August 2016, there has been no material adverse change in our indebtedness.

#### Contingent Liabilities

As of 31 August 2016, our Group did not have any significant contingent liabilities.

### LISTING EXPENSES

We incurred approximately RMB22.5 million of listing expenses during the Track Record Period, among which RMB5.3 million was recorded as deferred listing costs and RMB17.2 million was recorded as expenses. We expect to incur approximately an additional RMB21.8 million in listing expenses after the Track Record Period, of which approximately RMB11.5 million will be recorded as expenses in the consolidated statements of profit or loss and other comprehensive income for the year ending 31 December 2016 and the remaining will be capitalised after Listing.

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we have not entered into any off-balance sheet transactions.

## FINANCIAL INFORMATION

### KEY FINANCIAL RATIOS

	As of/For the year ended 31 December			As of/ For the six months ended 30 June
	2013	2014	2015	2016
	Segment profit margin ( <i>Note 1</i> )			
Art and asset pawn business	90.8%	91.2%	94.4%	84.6%
Art and asset auction business	84.4%	88.1%	91.3%	96.5%
Net profit margin ( <i>Note 2</i> )	60.7%	63.1%	58.0%	47.4%
Return on equity ( <i>Note 3</i> )	20.9%	24.8%	23.3%	17.5%
Return on assets ( <i>Note 4</i> )	19.9%	22.6%	17.1%	12.4%
Current ratio ( <i>Note 5</i> )	29.3	21.2	4.7	2.7
Gearing ratio ( <i>Note 6</i> )	n/a	n/a	n/a	n/a

*Notes:*

- (1) Segment profit margin is calculated by dividing the segment result of the relevant business segment by the respective segment revenue and multiplying the resulting value by 100%.
- (2) Net profit margin is calculated by dividing profit for the year/period by revenue and multiplying the resulting value by 100%.
- (3) Return on equity is calculated by dividing profit for the year (or the annualised profit, for the six months ended 30 June 2016) attributable to owners of the Company by equity attributable to owners of the respective year/period and multiplying the resulting value by 100%.
- (4) Return on assets is calculated by dividing profit for the year (or the annualised profit, for the six months ended 30 June 2016) by total assets of the respective year/period and multiplying the resulting value by 100%.
- (5) Current ratio is calculated by dividing total current assets by total current liabilities.
- (6) Gearing ratio is calculated by dividing total interest-bearing borrowings by total equity and multiplying the resulting value by 100%.

### Segment Profit Margins

Segment profit margin for our art and asset pawn business remained relatively stable at approximately 90.8% and approximately 91.2% for FY2013 and FY2014. Such profit margin increased to approximately 94.4% for FY2015 due to the combining results of (i) the growth in segment revenue, (ii) the relative stable of segment costs, and (iii) the reversal of allowance on loans to customers of RMB0.7 million (for FY2015 only). Such profit margin decreased to approximately 84.6% for the six months ended 30 June 2016 due to the relatively high growth rate in segment costs for the first half of 2016 (in particular, the increase of our impairment allowance on loans to customers provided during the six months ended 30 June 2016 of approximately RMB2.6 million (approximately 8.7 times) compared to the amount provided during the six months ended 30 June 2015) as compared to the growth rate of the segment revenue of the same period.

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Segment profit margin for our art and asset auction business increased from approximately 84.4% for FY2013 to approximately 88.1% for FY2014 and further increased to approximately 91.3% for FY2015. Such increases were primarily due to the significant growth of our art auction business while the segment costs remained relatively stable for the Track Record Period. Such profit margin increased to approximately 96.5% for the six months ended 30 June 2016 due to the relatively low segment costs incurred for organising our first Spring Auction and two online auctions in the first half of 2016.

### **Net Profit Margins**

Our net profit margin increased from approximately 60.7% in FY2013 to approximately 63.1% in FY2014, primarily due to the rate of increase in revenue derived from the art pawn loan and auction businesses was higher than the rate of increase in our operating and administrative expenses.

Our net profit margin decreased from approximately 63.1% in FY2014 to approximately 58.0% in FY2015, excluding the listing expenses of approximately RMB6.3 million incurred in FY2015, our net profit margin would be approximately 63.9% for FY2015. The slight increase in our net profit margin was primarily due to the rate of increase in revenue derived from the art pawn loan and auction businesses was higher than the rate of increase in our operating and administrative expenses.

Our net profit margin decreased from approximately 58.0% in FY2015 to approximately 47.4% for the six months ended 30 June 2016, excluding the listing expenses of approximately RMB10.9 million incurred in the six months ended 30 June 2016, our net profit margin would be approximately 63.8% for the six months ended 30 June 2016, which remained stable as compared with that of FY2015.

### **Return on Equity**

Our return on equity increased from approximately 20.9% in FY2013 to approximately 24.8% in FY2014, primarily due to the significant growth in profit for the year attributable to owners of our Company from FY2013 to FY2014 of approximately 57.9%.

Our return on equity slightly decreased from approximately 24.8% in FY2014 to approximately 23.3% in FY2015, excluding the listing expenses incurred in FY2015, our return on equity would be approximately 26.4% for FY2015. The increase in our return on equity was primarily due to the growth in profit for the year attributable to owners of our Company from FY2014 to FY2015 of approximately 81.1%.

Our return on equity decreased from approximately 23.3% in FY2015 to approximately 17.5% in the six months ended 30 June 2016, excluding the listing expenses incurred in the six months ended 30 June 2016, our return on equity would be approximately 24.3% in the six months ended 30 June 2016. The decrease in our return on equity was primarily due to the increase in the equity attributable to owners of the Company from FY2015 to the six months ended 30 June 2016 of approximately 58.8% as the result of the Contractual Arrangements becoming effective on 15 April 2016.

### **Return on Assets**

Our return on assets increased from approximately 19.9% in FY2013 to approximately 22.6% in FY2014, primarily due to the significant growth in our profit for the year from FY2013 to FY2014 of approximately 50.4%.

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Our return on assets decreased from approximately 22.6% in FY2014 to approximately 17.1% in FY2015, excluding the listing expenses incurred in FY2015, our return on assets would be approximately 18.8%, which was lower than that of approximately 22.6% in FY2014. The decrease in our return on assets was primarily due to the significant growth in our bank balances and cash as of 31 December 2014 to that of 31 December 2015 by approximately 356.8% resulting from the increase in paid-in capital of Hexin Pawn in July 2015, which outweighed the effect of the growth in the profit for the year from FY2014 to FY2015 of approximately 71.4%.

Our return on assets decreased from approximately 17.1% in FY2015 to approximately 12.4% in the six months ended 30 June 2016, excluding the listing expenses incurred in the six months ended 30 June 2016, our return on assets would be approximately 16.7% in the six months ended 30 June 2016. The decrease in our return on assets was primarily due to (i) the significant increase in our trade receivables, other receivables and prepayments as of 31 December 2015 to that of 30 June 2016 by approximately 36.3 times and (ii) the significant increase in our loans to customers for art and asset pawn business as of 31 December 2015 to that of 30 June 2016 by approximately 217.7%, the effect of which was partially offset the decrease in our bank balances and cash as of 31 December 2015 to that of 30 June 2016 by approximately 56.4%.

### **Current Ratio and Quick Ratio**

Our current ratio decreased from approximately 29.3 times as of 31 December 2013 to approximately 21.2 times as of 31 December 2014, primarily due to the increase in our current tax liabilities as of 31 December 2014 as compared with that of 31 December 2013 of approximately 87.5%.

Our current ratio decreased from approximately 21.2 times as of 31 December 2014 to approximately 4.7 times as of 31 December 2015, primarily due to (i) the significant increase in our other payables on behalf of customers in respect of art and auction business from nil as of 31 December 2014 to RMB41.2 million as of 31 December 2015 and (ii) the increase in our current tax liabilities as of 31 December 2015 as compared with that of 31 December 2014 of approximately 228.9%, which was partially offset by the increase in our bank balances and cash as of 31 December 2015 as compared with that of 31 December 2014 of approximately 356.8%.

Our current ratio further decreased from approximately 4.7 times as of 31 December 2015 to approximately 2.7 times as of 30 June 2016, primarily due to (i) the significant decrease in bank balances and cash as of 30 June 2016 as compared with that of 31 December 2015 of approximately 56.4%, (ii) the increase in other payables and accruals as of 30 June 2016 as compared with that of 31 December 2015 of approximately 192.2%, and (iii) the increase in amounts due to related parties as of 30 June 2016 as compared with that of 31 December 2015 of approximately 146.2%, which was partially offset by (i) the significant increase in our trade receivables, other receivables and prepayments as of 30 June 2016 as compared with that of 31 December 2015 of approximately 36.3 times and (ii) the significant increase in our loans to customers for art and asset pawn business loans to customers for art and asset pawn business as of 30 June 2016 as compared with that of 31 December 2015 of approximately 217.7%.

During the Track Record Period and up to the Latest Practicable Date, our Group did not have any inventories. As a result, the current ratio is the same as the quick ratio for FY2013, FY2014 and FY2015 and as of 30 June 2016.

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### **Gearing Ratio**

Since our Group did not have any interest-bearing borrowings, gearing ratio was not applicable.

### **DIVIDEND**

No dividend has been paid or declared by our Group during the Track Record Period.

As of the Latest Practicable Date, our Company did not have any policy for any prescribed percentage of our after-tax profit to be declared as dividend. Our Directors intend to strike a balance between maintaining sufficient capital to grow our business and rewarding our Shareholders. The payment and the amount of any dividends, if paid, will depend on, among other things, our results of operations, cash flow, financial condition, and statutory and regulatory restrictions on the payment of dividends by us.

### **MARKET RISKS**

#### **Credit Risk**

Our credit risk is primarily attributable to loans to customers for art and asset pawn business. In order to minimise the credit risk, our management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

We maintain a reasonably diversified client base. As of 31 December 2013, 2014 and 2015 and 30 June 2016, the loan due from the ten largest customers for art and asset pawn business represented approximately 58.3%, 55.9%, 81.1% and 56.3%, respectively of the total loan amount due from customers for art and asset pawn business. As all of their outstanding balances are secured by collaterals, our management considered that the credit risk arising from these outstanding balances is manageable.

As of 31 December 2013, 2014 and 2015 and 30 June 2016, the amounts due from a director amounted to approximately RMB0.03 million, RMB0.05 million, RMB0.08 million and nil. All amounts due from directors had been fully settled as of 31 January 2016. Accordingly, our management considered that the credit risk of amount due from a director is insignificant.

We do not provide any guarantees which would expose our Group to credit risk.

#### **Liquidity Risk**

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due.

Pursuant to the Pawning Measures, pawn loan providers, including Hexin Pawn, are prohibited from borrowing moneys from any person other than commercial banks. However, under the Notice Regarding the Prevention of External Risk Transmission issued by China Banking Regulatory Commission on 14 May 2013, commercial banks are prohibited to provide a credit line to pawn loan providers. Accordingly, we are unable to obtain bank loans as our source of funding for our pawn loan operation. During the Track Record Period and as of the Latest Practicable Date, we did not have any

## FINANCIAL INFORMATION

bank borrowings. Shortly before the Latest Practicable Date, we obtained the Bank Facility (which was not yet drawn on the Latest Practicable Date), as disclosed in the “Financial Information — Indebtedness — Statement of Indebtedness” section.

In the management of liquidity risk, our management monitors current and expected liquidity requirements and maintains a level of cash and cash equivalents deemed adequate by the management to finance our operations and mitigate the effects of fluctuations in cash flows.

Due to the nature of our art and asset pawn business, when we grant a loan to our customer, it will be recorded as our operating cash outflow; and when our customer makes repayment to us, it will be recorded as our operating cash inflow. Our Group had net cash from operating activities of approximately RMB22.7 million, RMB27.8 million and RMB150.0 million for FY2013, FY2014 and FY2015 respectively. For the six months ended 30 June 2016, we had net cash outflow from operating activities primarily as a result of the increase in trade receivables, other receivables and prepayments and loans granted to customers of our pawn business. As of 31 July 2016, all of our trade receivables and other receivables were settled. We may fund the operating cash requirement by our internal resources, debt or equity financing.

Our Directors consider that our liquidity risk in respect of our operating cash outflow is manageable because when it becomes necessary to increase our liquidity, we can generate operating cash inflow relatively easily by simply retaining the cash received from loan repayments by customers and refraining from granting additional loans, unless our Group experiences any material defaults in repayments from our customers. Save and except one borrower with an aggregate principal loan amount of RMB9 million as disclosed in the “Business — Legal Proceedings”, our Group did not experience any material defaults in repayments from our customers during the Track Record Period.

For details regarding the remaining contractual maturities for our financial liabilities, primarily consists of other payables and amounts due to related parties, based on the agreed repayment terms, please see Note 7(b) of the Accountants’ Report in Appendix I to this prospectus. As for details of our liquidity risk management, please see “Business — Internal Control and Risk Management — Internal Control and Risk Management Policy for our Art and Asset Pawn Business — Liquidity risk management”.

### **Interest Rate Risk**

Our interest rate risk arises primarily from loans to customers for art and asset pawn business, which are granted at fixed interest rates independent from market interest rates. Contractual interest rate re-pricing is matched with maturity date of each loan granted to customer.

Our Group regularly reviews the impact on profit or loss of a possible interest rate shift on its interest bearing bank deposits.

As of 31 December 2013, 2014 and 2015 and 30 June 2016, it is estimated that a general increase of 100 basis points in the benchmark interest rate, with all other variables held constant, our profit for the year for the relevant period would have increased by approximately RMB0.9 million, RMB1.2 million, RMB2.7 million and RMB2.5 million, respectively.

## **FINANCIAL INFORMATION**

### **DISTRIBUTABLE RESERVES**

Our Company was incorporated on 2 November 2015 and, save for the transactions related to the Reorganisation, it has not carried out any business since the date of our incorporation. Accordingly, our Company has no reserves available for distribution to the Shareholders as of 30 June 2016.

### **DISCLOSURE REQUIRED UNDER THE LISTING RULES**

Our Directors have confirmed that as of the Latest Practicable Date, there were no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors have confirmed that as of the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since 30 June 2016 and there is no event since 30 June 2016 that would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

### **UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS**

The following unaudited pro forma adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purpose only, and is set out in this section and Appendix II to this prospectus to illustrate the effect of the Global Offering on the adjusted consolidated net tangible assets of the Group as of 30 June 2016, as if they had taken place on such date.

The unaudited pro forma adjusted consolidated net tangible assets of our Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to the equity-holders of our Company following the Global Offering. It is prepared based on the audited consolidated net assets of our Group



## FINANCIAL INFORMATION

attributable to the equity-holders of the Company as of 30 June 2016 as shown in the Accountants' Report of the Group as set out in Appendix I to this prospectus and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets does not form part of the Accountants' Report of the Group.

	Audited consolidated net tangible assets of our Group attributable to equity-holders of our Company as of 30 June 2016 <i>(Note 1)</i> <i>(RMB'000)</i>	Estimated net proceeds from the Global Offering <i>(Note 2)</i> <i>(RMB'000)</i>	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity-holders of our Company <i>(RMB'000)</i>	Unaudited pro forma adjusted consolidated net tangible assets per Share <i>(Notes 3 and 4)</i> <i>(RMB)</i>	<i>(HK\$)</i>
Based on the Offer Price of HK\$0.60 for each Share	<u>319,798</u>	<u>178,763</u>	<u>498,561</u>	<u>0.31</u>	<u>0.36</u>
Based on the Offer Price of HK\$0.75 for each Share	<u>319,798</u>	<u>228,506</u>	<u>548,304</u>	<u>0.34</u>	<u>0.40</u>

*Notes:*

- (1) The audited consolidated net tangible assets of the Group attributable to owners of the Company as of 30 June 2016 was determined as follows:

*RMB'000*

Audit consolidated net tangible assets of the Group attributable to the equity-holders  
of the Company as of 30 June 2016

319,798

- (2) The estimated net proceeds from the Global Offering are based on the total number of Offer Shares and the Offer Price range of HK\$0.60 and HK\$0.75 per Share, respectively, after deduction of underwriting fees and other related expenses expected to be incurred by the Company subsequent to 30 June 2016 but takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of RMB0.8547 to HK\$1, which was the rate prevailing on 30 June 2016. No representation is made that Hong Kong dollar amounts have been, could have been or may be converted to Renminbi amounts, or vice versa, at that rate or at all.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 10,000 Shares are in issue, a total of 400,000,000 Shares are expected to be in issue upon completion of to the Global Offering and 1,199,990,000 Shares are expected to be in issue upon completion of the Capitalisation Issue, taking no account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under Share Option Scheme or any Shares which may fall to be allotted and issued upon the exercise of the Over-allotment Option.
- (4) The unaudited pro forma consolidated net tangible assets per Share is converted into Hong Kong Dollars at an exchange rate of RMB0.8547 to HK\$1, which was the rate prevailing on 30 June 2016. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollar amounts, or vice versa, at that rate or at all.



## FUTURE PLANS AND USE OF PROCEEDS

### FUTURE PLANS

We strive to become the largest integrated art finance service provider in China. We intend to expand both our art auction and art pawn loan businesses. For our art auction operation development, we plan to focus on the development of online auction and diversification of online marketing activities, and to develop our overseas website for offshore online auction operation. We also intend to establish new branches or subsidiaries and expand our auction lot composition to include distinct value artworks. As far as our art pawn loan business is concerned, we plan to enlarge our funding available for lending by increasing the registered capital of Hexin Pawn, and we also intend to expand our loan offices network and develop our online loan financing platform. See “Business — Strategies” for details of our business strategies.

### USE OF PROCEEDS

The following table sets forth the estimate of net proceeds from the Global Offering which we are expected to receive after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering:

	<b>Assuming the Over-allotment Option is not exercised</b>	<b>Assuming the Over-allotment Option is exercised in full</b>
Assuming an Offer Price of HK\$0.675 per Offer Share (being the mid-point of the Offer price range stated in this prospectus)	Approximately HK\$219.1 million	Approximately HK\$258.4 million
Assuming an Offer Price of HK\$0.75 per Offer Share (being the high end of the Offer Price range stated in this prospectus)	Approximately HK\$248.2 million	Approximately HK\$291.9 million
Assuming an Offer Price of HK\$0.6 per Offer Share (being the low end of the Offer Price range stated in this prospectus)	Approximately HK\$190.0 million	Approximately HK\$225.0 million

We intend to use the net proceeds of the Global Offering for the following purposes:

- approximately 50%, or HK\$109.6 million, will be used to increase Hexin Pawn’s registered capital in order to enlarge our funding available for lending and allow greater flexibility in granting pawn loans under the statutory limits; see “Business — Strategies — Expansion in our art pawn loan business — Increase registered capital” for further details;
- approximately 20%, or HK\$43.8 million, will be used for strengthening our online auction platform and developing our online loan financing platform: we aim at improving our online auction services for the better convenience of our clients, and utilise our online platform for promotion and marketing of our art auctions; we also plan to set up an online loan application system so that loan applicants will be able to apply for pawn loans and supply requested information through our online medium, making our pawn loan services more accessible and convenient; see “Expansion in our art auction business — Further develop our

## FUTURE PLANS AND USE OF PROCEEDS

art auction business, with more focus on online auction and online operation” and “Expansion in our art pawn loan business — Develop and utilise online platform” in “Business — Strategies” for further details;

- approximately 20%, or HK\$43.8 million, will be used for the establishment of new loan offices in other part of China and new auction branches or subsidiaries in Beijing, Shanghai and Hong Kong to extend our client base, expand our sourcing channels for artworks and deepen our market penetration. In line with our expansion of geographical presence, we intend to allocate a portion of our net proceeds of the Global Offering to set up and expand our working team to be allocated to those branches or subsidiaries; see “Business — Strategies — Expansion in our art pawn loan business — Expand loan offices network” and “Business — Strategies — Expansion in our art auction business — Establish new branches or subsidiaries” for further details; and
  
- approximately 10%, or HK\$21.9 million, will be used for funding our general operations.

The above allocation of the proceeds will be adjusted on a pro-rata basis if the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price range. To the extent that the net proceeds from the Global Offering are not immediately used for the above purposes and to the extent permitted by applicable laws and regulations, we may allocate part or all of the proceeds to short-term interest-bearing deposits or money market instruments with authorised financial institutions or licensed banks.

We will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

## CORNERSTONE INVESTORS

### CORNERSTONE PLACING

We have entered into 2 cornerstone placing agreements with 2 cornerstone investors (the “**Cornerstone Investors**” and each a “**Cornerstone Investor**”) pursuant to which the Cornerstone Investors have agreed to subscribe at the Offer Price, for such number of Offer Shares in aggregate (rounded down to the nearest whole board lot of 4,000 Shares) that may be purchased with US\$15 million.

Assuming an Offer Price of HK\$0.6 (being the low end of the Offer Price range stated in this prospectus), the total number of Offer Shares subscribed for by the Cornerstone Investors would be 194,000,000, representing approximately (i) 12.13% of the Shares in issue upon completion of the Global Offering and 48.50% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is not exercised; and (ii) 11.69% of the Shares in issue upon completion of the Global Offering and 42.17% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is exercised in full. Assuming an Offer Price of HK\$0.675 (being the mid-point of the Offer Price range stated in this prospectus), the total number of Offer Shares subscribed for by the Cornerstone Investors would be 172,444,000, representing approximately (i) 10.78% of the Shares in issue upon completion of the Global Offering and 43.11% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is not exercised; and (ii) 10.39% of the Shares in issue upon completion of the Global Offering and 37.49% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is exercised in full. Assuming an Offer Price of HK\$0.75 (being the high end of the Offer Price range stated in this prospectus), the total number of Offer Shares subscribed for by the Cornerstone Investors would be 155,200,000, representing approximately (i) 9.70% of the Shares in issue upon completion of the Global Offering and 38.80% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is not exercised; and (ii) 9.35% of the Shares in issue upon completion of the Global Offering and 33.74% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is exercised in full.

To the best knowledge of our Company, each of the Cornerstone Investors is an independent third party, independent of each other, not our connected person, and not an existing Shareholder of our Company or its close associate. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by our Company on or around 7 November 2016.

The Cornerstone Placing forms part of the International Placing. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid Shares in issue upon completion of the Global Offering and will be counted towards the public float of our Company. None of the Cornerstone Investors will subscribe for Offer Shares under the Global Offering (other than and pursuant to the respective cornerstone placing agreements). Immediately following the completion of the Global Offering, none of the Cornerstone Investors will have any board representation in our Company, nor will any of the Cornerstone Investors become a substantial shareholder of our Company. The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Placing and the Hong Kong Public Offering as described in “Structure of the Global Offering — Hong Kong Public Offering”.

## **CORNERSTONE INVESTORS**

We have entered into a cornerstone placing agreement with each of the following Cornerstone Investors in respect of the Cornerstone Placing. The information about our Cornerstone Investors set out below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing:

### **Poly Investment**

Poly Investment Holdings Co., Ltd. (保利投資控股有限公司) (“**Poly Investment**”) has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 4,000 Shares) which may be purchased with US\$5 million.

Assuming an Offer Price of HK\$0.6 (being the low end of the Offer Price range stated in this prospectus), Poly Investment would subscribe for 64,664,000 Offer Shares representing approximately (i) 4.04% of the Shares in issue upon completion of the Global Offering and 16.17% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is not exercised; and (ii) 3.90% of the Shares in issue upon completion of the Global Offering and 14.06% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is exercised in full.

Poly Investment is a wholly-owned subsidiary of China Poly Group Corporation (中國保利集團公司) (“**Poly Group**”) and is principally engaged in management of asset operation, asset trust services management, project investment and management, technology-related venture capital and enterprise investment, and restructuring business. Poly Group was founded in 1992 and is headquartered in Beijing, PRC. It is a large state-owned enterprise under the direct administration of the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council, and it is primarily engaged in international trade, real estate development, investment and exploitation in mineral resource field and the manufacture of civilian explosive equipments and blasting service, culture and arts business. Its subsidiary, Poly Culture Group Corporation Limited (“**Poly Culture**”), was founded in 2000 and its shares have been listed on the Stock Exchange (stock code: 3636) since 2014. Poly Culture is a leading culture and art enterprise in China with diversified business operations in three segments: art business and auction, performance and theatre management, and cinema investment and management.

### **Yang Fei**

Mr. Yang Fei has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 4,000 Shares) which may be purchased with US\$10 million.

Assuming an Offer Price of HK\$0.6 (being the low end of the Offer Price range stated in this prospectus), Mr. Yang Fei would subscribe for 129,332,000 Offer Shares representing approximately (i) 8.08% of the Shares in issue upon completion of the Global Offering and 32.33% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is not exercised; and (ii) 7.79% of the Shares in issue upon completion of the Global Offering and 28.12% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is exercised in full.

## CORNERSTONE INVESTORS

Mr. Yang founded Jiangsu Zhongchao Cable Co., Ltd. (江蘇中超電纜股份有限公司) (“**Zhongchao Cable**”) in 2004, and he is currently the chairman of the board of each of Jiangsu Zhongchao Holding Co., Ltd. (江蘇中超控股股份有限公司) (“**Zhongchao Holding**”) and Yixing Zhongchao Liyong Zisha Co., Ltd. (宜興市中超利永紫砂陶有限公司) (“**Zhongchao Liyong**”). Zhongchao Holding is a joint stock company established by Zhongchao Cable under the laws of PRC and its shares are listed on the Shenzhen Stock Exchange (stock code: 002471). Zhongchao Holding is engaged in the research and development, manufacturing and sales of wire and cable. Zhongchao Liyong has become a subsidiary of Zhongchao Holding since 2013, it principally engages in production and sales of Zisha artworks, and it has many years of operation experience in the Zisha artwork industry.

Mr. Yang may use all or some of the Offer Shares subscribed by him as security in favour of an independent brokerage house for a bona fide commercial loan. Upon the occurrence of customary events of default, repayment of the loan may be accelerated before its maturity and the lender has agreed with Mr. Yang and has undertaken with our Company that it shall not dispose of the pledged shares to third parties in the event of default of repayment by Mr. Yang until after the date falling six months after the Listing Date.

### CONDITIONS PRECEDENT

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into and having become effective and all of the conditions precedent to completion set forth therein shall have been satisfied (in accordance with their respective original terms (or as subsequently waived, to the extent it may be waived, or varied by the relevant parties thereto) by no later than the respective time and date specified therein);
- (b) the Offer Price having been agreed by the Sole Global Coordinator (on behalf of the Underwriters) and our Company in connection with the Global Offering;
- (c) neither of the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been terminated; and
- (d) the Listing Committee of the Stock Exchange having granted or having agreed to grant the listing of, and permission to deal in, the Shares and that such approval or permission has not been revoked.

### RESTRICTIONS ON THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has undertaken to our Company, the Sole Global Coordinator, the Sole Bookrunner and the Sole Sponsor that, without the prior written consent of the Sole Bookrunner and our Company, it will not during the period of six months following the Listing Date, whether directly or indirectly, dispose of (as defined in the relevant cornerstone placing agreement) any of the relevant Shares or any interest in any company or entity holding any of the relevant Shares, other than in certain limited circumstances such as transfers to any wholly-owned subsidiaries of such Cornerstone Investor, provided that, among other things, such wholly-owned subsidiary gives a written

## **CORNERSTONE INVESTORS**

undertaking agreeing to, and the Cornerstone Investor undertakes to procure that such wholly-owned subsidiary will, be bound by the Cornerstone Investor's obligations under the relevant cornerstone placing agreement.

Please refer to the above disclosures for details of the pledge of Offer Shares by Mr. Yang Fei as security for the purposes of obtaining funding and restriction of disposal of Offer Shares by pledgee of such Offer Shares.

## UNDERWRITING

### HONG KONG UNDERWRITERS

South China Securities Limited  
Mason Securities Limited  
Resources Securities Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

The Hong Kong Underwriting Agreement was entered into on 26 October 2016. As provided in the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee granting or agreeing to grant the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering or otherwise, as mentioned herein, and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

##### *Grounds for termination*

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement will be subject to termination with immediate effect by notice in writing from the Sole Global Coordinator, for itself and on behalf of the Hong Kong Underwriters, if at or prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Sole Global Coordinator:
  - (i) that any statement contained in any of this prospectus, the Application Forms, the preliminary offering circular, formal notice, roadshow materials and other documents for the purposes of or in connection with International Placing and/or in any notices, announcements or other documents issued or used by or on behalf of our Company in connection with the Global Offering (including any supplement or amendment thereto, collectively, the “**Relevant Documents**”) was, when it was issued, or has become, untrue, incorrect, misleading or deceptive in any material respect in the absolute opinion of the Sole Global Coordinator or that any forecast, expression of opinion, intention or expectation expressed in any of the Relevant Documents issued or used by or on behalf of us is not fair and honest in any material respect and is not based on reasonable assumptions in any material respect; or

## UNDERWRITING

- (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission in the absolute opinion of the Sole Global Coordinator from any of the Relevant Documents issued or used by or on behalf of us; or
- (iii) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the date of the Listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (iv) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
- (v) any expert named in paragraph 4.7 under Appendix IV — “Statutory and General Information” to this prospectus has withdrawn its consent to being named in any or to the issue of this prospectus (including any supplement or amendment thereto); or
- (vi) any material breach, in the absolute opinion of the Sole Global Coordinator, of any of the obligations imposed or to be imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (in each case, other than on the part of any of the Underwriters); or
- (vii) any event, act or omission which gives or likely to give rise to any material liability, in the absolute opinion of the Sole Global Coordinator, of any of the warrantors under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
- (viii) any material adverse change or development, in the absolute opinion of the Sole Global Coordinator, involving a prospective material adverse change, in the absolute opinion of the Sole Global Coordinator, in the assets, liabilities, management, business, prospects, shareholders’ equity profits, losses, results of operations, financing or trading position or conditions or performance of the Group as whole; or
- (ix) any material breach, in the absolute opinion of the Sole Global Coordinator, of or any event or circumstance rendering untrue or incorrect in any material respect, in the absolute opinion of the Sole Global Coordinator, any of the representations, warranties, agreements and undertakings given by the warrantors respectively in the Hong Kong Underwriting Agreement; or
- (x) that a petition or an order is presented for the winding-up or liquidation of any Group company or any Group company makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any Group company or a provisional liquidator, receiver or manager is appointed to take over all or part of its assets or undertaking of any Group company or anything analogous thereto occurs in respect of any Group company; or



## UNDERWRITING

- (xi) a portion of the orders in the bookbuilding process, which is considered by the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) in its absolute opinion to be material, at the time the International Underwriting Agreement, is entered into, or the investment commitments by any cornerstone investors after signing of the agreements with such cornerstone investors, have been withdrawn, terminated or cancelled, and the Sole Global Coordinator, in its sole and absolute discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Global Offering; or
  - (xii) any loss or damage has been sustained by any Group company (howsoever caused and whether or not the subject of any insurance or claim against any person) which is considered by the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) in its sole absolute opinion to be material;
- (b) there shall develop, occur, exist or come into effect:
- (i) any event, or series of events, in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency of war, calamity, crisis, epidemic, pandemic, outbreak of disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, PRC, Japan, Singapore, the United States, the United Kingdom, the European Union as a whole, or where any member of our Group was incorporated (the “**Relevant Jurisdictions**”); or
  - (ii) any change or development involving a prospective change, or any event or series of events or circumstances likely to result in any change or development involving a prospective change, in any local, national, international, financial, economic, political, military, industrial, fiscal, legal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets), in or affecting the Relevant Jurisdictions; or
  - (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Stock Market, the American Stock Exchange, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Singapore Stock Exchange and the Tokyo Stock Exchange; or
  - (iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent administrative, governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organisation or other non-governmental regulatory authority, or any court, tribunal or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic or foreign (“**Authority**”)), New York (imposed at Federal or New York State level or other competent Authority), London, PRC, the European Union as a whole, or any other

## UNDERWRITING

- jurisdiction where any member of our Group was incorporated, or any disruption in commercial banking or foreign exchange trading, or securities settlement or clearance services in those places or jurisdictions; or
- (v) any new laws or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or
  - (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the United States or the European Union as a whole on any of the Relevant Jurisdictions; or
  - (vii) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the United States dollar, Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in the Relevant Jurisdictions; or
  - (viii) any litigation, legal action, claim or legal proceeding of any third party being threatened or instigated against any member of our Group; or
  - (ix) any Directors and senior management members of our Company as set out in the section headed “Directors and Senior Management” of this prospectus being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
  - (x) the Chairman or an executive Director of our Company vacating his or her office; or
  - (xi) an authority or a political body or organisation in any of the Relevant Jurisdictions commencing any investigation or other action or announcing an intention to investigate or take other action, against any executive Director or senior management members of our Group as named in the section headed “Directors and Senior Management” of this prospectus; or
  - (xii) save as disclosed in the Relevant Documents, a contravention by any member of our Group of the Listing Rules or applicable laws or regulations; or
  - (xiii) a prohibition on our Company for whatever reason from offering, allotting, selling or delivering the Shares (including the Shares to be issued pursuant to the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
  - (xiv) any change or development involving a prospective change, or a materialisation of, any of the risks set out in “Risk Factors” in this prospectus; or
  - (xv) non-compliance by our Company of this prospectus and the other Relevant Documents or any aspect of the Global Offering with the Listing Rules or any other applicable laws or regulation;

## UNDERWRITING

which, individually or in the aggregate, in the sole opinion (after consultation with our Company) of the Sole Global Coordinator:

- (1) has or will have a material adverse change, in the absolute opinion of the Sole Global Coordinator, on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity or financial condition of our Group as a whole; or
- (2) has or will have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Placing; or
- (3) makes or will make it inadvisable or inexpedient or impracticable for any material terms of the Hong Kong Underwriting Agreement, in the absolute opinion of the Sole Global Coordinator, or the Global Offering to proceed; or
- (4) has or will have the effect of making any material terms of the Hong Kong Underwriting Agreement (including underwriting), in the absolute opinion of the Sole Global Coordinator incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

### **Undertakings to the Stock Exchange pursuant to the Listing Rules**

#### ***Undertakings by us***

Pursuant to Rule 10.08 of the Listing Rules, except pursuant to the Global Offering (including pursuant to the Over-allotment Option) or any issue of shares or securities in circumstances prescribed by Rule 10.08 of the Listing Rules, we will not, at any time within six months from the Listing Date, issue any shares or other securities convertible into our equity securities or enter into any agreement or arrangement to issue such shares or securities (whether or not such issue of shares or securities will be completed within six months from the Listing Date).

#### ***Undertakings by our Controlling Shareholders***

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange, except pursuant to the stock borrowing agreement which may be entered into by any of our controlling shareholders and the Sole Global Coordinator or save for the creation of a pledge or charge as permitted under the Listing Rules, that he or she or it will not, and

## UNDERWRITING

shall procure that any other registered holder(s) (if any) will not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (“**First Six-month Period**”) dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which he or she or it is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (“**Parent Shares**”); or
- (b) in the period of six months immediately after the expiry of the First Six-month Period (“**Second Six-month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Parent Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or she or it would cease to be or cease to deem to be our controlling shareholder (as defined in the Listing Rules).

Further, pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange that, during the First Six-month Period and the Second Six-month Period, he or she or it will:

- (a) if he or she or it pledges or charges any of Shares beneficially owned by him or her or it in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately inform us in writing of such pledge or charge together with the number of Shares so pledged or charged; and
- (b) if he or she or it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform us in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters, if any, by any of our Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.

### **Undertakings pursuant to the Hong Kong Underwriting Agreement**

#### *Undertakings by us*

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to the Sole Global Coordinator, the Hong Kong Underwriters and the Sole Sponsor that except pursuant to the Global Offering (including pursuant to the Over-allotment Option and the Capitalisation Issue) or the exercise of any options granted or to be granted under the Share Option or otherwise pursuant to or as allowed under the Listing Rules, during the period commencing on the date of this prospectus and ending on, and including, the date that is six months after the Listing Date, we will not and will procure each other

## UNDERWRITING

member of our Group not to (unless: (i) with the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the other Underwriters) and (ii) in full compliance with the Listing Rules) do, act, engage in or perform regarding any of the following:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create any pledge, charge, lien, mortgage, option, restriction, right of first refusal, security interest, claim, pre-emption rights, equity interest, third party rights or interests or rights of the same nature as that of the foregoing or other encumbrances or security interest of any kind or another type of preferential arrangement (including without limitation, retention arrangement) having similar effect (“**Encumbrance**”) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any shares or other securities of such other companies of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares or any shares of the other member of our Company, as applicable), or deposit any Shares or other securities of our Group, or any shares or other securities of other member of our Group, as applicable, with a depository in connection with the issue of depository receipts; or repurchase any Shares or other securities of our Company or any shares or other securities of other member of our Group, as applicable; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any shares or other securities of other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of other member of our Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above,

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company, or any shares or other securities of other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or securities will be completed within the First Six-Month Period).

We further undertake that, (i) we will not, and will procure each member of our Group not to, enter into any of the transactions specified in (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction, such that the Controlling Shareholder would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company during the Second Six-Month Period, and (ii) in the event that, during the Second Six-Month Period, our Company enters into any of

## UNDERWRITING

the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that we will not create a disorderly or false market in any Shares or other securities of our Company.

### **Undertakings by our Controlling Shareholders**

Pursuant to the Hong Kong Underwriting Agreement, each of our Controlling Shareholders has undertaken to the Sole Global Coordinator, the Hong Kong Underwriters and the Sole Sponsor that, except pursuant to the stock borrowing agreement to be entered by Intelligenesis Inv and the Sole Global Coordinator and in compliance with the requirements under Rule 10.07(3) of the Listing Rules, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters):

- (i) at any time during the First Six-Month Period, he or it shall not, and shall procure that any nominee or trustee holding on trust for it or him and the companies controlled by it or he who is/are the relevant registered holder(s) of the Relevant Securities (as defined below), (together, the “**Controlled Entities**”) shall not (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) beneficially owned by it or him directly or indirectly through its Controlled Entities as of the Listing Date (the “**Relevant Securities**”), or deposit any Relevant Securities with a depository in connection with the issue of depository receipts; or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities; (c) enter into or effect any transaction with the same economic effect as any of the transactions referred to in (a) or (b) above; or (d) offer to or agree to or announce any intention to enter into or effect any of the transactions referred to (a), (b) or (c) above, whether any of the foregoing transactions referred to in (a), (b), (c) or (d) is to be settled by delivery of Shares or such other securities of our Company, or in cash or otherwise;
- (ii) at any time during the Second Six-Month Period, it or he shall not, and shall procure that the Controlled Entities shall not, enter into any of the transactions referred to in (a), (b) or (c) of sub-paragraph (i) above or offer to or agree to or announce any intention to enter into any such transaction if, immediately following any of such transaction, it or he would cease to be a “controlling shareholder” (as defined in the Listing Rules) of our Company or would together with the other Controlling Shareholders cease to be “controlling shareholders” (as defined in the Listing Rules) of our Company;
- (iii) in the event that it or he enters into any of the transactions specified in (a), (b) or (c) of sub-paragraph (i) above or offer to or agrees to or announce any intention to effect any such transaction within the Second Six-Month Period, it or he shall take all reasonable steps to ensure that such transaction, if done, will not create a disorderly or false market for any Shares or other securities of our Company; and

## UNDERWRITING

- (iv) it or he shall, and shall procure that the relevant registered Controlled Entities shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it or he or by the Controlled Entities of any Shares or other securities of our Company within the Second Six-Month Period.

For the avoidance of doubt, the above restrictions do not prevent our Controlling Shareholders from using the Shares beneficially owned by him or it as security (including a charge or a pledge) in favour of an authorised institution (as defined in the Banking Ordinance (Cap. 155 of the Laws of Hong Kong) for a bona fide commercial loan).

### **Indemnity**

We and certain warrantors under the Hong Kong Underwriting Agreement have agreed to indemnify the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement, subject to the terms of the Hong Kong Underwriting Agreement.

### **The International Placing**

In connection with the International Placing, it is expected that we and the executive Directors will enter into the International Underwriting Agreement with, among others, the Sole Global Coordinator, the International Underwriters and the Sole Sponsor. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, severally agree to purchase the International Placing Shares being offered pursuant to the International Placing or procure purchasers for such International Placing Shares.

We expect to grant to the International Underwriters the Over-allotment Option, exercisable by the Stabilising Manager in agreement with the Sole Global Coordinator on behalf of the International Underwriters at any time from the date of the International Underwriting Agreement until the 30th day from the last day for lodging applications under the Hong Kong Public Offering, to require us to offer up to an aggregate of 60,000,000 additional Shares, together representing 15% of the number of Shares initially being offered under the Global Offering, at the Offer Price to solely cover over-allocations in the International Placing, if any.

It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Under the International Underwriting Agreement, we and certain warrantors under the Hong Kong Underwriting Agreement will agree to indemnify the International Underwriters and the Sole Sponsor against certain losses which they may suffer including losses as a result of certain claims or liabilities which might be incurred by the International Underwriters, subject to the terms of the International Underwriting Agreement.



## UNDERWRITING

### **Underwriting Commission and Expenses**

Under the terms and conditions of the Hong Kong Underwriting Agreement, the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) will receive an underwriting commission equal to 3.0% on the aggregate Offer Price payable in respect of all of the Hong Kong Offer Shares (excluding any International Placing Shares reallocated to the Hong Kong Public Offering and any Hong Kong Offer Shares reallocated to the International Placing). The respective entitlements of the Hong Kong Underwriters to the underwriting commission will be paid as separately agreed between the Sole Global Coordinator and the Hong Kong Underwriters. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the relevant International Underwriters (but not the Hong Kong Underwriters).

Assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK\$0.675 per Share (being the mid-point of the indicative Offer Price range of HK\$0.60 to HK\$0.75 per Share), the aggregate commissions and fees, together with the Stock Exchange listing fees, the SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the listing of the existing Shares and the Global Offering to be borne by us are estimated to amount to approximately RMB44.3 million in aggregate.

### **Hong Kong Underwriters' Interests in our Company**

Save for their respective obligations under the Hong Kong Underwriting Agreement or as otherwise disclosed in this prospectus, none of the Hong Kong Underwriters is interested legally or beneficially in any shares of any of our members or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of our members in the Global Offering.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

### **Independence of the Sole Sponsor**

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

### **RESTRICTIONS ON THE OFFER SHARES**

No action has been taken to permit a public offering of the Offer Shares other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

In particular, the Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in PRC.



## STRUCTURE OF THE GLOBAL OFFERING

### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering which forms part of the Global Offering. South China Capital Limited is the Sole Sponsor for the listing of the Shares on the Stock Exchange and South China Securities Limited is the Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager of the Global Offering.

The Global Offering initially consists of:

- (i) the Hong Kong Public Offering of 40,000,000 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described in “Hong Kong Public Offering” in this section below; and
- (ii) the International Placing of an aggregate of 360,000,000 Offer Shares by our Company (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States in reliance on Regulation S.

Investors may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Placing, but may not do both. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have applied for Hong Kong Offer Shares in the Hong Kong Public Offering. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Placing will involve selective marketing of Offer Shares to professional, institutional and other investors in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The International Underwriters are soliciting from prospective investors' indications of interest in acquiring the Offer Shares in the International Placing. Prospective professional, institutional and other investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price.

The number of Offer Shares to be offered under the Hong Kong Public Offering and International Placing respectively may be subject to adjustment and, in the case of the International Placing only, the Over-allotment Option as set out in “International Placing — Over-allotment Option” in this section below.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price. Our Company expects to enter into the International Underwriting Agreement relating to the International Placing on the Price Determination Date. Details of the underwriting arrangements are summarised in the section headed “Underwriting” in this prospectus.

## STRUCTURE OF THE GLOBAL OFFERING

### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares pursuant to the Global Offering will be conditional on, among others:

- (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue, the Offer Shares to be issued pursuant to the Global Offering and the Capitalisation Issue and any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme and such listing and permission not subsequently having been revoked prior to the commencement of dealing in our Shares on the Stock Exchange;
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Underwriting Agreements (unless to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

The Offer Shares are being offered at the Offer Price which is expected to be fixed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or around Wednesday, 2 November, 2016 and in any event, not later than Friday, 4 November, 2016.

**If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company by 4 November, 2016, the Global Offering will not proceed and will lapse.**

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published in the Standard (in English) and Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.cnartfin.com.hk](http://www.cnartfin.com.hk) on the next business day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for the Hong Kong Offer Shares” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended from time to time).

## STRUCTURE OF THE GLOBAL OFFERING

Share certificates for the Offer Shares are expected to be issued on Monday, 7 November, 2016 but will only become valid certificates of title at 8:00 a.m. on Tuesday, 8 November, 2016 provided that (i) the Global Offering has become unconditional in all respects; and (ii) the right of termination as described in “Underwriting — Underwriting Arrangements and Expenses — Grounds for termination” in this prospectus has not been exercised. Investors who trade the Shares prior to the receipt of Share certificates or prior to the Share certificates bearing valid certificates of title do so entirely at their own risk.

### HONG KONG PUBLIC OFFERING

#### Number of Offer Shares initially offered

Our Company is initially offering 40,000,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering (assuming that the Over-allotment Option is not exercised). Subject to the reallocation of Shares between (i) the International Placing; and (ii) the Hong Kong Public Offering as mentioned below, the number of the Hong Kong Offer Shares will represent approximately 2.5% of our Company’s issued share capital immediately after completion of the Global Offering and the Capitalisation Issue without taking into account any Shares which may be issued and allotted upon any exercise of Over-allotment Option and the options which have been or may be granted under the Share Option Scheme.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph “Conditions of the Global Offering” in this section.

#### Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total available Shares under the Hong Kong Public Offering (after taking into account of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Placing is to be divided into two pools (subject to adjustment of odd lot size) for allocation purposes: pool A and pool B with any odd board lots being allocated to pool A. Accordingly, the maximum number of Hong Kong Offer Shares initially in pool A and pool B will be 20,000,000 and 20,000,000 respectively. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are under-

## STRUCTURE OF THE GLOBAL OFFERING

subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this section only, the “price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools and can only apply for Hong Kong Offer Shares in either pool A or pool B.

Multiple or suspected multiple applications within either pool or between pools and any application for more than 20,000,000 Hong Kong Offer Shares are liable to be rejected.

### **Reallocation**

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Placing is subject to adjustment. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times; (ii) 50 times or more but less than 100 times; and (iii) 100 times or more, of the number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing so that the total number of Offer Shares available under the Hong Kong Public Offering will be increased to (in the case of (i), 120,000,000 Offer Shares, in the case of (ii), 160,000,000 Offer Shares and in the case of (iii), 200,000,000 Offer Shares representing 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option) in each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Placing will be correspondingly reduced, in such manner as the Sole Global Coordinator deem appropriate. In addition, in certain prescribed circumstances, the Sole Global Coordinator may, at their sole and absolute discretion, reallocate International Placing Shares as they deem appropriate from the International Placing to the Hong Kong Public Offering to satisfy in whole or in part the excess valid application in the Hong Kong Public Offering.

If the Hong Kong Offer Shares are not fully subscribed for, the Sole Global Coordinator may, at their sole and absolute discretion, reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportion as the Sole Global Coordinator deem appropriate.

### **Applications**

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Placing, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares under the International Placing.

## STRUCTURE OF THE GLOBAL OFFERING

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$0.75 per Offer Share in addition to any brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph “Price Determination of the Global Offering” below in this section, is less than the maximum price of HK\$0.75 per Share, appropriate refund payments (including the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in “How to Apply for the Hong Kong Offer Shares” in this prospectus.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

### INTERNATIONAL PLACING

#### Number of Offer Shares offered

The number of Offer Shares to be initially offered for subscription under the International Placing will be 360,000,000 Shares (subject to adjustment and the Over-allotment Option). Subject to any reallocation of Offer Shares between the International Placing and the Hong Kong Public Offering, the International Placing Shares will represent approximately 22.5% of our enlarged issued share capital immediately after completion of the Global Offering without taking into account any Shares which may be issued and allotted upon any exercise of the Over-allotment Option and the options which have been or may be granted under the Share Option Scheme.

The International Placing is subject to the same conditions as stated in the paragraph “Conditions of the Global Offering” above in this section.

#### Allocation

Allocation of Offer Shares pursuant to the International Placing will be effected in accordance with the book-building process and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered Shares under the International Placing, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

## STRUCTURE OF THE GLOBAL OFFERING

### Over-allotment Option

In connection with the Global Offering, our Company is expected to grant an Over-allotment Option to the Sole Global Coordinator (for itself and on behalf of the International Underwriters) that is exercisable at the sole discretion of the Sole Global Coordinator (for itself and on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the Sole Global Coordinator has the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days from the date of the last day of lodging application under the Hong Kong Public Offering, to require our Company to allot and issue up to 60,000,000 additional Shares, representing 15% of the number of the Offer Shares initially available under the Global Offering, at the Offer Price, to cover, among other things, over-allocation in the International Placing, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.6% of our enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option but without taking into account any Shares which may fall to be issued upon the exercise of any options to be granted under the Share Option Scheme. In the event that the Over-allotment Option is exercised, an announcement will be made in accordance with the Listing Rules.

### PRICE DETERMINATION OF THE GLOBAL OFFERING

The Offer Price is expected to be fixed on the Price Determination Date, which is expected to be on or around Wednesday, 2 November, 2016, and in any event not later than Friday, 4 November, 2016, by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company.

The Offer Price will be not more than HK\$0.75 per Share and is expected to be not less than HK\$0.60 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

**Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

The Sole Global Coordinator, for itself and on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the Standard (in English) and Hong Kong Economic Times (in Chinese), and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.cnartfin.com.hk](http://www.cnartfin.com.hk) notices of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, will be fixed within such



## STRUCTURE OF THE GLOBAL OFFERING

revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon by our Company with the Sole Global Coordinator (for itself and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The Offer Price, the levels of indication of interest in the Global Offering, the results of applications and the basis of allotment of Offer Shares under the Hong Kong Public Offering, are expected to be announced on Monday, 7 November, 2016 in the manner set out in the section headed “How to Apply for the Hong Kong Offer Shares — 11. Publication of Results” in this prospectus.

### STABILISATION ACTION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the Offer Price. In Hong Kong, activities aimed at reducing the market price are prohibited and the price at which stabilisation is effected is not permitted to exceed the Offer Price.

South China Securities Limited has been appointed by us as the stabilising manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilising) Rules made under the SFO. In connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period beginning on the Listing Date and expected to end on the 30th day after the last day for lodging of applications under the Hong Kong Public Offering. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. Any market purchase of the Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the sole and absolute discretion of the Stabilising Manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares that may be allotted and issued by our Company under the Over-allotment Option, namely 60,000,000 Shares in aggregate, which is 15% of the Shares initially available under the Global Offering.

## STRUCTURE OF THE GLOBAL OFFERING

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules includes (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of our Shares; (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of our Shares; (iii) subscribing, or agreeing to subscribe, for our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of our Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares; (v) selling, or agreeing to sell, our Shares in order to liquidate any position established as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v) above. The Stabilising Manager, its affiliates or any person acting for it, may take all or any of the above stabilising action in Hong Kong during the stabilisation period.

Specifically, prospective applicants for and investors in the Shares should note that:

- the Stabilising Manager, its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares, and there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, its affiliates or any person acting for it, will maintain such a position. Investors should be warned of the possible impact of any liquidation of such long position by the Stabilising Manager, its affiliates or any other person acting for it, may have an adverse impact on the market price of the Shares;
- stabilising action cannot be used to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilising period.

In connection with the Global Offering, the Stabilising Manager may over-allocate up to and not more than an aggregate of 60,000,000 additional Shares and cover such over allocations by exercising the Over-allotment Option, which will be exercisable by the Stabilising Manager (on behalf of the International Underwriters) at its sole discretion, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means.



## STRUCTURE OF THE GLOBAL OFFERING

### DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, 8 November 2016, it is expected that dealings in the Offer Shares on the Stock Exchange will commence at 9:00 a.m. on Tuesday, 8 November 2016, and will be traded in board lots of 4,000 Shares each.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

### 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offering Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; or
- have been allocated or have applied for any International Offering Shares or otherwise participate in the International Offering.

### 3. APPLYING FOR HONG KONG OFFER SHARES

#### Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.eipo.com.hk](http://www.eipo.com.hk).

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 27 October, 2016 until 12:00 noon on Tuesday, 1 November, 2016 from:

- (i) any of the following offices of the Hong Kong Underwriters:

**South China Securities Limited**

28/F., Bank of China Tower  
No. 1, Garden Road  
Central  
Hong Kong

**Mason Securities Limited**

Portion 1, 12/F  
The Center  
99 Queen's Road Central  
Hong Kong

**Resources Securities Limited**

6/F, Winbase Centre  
208–220 Queen's Road Central  
Hong Kong

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(ii) any of the branches of Bank of Communications Co., Ltd. Hong Kong Branch:

District	Branch name	Address
<b>Hong Kong Island</b>	Hong Kong Branch	20 Pedder Street, Central
	Taikoo Shing Sub-Branch	Shop 38, G/F., CityPlaza, 18 Taikoo Shing Road
<b>Kowloon</b>	Hunghom Sub-Branch	Shop A6, G/F., Whampoa Estate Planet Square, 1-3 Tak Man Street
	Wong Tai Sin Sub-Branch	Shop N118, 1/F., Temple Mall North, 136 Lung Cheung Road, Wong Tai Sin
<b>New Territories</b>	Yuen Long Sub-Branch	Shop 2B, G/F., Man Yu Building, 2-14 Tai Fung Street, Yuen Long

You can collect a **YELLOW** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Thursday, 27 October 2016 until 12:00 noon on Tuesday, 1 November, 2016 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

### **Time for Lodging Application Forms**

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to Bank of Communications (Nominee) Co. Ltd. — China Art Financial Public Offer for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

**Thursday, 27 October, 2016 — 9:00 a.m. to 5:00 p.m.**  
**Friday, 28 October, 2016 — 9:00 a.m. to 5:00 p.m.**  
**Saturday, 29 October, 2016 — 9:00 a.m. to 1:00 p.m.**  
**Monday, 31 October, 2016 — 9:00 a.m. to 5:00 p.m.**  
**Tuesday, 1 November, 2016 — 9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, 1 November, 2016, the last application day or such later time as described in “10. Effect of Bad Weather on the Opening of the Applications Lists” in this section.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize our Company and/or the Sole Global Coordinator (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Underwriters nor any of their respective officers or advisers will breach any law outside

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in "Personal Collection" section in this prospectus to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

### Additional Instructions for **YELLOW** Application Form

You may refer to the **YELLOW** Application Form for details.

## 5. APPLYING THROUGH WHITE FORM eIPO SERVICE

### General

Individuals who meet the criteria in the “ — 2. Who can apply” section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

### Time for Submitting Applications under the White Form eIPO Service

You may submit your application to the **White Form eIPO** Service Provider at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, 27 October, 2016 until 11:30 a.m. on Tuesday, 1 November, 2016 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, 1 November, 2016 or such later time specified under “ — 10. Effects of Bad Weather on the Opening of the Applications Lists” in this section.

### No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any **electronic application instructions** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

### Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the **White Form eIPO** Service Provider, will contribute HK\$2.00 for each “China Art Financial Holdings Limited” **White Form eIPO** application submitted via [www.eipo.com.hk](http://www.eipo.com.hk) to support the funding of “Source of Dong Jiang-Hong Kong Forest” project initiated by Friends of the Earth (HK).

### 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

#### General

CCASS Participants may give **electronic application instructions** to apply for Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System <https://ip.ccass.com> (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited  
Customer Service Center  
1/F, One & Two Exchange Square  
8 Connaught Place, Central  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Share Registrar.



## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

### Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
  - declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
  - confirm that you understand that our Company, the Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - authorize our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
  - confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- agree that none of our Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles; and

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### **Effect of Giving Electronic Application Instructions to HKSCC via CCASS**

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### **Minimum Purchase Amount and Permitted Numbers**

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 4,000 Hong Kong Offer Shares. Instructions for more than 4,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

### Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

**Thursday, 27 October, 2016 — 9:00 a.m. to 8:30 p.m.<sup>(1)</sup>**

**Friday, 28 October, 2016 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>**

**Monday, 31 October, 2016 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>**

**Tuesday, 1 November, 2016 — 8:00 a.m.<sup>(1)</sup> to 12:00 noon**

*Note:*

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, 27 October, 2016 until 12:00 noon on Tuesday, 1 November, 2016 (24 hours daily, except on Saturday, 29 October, 2016 until Sunday, 30 October, 2016 and on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, 1 November, 2016, the last application day or such later time as described in “ — 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, Hong Kong Share Registrar, the receiving banks, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

### 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, the Directors, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. If CCASS Investor Participants have problems in the connection to CCASS Phone

System/CASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, 1 November, 2016.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company, then the application will be treated as being for your benefit.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.  
“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 4,000 Hong Kong Public Offer Shares. Each application or electronic application instruction in respect of more than 4,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering-Pricing and Allocation”.

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 1 November 2016. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, 1 November 2016 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

### 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Monday, 7 November, 2016 in the Standard (in English) and Hong Kong Economic Times (in Chinese) on our Company's website at [www.cnartfin.com.hk](http://www.cnartfin.com.hk) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at [www.cnartfin.com.hk](http://www.cnartfin.com.hk) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 9:00 a.m., Monday, 7 November, 2016;
- from the designated results of allocations website at [www.iporeresults.com.hk](http://www.iporeresults.com.hk) with a "search by ID" function on a 24-hour basis from 8:00 a.m., Monday, 7 November, 2016 to 12:00, midnight, Sunday, 13 November, 2016;
- by telephone enquiry line by calling (852) 2862 8669 between 9:00 a.m. and 10:00 p.m. from Monday, 7 November, 2016 to Thursday, 10 November, 2016;
- in the special allocation results booklets which will be available for inspection during opening hours from Monday, 7 November, 2016 to Wednesday, 9 November, 2016 at all the receiving bank's designated branches and sub-branches.

If our Company accepts your offer to subscribe (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If our Company or its agents exercise their discretion to reject your application:**

Our Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offering Shares;
- your Application Form is not completed in accordance with the stated instructions;



## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$0.75 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering-Conditions of the Hong Kong Public Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Monday, 7 November, 2016.

### 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangements for dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Monday, 7 November, 2016. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, 8 November, 2016 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

### **Personal Collection**

#### ***(i) If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 7 November, 2016 or such other date as is notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Monday, 7 November, 2016, by ordinary post and at your own risk.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

### *(ii) If you apply using a YELLOW Application Form*

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Monday, 7 November, 2016, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Monday, 7 November, 2016, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Offer shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in " — 11. Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 7 November, 2016 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

### *(iii) If you apply through the White Form eIPO Service*

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 7 November, 2016, or such other date as is notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, 7 November, 2016 by ordinary post at your own risk.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

*(iv) If you apply via Electronic Application Instructions to HKSCC*

*Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, 7 November, 2016, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in “ — 11. Publication of Results” above on Monday, 7 November, 2016. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 7 November, 2016 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's “An Operating Guide for Investor Participants” in effect from time to time) on Monday, 7 November, 2016. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

## HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, 7 November, 2016.

### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

*The following is the text of a report received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.*

**Deloitte.**  
**德勤**

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Deloitte Touche Tohmatsu  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

27 October 2016

The Directors  
China Art Financial Holdings Limited

South China Capital Limited

Dear Sirs,

We set out below our report on the financial information (the "**Financial Information**") regarding China Art Financial Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") for each of the three years ended 31 December 2015 and the six months ended 30 June 2016 (the "**Relevant Periods**") for inclusion in the prospectus of the Company dated 27 October 2016 (the "**Prospectus**") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Prospectus**").

The Company was incorporated and registered as an exempted company in the Cayman Islands under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 2 November 2015. The Company is an investment holding company and has not carried on any business except for equity transactions and preparation for initial listing of shares of the Company since its incorporation. Through a reorganisation (the "**Reorganisation**") as more fully explained in the section "History, Reorganisation and Development" of the Prospectus, the Company became the holding company of the Group on 15 April 2016.

At the date of this report, the Company has direct and indirect interests in the following subsidiaries:

Name of Company	Place of incorporation/ establishment	Date of incorporation/ establishment	Issued and fully paid share/registered capital	Equity interest attributable to the Group				At the date of this report %	Principal activities	Legal Form
				As at 31 December		At 30 June				
				2013 %	2014 %	2015 %	2016 %			
<i>Directly held:</i>										
Reliance Art Holdings Limited ("Reliance Art")	British Virgin Islands (the "BVI")	3 December 2015	USD50,000	N/A	N/A	100	100	100	Investment holding	Limited liability company
<i>Indirectly held:</i>										
Co-Reliance Art Financial Company Limited ("Co-Reliance Art")	Hong Kong	6 January 2016	HK\$1	N/A	N/A	N/A	100	100	Investment holding	Private limited company
宜興市漢信信息技術服務有限公司 Yixing Hanxin Information Technology Service Company Limited ("WFOE-Pawn")	The People's Republic of China (the "PRC")	10 March 2016	HK\$500,000	N/A	N/A	N/A	100	100	Investment holding	Limited liability company
宜興市紫玉信息技術服務有限公司 Yixing Ziyu Information Technology Service Company Limited ("WFOE-Auction")	PRC	10 March 2016	HK\$500,000	N/A	N/A	N/A	100	100	Investment holding	Limited liability company
江蘇和信拍賣有限公司 Hexin Auction Co., Ltd. ("Hexin Auction")	Jiangsu PRC	25 May 2007	RMB10,000,000	95	95	95	100	100	Auction services	Limited liability company
江蘇和信典當有限公司 Hexin Pawn Co., Ltd. ("Hexin Pawn")	Jiangsu PRC	13 May 2004	RMB100,000,000	63.6	63.6	64	100	100	Pawn loan services	Limited liability company

\* The English name is for identification purpose only.

The financial year end of the Company and its subsidiaries is 31 December.

No audited statutory financial statements have been prepared for the Company, Reliance Art and Co-Reliance Art, since their respective dates of incorporation, as there is no statutory audit requirement in the jurisdiction where they were incorporated.

No audited statutory financial statements have been prepared for WFOE-Pawn and WFOE-Auction, which were established on 10 March 2016, since their respective dates of establishment. For the purpose of this report, we have, however carried out independent audit procedures in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") on the management accounts of these companies since their respective dates of establishment to 30 June 2016.

The statutory financial statements of other entities established in the PRC for the Relevant Periods were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC. They were audited by the following certified public accountants registered in the PRC for the Relevant Periods as follows:

Name of company	Periods covered	Name of auditors
Hexin Auction	For the three years ended 31 December 2013, 31 December 2014 and 31 December 2015	宜興達華會計師事務所有限公司
Hexin Pawn	For the three years ended 31 December 2013, 31 December 2014 and 31 December 2015	宜興達華會計師事務所有限公司

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA (the “**Underlying Financial Statements**”).

We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and examined the Underlying Financial Statements in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in note 2 to Section A below. No adjustments are considered necessary to adjust the Underlying Financial Statements in the preparation of this report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issuance. The directors of the Company are also responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of preparation set out in note 2 to Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Group as at 31 December 2013, 2014 and 2015 and 30 June 2016 and of the Company as at 31 December 2015 and 30 June 2016 and of the financial performance and consolidated cash flows of the Group for the Relevant Periods.

The comparative consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the six months ended 30 June 2015 together with the notes thereon (the “June 2015 Financial Information”) have been extracted from the Group’s unaudited consolidated financial information for the same period which was prepared by the directors of the Company solely for the purpose of this report.

We conducted our review of the June 2015 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. Our review of the June 2015 Financial



Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the June 2015 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 2015 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information, which conform with the HKFRSs.

## A. FINANCIAL INFORMATION

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended 31 December			Six months ended 30 June	
		2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000	2016 RMB'000
					(Unaudited)	
Revenue	8	39,869	57,698	107,574	29,192	66,322
Other income	9	92	164	306	90	362
Other gains and losses		—	—	27	—	(131)
Business tax and surcharges		(2,325)	(3,362)	(6,099)	(1,661)	(2,006)
Operating expenses		(1,389)	(1,535)	(2,133)	(501)	(1,206)
(Allowance) reversal of allowance on loans to customers for art and asset pawn business, net	16(c)	(329)	(611)	710	(331)	(2,879)
Administrative expenses		(3,663)	(3,796)	(4,991)	(2,123)	(3,854)
Listing expenses		—	—	(6,330)	—	(10,872)
Profit before tax		32,255	48,558	89,064	24,666	45,736
Income tax expense	10	(8,064)	(12,139)	(26,670)	(6,856)	(14,305)
Profit for the year/period	13	<u>24,191</u>	<u>36,419</u>	<u>62,394</u>	<u>17,810</u>	<u>31,431</u>
Profit and total comprehensive income for the year/period attributable to:						
— Owners of the Company		16,435	25,901	46,854	11,259	27,915
— Non-controlling interests		<u>7,756</u>	<u>10,518</u>	<u>15,540</u>	<u>6,551</u>	<u>3,516</u>
		<u>24,191</u>	<u>36,419</u>	<u>62,394</u>	<u>17,810</u>	<u>31,431</u>
Earnings per share for profit attributable to owners of the Company, basic (RMB cents)	14	<u>4.25</u>	<u>6.70</u>	<u>7.93</u>	<u>2.91</u>	<u>2.73</u>

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		<b>The Group</b>			<b>As at 30</b>
		<b>As at 31 December</b>			<b>June</b>
		<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<i>NOTES</i>		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>					
Property, plant and equipment	15	3,215	2,842	2,036	1,638
Deferred tax asset	23	<u>933</u>	<u>1,085</u>	<u>331</u>	<u>1,051</u>
		<u>4,148</u>	<u>3,927</u>	<u>2,367</u>	<u>2,689</u>
<b>Current assets</b>					
Loans to customers for art and asset pawn business	16	80,490	93,049	64,813	205,925
Trade receivables, other receivables and prepayments	17	307	305	4,624	171,844
Amount due from a director	18	29	48	79	—
Bank balances and cash	19	<u>36,594</u>	<u>64,059</u>	<u>292,837</u>	<u>127,569</u>
		<u>117,420</u>	<u>157,461</u>	<u>362,353</u>	<u>505,338</u>
<b>Current liabilities</b>					
Other payables and accrual	20	1,583	2,903	54,992	160,711
Amount due to a director	21	—	—	—	785
Amounts due to related parties	22	—	—	6,526	15,998
Tax liabilities		<u>2,431</u>	<u>4,512</u>	<u>14,835</u>	<u>10,735</u>
		<u>4,014</u>	<u>7,415</u>	<u>76,353</u>	<u>188,229</u>
<b>Net current assets</b>		<u>113,406</u>	<u>150,046</u>	<u>286,000</u>	<u>317,109</u>
<b>Total assets less current liabilities</b>		117,554	153,973	288,367	319,798
<b>Net assets</b>		<u>117,554</u>	<u>153,973</u>	<u>288,367</u>	<u>319,798</u>
<b>Capital and reserves</b>					
Paid-in capital/share capital	24	31,900	31,900	73,500	—
Reserves		<u>46,827</u>	<u>72,728</u>	<u>127,942</u>	<u>319,798</u>
<b>Equity attributable to owners</b>		78,727	104,628	201,442	319,798
Non-controlling interests		<u>38,827</u>	<u>49,345</u>	<u>86,925</u>	<u>—</u>
<b>Total equity</b>		<u>117,554</u>	<u>153,973</u>	<u>288,367</u>	<u>319,798</u>

## STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	<i>NOTES</i>	<b>The Company</b>	
		<b>As at 31 December 2015 RMB'000</b>	<b>As at 30 June 2016 RMB'000</b>
<b>Non-current asset</b>			
Investment in a subsidiary	29	—	—
<b>Current assets</b>			
Trade receivables, other receivables and prepayments	17	2,625	5,294
Bank balances and cash		—	—
		<u>2,625</u>	<u>5,294</u>
<b>Current liabilities</b>			
Other payables and accrual		2,725	7,008
Amount due to related parties	22	6,230	15,274
Amount due to a subsidiary		—	342
		<u>8,955</u>	<u>22,624</u>
<b>Net current assets</b>		<u>(6,330)</u>	<u>(17,330)</u>
<b>Net assets</b>		<u>(6,330)</u>	<u>(17,330)</u>
<b>Capital and reserve</b>			
Share capital	24	—	—
Reserve	30	<u>(6,330)</u>	<u>(17,330)</u>
<b>Total equity</b>		<u>(6,330)</u>	<u>(17,330)</u>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company						Total RMB'000
	Paid-in capital/ share capital RMB'000	Statutory reserve RMB'000	Capital reserve RMB'000 (Note 2 and Note 3)	Retained profits RMB'000	Sub-total RMB'000	Non- controlling interests RMB'000	
At 1 January 2013	31,900	3,206	—	27,186	62,292	31,071	93,363
Profit and total comprehensive income for the year	—	—	—	16,435	16,435	7,756	24,191
Appropriation to statutory reserve	—	1,643	—	(1,643)	—	—	—
At 31 December 2013	31,900	4,849	—	41,978	78,727	38,827	117,554
Profit and total comprehensive income for the year	—	—	—	25,901	25,901	10,518	36,419
Appropriation to statutory reserve	—	2,590	—	(2,590)	—	—	—
At 31 December 2014	31,900	7,439	—	65,289	104,628	49,345	153,973
Increase in paid-in capital of a subsidiary	38,400	—	—	—	38,400	21,600	60,000
Special capital contribution from a shareholder of a subsidiary	3,200	—	8,360	—	11,560	440	12,000
Profit and total comprehensive income for the year	—	—	—	46,854	46,854	15,540	62,394
Appropriation to statutory reserve	—	5,336	—	(5,336)	—	—	—
At 31 December 2015	73,500	12,775	8,360	106,807	201,442	86,925	288,367
Profit and total comprehensive income for the period	—	—	—	27,915	27,915	3,516	31,431
Arising from the Reorganisation	(73,500)	—	73,500	—	—	—	—
Appropriation to statutory reserve	—	4,291	—	(4,291)	—	—	—
Special contribution from a shareholder of the Company	—	—	90,441	—	90,441	(90,441)	—
At 30 June 2016	<u>—</u>	<u>17,066</u>	<u>172,301</u>	<u>130,431</u>	<u>319,798</u>	<u>—</u>	<u>319,798</u>
(Unaudited)							
At 1 January 2015	31,900	7,439	—	65,289	104,628	49,345	153,973
Profit and total comprehensive income for the period	—	—	—	11,259	11,259	6,551	17,810
Appropriation to statutory reserve	—	1,169	—	(1,169)	—	—	—
At 30 June 2015	<u>31,900</u>	<u>8,608</u>	<u>—</u>	<u>75,379</u>	<u>115,887</u>	<u>55,896</u>	<u>171,783</u>

*Notes:*

- (1) The statutory reserve is non-distributable and the appropriation to this reserve is determined by the board of directors of subsidiaries established in the PRC in accordance with the Articles of Association of the subsidiaries by way of appropriations from their net profit. Statutory reserve can be used to make up for previous year's losses or convert into additional capital of the PRC subsidiaries of the Company.
- (2) Capital reserve of RMB8,360,000 represents special capital contribution from a shareholder of subsidiary during the year ended 31 December 2015.
- (3) On 15 April 2016, the equity holder, Mr. Fan Zhijun, has contributed additional equity interest in Hexin Pawn and Hexin Auction to the Group upon completion of the Contractual Arrangements. Accordingly, Hexin Pawn and Hexin Auction became wholly owned subsidiaries of the Group subsequent to the Reorganisation. These Contractual Arrangements effectively transfer the economic benefits and pass the risks associated with Hexin Pawn and Hexin Auction to the Group by receiving all economic returns generated by Hexin Pawn and Hexin Auction in consideration for the exclusive technical services, management support services and consultancy services provided by the Group. As a result, starting from 15 April 2016, the entirety of profit and total comprehensive income of Hexin Pawn and Hexin Auction has become attributable to owners of the Company. Accordingly, no equity interests of Hexin Pawn and Hexin Auction is entitled to the non-controlling interests. The aggregate equity interests of the non-controlling interests of the non-controlling interests of Hexin Pawn and Hexin Auction amounting to RMB90,441,000 was eliminated and transferred to capital reserve as a deemed contribution from a shareholder.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000 (Unaudited)	2016 RMB'000
<b>OPERATING ACTIVITIES</b>					
Profit before tax	32,255	48,558	89,064	24,666	45,736
Adjustments for:					
Depreciation of property, plant and equipment	508	817	823	413	398
Allowance (reversal of allowance) on loans to customers for art and asset pawn business, net	329	611	(710)	331	2,879
Gain on disposal of property, plant and equipment	—	—	(2)	—	—
Bank interest income	(92)	(164)	(306)	(90)	(357)
Operating cash flows before movements in working capital	33,000	49,822	88,869	25,320	48,656
(Increase) decrease in loans to customers for art and asset pawn business	(3,540)	(13,170)	28,946	(23,100)	(143,991)
(Increase) decrease in trade receivables, other receivables and prepayments	(88)	2	(4,319)	(25)	(167,220)
Increase (decrease) in other payables and accrual	703	1,320	52,089	(2,434)	105,719
Cash generated from (used in) operations	30,075	37,974	165,585	(239)	(156,836)
Income tax paid	(7,331)	(10,210)	(15,593)	(8,297)	(19,125)
<b>NET CASH FROM (USED IN)</b>					
<b>OPERATING ACTIVITIES</b>	<u>22,744</u>	<u>27,764</u>	<u>149,992</u>	<u>(8,536)</u>	<u>(175,961)</u>
<b>INVESTING ACTIVITIES</b>					
Bank interest income	92	164	306	90	357
Purchase of property, plant and equipment	(1,511)	(445)	(33)	(20)	—
Proceeds from disposal of property, plant and equipment	—	1	18	—	—
(Increase) decrease in amount due from a director	(29)	(19)	(31)	—	79
<b>NET CASH (USED IN) FROM</b>					
<b>INVESTING ACTIVITIES</b>	<u>(1,448)</u>	<u>(299)</u>	<u>260</u>	<u>70</u>	<u>436</u>

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
FINANCING ACTIVITIES					
Increase in paid-in capital of a subsidiary	—	—	60,000	—	—
Special capital contribution from a shareholder of a subsidiary	—	—	12,000	—	—
Advance from a director	—	—	—	—	785
Advance from related parties	—	—	6,526	—	9,472
CASH FROM FINANCING ACTIVITIES	—	—	78,526	—	10,257
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	21,296	27,465	228,778	(8,466)	(165,268)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	15,298	36,594	64,059	64,059	292,837
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD AND REPRESENTED BY					
Bank balances and cash	36,594	64,059	292,837	55,593	127,569



## NOTES TO THE FINANCIAL INFORMATION

### 1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Laws, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Island on 2 November 2015. The addresses of the registered office and principal place of business of the Company are stated in the section "Corporate Information" of the Prospectus.

The principal activity the Company is investment holding. It has two principal operating subsidiaries which are established in the PRC, namely, Hexin Pawn and Hexin Auction. Hexin Pawn was established in May 2004 and Hexin Auction was established in May 2007. Both of them were founded by Mr. Fan Zhijun, his family members and business partners. Hexin Pawn has been principally engaged in the business of providing art and asset pawn services, while Hexin Auction has been principally engaged in the business of operating art and asset auction.

The Financial Information is presented in Renminbi ("RMB"), the currency of which is the same as the functional currency of the Company and the subsidiaries established in the PRC.

### 2. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL INFORMATION

Pursuant to the Reorganisation, which was completed by incorporating/establishing the Company, Reliance Art, Co-Reliance Art, WFOE-Pawn and WFOE-Auction as the parents of Hexin Pawn and Hexin Auction respectively, the Company became the ultimate holding company of the companies now comprising the Group on date upon completion of reorganisation.

The Group entered into two series of agreements with Hexin Pawn and Hexin Auction which constitute the contractual arrangements (the "Contractual Arrangements") for the art and asset pawn business and art and asset auction business respectively. These Contractual Arrangements effectively transfer the controls over economic benefits and pass the risks associated therewith of Hexin Pawn and Hexin Auction to WFOE-Pawn and WFOE-Auction. The Contractual Arrangements with Hexin Pawn include: (i) Hexin Pawn Composite Services Agreement, (ii) Hexin Pawn Option Agreement, (iii) Hexin Pawn Proxy Agreement, and (iv) Hexin Pawn Equity Pledge Agreement, and the Contractual Arrangements with Hexin Auction include: (i) Hexin Auction Composite Services Agreement, (ii) Hexin Auction Option Agreement, (iii) Hexin Auction Proxy and Agreement, and (iv) Hexin Auction Equity Pledge Agreement. Details of the Contractual Arrangements, are set out in the section headed "Contractual Arrangements" of the Prospectus.

The Contractual Arrangements are irrevocable and enable the Group to:

- exercise effective financial and operational control over Hexin Pawn and Hexin Auction;
- exercise equity holders' voting rights of Hexin Pawn and Hexin Auction;
- receive all economic returns generated by Hexin Pawn and Hexin Auction in consideration for the exclusive technical services, management support services and consultancy services provided by the Group;
- obtain an irrevocable and exclusive right to purchase the entire equity interest in Hexin Pawn and Hexin Auction from the shareholders of Hexin Pawn and Hexin Auction; and
- obtain a pledge over the entire equity interest of Hexin Pawn and Hexin Auction from the shareholders of the Hexin Pawn and Hexin Auction as collateral security under the Contractual Arrangements.

Pursuant to the above Contractual Arrangements entered into between the Group and all the equity holders of Hexin Pawn and Hexin Auction, these Contractual Arrangements effectively transfer the controls over economic benefits and pass the risks associated there with of Hexin Pawn and Hexin Auction to WFOE-Pawn and WFOE-Auction. In substance, the Group has effectively acquired additional equity interests in Hexin Pawn and Hexin Auction from the non-controlling interests subsequent to the effective of the Contractual Arrangements. Accordingly, Hexin Pawn and Hexin Auction became wholly-owned subsidiaries of the Group subsequent to the Reorganisation.

Further details of the financial information of entities under the Contractual Arrangements, which are Hexin Pawn and Hexin Auction, are set out in note 27.

The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing equity.

The consolidated statement of profit and loss and comprehensive income, consolidated statement of changes in equity and consolidated cash flow statements include the results, changes in equity and cash flows of the companies comprising the Group for the Relevant Periods and in accordance with the respective equity interests in the individual companies attributable to the controlling parties throughout the Relevant Periods.

The consolidated statement of financial position of the Group as at 31 December 2013, 2014 and 2015 and 30 June 2016 have been prepared to present the assets and liabilities of the Group as if the current group structure had been in existence and in accordance with the respective equity interests in the individual companies attributable to the controlling parties as at those dates.

### 3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (the “HKFRSs”)

For the purpose of preparing and presenting the Financial Information of the Group for the Relevant Periods, the Group consistently applied the HKFRSs, Hong Kong Accounting Standards (“HKASs”) issued by the HKICPA that are effective for the Group’s annual accounting periods beginning on 1 January 2016 throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following new HKFRS, which are not yet effective. The Group has not early applied these new standards, amendments and interpretation.

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>1</sup>
HKFRS 16	Leases <sup>3</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 15	Clarification to HKFRS 15 Revenue from Contracts with Customers <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to HKAS 7	Disclosure Initiative <sup>2</sup>
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>2</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined

#### HKFRS 9 Financial instruments

HKFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income” (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 that are relevant to the Group are:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value under HKFRS 9. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved

both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods and their fair value changes are recognised in profit or loss. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss. All of the above represent new requirements for classification and measurement for financial assets under HKFRS 9 that will be applied for the Group's financial assets of "loans to customers for art and asset pawn business", "trade receivables", "other receivables", "amount due from a director" and "bank balances and cash" under the existing HKAS 39. The directors of the Company anticipate that these requirements may not have significant impact on the Group's financial position or performance.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. The directors of the Company are in the process of assessing their impact on the consolidated financial statements of these requirements. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced. The Group has not entered into any hedging transactions during the Relevant Periods.

The directors of the Company are in the process of assessing their impact of these requirements on the future financial statements of the Group. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

#### **HKFRS 15 Revenue from contracts with customers**

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-Step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under HKFRS 15, an entity recognised revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future have no significant impact on the amounts reported and disclosures in the Group’s Financial Information. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

#### **HKFRS 16 Leases**

HKFRS 16, which upon the effective date will supersede HKAS 17 Leases, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As set out in note 25, total operating lease commitment of the Group in respect of leased premises with terms more than 12 months as at 30 June 2016 amounted to RMB5,163,000. The directors of the Company do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group’s result but it is expected that certain portion of these lease commitments will be required to be recognized in the consolidated statement of financial position as right-of-use assets and lease liabilities.

The directors of the Company do not anticipate that the application of the other new standards and amendments to standards will have significant impact on the Financial Information of the Group.

#### **4. SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information has been prepared in accordance with the HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The principal accounting policies are set out below.

##### **Basis of consolidation**

The Financial Information incorporates the financial information of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year/period are included in the consolidated statements of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to owners of the Company and to the non-controlling interests. Total comprehensive income of a subsidiary is attributed to owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiary to bring its accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

#### **Changes in the Group's ownership interests in existing subsidiary**

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

#### **Merger accounting for business combination involving entities under common control**

The Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets and liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statements of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the Financial Information are presented as of the entities or businesses had been consolidated at the end of the previous reporting period or when they first came under common control, whichever is shorter.

#### **Investment in a Subsidiary**

The investment in a subsidiary is stated at cost less accumulated impairment loss, if any.

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business.

***Revenue from art and asset pawn services and interest income***

The Group obtained Pawn Operations Business License and generates interest income by rendering art and asset pawn services. Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

***Revenue from art and asset auction services***

Art and asset auction service revenue is generally recognised when related services are provided. Art and asset auction services revenue includes buyer's and seller's commission, which are based on a percentage of hammer price of the auction sales.

**Property, plant and equipment**

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Impairment of tangible assets**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value 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 current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Foreign currencies**

In preparing financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

**Retirement benefit costs**

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered services entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit during the year/period. Taxable profit differs from profit before tax as reported in the statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### **Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to the fair value of the financial assets, as appropriate, on initial recognition.

#### *Financial assets*

The Group's financial assets are generally classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loans to customers for art and asset pawn business, trade receivables, other receivables, amount due from a director and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that from an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

#### *Impairment loss of financial assets*

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as default or delinquency in interest and principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.



For certain categories of financial assets, such as loans to customers for art and asset pawn business and trade receivables, the Group first assesses whether objective evidence of impairment exists individually. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statements of profit or loss and other comprehensive income.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in value of collateral assets, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the management of the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statements of profit and loss and other comprehensive income.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and loans to customers for art and asset pawn business, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or a loan to customer for art and asset pawn business is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the amortised cost would have been had the impairment not been recognised.

#### *Financial liabilities and equity instruments*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### *Equity Instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the group entity are recorded at the proceeds received, net of direct issue costs.

#### *Financial liabilities*

Financial liabilities, including other payables, amount due to a director and amounts due to related parties are measured at amortised cost, using the effective interest method.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

#### *Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the assets expire and it substantially transfers all the risks and rewards of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or has expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## **5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in note 4, the management of the Group is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### **Key sources of estimation uncertainty**

The following is the key assumption concerning the future, and other key source of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the forthcoming twelve months.

#### ***Estimated allowances on loans to customers for art and asset pawn business***

The Group reviews its loan portfolios to assess impairment at least on a semi-annual basis. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. As at 31 December 2013, 2014 and 2015 and 30 June 2016, the carrying amounts of the Group's loans to customers for pawn-loan business are RMB80,490,000, RMB93,049,000, RMB64,813,000 and RMB205,925,000 respectively net of allowance of RMB3,731,000, RMB4,342,000, RMB1,323,000 and RMB4,202,000, respectively.

#### ***Estimated allowance of trade receivables***

When there is an objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2013, 2014 and 2015 and 30 June 2016, the carrying amounts of the Group's trade receivables are RMBnil, RMBnil, RMB97,000 and RMB13,823,000 respectively.

#### ***Contractual agreements***

Under the relevant rules and regulations prevailing in the PRC, wholly foreign-owned enterprises are not allowed to operate online auction and pawn-loan business in the PRC. The current registered equity-holders of (i) Hexin Pawn are Mr. Fan Zhijun, Ms. Fan Qinzhi, Mr. Fan Yajun, Ms. Wu Jian, 無錫和信文化藝術有限公司 Wuxi Hexin Culture and Art Company Limited ("Wuxi Hexin") and 宜興陶都紫砂賓館有限公司 Yixing Taodu Zisha Hotel Company Limited ("Zisha Hotel"), Wuxi Hexin is an entity established in the PRC and the controlling shareholder is Mr. Fan Zhijun. Zisha Hotel is an entity established in the PRC which carrying out hotel operation and became a non-controlling shareholder of Hexin Pawn on 28 July 2015 and ceased to be a shareholder of Hexin Pawn on 15 April 2016. The current registered equity-holders of (ii) Hexin Auction are Mr. Fan Zhijun, Ms. Wu Jian and Ms. Xu Min. A series of agreements, which constitute the Contractual Arrangements, was entered into between each of (i) WFOE-Pawn, Hexin Pawn and the equity-holders of Hexin Pawn, and (ii) WFOE-Auction, Hexin Auction and the equity-holders of Hexin Auction. Details of contractual arrangements disclosed in the section headed "Contractual Arrangements" of the Prospectus. Pursuant to these agreements and undertakings, notwithstanding the fact that the Group does not hold direct equity interest in Hexin Pawn and Hexin Auction, the management considers that the Group has power over the financial and operating policies of Hexin Pawn and receive a majority of the economic benefits from its business activities. Accordingly, Hexin Pawn and Hexin Auction have been treated as indirect subsidiaries of the Company.

## 6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Group consists of paid-in capital/share capital, reserves, amount due to a director and amounts due to related parties, net of bank balances and cash and equity attributable to owners of the Company comprising paid-in capital/share capital and reserves as disclosed in the Financial Information.

The management of the Group review the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debts or the redemption of existing debts.

## 7. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Financial assets</b>				
Loans and receivables (including cash and cash equivalents)	<u>117,169</u>	<u>157,243</u>	<u>359,586</u>	<u>499,889</u>
<b>Financial liabilities</b>				
Amortised cost	<u>281</u>	<u>148</u>	<u>50,980</u>	<u>169,850</u>

### b. Financial risk management objectives and policies

The Group's major financial instruments include loans to customers for art and asset pawn business, trade receivables, other receivables, amount due from a director, bank balances and cash, other payables, amount due to a director and amounts due to related parties. Details of these financial instruments are disclosed in respective notes.

The management of the Group monitors and manages the financial risks relating to the operations of the Group through internal risk assessment which analyses exposures by degree and magnitude of risks. The risks included market risk (including interest rate risk), currency risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### *Market risk*

##### *Interest rate risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposures to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

The most significant interest-bearing assets are loans to customers for art and asset pawn business, which bear fixed interest rates to generate cash flows independent from market interest rates and bear variable interest rate if default. Contractual interest rate re-pricing is matched with maturity date of each art and asset pawn loan granted to customer.

The Group regularly calculates the impact on profit or loss of a possible interest rate shift on its interest bearing bank deposits and certain loans to customers for art and asset pawn business with variable interest rate due to default.

Based on the simulations performed and with other variables held constant, should the benchmark interest rate had been 100 basis points higher/lower, the profit for the year/period of the Relevant Periods would have been increased/decreased by approximately RMB875,000, RMB1,176,000, RMB2,680,000 and RMB1,250,000, for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, respectively, mainly as a result of higher/lower interest rate on variable-rate bank deposits and certain loans to customers for art and asset pawn business.

#### *Currency risk*

Currency risks refers to the unfavourable volatilities of the Group's financial condition and cash flows due to the fluctuation of the foreign exchange rates. The Group has foreign currency denominated monetary assets and liabilities, which expose the Group to foreign currency risk. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively are as follows:

	Currency	As at 31 December			As at
		2013	2014	2015	30 June
		RMB'000	RMB'000	RMB'000	2016
				RMB'000	
Monetary assets	HKD	—	—	—	442
Monetary liabilities	HKD	—	—	3,888	11,048
Net exposure	HKD	—	—	(3,888)	(10,606)

The Group currently does not have a foreign exchange hedging policy to eliminate the currency exposures. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposures should the need arise.

#### *Sensitivity analysis*

The Group is mainly exposed to the effects of fluctuation in HKD against RMB. The following table details the Group's sensitivity to a 5% increase and decrease in RMB, the functional currency of respective group entities, against HKD. 5% is the sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year/period end for a 5% change in foreign currency rate. The analysis illustrates the impact for a 5% weakening of HKD against RMB and a positive number below indicates an increase in profit before tax. For a 5% strengthening of HKD against RMB, there would be an equal and opposite impact on the profit for the year/period. The increase in profit before tax is mainly attributable to the exposure on bank balances and cash, amount due to a director and amounts due to related parties in HKD.

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Increase in profit	—	—	194	530

In management's opinion, the sensitivity analysis is unrepresentative of the inherent currency risk as the year/period end exposure does not reflect the exposure during the year/period.

*Credit risk*

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position at the end of each reporting period.

The Company's maximum exposure to credit risk is arising from the carrying amount of recognised financial assets as stated in the statements of financial position.

In order to minimise the credit risk, the management of the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group maintains a reasonably diversified client base. As at 31 December 2013, 2014 and 2015 and 30 June 2016, the Group's concentration of credit risk on loans to customers for pawn-loan business included ten major customers in China accounting for 58.34%, 55.90%, 81.14% and 56.31%, respectively. As all their outstanding balances are secured by collateral, the directors of the Company considered that the credit risk arising from these outstanding balances is manageable.

The Group's exposure in relation to art and asset auction business is the failure of buyers of artworks to perform their obligations to pay the purchase cost and commission fee on time as detailed in note 17. As artwork will only be delivered to its buyer after full payment is settled, the directors of the Company considered that the credit risk arising from these outstanding balances is manageable.

The Group's credit risk on liquid funds is limited because the counterparties are banks with good reputation established in the PRC.

For art and asset pawn business, the most traditional credit risk management is the taking of specific classes of collateral from customers. The principal collateral types for loans to customers are the artworks and other assets, mainly are Zisha Artworks, Paintings and Calligraphies.

All art and asset pawn loans granted are backed by collateral as security. The Group also focuses on ascertaining legal ownership and the valuation of the collaterals. In terms of the loans granted which are secured by collaterals, the amount granted is based on the value of the collaterals and generally not exceeds 75%, 75%, 90% and 50% of the estimated value of artworks, real properties, personal properties and equity interest in listed and unlisted enterprises, respectively.

Further to collateral held as security for art and asset pawn loans, the Group introduces other credit enhancement measures including considering borrower's repayment ability, repayment records, collateral status, financial performance, leverage ratio, industry outlook and competition, etc.

*Impairment and provisioning policies*

Impairment provisions are recognised for financial reporting purposes only for losses that have incurred at the end of reporting period based on objective evidence of impairment.

The table below shows the Group's gross amount of loans to customers and the associated impairment allowances:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
Loans to customers, gross	84,221	97,391	66,136	210,127
Less: Impairment allowances	<u>3,731</u>	<u>4,342</u>	<u>1,323</u>	<u>4,202</u>
	<u>80,490</u>	<u>93,049</u>	<u>64,813</u>	<u>205,925</u>

Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the end of each reporting period on a case-by-case basis. The assessment normally encompasses collateral held and the anticipated receipts for that individual account, taking into account the customer's financial standing, current ability to pay, quality and value of collateral, past experience, and information specific to the customer as well as pertaining to the economic environment in which the customer operates.

Collectively assessed impairment allowances are provided for: (i) portfolios of outstanding loans that have been individually assessed with no objective evidence of impairment by the collateral; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques of the business locally.

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the aggregate carrying amount of RMB35,634,000, RMB22,574,000, RMBnil and RMB14,135,000 respectively were past due but the Group has not provided for impairment loss individually as management considered there has not been a significant change in credit quality for these customers, as well as they were secured by collateral after considering the amount recovered through repossessed assets.

Details of individually assessed and collectively assessed impairment allowances arising from the collaterals backed art and asset pawn loans are set out in note 16.

Loans to customers are summarised as follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
Neither past due nor impaired	36,646	66,437	66,136	195,992
Past due but not impaired	35,634	22,574	—	14,135
Past due and subject to partial impairment	<u>11,941</u>	<u>8,380</u>	<u>—</u>	<u>—</u>
Gross	84,221	97,391	66,136	210,127
Individually impaired	2,286	2,562	—	—
Collectively impaired	<u>1,445</u>	<u>1,780</u>	<u>1,323</u>	<u>4,202</u>
Net	<u>80,490</u>	<u>93,049</u>	<u>64,813</u>	<u>205,925</u>

## (i) Loans to customers neither past due nor impaired

Loans to customers that are neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Collaterals backed art and asset pawn loans are included in this category as their repayments can be effected by disposal of forfeited collateral, which carries higher values than the carrying amount of the loan.

## (ii) Loans to customers past due but not impaired

Loans that are past due but not impaired relate to the customers which have good borrowing records with the Group. The directors believe that no impairment allowance is necessary in respect of these balances either because the loans are fully secured by collateral with a reasonably market value or the loan balances were subsequently settled. Gross amount of loans to customers that were past due but not impaired are analysed by aging as follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Collaterals backed art and asset pawn loans, past due within 1 month	35,634	22,574	—	14,135

## (iii) Loans to customers past due and subject to partial impairment

Loans that are impaired are assessed by a discounted cash flow method for loans to customers for art and asset pawn business that are individually significant and have objective evidence of impairment. The individual impairment allowances are measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate, which also take into account the estimated proceeds from disposal of forfeited collateral.

**Liquidity risk**

In the management of liquidity risk, the Group's management monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.



*Liquidity and interest risk tables*

The following tables detail the Group's remaining contractual maturity for its financial liabilities (other payables, amount due to a director and amounts due to related parties) based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The undiscounted amount is derived from interest rate curve at the end of each reporting period.

	Weighted average interest rate %	Repayable on demand RMB'000	Less than 1 year RMB'000	1-2 years RMB'000	Total undiscounted cash flows and carrying amount RMB'000
As at 31 December 2013					
Other payables	—	<u>271</u>	<u>—</u>	<u>10</u>	<u>281</u>
As at 31 December 2014					
Other payables	—	<u>100</u>	<u>—</u>	<u>48</u>	<u>148</u>
As at 31 December 2015					
Other payables	—	972	43,482	—	44,454
Amounts due to related parties	—	<u>6,526</u>	<u>—</u>	<u>—</u>	<u>6,526</u>
		<u>7,498</u>	<u>43,482</u>	<u>—</u>	<u>50,980</u>
As at 30 June 2016					
Other payables	—	416	152,651	—	153,067
Amount due to a director	—	785	—	—	785
Amounts due to related parties	—	<u>15,998</u>	<u>—</u>	<u>—</u>	<u>15,998</u>
		<u>17,199</u>	<u>152,651</u>	<u>—</u>	<u>169,850</u>

**c. Fair value**

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flows analysis.

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair value.

**8. REVENUE AND SEGMENT INFORMATION**

The segment information reported externally was analysed on the basis of services rendered in the PRC, art and asset pawn business and art and asset auction business, which is consistent with the internal information that are regularly reviewed by the directors of the Company, the chief operating decision maker, for the purposes of resource allocation and assessment of performance. This is also the basis of organisation in the Group, whereby the management has chosen to organise the Group by these two services rendered.

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies described in note 4. Segment result represents the profit earned by each segment without allocation of central administration costs, other income, other gains and losses, and listing expenses. Segment assets and liabilities are allocated to each segment excluding deferred tax asset, deferred listing costs, amount due from a director, bank balances and cash, other payables for listing expenses and others, amount due to a director and amounts due to related parties. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

## Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segment.

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Total RMB'000
<b>Year ended 31 December 2013</b>			
Segment revenue	33,858	6,011	39,869
Segment cost	(803)	(586)	(1,389)
Business tax and surcharges	(1,976)	(349)	(2,325)
Allowance on loans to customers for art and asset pawn business	<u>(329)</u>	<u>—</u>	<u>(329)</u>
Segment result	<u>30,750</u>	<u>5,076</u>	35,826
Other income			92
Central administrative expenses			<u>(3,663)</u>
Profit before tax			<u>32,255</u>
<b>Year ended 31 December 2014</b>			
Segment revenue	43,681	14,017	57,698
Segment cost	(675)	(860)	(1,535)
Business tax and surcharges	(2,549)	(813)	(3,362)
Allowance on loans to customers for art and asset pawn business	<u>(611)</u>	<u>—</u>	<u>(611)</u>
Segment result	<u>39,846</u>	<u>12,344</u>	52,190
Other income			164
Central administrative expenses			<u>(3,796)</u>
Profit before tax			<u>48,558</u>
<b>Year ended 31 December 2015</b>			
Segment revenue	59,259	48,315	107,574
Segment cost	(653)	(1,480)	(2,133)
Business tax and surcharges	(3,369)	(2,730)	(6,099)
Reversal of allowance on loans to customers for art and asset pawn business	<u>710</u>	<u>—</u>	<u>710</u>
Segment result	<u>55,947</u>	<u>44,105</u>	100,052
Other income			306
Other gains and losses			27
Central administrative expenses			(4,991)
Listing expense			<u>(6,330)</u>
Profit before tax			<u>89,064</u>

	<b>Art and asset pawn business RMB'000</b>	<b>Art and asset auction business RMB'000</b>	<b>Total RMB'000</b>
(Unaudited)			
<b>Six months ended 30 June 2015</b>			
Segment revenue	28,778	414	29,192
Segment cost	(279)	(222)	(501)
Business tax and surcharges	(1,638)	(23)	(1,661)
Allowance on loans to customers for art and asset pawn business	<u>(331)</u>	<u>—</u>	<u>(331)</u>
Segment result	<u>26,530</u>	<u>169</u>	26,699
Other income			90
Central administrative expenses			<u>(2,123)</u>
Profit before tax			<u>24,666</u>
<b>Six months ended 30 June 2016</b>			
Segment revenue	31,610	34,712	66,322
Segment cost	(422)	(784)	(1,206)
Business tax and surcharges	(1,578)	(428)	(2,006)
Allowance on loans to customers for art and asset pawn business	<u>(2,879)</u>	<u>—</u>	<u>(2,879)</u>
Segment result	<u>26,731</u>	<u>33,500</u>	60,231
Other income			362
Other gains and losses			(131)
Central administrative expenses			(3,854)
Listing expense			<u>(10,872)</u>
Profit before tax			<u>45,736</u>

## Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segment.

	Art and asset pawn business <i>RMB'000</i>	Art and asset auction business <i>RMB'000</i>	Segment total <i>RMB'000</i>	Elimination <i>RMB'000</i>	Consolidated total <i>RMB'000</i>
<b>As at 31 December 2013</b>					
<b>Assets</b>					
Segment assets	<u>83,292</u>	<u>3,920</u>	<u>87,212</u>	<u>(3,200)</u>	<u>84,012</u>
Other unallocated assets					
Deferred tax asset					933
Amount due from a director					29
Bank balances and cash					<u>36,594</u>
Consolidated total assets					<u><u>121,568</u></u>
<b>Liabilities</b>					
Segment liabilities	<u>2,355</u>	<u>1,659</u>	<u>4,014</u>	<u>—</u>	<u>4,014</u>
Consolidated total liabilities					<u><u>4,014</u></u>
	Art and asset pawn business <i>RMB'000</i>	Art and asset auction business <i>RMB'000</i>	Segment total <i>RMB'000</i>	Elimination <i>RMB'000</i>	Consolidated total <i>RMB'000</i>
<b>As at 31 December 2014</b>					
<b>Assets</b>					
Segment assets	<u>95,593</u>	<u>3,803</u>	<u>99,396</u>	<u>(3,200)</u>	<u>96,196</u>
Other unallocated assets					
Deferred tax asset					1,085
Amount due from a director					48
Bank balances and cash					<u>64,059</u>
Consolidated total assets					<u><u>161,388</u></u>
<b>Liabilities</b>					
Segment liabilities	<u>2,619</u>	<u>4,796</u>	<u>7,415</u>	<u>—</u>	<u>7,415</u>
Consolidated total liabilities					<u><u>7,415</u></u>

	Art and asset pawn business <i>RMB'000</i>	Art and asset auction business <i>RMB'000</i>	Segment total <i>RMB'000</i>	Elimination <i>RMB'000</i>	Consolidated total <i>RMB'000</i>
<b>As at 31 December 2015</b>					
<b>Assets</b>					
Segment assets	<u>67,201</u>	<u>2,124</u>	<u>69,325</u>	<u>(477)</u>	<u>68,848</u>
Other unallocated assets					
Deferred tax asset					331
Deferred listing costs					2,625
Amount due from a director					79
Bank balances and cash					<u>292,837</u>
Consolidated total assets					<u><u>364,720</u></u>
<b>Liabilities</b>					
Segment liabilities	<u>2,865</u>	<u>64,714</u>	<u>67,579</u>	<u>—</u>	<u>67,579</u>
Other unallocated liabilities					
Other payables for listing expenses					2,248
Amounts due to related parties					<u>6,526</u>
Consolidated total liabilities					<u><u>76,353</u></u>
<b>As at 30 June 2016</b>					
<b>Assets</b>					
Segment assets	<u>208,434</u>	<u>166,618</u>	<u>375,052</u>	<u>(939)</u>	<u>374,113</u>
Other unallocated assets					
Deferred tax asset					1,051
Deferred listing costs					5,294
Bank balances and cash					<u>127,569</u>
Consolidated total assets					<u><u>508,027</u></u>
<b>Liabilities</b>					
Segment liabilities	<u>3,238</u>	<u>162,130</u>	<u>165,368</u>	<u>—</u>	<u>165,368</u>
Other unallocated liabilities					
Other payables for listing expenses					6,069
Other payables — others					9
Amount due to a director					785
Amounts due to related parties					<u>15,998</u>
Consolidated total liabilities					<u><u>188,229</u></u>

**Other segment information**

	Art and asset pawn business <i>RMB'000</i>	Art and asset auction business <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Year ended 31 December 2013</b>			
Segment information included in the measure of segment result or assets:			
Addition to property, plant and equipment	1,906	—	1,906
Depreciation of property, plant and equipment	353	155	508
Allowance on loans to customers for art and asset pawn business, net	<u>329</u>	<u>—</u>	<u>329</u>
<b>Year ended 31 December 2014</b>			
Segment information included in the measure of segment results or assets:			
Addition to property, plant and equipment	442	3	445
Depreciation of property, plant and equipment	671	146	817
Allowance on loans to customers for art and asset pawn business, net	<u>611</u>	<u>—</u>	<u>611</u>
<b>Year ended 31 December 2015</b>			
Segment information included in the measure of segment results or assets:			
Addition to property, plant and equipment	23	10	33
Depreciation of property, plant and equipment	689	134	823
Gain on disposal of property, plant and equipment	—	(2)	(2)
Reversal of allowance on loans to customers for art and asset pawn business, net	<u>(710)</u>	<u>—</u>	<u>(710)</u>
(Unaudited)			
<b>Six months ended 30 June 2015</b>			
Segment information included in the measure of segment result:			
Depreciation of property, plant and equipment	345	68	413
Allowance on loans to customers for art and asset pawn business, net	<u>331</u>	<u>—</u>	<u>331</u>
<b>Six months ended 30 June 2016</b>			
Segment information included in the measure of segment result or assets:			
Addition to property, plant and equipment	—	—	—
Depreciation of property, plant and equipment	341	57	398
Allowance on loans to customers for art and asset pawn business, net	<u>2,879</u>	<u>—</u>	<u>2,879</u>

**Geographical information**

The Group's revenue from external customers is derived solely from its operations and services rendered in the PRC, and non-current assets of the Group are located in the PRC.

**Information about major customers**

There was no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue for the Relevant Periods.

## 9. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interests income on bank deposits	92	164	306	90	357
Others	—	—	—	—	5
	<u>92</u>	<u>164</u>	<u>306</u>	<u>90</u>	<u>362</u>

## 10. INCOME TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current tax					
PRC Enterprise Income Tax ("EIT")	8,146	12,291	25,916	6,362	15,025
Deferred tax (note 23)	(82)	(152)	754	494	(720)
	<u>8,064</u>	<u>12,139</u>	<u>26,670</u>	<u>6,856</u>	<u>14,305</u>

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands, and accordingly, is exempted from payment of Cayman Islands income tax.

No provision for Hong Kong Profits Tax has been made in the Financial Information as the income of the Group neither arises in nor is derived from Hong Kong during the Relevant Periods.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25%.

The income tax expense for the year/period can be reconciled to the profit before tax as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit before tax	<u>32,255</u>	<u>48,558</u>	<u>89,064</u>	<u>24,666</u>	<u>45,736</u>
Tax at the PRC EIT rate of 25%	8,064	12,139	22,266	6,167	11,434
Tax effect of deemed contribution for tax purpose	—	—	2,200	—	—
Tax effect of expenses not deductible for tax purpose	—	—	2,204	577	2,871
Tax effect of tax losses not recognised	—	—	—	112	—
Income tax expense	<u>8,064</u>	<u>12,139</u>	<u>26,670</u>	<u>6,856</u>	<u>14,305</u>

## 11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the directors and the chief executive of the Company (including emoluments for services provided as employees/directors of the group entities prior to becoming the directors of the Company) during the Relevant Periods were as follows:

	Fee <i>RMB'000</i>	Salaries and other benefits <i>RMB'000</i>	Discretionary bonus <i>RMB'000</i> <i>(note)</i>	Retirement benefit scheme contribution <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2013 <sup>(1)</sup>					
Executive directors					
Mr. Fan Zhijun <sup>(1)</sup>	—	174	—	11	185
Mr. Zhang Bin <sup>(1)</sup>	—	68	15	6	89
Non-executive director					
Mr. Fan Yajun <sup>(11)</sup>	—	—	—	—	—
Independent non-executive directors					
Mr. Leung Shu Sun Sunny <sup>(1V)</sup>	—	—	—	—	—
Mr. Liu Jian <sup>(V)</sup>	—	—	—	—	—
Mr. Chu Xiaoliang <sup>(VI)</sup>	—	—	—	—	—
Year ended 31 December 2014 <sup>(1)</sup>					
Executive directors					
Mr. Fan Zhijun <sup>(1)</sup>	—	174	—	11	185
Mr. Zhang Bin <sup>(1)</sup>	—	72	16	6	94
Non-executive director					
Mr. Fan Yajun <sup>(11)</sup>	—	—	—	—	—
Independent non-executive directors					
Mr. Leung Shu Sun Sunny <sup>(1V)</sup>	—	—	—	—	—
Mr. Liu Jian <sup>(V)</sup>	—	—	—	—	—
Mr. Chu Xiaoliang <sup>(VI)</sup>	—	—	—	—	—
Year ended 31 December 2015 <sup>(1)</sup>					
Executive directors					
Mr. Fan Zhijun <sup>(1)</sup>	—	174	40	10	224
Mr. Zhang Bin <sup>(1)</sup>	—	95	25	5	125
Non-executive director					
Mr. Fan Yajun <sup>(11)</sup>	—	—	—	—	—
Independent non-executive directors					
Mr. Leung Shu Sun Sunny <sup>(1V)</sup>	—	—	—	—	—
Mr. Liu Jian <sup>(V)</sup>	—	—	—	—	—
Mr. Chu Xiaoliang <sup>(VI)</sup>	—	—	—	—	—



	Fee	Salaries and other benefits	Discretionary bonus	Retirement benefit scheme contribution	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(note)		
(Unaudited)					
Six months ended 30 June 2015 <sup>(I)</sup>					
Executive directors					
Mr. Fan Zhijun <sup>(II)</sup>	—	86	—	6	92
Mr. Zhang Bin <sup>(II)</sup>	—	37	—	2	39
Non-executive director					
Mr. Fan Yajun <sup>(III)</sup>	—	—	—	—	—
Independent non-executive directors					
Mr. Leung Shu Sun Sunny <sup>(IV)</sup>	—	—	—	—	—
Mr. Liu Jian <sup>(V)</sup>	—	—	—	—	—
Mr. Chu Xiaoliang <sup>(VI)</sup>	—	—	—	—	—
Six months ended 30 June 2016 <sup>(I)</sup>					
Executive directors					
Mr. Fan Zhijun <sup>(II)</sup>	—	123	—	6	129
Mr. Zhang Bin <sup>(II)</sup>	—	59	—	3	62
Non-executive director					
Mr. Fan Yajun <sup>(III)</sup>	—	—	—	—	—
Independent non-executive directors					
Mr. Leung Shu Sun Sunny <sup>(IV)</sup>	—	—	—	—	—
Mr. Liu Jian <sup>(V)</sup>	—	—	—	—	—
Mr. Chu Xiaoliang <sup>(VI)</sup>	—	—	—	—	—

*Note:* The discretionary bonus is determined based on the financial results of the subsidiaries operated in the PRC for the Relevant Periods.

Mr. Fan Zhijun is the Chief Executive of the Company since 22 April 2016, and his emoluments disclosed above include those for services rendered by him as Chief Executive during the Relevant Periods.

- (I) The Company did not operate any share option scheme during the Relevant Periods.
- (II) Mr. Fan Zhijun and Mr. Zhang Bin were appointed as directors of the Company on 2 November 2015 and 16 March 2016, respectively, they were redesignated as executive directors of the Company on 18 April 2016.
- (III) Mr. Fan Yajun was appointed as non-executive director on 16 March 2016 and resigned on 17 April 2016.
- (IV) Mr. Leung Shu Sun Sunny was appointed as independent non-executive director in 14 October 2016.
- (V) Mr. Liu Jian was appointed as independent non-executive director in 14 October 2016.
- (VI) Mr. Chu Xiaoliang was appointed as independent non-executive director in 14 October 2016.

**12. EMPLOYEES' EMOLUMENTS**

Of the five individuals with the highest emoluments in the Group, include one director of the Company whose emoluments are included in note 11 above for each of the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2015 and two directors of the Company whose emoluments are included in note 11 above for the six months ended 30 June 2016. The remunerations of the remaining four individuals for the years ended 31 December 2013, 2014, 2015 and six months ended 30 June 2015 and three individuals for the six months ended 30 June 2016, which individually less than HK\$1,000,000 (equivalent to RMB780,000), are set out below:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries and other benefits	388	447	507	229	516
Discretionary bonus	129	114	74	—	—
Contributions to retirement benefit scheme	28	27	14	19	7
	<u>545</u>	<u>588</u>	<u>595</u>	<u>248</u>	<u>523</u>

During the Relevant Periods, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, no directors waived any emoluments during the Relevant Periods.

**13. PROFIT FOR THE YEAR/PERIOD**

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit for the year/period has been arrived at after charging:					
Directors' remuneration	274	279	349	131	191
Other staff's salaries and allowance	2,221	1,984	2,578	875	1,568
Retirement benefits scheme contributions	90	86	146	58	93
Total staff costs	<u>2,585</u>	<u>2,349</u>	<u>3,073</u>	<u>1,064</u>	<u>1,852</u>
Auditors' remuneration	12	12	5	—	10
Depreciation for property, plant and equipment	508	817	823	413	398

**14. EARNINGS PER SHARE**

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Earnings:					
Earnings for the purpose of calculating basic earning per share (profit for the year/period attributable to the owners of the Company)	<u>16,435</u>	<u>25,901</u>	<u>46,854</u>	<u>11,259</u>	<u>27,915</u>
Number of shares:					
Number of ordinary shares for the purpose of calculating basic earnings per share	<u>386,859,980</u>	<u>386,859,980</u>	<u>590,890,535</u>	<u>386,859,980</u>	<u>1,021,935,288</u>

The calculation of the basic earnings per share during the Relevant Periods is based on the earnings attributable to owners of the Company for the Relevant Periods, and based on the assumption that the Reorganisation and the capitalisation issue of 1,200,000,000 shares had been in effective on 1 January 2013 and as adjusted for the capital contributions by shareholders during the Relevant Periods.

No diluted earnings per share is presented as there was no potential dilutive ordinary share in issue during the Relevant Periods.

#### 15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
COST				
At 1 January 2013	1,460	277	706	2,443
Additions	<u>1,700</u>	<u>206</u>	<u>—</u>	<u>1,906</u>
At 31 December 2013	3,160	483	706	4,349
Additions	58	7	380	445
Disposals	<u>—</u>	<u>(22)</u>	<u>—</u>	<u>(22)</u>
At 31 December 2014	3,218	468	1,086	4,772
Additions	—	33	—	33
Disposals	<u>—</u>	<u>—</u>	<u>(139)</u>	<u>(139)</u>
At 31 December 2015 and 30 June 2016	<u>3,218</u>	<u>501</u>	<u>947</u>	<u>4,666</u>
DEPRECIATION				
At 1 January 2013	393	159	74	626
Provided for the year	<u>308</u>	<u>66</u>	<u>134</u>	<u>508</u>
At 31 December 2013	701	225	208	1,134
Provided for the year	547	76	194	817
Eliminated on disposals	<u>—</u>	<u>(21)</u>	<u>—</u>	<u>(21)</u>
At 31 December 2014	1,248	280	402	1,930
Provided for the year	560	66	197	823
Eliminated on disposals	<u>—</u>	<u>—</u>	<u>(123)</u>	<u>(123)</u>
At 31 December 2015	1,808	346	476	2,630
Provided for the period	<u>280</u>	<u>29</u>	<u>89</u>	<u>398</u>
At 30 June 2016	<u>2,088</u>	<u>375</u>	<u>565</u>	<u>3,028</u>
CARRYING VALUES				
At 31 December 2013	<u>2,459</u>	<u>258</u>	<u>498</u>	<u>3,215</u>
At 31 December 2014	<u>1,970</u>	<u>188</u>	<u>684</u>	<u>2,842</u>
At 31 December 2015	<u>1,410</u>	<u>155</u>	<u>471</u>	<u>2,036</u>
At 30 June 2016	<u>1,130</u>	<u>126</u>	<u>382</u>	<u>1,638</u>

The above items of property, plant and equipment are depreciated on a straight-line basis at the following period:

Leasehold improvement	2–5 years
Furniture, fixtures and equipment	3–5 years
Motor vehicles	5 years

#### 16. LOANS TO CUSTOMERS FOR ART AND ASSET PAWN BUSINESS

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Art and asset pawn loans to customers, gross	<u>84,221</u>	<u>97,391</u>	<u>66,136</u>	<u>210,127</u>
Less: impairment allowances				
— Individually assessed	2,286	2,562	—	—
— Collectively assessed	<u>1,445</u>	<u>1,780</u>	<u>1,323</u>	<u>4,202</u>
	<u>3,731</u>	<u>4,342</u>	<u>1,323</u>	<u>4,202</u>
Art and asset pawn loans to customers, net	<u>80,490</u>	<u>93,049</u>	<u>64,813</u>	<u>205,925</u>

The art and asset pawn loans to customers are arising from the Group's art and asset pawn business. The loan periods granted to customers are normally within three months. At the maturity of the loan period, a borrower is under the obligation to repay the principal amount of the loan or, alternatively, a borrower may make an application for a renewal of the loan prior or within five days after the maturity date of the loan period. The loans provided to customers bore fixed interest rates ranging from 4.8% to 48%, 9% to 48%, 18% to 48% and 30% to 48% per annum during the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, respectively. Loans to customers are all denominated in RMB.

Included in the Group's loans to customers for art and asset pawn business balances are amounts due from a related party, Ms. Zhou Jianyuan, the spouse of the director of Hexin Pawn, with aggregate carrying amount of RMBnil, RMB6,869,000, RMBnil and RMBnil at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively.

##### (a) Aging analysis of loans to customers

The aging analysis of loans to customers net of impairment allowances by issue date of pawn tickets are set out below:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Within 1 month	5,834	23,898	26,831	92,399
1–3 months	37,999	47,103	3,695	73,545
3–6 months	26,744	15,808	16,019	31,880
6–12 months	257	404	18,181	8,101
12–24 months	9,656	18	52	—
Over 24 months	<u>—</u>	<u>5,818</u>	<u>35</u>	<u>—</u>
Total	<u>80,490</u>	<u>93,049</u>	<u>64,813</u>	<u>205,925</u>

## (b) Reconciliation of allowance account for losses on loans to customers

	Year ended 31 December			Six months ended 30 June	
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000 (Unaudited)	2016 RMB'000
Individually assessed:					
At beginning of year/period	2,035	2,286	2,562	2,562	—
Impairment losses recognised	395	276	—	—	—
Reversal of impairment loss	(144)	—	(253)	(253)	—
Loans written off as uncollectible	—	—	(2,309)	(2,309)	—
At end of year/period	<u>2,286</u>	<u>2,562</u>	<u>—</u>	<u>—</u>	<u>—</u>
Collectively assessed:					
At beginning of year/period	1,367	1,445	1,780	1,780	1,323
Impairment losses recognised (reversal)	78	335	(457)	584	2,879
At end of year/period	<u>1,445</u>	<u>1,780</u>	<u>1,323</u>	<u>2,364</u>	<u>4,202</u>

## (c) Net charge of impairment allowance on loans to customers

	Year ended 31 December			Six months ended 30 June	
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000 (Unaudited)	2016 RMB'000
Net charge (reversal) of impairment allowance					
Individually assessed	251	276	(253)	(253)	—
Collectively assessed	78	335	(457)	584	2,879
	<u>329</u>	<u>611</u>	<u>(710)</u>	<u>331</u>	<u>2,879</u>

## 17. TRADE RECEIVABLE, OTHER RECEIVABLES AND PREPAYMENTS

## The Group

	As at 31 December			As at
	2013 RMB'000	2014 RMB'000	2015 RMB'000	30 June 2016 RMB'000
Trade receivables for art and asset auction services	—	—	97	13,823
Other receivable and prepayments:				
Receivables from customers in respect of art and asset auction business	—	—	1,629	152,572
Others receivables	56	87	131	—
Deferred listing costs	—	—	2,625	5,294
Prepayments	251	218	142	155
Total	<u>307</u>	<u>305</u>	<u>4,624</u>	<u>171,844</u>

Buyers of artworks are required to settle the entire purchase price of the artworks within seven days after the date of auction. An artwork only be delivered to its buyer after full payment is settled. Net sale proceeds (being the hammer price after deducting the seller's commission and the personal income tax equivalent to 3% of the hammer price) will subsequently be paid to the seller. In determining the recoverability of a trade receivable of art and asset auction services, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date and no impairment is necessary for those balances which are not past due.

Included in the Group's trade receivable balance of art and asset auction business are receivables with aggregate carrying amount of RMBNil, RMBNil, RMB97,000 and RMB13,823,000 at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively, which are within one month after the date of auction services. The Group has not provided for impairment loss as at the end of the reporting period. The Group does not hold any collateral over these balances.

#### The Company

The balance of the Company as at 31 December 2015 and 30 June 2016 mainly represents deferred listing costs.

#### 18. AMOUNT DUE FROM A DIRECTOR

Particular of amount due from a director disclosed as follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Mr. Fan Zhijun	29	48	79	—
	<u>29</u>	<u>48</u>	<u>79</u>	<u>—</u>
	<b>Maximum amount outstanding during the</b>			<b>Six months</b>
	<b>year ended 31 December</b>			<b>ended</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>30 June</b>
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Mr. Fan Zhijun	29	48	79	79
	<u>29</u>	<u>48</u>	<u>79</u>	<u>79</u>

The amount due from a director is non-trade, unsecured, interest free and repayable on demand.

#### 19. BANK BALANCES AND CASH

The Group's bank balances carry interest at rates of 0.35% per annum, 0.35% per annum, 0.35% per annum and from 0.01% to 0.35% per annum for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, respectively.

## 20. OTHER PAYABLES AND ACCRUAL

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Payables on behalf of customers in respect of art and asset auction business	—	—	41,234	146,514
Other payables for art and asset auction business	201	88	478	416
Accrued staff costs	539	400	580	196
Other tax payables	763	2,355	9,958	7,448
Other payable for listing expenses	—	—	2,248	6,069
Others	80	60	494	68
	<u>1,583</u>	<u>2,903</u>	<u>54,992</u>	<u>160,711</u>

After the purchase cost and all outstanding commission receivable from the buyer are fully settled, net sale proceeds (being the hammer price after deducting the seller's commission and the personal income tax equivalent to 3% of the hammer price) will be paid to the seller within 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

Included in the Group's payables on behalf of customers in respect of art and asset auction business are payable with aggregate carrying amount of RMBNil, RMBNil, RMB41,234,000 and RMB146,514,000 at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively, which are within one month after the date of auction services.

## 21. AMOUNT DUE TO A DIRECTOR

Particular of amount due to a director disclosed as follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Fan Zhijun	—	—	—	785

The amount due to a director is non-trade, unsecured, interest free and repayable on demand.

In the opinion of the directors of the Company, the balance as at 30 June 2016 will be settled before listing of shares of the Company on the Stock Exchange.

## 22. AMOUNTS DUE TO RELATED PARTIES

**The Group**

Particular of amounts due to related parties are disclosed as follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
Mr. Lai Chau Yung	—	—	6,406	15,998
Zisha Hotel	—	—	120	—
	—	—	6,526	15,998

The amounts due to Mr. Lai Chau Yung and Zisha Hotel are non-trade, unsecured, interest-free and repayable on demand.

Mr. Lai Chau Yung is a shareholder of the Company.

**The Company**

The balance represented the amount due to Mr. Lai Chau Yung of RMB6,230,000 and RMB15,274,000 as at 31 December 2015 and 30 June 2016 respectively, which is non-trade, unsecured, interest free and repayable on demand.

In the opinion of the directors of the Company, the balances as at 30 June 2016 will be settled before listing of shares of the Company on the Stock Exchange.

## 23. DEFERRED TAXATION

The following is the major deferred tax asset recognised and movements thereon during the Relevant Periods:

	Allowances on doubtful debt RMB'000
At 1 January 2013	851
Credit to profit or loss	82
At 31 December 2013	933
Credit to profit or loss	152
At 31 December 2014	1,085
Charge to profit or loss	(754)
At 31 December 2015	331
Credit to profit or loss	720
At 30 June 2016	1,051



**24. PAID-IN CAPITAL/SHARE CAPITAL****The Group**

On 2 November 2015, the Company was incorporated with 38,000,000 authorised ordinary shares of HKD0.01 each and 1 share was issued upon incorporation. On 29 December 2015, the Company allotted and issued 9,999 shares at par and credited as fully paid, represented share capital of HKD100 (approximately to RMB84) as at 31 December 2015.

For the purpose of this report, the paid-in capital at 31 December 2013 and 2014 represented the aggregate amount of the fully paid registered capital of Hexin Pawn and Hexin Auction which contributed by the controlling shareholders of the Group. As at 31 December 2015, the paid-in capital/share capital represented the aggregate amount of the fully paid registered capital or share capital of Hexin Pawn, Hexin Auction and the Company which contributed by the controlling shareholders of the Group respectively. As at 30 June 2016, the share capital of the Group represented the share capital of the Company, being 10,000 shares issued at par value of HKD0.01 each.

Paid-in capital in the consolidated statements of financial position as at 31 December 2013 and 31 December 2014 represents the aggregate of the fully paid registered capital of Hexin Auction of RMB10,000,000 in which RMB9,500,000 attributed to the Company and Hexin Pawn of RMB40,000,000 in which RMB25,600,000 attributed to the Company. Since Hexin Auction holds 8% of Hexin Pawn, which represents long-term equity investment of RMB3,200,000, hence it is eliminated in the consolidated statements of financial position. During the year ended 31 December 2015, the equity holders of Hexin Pawn further contributed RMB60,000,000 in which RMB38,400,000 attributed to the Company. In addition, 8% equity interest of Hexin Pawn previously held by Hexin Auction was acquired by 無錫和信文化藝術有限公司 (Wuxi Hexin Culture and Art Company Limited), a company which is controlled by Mr. Fan Zhijun with a consideration of RMB12,000,000, as a result, the 8% equity interest has not been eliminated in the consolidated statements of financial position. Upon the completion of the capital contribution from the equity holders of Hexin Pawn, the paid-in capital in the consolidated statements of financial position as at 31 December 2015 represents the aggregate of the fully paid registered capital of Hexin Auction of RMB10,000,000 in which RMB9,500,000 attributed to the Company and Hexin Pawn of RMB100,000,000 in which RMB64,000,000 attributed to the Company.

**The Company**

On 2 November 2015, the Company was incorporated as an exempted company with limited liability in the Cayman Islands. As at the date of incorporation, the Company's initial authorised share capital was HKD380,000, divided into 38,000,000 shares of a par value of HKD0.01 each, of which 1 subscriber share was allotted and issued, credited as fully paid up, to an officer of the registered agent of the Company, such share was transferred to Intelligenes Investment Co., Ltd, the immediate holding company of the Company, on the same date. As at 31 December 2015 and 30 June 2016, the share capital of the Company represented 10,000 shares allotted to the Company, being one share issued at par value of HKD0.01 each.

**25. OPERATING LEASES****The Group as lessee**

	Year ended 31 December			Six months ended
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016 RMB'000
Minimum lease payments paid under operating leases in respect of rented premises during the Relevant Periods:				
Mr. Fan Zhijun	300	300	375	300
Outsiders	<u>412</u>	<u>493</u>	<u>357</u>	<u>252</u>
	<u>712</u>	<u>793</u>	<u>732</u>	<u>552</u>

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of premises rented from a related party and outsiders which fall due as follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Within one year				
Mr. Fan Zhijun	300	300	600	600
Outsiders	<u>376</u>	<u>390</u>	<u>167</u>	<u>340</u>
	<u>676</u>	<u>690</u>	<u>767</u>	<u>940</u>
Between one and five years				
Mr. Fan Zhijun	1,200	1,200	2,400	2,400
Outsiders	<u>148</u>	<u>293</u>	<u>147</u>	<u>98</u>
	<u>1,348</u>	<u>1,493</u>	<u>2,547</u>	<u>2,498</u>
Over five years				
Mr. Fan Zhijun	<u>1,200</u>	<u>900</u>	<u>2,025</u>	<u>1,725</u>
	<u>3,224</u>	<u>3,083</u>	<u>5,339</u>	<u>5,163</u>

Operating lease payment represent rentals payable by the Group for its offices premises. Leases are negotiated and rentals are fixed for terms of two to ten years.

## 26. RETIREMENT BENEFITS PLANS

The employees of the PRC entities are members of a state-managed retirement benefits scheme operated by the government of PRC. The Group is required to contribute certain percentage of the total monthly basic salaries of its current employees to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions.

The total cost charged to the consolidated statements of profit or loss and other comprehensive income amounted to RMB90,000, RMB86,000, RMB146,000, RMB58,000 (unaudited) and RMB93,000 for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, respectively.

## 27. PARTICULARS OF NON-WHOLLY OWNED SUBSIDIARIES OF THE COMPANY

### Details of non-wholly owned subsidiaries that have non-controlling interests

Summarised financial information in respect of the Group's non-wholly owned subsidiaries which are established and operated in the PRC is set out below:

Name of subsidiary	Proportion of ownership interests and voting rights held by non-controlling interests					Profit/(loss) allocated to non-controlling interests					Accumulated non-controlling interests				
	As at 31 December		As at 30 June			For the year ended			For the six months		As at 31 December			As at	
	2013	2014	2015	2015	2016	31 December	2015	2016	ended 30 June	2015	2016	2013	2014	2015	30 June
				(Unaudited)					(Unaudited)						
Hexin Pawn	36.4%	36.4%	36%	36.4%	—	7,603	10,099	14,046	6,573	3,414	38,079	48,178	83,824	—	
Hexin Auction	5%	5%	5%	5%	—	153	419	1,494	(22)	102	748	1,167	3,101	—	
						<u>7,756</u>	<u>10,518</u>	<u>15,540</u>	<u>6,551</u>	<u>3,516</u>	<u>38,827</u>	<u>49,345</u>	<u>86,925</u>	<u>—</u>	

**Hexin Pawn**

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	3,630	3,552	2,132	2,511
Current assets	104,499	132,895	233,578	251,922
Current liabilities	2,355	2,619	2,865	3,238
Equity attributable to owners of the Company	<u>67,695</u>	<u>85,650</u>	<u>149,021</u>	<u>251,195</u>
Non-controlling interests	<u>38,079</u>	<u>48,178</u>	<u>83,824</u>	<u>—</u>

	Year ended 31 December			Six months ended	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Revenue	33,858	43,681	59,259	28,778	31,610
Expenses	(12,739)	(15,627)	(20,242)	(10,519)	(13,260)
Profit and total comprehensive income for the year/period	<u>21,119</u>	<u>28,054</u>	<u>39,017</u>	<u>18,259</u>	<u>18,350</u>
Profit and total comprehensive income attributable to the owners of the Company	<u>13,516</u>	<u>17,955</u>	<u>24,971</u>	<u>11,686</u>	<u>14,936</u>
Profit and total comprehensive income attributable to the non-controlling interests	<u>7,603</u>	<u>10,099</u>	<u>14,046</u>	<u>6,573</u>	<u>3,414</u>
Net cash inflow from (used in) operating activities	<u>18,560</u>	<u>16,209</u>	<u>68,214</u>	<u>(3,582)</u>	<u>(123,451)</u>
Net cash (outflow) inflow from investing activities	<u>(922)</u>	<u>(356)</u>	<u>180</u>	<u>35</u>	<u>272</u>
Net cash inflow from financing activities	<u>—</u>	<u>—</u>	<u>60,000</u>	<u>—</u>	<u>—</u>
Net cash inflow (outflow)	<u>17,638</u>	<u>15,853</u>	<u>128,394</u>	<u>(3,547)</u>	<u>(123,179)</u>

**Hexin Auction**

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	3,718	3,575	235	178
Current assets	12,921	24,566	126,627	248,620
Current liabilities	1,659	4,796	64,834	162,205
Equity attributable to owners of the Company	<u>14,232</u>	<u>22,178</u>	<u>58,927</u>	<u>86,593</u>
Non-controlling interests	<u>748</u>	<u>1,167</u>	<u>3,101</u>	<u>—</u>

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June	
	RMB'000	RMB'000	RMB'000	2015	2016
				(Unaudited)	
Revenue	6,011	14,017	48,315	414	34,712
Expenses	(2,939)	(5,652)	(18,432)	(863)	(10,147)
Profit and total comprehensive income for the year/period	<u>3,072</u>	<u>8,365</u>	<u>29,883</u>	<u>(449)</u>	<u>24,565</u>
Profit and total comprehensive income attributable to the owners of the Company	<u>2,919</u>	<u>7,946</u>	<u>28,389</u>	<u>(427)</u>	<u>24,463</u>
Profit and total comprehensive income attributable to the non-controlling interests	<u>153</u>	<u>419</u>	<u>1,494</u>	<u>(22)</u>	<u>102</u>
Net cash inflow from (used in) operating activities	<u>4,184</u>	<u>11,555</u>	<u>88,184</u>	<u>(4,954)</u>	<u>(42,650)</u>
Net cash (outflow) inflow from investing activities	<u>(526)</u>	<u>57</u>	<u>12,080</u>	<u>35</u>	<u>164</u>
Net cash inflow from financing activities	<u>—</u>	<u>—</u>	<u>120</u>	<u>—</u>	<u>(45)</u>
Net cash inflow (outflow)	<u>3,658</u>	<u>11,612</u>	<u>100,384</u>	<u>(4,919)</u>	<u>(42,531)</u>

## 28. RELATED PARTY DISCLOSURES

### (a) Related parties transactions

During the Relevant Periods, the Group entered into the following significant transactions with Mr. Fan Zhijun:

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June	
	RMB'000	RMB'000	RMB'000	2015	2016
				(Unaudited)	
Rental of offices	<u>300</u>	<u>300</u>	<u>375</u>	<u>150</u>	<u>300</u>

During the Relevant Periods, the Group entered into the following significant transactions with Zisha Hotel:

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June	
	RMB'000	RMB'000	RMB'000	2015	2016
				(Unaudited)	
Rental of stage	<u>—</u>	<u>—</u>	<u>120</u>	<u>—</u>	<u>—</u>

During the Relevant Periods, the Group entered into the following significant transactions with Mr. Lai Chau Yung:

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June	
	RMB'000	RMB'000	RMB'000	2015	2016
				(Unaudited)	
Payment made on behalf of the Group:					
Staff cost	—	—	176	—	724
Listing expenses	—	—	6,230	—	9,044
	<u>—</u>	<u>—</u>	<u>6,406</u>	<u>—</u>	<u>9,768</u>

During the Relevant Periods, the Group entered into the following significant transactions with Ms. Zhou Jianyuan:

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June	
	RMB'000	RMB'000	RMB'000	2015	2016
				(Unaudited)	
Pawn loan revenue	316	149	2,197	383	—

During the Relevant Periods, the pawn loans granted to Ms. Zhou, amounting to RMB2,100,000, RMB7,000,000 and RMB10,800,000 for the year ended 31 December 2013, 2014 and 2015 respectively. The pawn loans were renewed three times, one time and two times during the year ended 31 December 2013, 2014 and 2015. No loans were granted or renewed during the six months ended 30 June 2016.

All the pawn loans granted to Ms. Zhou were secured by artworks collateral with monthly composite administrative fee rate of 4% of the principal and repaid in the same year which the loans were grant, except for the loan granted during the year ended 31 December 2014 which was repaid during the year ended 31 December 2015, and the loan granted during the year ended 31 December 2012 amounting to RMB2,100,000 which was renewed and repaid during the year ended 31 December 2013.

**(b) Compensation of key management personnel**

The remuneration of key management personnel during the Relevant Periods was as follows:

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June	
	RMB'000	RMB'000	RMB'000	2015	2016
				(Unaudited)	
Salaries and other benefits	371	417	752	254	812
Discretionary bonus	92	61	145	—	—
Contributions to retirement benefit scheme	20	20	28	14	19
	<u>483</u>	<u>498</u>	<u>925</u>	<u>268</u>	<u>831</u>

The remuneration of key management personnel is determined by reference to the performance of individuals and market trend.

**29. INVESTMENT IN A SUBSIDIARY**

Investment in a subsidiary represents the investment cost of HKD7.8 in Reliance Art, a wholly-owned directly hold subsidiary of the Company incorporated in the BVI on 3 December 2015.

**30. RESERVE****The Company**

	<b>Accumulated losses RMB'000</b>
As at 2 November 2015 (date of incorporation)	—
Loss and total comprehensive expense for the period	<u>(6,330)</u>
As at 31 December 2015	(6,330)
Loss and total comprehensive expense for the period	<u>(11,000)</u>
As at 30 June 2016	<u><u>(17,330)</u></u>

**B. IMMEDIATE AND ULTIMATE HOLDING COMPANY**

After the completion of the Reorganisation and up to 30 June 2016, the Company's immediate and ultimate holding are Intelligensis Investment Co., Ltd and Mauve Jade Investment Limited respectively.

**C. DIRECTORS' REMUNERATION**

Save as disclosed herein, no remuneration has been paid or is payable to the directors of the company or any of its subsidiaries during the Relevant Periods.

Under the arrangement presently in force, the aggregate remuneration, excluding discretionary bonus, if any, of the Company's directors for the year ended 31 December 2016 is approximately RMB810,000.

**D. SUBSEQUENT EVENTS**

The following significant events took place subsequent to 30 June 2016:

On 14 October 2016, written resolutions of all the shareholders of the Company were passed to approve the matters set out in the paragraph headed "Resolutions in writing of our Shareholders passed on 14 October 2016" in Appendix IV of the Prospectus. It was resolved, among other things:

- (i) The authorised share capital of the Company be increased from HK\$380,000 to HK\$50,000,000 by the creation of 4,962,000,000 new shares of HK\$0.01 each; and
- (ii) following the change in authorised share capital as referred to in paragraph (i) and conditional on the share premium account of the Company being credited as a result of the issue of the offer shares by the Company pursuant to the Global Offering, the Directors of the Company were authorised to capitalise HK\$11,999,900 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 1,199,990,000 shares. Such shares will be allotted and issued to the shareholders whose names are on the register of members of the Company on the date before the listing date of the Company in proportion to their shareholdings in the Company; and so that the shares be allotted and issued, pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued shares and the directors were authorised to give effect to such capitalisation.

**E. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 30 June 2016.

Yours faithfully,

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

<b>APPENDIX II</b>	<b>UNAUDITED PRO FORMA FINANCIAL INFORMATION</b>
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The information set out in this appendix does not form part of the accountants' report on the financial information of the Group for each of the three years ended 31 December 2015 and the six months ended 30 June 2016 (the “**Relevant Periods**”) (the “**Accountants' Report**”) prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set out in Appendix I to this prospectus, and is included in this prospectus for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed “Financial Information” in this prospectus and the “Accountants' Report” set out in Appendix I to this prospectus.

### UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purpose only, and is set out in this appendix to illustrate the effect of the Global Offering on the adjusted consolidated net tangible assets of the Group as at 30 June 2016, as if it had taken place on such date.

The unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to the equity-holders of the Company following the Global Offering. It is prepared based on the audited consolidated net assets of the Group attributable to the equity-holders of the Company as at 30 June 2016 as shown in the Accountants' Report of the Group as set out in Appendix I to this prospectus and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets does not form part of the Accountants' Report of the Group.

	Audited consolidated net tangible assets of the Group attributable to equity-holders of the Company as at 30 June 2016 <i>(Note 1)</i> <i>RMB'000</i>	Estimated net proceeds from the Global Offering <i>(Note 2)</i> <i>RMB'000</i>	Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity- holders of the Company <i>RMB'000</i>	Unaudited pro forma adjusted consolidated net tangible assets per Share <i>(Notes 3 and 4)</i> <i>RMB</i>	<i>HK\$</i>
Based on the Offer Price of HK\$0.60 for each Share	319,798	178,763	498,561	0.31	0.36
Based on the Offer Price of HK\$0.75 for each Share	319,798	228,506	548,304	0.34	0.40



## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

*Notes:*

- (1) The audited consolidated net tangible assets of the Group attributable to the equity-holders of the Company as at 30 June 2016 was determined as follows:

*RMB'000*

Audited consolidated net tangible assets of the Group attributable to the equity-holders of the Company as at 30 June 2016	<u>319,798</u>
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- (2) The estimated net proceeds from the Global Offering are based on the total number of Offer Shares and the Offer Price range of HK\$0.60 and HK\$0.75 per Share, respectively, after deduction of underwriting fees and other related expenses expected to be incurred by the Company subsequent to 30 June 2016 but takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of RMB0.8547 to HK\$1, which was the rate prevailing on 30 June 2016. No representation is made that Hong Kong dollar amounts have been, could have been or may be converted to Renminbi amounts, or vice versa, at that rate or at all.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 10,000 Shares are in issue, 1,199,990,000 Shares are expected to be issued upon completion of the Capitalisation Issue and an additional of 400,000,000 Shares are expected to be issued upon completion of the Global Offering, taking no account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under Share Option Scheme or any Shares which may fall to be allotted and issued upon the exercise of the Over-allotment Option.
- (4) The unaudited pro forma consolidated net tangible assets per Share is converted into Hong Kong Dollars at an exchange rate of RMB0.8547 to HK\$1, which was the rate prevailing on 30 June 2016. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollar amounts, or vice versa, at that rate or at all.
- (5) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity-holders of the Company to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2016.

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report, prepared for inclusion in this prospectus, received from the independent reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in relation to the Group's unaudited pro forma financial information.*



**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION INCLUDED IN A PROSPECTUS**

**To The Directors Of China Art Financial Holdings Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Art Financial Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at 30 June 2016 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 27 October 2016 (the “Prospectus”). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on page II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the global offering and listing of the Company’s shares (the “Global Offering”) on the Group’s financial position as at 30 June 2016 as if the Global Offering had taken place at 30 June 2016. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial information for the three years ended 30 June 2016, on which an accountants’ report set out in Appendix I to the Prospectus has been published.

**Directors’ Responsibilities for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars (“AG 7”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

### **Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Reporting Accountants’ Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2016 would have been as presented.

## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
27 October 2016

Set out below is a summary of certain provisions of the memorandum and articles of association of the Company and of certain aspects of Cayman Islands company law.

## 1. MEMORANDUM OF ASSOCIATION

The memorandum of association provides that the Company's objects are unrestricted. The objects of the Company are set out in Clause 3 of the memorandum of association which is available for inspection at the address and during the period specified in the paragraph headed "Documents available for inspection" specified in Appendix V to this Prospectus. As an exempted company, the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

## 2. ARTICLES OF ASSOCIATION

The articles of association of the Company (the "Articles") were adopted with effect from the Listing Date. The following is a summary of certain provisions of the Articles.

### (a) Directors

#### (i) *Power to allot and issue shares*

Without prejudice to any special rights or restrictions for the time being attaching to any shares or any class of shares, any share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Directors may determine) and any preference shares may be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given date and either at the option of the Company or at the option of the holder. The Directors may issue warrants to subscribe for any class of shares or securities of the Company on such terms as they may from time to time determine.

All unissued shares in the Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

#### (ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries although the Directors may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or relevant statutes of the Cayman Islands to be exercised or done by the Company in general meeting.

*(iii) Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

*(iv) Loans and the giving of security for loans to Directors*

Where the shares of the Company remain listed on the Stock Exchange or on a stock exchange in such other territory as the Directors may from time to time decide, the Company may not make, without the approval of, or ratification by, the Company in general meeting, any loans to, or provide any guarantee, indemnity or security in respect of any loan to a Director or any of his associates, provided that the Articles do not prohibit the granting of any loan or the provision of any guarantee, indemnity or security (i) to be applied for, or in respect of a liability incurred for any business of the Company, (ii) for the purchase by a Director (or the repayment of a loan for his purchase) of a residence where the amount of the loan, the liability under the guarantee or indemnity or the value of the security does not exceed 80 per cent. of the fair market value of such residence nor 5 per cent. of the consolidated net asset value of the Company as shown in its latest audited accounts; provided that any such loan is on normal commercial terms and is secured by a legal charge over the residence; or, (iii) of any amount to, or in respect of a liability of, a company in which the Company has an equity interest, and the amount of such loan, or the liability assumed by the Company under such guarantee, indemnity or security, does not exceed its proportional interest in such company.

*(v) Financial assistance to purchase shares of the Company or its holdings company*

There are no provisions in the Articles relating to the giving by the Company of financial assistance for the purchase, subscription or other acquisition of shares of the Company or of its holding company. The law on this area is summarised in paragraph 4(b) below.

*(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as the Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. The Directors may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such

other company, or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment or the appointment of any of his associates as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the provisions of the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor will any contract with regard thereto or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. If to the knowledge of a Director, he or any of his associates, is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company, he must declare the nature of his or, as the case may be, his associate(s)' interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associates then exists, or in any other case at the first meeting of the Directors after he knows that he or his associate(s) is or has become so interested.

Save as otherwise provided by the Articles, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of the Directors approving any contract or arrangement in which he or any of his close associate(s) (as defined in the Articles) is to his knowledge materially interested, and if he does so his vote will not be counted, but this prohibition will not apply to any of the following matters, namely:

- (aa) any contract or arrangement for the giving to the Director or his close associate(s) of any security or indemnity in respect of money lent by him or any of them or obligations undertaken by him for the benefit of the Company;
- (bb) any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or any company in which the Company has an interest for which the Director or his close associate(s) has himself/themselves guaranteed or secured in whole or in part;
- (cc) any contract or arrangement by a Director or his close associate(s) to subscribe for shares or debentures or other securities of the Company to be issued pursuant to any offer or invitation to the members or debenture or other securities holders or to the public which does not provide the Director and his close associate(s) any privilege not accorded to any other members or debenture or other securities holders or to the public;

- (dd) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by the Company for subscription or purchase where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;
- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested by virtue only of his/their interest in shares or debentures or other securities of the Company and/or his/their being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;
- (ff) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director, his close associate(s) and employees of the Company or of any of its subsidiaries may benefit and which has been approved by or is subject to and conditional on approval by the relevant tax authorities for taxation purposes or relates to Directors, close associate(s) of Directors and employees of the Company or any of its subsidiaries and does not give the Director or his close associate(s) any privilege not accorded to the relevant class of officers of which the Director is a member and to whom such scheme or fund relates;
- (gg) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of, the employees of the Company or its subsidiaries under which the Director or his close associate(s) may benefit; and
- (hh) any contract, agreement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his close associate(s), officer or employee pursuant to the Articles.

***(vii) Remuneration***

The Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in the Company except in the case of sums paid in respect of Directors' fees. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors,



including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing the remuneration of the managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of the Company may be fixed from time to time by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

The Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company, or is allied or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in the Company or such other company, and the spouses, widows, widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

***(viii) Retirement, appointment and removal***

At each annual general meeting, one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

The Directors are entitled to attend and speak at all general meetings.

The number of Directors shall not be fewer than one. A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and the Company). Subject to the statutes and the provisions of the Articles, the Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. In addition, the Directors may appoint any person to be a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting.

The Directors may from time to time entrust to and confer upon the chairman, deputy chairman, managing director, joint managing director, deputy managing director or executive director of the Company all or any of the powers of the Directors that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as the Directors may from time to time make and impose. The Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Directors.

*(ix) Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular, but subject to the provisions of the Companies Law, by the issue of debentures, debenture stock, bonds or other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note:* The provisions summarised above, in common with the Articles in general, may be varied with the sanction of a special resolution of the Company.

*(x) Qualification shares*

Directors of the Company are not required under the Articles to hold any qualification shares.

(xi) *Indemnity to Directors*

The Articles contain provisions that provide indemnity to, among other persons, the Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

**(b) Alterations to constitutive documents**

The memorandum of association of the Company may be altered by the Company in general meeting. The Articles may also be amended by the Company in general meeting. As more fully described in paragraph 3 below, the Articles provide that, subject to certain exceptions, a special resolution is required to alter the memorandum of association, to approve any alteration to the Articles and to change the name of the Company.

**(c) Alterations of capital**

The Company may from time to time by ordinary resolution:

- (i) increase its share capital;
- (ii) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may, as between the holders of the shares to be consolidated, determine which particular shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (iii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;
- (iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled;

- (v) sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the Companies Law, and so that the resolution whereby any shares are sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;
- (vi) change the currency of denomination of its share capital; and
- (vii) make provision for the issue and allotment of shares which do not carry any voting rights.

The Company may by special resolution reduce its issued share capital, any capital redemption reserve fund or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law. The Company may apply its share premium account in any manner permitted by law.

**(d) Variation of rights of existing shares or classes of shares**

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

**(e) Special resolutions — majority required**

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives, or by proxy, at a general meeting of which notice has been duly given in accordance with the Articles 2(i) below for further details).

**(f) Voting rights**

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or instalments is treated for the foregoing purposes as paid on the share). So long as the shares are listed on the Stock Exchange, where any member is, under the Listing Rules (as defined in the

Articles), required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member (whether by way of proxy or, as the case may be, corporate representative) in contravention of such requirement or restriction shall not be counted. On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

Where a shareholder is a clearing house (as defined in the Articles) or a nominee of a clearing house, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of shareholders provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of the Articles shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominees) in respect of the number and class of shares specified in the relevant authorisation including, where a show of hands is allowed, the right to vote individually on a show of hands.

**(g) Requirements for annual general meetings**

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting or such longer period as is permissible or not prohibited under the rules of the Stock Exchange on which any securities of the Company are listed with the permission of the Company.

**(h) Accounts and audit**

The Directors shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipts and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by law or are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts are to be kept at the principal office of the Company or at such other place as the Directors think fit and shall always be open to the inspection of the Directors. No member (not being a Director) or other person has any right to inspect any account or book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Directors or by the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or

any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

The Directors shall from time to time cause to be prepared and laid before the Company at its annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports and so long as any shares in the Company are listed on the Stock Exchange, the accounts of the Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong or the International Financial Reporting Standards or such other standards as the Stock Exchange may permit. Every balance sheet of the Company shall be signed on behalf of the Directors by two Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before the Company at its annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting, be sent to every member of, and every holder of debentures of, the Company and every other person entitled to receive notices of general meetings of the Company under the Companies Law or of the Articles. Subject to due compliance with the Companies Law and the rules of the Stock Exchange, and to obtaining all necessary consents, if any, required thereunder and such consents being in full force and effect, such requirements shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Companies Law and instead of such copies, a summary financial statement derived from the Company's annual financial statements and the directors' report thereon, which shall be in the form and containing the information required by applicable laws and regulation, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon. If all or any of the shares or debentures of the Company are for the time being (with the consent of the Company) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being be required under its regulations or practice.

Auditors shall be appointed and their duties regulated in accordance with the Articles. Save as otherwise provided by such provisions the remuneration of the auditors shall be fixed by or on the authority of the Company at each annual general meeting, but in respect of any particular year, the Company in general meeting may delegate the fixing of such remuneration to the Directors.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings (including an extraordinary general meeting) must be called by notice of not less than fourteen (14) clear days and not less than ten (10) clear business days. The notice shall specify the place, the day and the hour of meeting and particulars of resolutions to be considered at the meeting and, in case of special business, the general nature of that business.

**(j) Transfer of shares**

All transfers of shares must be effected by transfer in writing in the usual or common form or so long as any shares in the Company are listed on the Stock Exchange, such standard form prescribed by the Stock Exchange or in any other form acceptable to the Board and may be under hand only or, if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as the Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof, provided that the Directors may in their absolute discretion dispense with the requirement for the production of a transfer in writing before registering a transfer of a share, and may accept mechanically executed transfers in any case.

The Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office for that register.

The Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which the Company has a lien. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly or any share issued under any share option scheme for employees upon which a restriction on transfer imposed thereby shall subsist, or where the transfer is to an infant or a person of unsound mind or under other legal disability. If the Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with the Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reasons(s) for such refusal.

The Directors may, if applicable, decline to recognise an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant share certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on giving notice by advertisement in one English and one Chinese newspaper circulating in Hong Kong, be suspended at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.



**(k) Power for the Company to purchase its own shares**

The Articles provide that the power of the Company to purchase or otherwise acquire its shares is exercisable by the Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Companies Law.

**(l) Power of any subsidiary to own securities in the Company**

There are no provisions in the Articles relating to ownership of securities in the Company by a subsidiary.

**(m) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by the Directors. The Company may also make a distribution out of share premium account subject to the provisions of the Companies Law.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

The Company may also upon the recommendation of the Directors by an ordinary resolution resolve in respect of any particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.



All dividends, bonuses or other distributions or the proceeds of the realisation of any of the foregoing unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six years after having been declared may be forfeited by the Directors and, upon such forfeiture, shall revert to the Company and, in the case where any of the same are securities in the Company, may be re-allotted or re-issued for such consideration as the Directors think fit.

**(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holders of any class of shares in the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him to vote on his behalf at a general meeting of the Company or at a class meeting. At any general meeting, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. Proxies need not be members of the Company.

A proxy shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member.

**(o) Corporate representatives**

A corporate member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint any person or persons as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a poll on any resolution put at such meeting.

**(p) Calls on shares and forfeiture of shares**

The Directors may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part. The Directors may, if they think fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent. per annum as the Directors may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent. per annum as the Board may prescribe.

**(q) Inspection of register of members**

For so long as any part of the share capital is listed on the Stock Exchange, any member may inspect the principal or branch register of the Company maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respect as if the Company were incorporated under and is subject to the Companies Ordinance.

**(r) Inspection of register of Directors**

There are no provisions in the Articles relating to the inspection of the register of Directors and Officers of the Company, since the register is not open to inspection (as to which see paragraph 4(k) below).

**(s) Quorum for meetings and separate class meetings**

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy one-third in nominal value of the issued shares of that class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

**(t) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of the Company under Cayman Islands company law as summarised in paragraph 4(e) below.

**(u) Procedures on liquidation**

A resolution for a court or voluntary winding up of the Company must be passed by way of a special resolution.

If the Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

If the Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

**(v) Untraceable members**

The Company may sell the shares of any member if: (i) dividends or other distributions have been declared by the Company on at least three occasions during a period of 12 years and these dividends or distributions have been unclaimed on such shares; (ii) the Company has published an advertisement of its intention to sell such shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which the ordinary share capital of the Company is listed and a period of three months has elapsed since the date of the first publication of such notice; (iii) the Company has not at any time during the said periods of 12 years and three months received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operations of law; and (iv) the Company has notified the stock exchange on which the ordinary share capital of the Company is listed of its intention to sell such shares. The net proceeds of any such sale will belong to the Company and upon the receipt of such net proceeds by the Company, the Company will become indebted to the former holder of such shares for an amount equal to the amount of such net proceeds.

**(w) Stock**

The Company may by ordinary resolution convert any fully paid shares into stock, and may from time to time by like resolution reconvert any stock into fully paid shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit, but the Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding-up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such privilege of the Company shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage. All such of the provisions of the Articles as are applicable to paid up shares shall apply to stock, and the words “share” and “shareholder” and “member” therein shall include “stock” and “stockholder”.

**(x) Other provisions**

The Articles provide that, to the extent that it is not prohibited by and is in compliance with the Companies Law, if any rights attaching to any warrants which the Company may issue after the date of this prospectus shall remain exercisable and the Company does any act which would result in the subscription price under such warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants.

**3. VARIATION OF MEMORANDUM AND ARTICLES OF ASSOCIATION**

Subject to the rights of the Company set out in paragraph 2(c) above to amend its capital by ordinary resolution, the memorandum of association of the Company may be altered by the Company by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association (subject as provided above) or the Articles or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

#### 4. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

##### (a) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. The share premium account may be applied by a company subject to the provisions of its memorandum and articles of association in such manner as the company may from time to time determine including, but without limitation:

- (i) in paying distributions or dividends to members;
- (ii) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (iii) in redeeming or purchasing its shares as provided in the Companies Law; or
- (iv) in writing off
  - (aa) the preliminary expenses of the company; or
  - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No dividend or distribution may be paid to members out of the share premium account unless immediately following the date of the proposed payment, the company is able to pay its debts as they fall due in the ordinary course of business.

A company may issue preference shares and redeemable preference shares.

The Companies Law does not contain any express provisions dealing with the variation of rights of holders of different classes of shares.

**(b) Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands against the provision of financial assistance for the purchase, subscription or other acquisition of its shares, though on English common law principles, the directors have a duty to act in good faith for a proper purpose in the best interests of the company, and moreover, there are restrictions on any act which amounts to a reduction of capital. Accordingly, it may, depending on the circumstances be legitimate for the directors to authorise the provision by a company of financial assistance for the purchase, subscription or other acquisition of its own shares, or the shares of its holding company.

**(c) Redemption and Purchase of shares and warrants by a company and its subsidiaries**

A company may, if authorised by its articles of associations issue redeemable shares and, purchase its own shares, including any redeemable shares and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. Purchases and redemptions may only be effected out of the profits of the company or the share premium account of the company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the company or out of the company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any purchase by a company of its own shares may be authorised by its directors or otherwise by or in accordance with the provisions of its articles. A payment out of capital for a redemption or purchase of a company's own shares is not lawful unless immediately following the date of the proposed payment the company is able to pay its debts as they fall due in the ordinary course of business. Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own subscription warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its articles of association.

**(d) Dividends and distributions**

A company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, the company is able to pay its debts as they fall due in the ordinary course of business.

**(e) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of a company to challenge (a) an act which is ultra vires the company or illegal (b) an act which constitutes a fraud against the minority and the wrong doers are themselves in control of the company, or (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company shall be wound up.

Generally, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the memorandum and articles of association of the company.

**(f) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary is required, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.



**(g) Accounting and auditing requirements**

The Companies Law requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company. A company is required to keep such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(h) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(i) Taxation**

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, the Company has received from the Governor-in-Counsel of the Cayman Islands pursuant to the Tax Concessions Law (2011 Revision) of the Cayman Islands, an undertaking that in the event of any change to the foregoing, the Company, for a period of 20 years from the date of the grant of the undertaking, will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Caymans Islands or elsewhere and that dividends of the Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Shares.

**(j) Stamp duty**

Certain documents (which do not include contract, notes for the sale and purchase of, or instruments of transfer of, shares in Cayman Islands companies) are subject to stamp duty which is generally calculated on an ad valorem basis.

**(k) Inspection of corporate records**

Neither the members of a company nor the general public have the right to inspect the register of directors and officers, the minutes, accounts or, in the case of any exempted company, the register of members. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands. The register of mortgages and charges must be kept at the registered office of the company and must be open to inspection by any creditor or member at all reasonable times.

Members of the public have no right to inspect the constitutive documents of a company but the memorandum and articles of association must be forwarded to any member of the company upon request. If no articles of association have been registered with the Registrar of Companies, each member has the right to receive copies of special resolutions of members upon request upon payment of a nominal fee.



The location of the registered office of a company is available to the general public upon request to the Registrar of Companies.

**(I) Winding up**

A company may be wound up by the Cayman Islands court on application presented by the company itself, its creditors or its contributors. The Cayman Islands court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Islands court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles of association expires, or the event occurs on the occurrence of which the memorandum or articles of association provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where a resolution has been passed for the voluntary winding up of a company, the court may make an order that the winding up should continue subject to the supervision of the court with such liberty to creditors, contributors or others to apply to the court as the court may think fit.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purposes of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice called by Public Notice in the Cayman Islands or otherwise as the Registrar of Companies may direct.

**5. GENERAL**

Conyers Dill & Pearman, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents delivered to the Registrars of Companies" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

## 1. FURTHER INFORMATION ABOUT OUR GROUP

### 1.1 Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 2 November 2015. We were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 8 March 2016, and our principal place of business in Hong Kong is at Suite 4018, 40/F, Jardine House, 1 Connaught Place, Hong Kong. Mr. Tang Man Joe has been appointed as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company is incorporated in the Cayman Islands, we are subject to the relevant laws of the Cayman Islands and our constitution comprises the Memorandum of Association and the Articles. A summary of the relevant aspects of the Companies Law and certain provisions of the Articles is set out in Appendix III to this prospectus.

### 1.2 Changes in the share capital in our Company

#### (a) *Changes in the authorised and issued share capital*

As of the date of incorporation of our Company, our Company had an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. On 2 November 2015 (i.e. the date of its incorporation), one subscriber Share was allotted and issued, credited as fully paid up, to an officer of the registered agent of our Company, such share was transferred to Intelligenesis Inv on the same date. The following alterations in the share capital of our Company have taken place since the date of incorporation up to the date of this prospectus:

- (i) on 29 December 2015, the Company allotted and issued 8,299 Shares and 1,700 Shares, at par and credited as fully paid, to Intelligenesis Inv and Mr. Lai, respectively;
- (ii) pursuant to the written resolutions passed by all our Shareholders on 14 October 2016, among others, the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$50,000,000 divided into 5,000,000,000 Shares of HK\$0.01 each by the creation of an additional of 4,962,000,000 Shares of HK\$0.01 each, each ranking *pari passu* with the Shares then in issue in all respects;
- (iii) on 14 October 2016, our Shareholders resolved that conditional on the share premium account of our Company being credited as a result of the issue of new Shares under the Global Offering, our Directors were authorised to capitalise an amount of HK\$11,999,900 standing to the credit of the share premium account of our Company by applying that sum in paying up in full at par 995,991,700 Shares and 203,998,300 Share for allotment and issue to Intelligenesis Inv and Mr. Lai on the assumption that their names appeared in the register of members of our Company at close of business on 14 October 2016; and

- (iv) immediately following completion of the Global Offering (without taking into account any Shares which may be issued upon the exercise of options under the Share Option Scheme or the Over-allotment Option), 1,600,000,000 Shares will be issued fully paid or credited as fully paid, and 3,400,000,000 Shares will remain unissued.

See “History, Reorganisation and Development — Change in registered capital and/or equity-holders of our Group — Change in issued capital and/or owners of our Company” in this prospectus for the details of changes in the share capital of our Company.

**(b) Information as of the Latest Practicable Date and immediately after the Global Offering**

The following is a description of the authorised share capital and the share capital of our Company in issue and to be issued as fully paid immediately prior to and following the completion of the Global Offering:

<i>Number</i>	<i>HK\$</i>
<i>Authorised share capital:</i>	
<u>5,000,000,000</u> Shares	<u>50,000,000</u>
<i>Issued and to be issued and fully paid or credited as fully paid:</i>	
10,000 Shares in issue as of the date of this prospectus	100
1,199,990,000 Shares to be issued pursuant to the Capitalisation Issue	11,999,900
400,000,000 Shares to be issued pursuant to the Global Offering	4,000,000
<u>1,600,000,000</u> Total	<u>16,000,000</u>

*Assumptions*

The above table assumes that the Global Offering becomes unconditional and Shares are issued pursuant to the Global Offering. It takes no account of any Shares which may be issued upon the exercise of options under the Share Option Scheme or the Over-allotment Option or of any Shares which may be issued or purchased by us pursuant to the Issuing Mandate and Repurchase Mandate granted to our Directors to issue or purchase Shares as described below.

Immediately following completion of the Global Offering and upon the exercise of the Over-allotment Option in full but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, it is expected that the share capital of our Company will be comprised of 1,660,000,000 Shares.

(c) *Founder shares*

Our Company has no founder shares, management shares or deferred shares.

Other than pursuant to the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme, there is no present intention to issue any shares of our Company and, without the prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed above, there has been no alteration in the share capital of our Company since our incorporation up to the date of this prospectus.

### 1.3 Resolutions in writing of our Shareholders passed on 14 October 2016

Pursuant to the written resolutions passed by all of our Shareholders on 14 October 2016, among others:

- (a) our Company approved and adopted the Memorandum and the Articles in substitution for and to the exclusion of the then existing memorandum of association and articles of association of our Company with effect from the Listing Date;
- (b) the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$50,000,000 divided into 5,000,000,000 Shares of HK\$0.01 each by the creation of an additional of 4,962,000,000 Shares of HK\$0.01 each, each ranking *pari passu* with the Shares then in issue in all respects;
- (c) conditional on all the conditions set out in “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus being fulfilled:
  - (i) the Global Offering and the grant of the Over-allotment Option were approved and the Directors were authorised to allot and issue the Offer Shares pursuant to the Global Offering and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option;
  - (ii) the rules of the Share Option Scheme were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected by the Stock Exchange, and at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with our Shares pursuant to the exercise of subscription rights attaching to any options granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;
  - (iii) conditional on the share premium account of our Company being credited as a result of the issue of new Shares under the Global Offering, our Directors were authorised to capitalise HK\$11,999,900 standing to the credit of the share premium account of our Company by applying that sum in paying up in full at par

1,199,990,000 Shares for allotment and issue to the holders of Shares whose names appear on the register of members of our Company at the close of business on 14 October 2016 (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing respective shareholding in our Company and so that the Shares be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares (other than the right to participate in the Capitalisation Issue) and our Directors were authorised to give effect to such capitalisation;

- (iv) a general unconditional mandate was given to the Directors to exercise all powers of our Company to allot, issue and deal with unissued Shares in the capital of our Company and to make or grant offers, agreements and options which may require the exercise of such powers, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles of Association, or pursuant to the exercise of any options which have been or may be granted under the Share Option Scheme or other arrangements regulated by Chapter 17 of the Listing Rules, or under the Global Offering or the Capitalisation Issue, or issue of Shares upon exercise of rights of subscription or conversion attaching to any warrants of our Company or any securities which are convertible into Shares, with an aggregate number of not exceeding the sum of (aa) 20% of the total number of Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering (but excluding (where applicable) any Shares which may be issued pursuant to the exercise of the Over-allotment Option or exercise of options that may be granted under the Share Option Scheme) and (bb) the number of Shares which may be purchased by our Company pursuant to the authority granted to the Directors as referred to in sub-paragraph (v) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or the Companies Law to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to the Directors, whichever occurs first;
- (v) a general unconditional mandate was given to the Directors to exercise all powers of our Company to purchase Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and recognized by the SFC and the Stock Exchange for this purpose and made in accordance with all applicable laws and regulations and the requirements of the Listing Rules, with an aggregate number of not exceeding 10% of the total number of Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (but excluding (where applicable) any Shares which may be issued pursuant to the exercise of the Over-allotment Option or exercise of options that may be granted under the Share Option Scheme) until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or the Companies Law to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to the Directors, whichever occurs first; and

- (vi) the extension of the general mandate to allot, issue and deal with Shares to include the number of Shares which may be purchased or repurchased pursuant to paragraph (v) above.

#### 1.4 Reorganisation

See “History, Reorganisation and Development — Reorganisation” in this prospectus for details of the Reorganisation in preparation for the Listing of our Shares on the Stock Exchange.

#### 1.5 Information about our subsidiaries in PRC

Our Group has the following subsidiaries in PRC, a summary of the corporate information of these enterprises as of the Latest Practicable Date is set out as follows:

	1. WFOE-Pawn	2. WFOE-Auction	3. Hexin Pawn	4. Hexin Auction
(i) Full name of company	Yixing Han Xin Information Technology Service Co., Ltd. (宜興市漢信信息技術服務有限公司)	Yixing Zi Yu Information Technology Service Co., Ltd. (宜興市紫玉信息技術服務有限公司)	Jiangsu Hexin Pawn Company Limited (江蘇和信典當有限公司)	Jiangsu Hexin Auction Company Limited (江蘇和信拍賣有限公司)
(ii) Date of establishment	9 March 2016	10 March 2016	13 May 2004	25 May 2007
(iii) Economic nature	Wholly foreign-owned enterprise	Wholly foreign-owned enterprise	Limited liability company	Limited liability company
(iv) Registered holder(s)	Reliance Art HK	Reliance Art HK	Mr. ZJ Fan, Ms. QZ Fan, Mr. YJ Fan, Ms. Wu, Zisha Hotel and Wuxi Culture	Mr. ZJ Fan, Ms. Wu and Ms. Xu
(v) Registered capital fully paid up ( <i>note 2</i> )	Nil	Nil	RMB100 million	RMB10 million
(vi) Term of operation (or, where applicable, its expiry date)	8 March 2066	9 March 2066	6 May 2034	31 December 2037
(vii) Equity interest attributable to our Group (%)	100%	100%	100% ( <i>note 1</i> )	100% ( <i>note 1</i> )

*Notes:*

- Hexin Pawn and Hexin Auction are controlled by our Group through the Contractual Arrangements.
- The registered capital of each of WFOE-Pawn and WFOE-Auction is approved to be HK\$500,000.

The scope of permitted business as recorded in the business licences of our respective PRC subsidiaries as of the Latest Practicable Date is set out below:

WFOE-Pawn                      Information technology consultation service

WFOE-Auction	Information technology consultation service, corporate image planning services
Hexin Pawn	Pawn loan secured by movable property; pawn loan secured by property rights; pawn loan secured by real estate; disposal of collateral of value below the prescribed limit; authentication, valuation and consultation service; other pawning business approved by MOFCOM in accordance with law
Hexin Auction	Auction of tangible and intangible assets as allowed by laws, regulations and policies of the State

### 1.6 Changes in the share capital of our subsidiaries

The subsidiaries of our Company are listed in the Accountants' Report, the text of which is set out in Appendix I to this prospectus. Apart from the alterations disclosed in paragraph 1.4 under this appendix and the section headed "History, Reorganisation and Development — Change in registered capital and/or equity-holders of our Group" in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

### 1.7 Repurchases by our Company of our own securities

This section includes information required by the Stock Exchange to be included in the prospectus concerning the repurchase of our Shares by our Company.

#### (a) *Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their shares on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

##### (i) *Shareholders' approval*

The Listing Rules provide that all proposed repurchases of shares (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a specific transaction.

##### (ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of the Cayman Islands. Our Company may not repurchase our own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.



Any repurchases by our Company may be made out of profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time our Shares are repurchased or, if authorised by the Articles and subject to the Companies Law, out of capital.

*(iii) Trading Restrictions*

The total number of shares which our Company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. Our Company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase whether on the Stock Exchange or otherwise (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, our Company is prohibited from repurchasing our Shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which our Shares were traded on the Stock Exchange. The Listing Rules also prohibit our Company from repurchasing our securities which would result in the number of the listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. Our Company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

*(iv) Status of repurchased shares*

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

*(v) Suspension of repurchase*

Our Company shall not make any repurchase of securities on the Stock Exchange at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of our Company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, we may not repurchase our Shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.



*(vi) Reporting requirements*

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, our Company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchase, where relevant, and the aggregate prices paid.

*(vii) Core connected persons*

The Listing Rules prohibit our Company from knowingly repurchasing our Shares on the Stock Exchange from a "core connected person" (which includes a Director, chief executive or substantial shareholder of our Company or any of our subsidiaries or a close associate of any of them) and a core connected person shall not knowingly sell Shares to our Company.

***(b) Reasons for repurchases***

Our Directors believe that the ability to repurchase Shares is in the interests of our Company and our Shareholders. Repurchases may, depending on the circumstances, result in an increase in the net assets and/or earnings per Share. Our Directors have sought the grant of a general mandate to repurchase Shares to give our Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by our Directors at the relevant time having regard to the circumstances then pertaining.

***(c) Funding of repurchases and impact on working capital or gearing position***

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

There could be a material adverse impact on the working capital or gearing position of our Company (as compared with the position disclosed in this prospectus) in the event that the Repurchase Mandate were to be carried out in full at any time during the share repurchase period.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

*(d) General*

The exercise in full of the Repurchase Mandate, on the basis of 1,600,000,000 Shares in issue immediately following the completion of the Global Offering and the Capitalisation Issue without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme, could accordingly result in up to approximately 160,000,000 Shares being repurchased by our Company during the period prior to the earliest occurrence of any of the following:

- (i) the conclusion of the next annual general meeting of our Company; or
- (ii) the date by which the next annual general meeting of our Company is required by the Articles of Association or the Companies Law to be held; or
- (iii) the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to the Directors.

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates, has any present intention if the Repurchase Mandate is exercised to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Our Directors are not aware of any consequence that would arise under the Takeovers Code as a result of a repurchase pursuant to the Repurchase Mandate.

Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue could only be implemented if the Stock Exchange agreed to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No core connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

## 2. FURTHER INFORMATION ABOUT OUR BUSINESS

### 2.1 Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) an exclusive operation services agreement in relation to Jiangsu Hexin Pawn Company Limited (in Chinese) dated 15 April 2016 and entered into between Hexin Pawn, WFOE-Pawn and the HP Equity-holders;
- (b) an exclusive call option agreement in relation to 100% equity interests of Jiangsu Hexin Pawn Company Limited (in Chinese) dated 15 April 2016 and entered into between Hexin Pawn, WFOE-Pawn and the HP Equity-holders;
- (c) an equity-holders' rights entrustment agreement in relation to 100% equity interests of Jiangsu Hexin Pawn Company Limited (in Chinese) dated 15 April 2016 and entered into between Hexin Pawn, WFOE-Pawn and the HP Equity-holders;
- (d) an equity pledge agreement in relation to 100% equity interests of Jiangsu Hexin Pawn Company Limited (in Chinese) dated 15 April 2016 and entered into between Hexin Pawn, WFOE-Pawn and the HP Equity-holders;
- (e) a supplemental agreement to structured contracts (in Chinese) dated 24 October 2016 and entered into between Hexin Pawn, WFOE-Pawn and the HP Equity-holders to supplement and amend certain terms of the agreements as set out in paragraphs (a) to (d) above;
- (f) an exclusive operation services agreement in relation to Jiangsu Hexin Auction Company Limited (in Chinese) dated 15 April 2016 and entered into between Hexin Auction, WFOE-Auction and the HA Equity-holders;
- (g) an exclusive call option agreement in relation to 100% equity interests of Jiangsu Hexin Auction Company Limited (in Chinese) dated 15 April 2016 and entered into between Hexin Auction, WFOE-Auction and the HA Equity-holders;
- (h) an equity-holders' rights entrustment agreement in relation to 100% equity interests of Jiangsu Hexin Auction Company Limited (in Chinese) dated 15 April 2016 and entered into between Hexin Auction, WFOE-Auction and the HA Equity-holders;
- (i) an equity pledge agreement in relation to 100% equity interests of Jiangsu Hexin Auction Company Limited (in Chinese) dated 15 April 2016 and entered into between Hexin Auction, WFOE-Auction and the HA Equity-holders;

- (j) a supplemental agreement to structured contracts (in Chinese) dated 24 October 2016 and entered into between Hexin Auction, WFOE-Auction and the HA Equity-holders to supplement and amend certain terms of the agreements as set out in paragraphs (f) to (i) above;

brief details of the material contracts (a) to (j) above are set out in the section headed “Contractual Arrangements — Operation of the Contractual Arrangements — Summary of the Material Terms of the Structured Contracts” of this prospectus;


- (k) the Deed of Non-competition, brief details of which are set out in “Relationship with the Controlling Shareholders — Competition and Conflict of Interests” of this prospectus;
- (l) the Deed of Indemnity, brief details of which are set out in paragraph 4.1 under this appendix;
- (m) a cornerstone placing agreement dated 21 September 2016 and entered into between our Company, South China Securities Limited and Poly Investment Holdings Co., Ltd., pursuant to which Poly Investment Holdings Co., Ltd. agreed to subscribe for and our Company agreed to allot and issue such number of Offer Shares which may be acquired in Hong Kong dollars equivalent to US\$5 million at the final Offer Price;
- (n) a cornerstone placing agreement dated 21 September 2016 and entered into between our Company, South China Securities Limited and Yang Fei, pursuant to which Yang Fei agreed to subscribe for and our Company agreed to allot and issue such number of Offer Shares which may be acquired in Hong Kong dollars equivalent to US\$10 million at the final Offer Price; and
- (o) the Hong Kong Underwriting Agreement.

## 2.2 Intellectual property rights of our Group

As of the Latest Practicable Date, Hexin Pawn was the registered owner or had applied for registration of the following intellectual property right which is material in relation to our business:

### (a) Trademarks

As of the Latest Practicable Date, our Group was the registered owner of the following trademark:

Trademark	Place of registration	Registration number	Class	Validity period	Registered Owner
	PRC	4334799	36	28 June 2008– 27 June 2018	Hexin Pawn

As of the Latest Practicable Date, some members of our Group had applied for the registration of the following trademarks, registration of which has not yet been granted:

Trademark	Place of application	Application number	Class	Date of application	Name of applicant
 和信典当行 HE XIN PAWN SHOP	PRC	19589771	36	11 April 2016	Hexin Pawn
 HE XIN AUCTION	PRC	19589533	35	11 April 2016	Hexin Auction
 和信典当 HEXIN PAWN	Hong Kong	303745972	35,36,41	15 April 2016	Our Company
 和信典当 HEXIN PAWN					
 和信拍卖 HEXIN AUCTION	Hong Kong	303745963	35,36,41	15 April 2016	Our Company
 和信拍卖 HEXIN AUCTION					

*(b) Domain Names*

As of the Latest Practicable Date, some members of our Group had registered the following domain names:

No.	Domain name	Registrant	Registration date	Expiration date	Place of registration
1	cnartfin.com	Hexin Auction	23 October 2015	23 October 2017	PRC
2	cnartfin.com.hk	Reliance Art HK	18 April 2016	18 April 2017	Hong Kong
3	cnarfin.hk	Reliance Art HK	18 April 2016	18 April 2017	Hong Kong

### 3. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

#### 3.1 Disclosure of Interests

(a) *Interests and short positions of our Directors and the chief executive in the shares, underlying shares or debentures of our Company and our associated corporations*

As of the date of this prospectus and immediately following the completion of the Capitalisation Issue and the Global Offering and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme, the interests and/or short positions of our Directors and the chief executive of our Company in the shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register kept by our Company referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, will be as follows:

*Long positions in Shares of our Company*

Name of Director	Nature of interest/ Capacity	As of the date of this prospectus		Immediately after the Capitalisation Issue and the Global Offering	
		Number of Shares	Approximate percentage of Shareholding in our Company	Number of Shares	Approximate percentage of Shareholding in our Company
Mr. ZJ Fan ( <i>Note</i> )	Interest of controlled corporation	8,300	83%	996,000,000	62.25%

*Note:* The said 996,000,000 Shares will be held in the name of Intelligenesis Inv. Intelligenesis Inv is held as to 69.5% by Golden Sand Inv, which is in turn held as to 74.1% by Mauve Jade Inv, which is in turn held as to 67.2% by Mr. ZJ Fan. By virtue of the SFO, Mr. ZJ Fan is deemed to be interested in the same parcel of Shares in which Intelligenesis Inv is interested.

*Long positions in Shares of associated corporations*

Name of Director	Name of associated corporation	Capacity/Nature	Approximate Percentage of Shareholding
Mr. ZJ Fan	Hexin Pawn ( <i>Note 1</i> )	Beneficial owner; interest of controlled corporation	26%
	Hexin Auction ( <i>Note 2</i> )	Beneficial owner	85%

*Notes:*

- (1) 26% of the registered capital in Hexin Pawn is beneficially owned by Mr. ZJ Fan, among which, 18% of the registered capital is registered under the name of Mr. ZJ Fan and 8% of the registered capital is registered under the name of Wuxi Culture, which is wholly beneficially owned by Mr. ZJ Fan. By virtue of the SFO, Mr. ZJ Fan is deemed to be interested in the registered capital in Hexin Pawn held by Wuxi Culture. Mr. ZJ Fan, Ms. QZ Fan, Mr. YJ Fan and Ms. Wu are directly or indirectly interested in 64% of the registered capital of Hexin Pawn. Solely by virtue of the Act-in-Concert Confirmation, Mr. ZJ Fan may be deemed to be interested in 64% of the registered capital of Hexin Pawn.
- (2) 85% of the registered capital in Hexin Auction is beneficially owned by Mr. ZJ Fan. Mr. ZJ Fan, Ms. Wu and Ms. Xu are directly interested in 100% of the registered capital of Hexin Auction. Solely by virtue of the Act-in-Concert Confirmation, Mr. ZJ Fan may be deemed to be interested in 100% of the registered capital of Hexin Auction.

**(b) *Interests of our Substantial Shareholders***

So far as is known to any Director or chief executive of our Company as of the date of this prospectus, and immediately following the completion of the Capitalisation Issue and the Global Offering and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme, the following persons (other than a Director or chief executive of our Company) will have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group:

*Long Positions in Shares of our Company*

Name of Shareholder	Nature of interest/ Capacity	As of the date of this prospectus		Immediately after the Capitalisation Issue and the Global Offering	
		Number of Shares	Approximate percentage of Shareholding in our Company	Number of Shares	Approximate percentage of Shareholding in our Company
Intelligence Inv	Beneficial owner	8,300	83%	996,000,000	62.25%
Golden Sand Inv	Interest of controlled corporation ( <i>Note 1</i> )	8,300	83%	996,000,000	62.25%

Name of Shareholder	Nature of interest/ Capacity	As of the date of this prospectus		Immediately after the Capitalisation Issue and the Global Offering	
		Number of Shares	Approximate percentage of Shareholding in our Company	Number of Shares	Approximate percentage of Shareholding in our Company
Mauve Jade Inv	Interest of controlled corporation ( <i>Note 2</i> )	8,300	83%	996,000,000	62.25%
Ms. QZ Fan	Interests of controlled corporation and held jointly with other persons ( <i>Notes 2 and 3</i> )	8,300	83%	996,000,000	62.25%
Mr. YJ Fan	Interests held jointly with other persons ( <i>Note 3</i> )	8,300	83%	996,000,000	62.25%
Ms. Wu	Interests held jointly with other persons ( <i>Note 3</i> )	8,300	83%	996,000,000	62.25%
Ms. Xu	Interests held jointly with other persons ( <i>Note 3</i> )	8,300	83%	996,000,000	62.25%
Mr. Lai	Beneficial owner	1,700	17%	204,000,000	12.75%

*Notes:*

- (1) The said 996,000,000 Shares will be held in the name of Intelligenes Inv. Intelligenes Inv is held as to 69.5% by Golden Sand Inv. By virtue of the SFO, Golden Sand Inv is deemed to be interested in the same parcel of Shares in which Intelligenes Inv is interested.
- (2) Intelligenes Inv is held as to 69.5% by Golden Sand Inv, which is in turn held as to 74.1% by Mauve Jade Inv, which is in turn held as to 67.2% by Mr. ZJ Fan and 32.8% by Ms. QZ Fan. By virtue of the SFO, Mauve Jade Inv and Ms. QZ Fan are deemed to be interested in the same parcel of Shares in which Intelligenes Inv is interested.
- (3) Mr. ZJ Fan, Ms. QZ Fan, Mr. YJ Fan, Ms. Wu and Ms. Xu entered into the Act-in-Concert Confirmation. As such, immediately after the Capitalisation Issue and the Global Offering, Mr. ZJ Fan, Ms. QZ Fan, Mr. YJ Fan, Ms. Wu and Ms. Xu together control 996,000,000 Shares representing approximately 62.25% of the total issued share capital of our Company through Mauve Jade Inv, Golden Sand Inv and Intelligenes Inv. As a result, each of Mr. ZJ Fan, Ms. QZ Fan, Mr. YJ Fan, Ms. Wu and Ms. Xu are deemed to be interested in such 996,000,000 Shares representing 62.25% interest in the total issued share capital of our Company.



*Long positions in Shares of associated corporations*

<b>Name of Shareholder</b> <i>(Note 1)</i>	<b>Name of associated corporation</b>	<b>Capacity/Nature</b>	<b>Approximate Percentage of shareholding</b>
Zisha Hotel	Hexin Pawn	Beneficial owner	36%
Mr. JS Wang	Hexin Pawn	Interest of controlled corporation <i>(Note 2)</i>	36%
Ms. QZ Fan	Hexin Pawn	Beneficial owner	20%
Mr. YJ Fan	Hexin Pawn	Beneficial owner	10%
Ms. Wu	Hexin Auction	Beneficial owner	10%

*Notes:*

- (1) The respective equity-holders of Hexin Pawn and Hexin Auction and their respective shareholdings from the date of this prospectus to the Listing Date shall remain the same.
- (2) Zisha Hotel is solely and beneficially owned by Mr. JS Wang. By virtue of the SFO, Mr. JS Wang is deemed to be interested in the equity interest in Hexin Pawn held by Zisha Hotel.

**3.2 Directors' service contracts and letters of appointment***Executive Director*

Each of our executive Directors (namely, Mr. ZJ Fan and Mr. Zhang Bin) has entered into a service contract with our Company pursuant to which he agreed to act as an executive Director for an initial term of three years with effect from 15 October 2016.

Each of our executive Directors are entitled to a basic salary set out below. In addition, our executive Directors are also entitled to a discretionary management bonus taking into consideration the financial performance of our Group and the relevant Director's individual contribution to our Group for the financial year concerned, provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of our Company shall not exceed 10% of the audited consolidated net profit of our Group (after taxation, minority interests and payment of such bonuses but before extraordinary or exceptional items) in respect of that financial year of our Company. An executive Director may not vote on any resolution of our Directors regarding the amount of the management bonus payable to him. The current basic annual salaries of our executive Directors is as follows:

<b>Name</b>	<b>Annual salary</b> <i>(HK\$)</i>
Mr. ZJ Fan	1,200,000
Mr. Zhang Bin	200,000

*INEDs*

Each of the INEDs has entered into a letter of appointment with our Company pursuant to which he has been appointed for an initial term of three years commencing from 15 October 2016. Each of our INEDs is entitled to a director's fee of HK\$150,000 per annum. Save for Directors' fees, none of our INEDs is expected to receive any other remuneration for holding their office as an INED.

**3.3 Directors' remuneration**

- (a) The aggregate emoluments paid to our Directors by our Group in respect of the Track Record Period were approximately RMB0.3 million, RMB0.3 million, RMB0.3 million and RMB0.2 million respectively.
- (b) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by the Directors (including the INEDs in their respective capacity as Directors) for the year ending 31 December 2016 will be approximately RMB0.8 million.
- (c) None of the Directors or any past directors of any member of our Group has been paid any sum of money for the Track Record Period (i) as an inducement to join or upon joining our Company or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (d) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for the Track Record Period.

**3.4 Disclaimers**

- (a) Save as disclosed in paragraph 3.1(a) under this appendix, none of the Directors or chief executive of our Company has any interests or short positions in the shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register kept by our Company referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, as of the date of this prospectus and once the Shares are listed on the Stock Exchange;

- (b) save as disclosed in paragraph 3.1(b) under this appendix, so far as is known to any Director or chief executive of our Company, no person (other than a Director or chief executive of our Company) has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group as of the date of this prospectus and once the Shares are listed on the Stock Exchange;
- (c) save as disclosed in the sections headed “History, Reorganisation and Development”, “Contractual Arrangements” and “Connected Transactions and Notifiable Transactions” of this prospectus, none of our Directors nor any of the persons listed in paragraph 4.7 below of this appendix is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) save as disclosed in the sections headed “History, Reorganisation and Development — Reorganisation”, “Contractual Arrangements”, “Connected Transactions and Notifiable Transactions” and “Relationship with the Controlling Shareholders” of this prospectus, none of our Directors is materially interested in any contract or arrangement with our Group subsisting at the date of this prospectus which is unusual in its nature or conditions or which is significant in relation to the business of our Group;
- (e) save in connection with the Underwriting Agreements, none of the persons listed in paragraph 4.7 under of this appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (f) save for the Underwriting Agreements, none of the persons listed in the paragraph 4.7 below of this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (g) save as disclosed in paragraph 3.2 under this appendix, none of our Directors has entered or has proposed to enter into any service agreements with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation);
- (h) save as disclosed in “Business — Customers” and “Business — Suppliers” of this prospectus, so far as is known to our Directors, none of our Directors or their close associates or any Shareholder (which to the knowledge of our Directors owns 5% or more of the issued share capital of our Company) has any interest in any of the five largest suppliers or customers of our Group during the Track Record Period; and
- (i) none of our Directors are interested in any business apart from our Group’s business which competes or is likely to compete, directly or indirectly, with the business of our Group.

### 3.5 Share Option Scheme

#### (a) *Summary of terms*

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing of our Shareholders passed on 14 October 2016:

##### (i) *Purpose of the scheme*

The purpose of the Share Option Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable our Group to reward the employees, the Directors and other selected participants for their contributions to our Group. Given that the Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by the Directors, it is expected that grantees of an option will make an effort to contribute to the development of our Group so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

##### (ii) *Who may join*

The Directors may at any time within a period of ten years commencing from the date of adoption of the Share Option Scheme, at its absolute discretion, in accordance with the provisions of the Share Option Scheme and the Listing Rules make an offer to any person belonging to any of the following classes of participants (“**Eligible Participant**”), to take up options to subscribe for Shares:

- (aa) any employee (“**Eligible Employee**”) (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity (“**Invested Entity**”) in which any member of our Group holds an equity interest;
- (bb) any non-executive directors (including INEDs) of our Company, any of our subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of our Group or any Invested Entity;
- (dd) any customer of any member of our Group or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;

- (ff) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and
- (hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group;

and, for the purposes of the Share Option Scheme, the offer for the grant of option may be made to any company wholly owned by one or more persons belonging to any of the above classes of participants.

For avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of participants shall not, by itself, unless the Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to an offer for the grant of any option shall be determined by the Directors from time to time on the basis of the Directors' opinion as to his contribution to the development and growth of our Group.

*(iii) Maximum number of the Shares available for subscription*

- (aa) The maximum number of Shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by our Group must not in aggregate exceed 30% of the share capital of our Company in issue from time to time.
- (bb) The total number of the Shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the Shares in issue on the Listing Date (“**General Scheme Limit**”).
- (cc) Subject to (aa) above but without prejudice to (dd) below, our Company may seek approval of the Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group must not exceed 10% of the Shares in issue as of the date of approval of the refreshed limit and, for the purpose of calculating the refreshed limit, options

(including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted. The circular sent by our Company to the Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

- (dd) Subject to (aa) above and without prejudice to (cc) above, our Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the refreshed limit referred to in (cc) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to the Shareholders containing a generic description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

*(iv) Maximum entitlement of each participant*

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised and outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being ("**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by the Shareholders in general meeting of our Company with such grantee and his close associates (or his associates if the grantee is a connected person) abstaining from voting. Our Company must send a circular to the Shareholders, containing the information required under the Listing Rules. The number and terms (including the exercise price) of options to be granted must be fixed before the approval of the Shareholders and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

*(v) Grant of options to the Directors, chief executive or Substantial Shareholders of our Company or their respective associates*

- (aa) Any offer for the grant of options under the Share Option Scheme to a Director, chief executive or Substantial Shareholder of our Company or any of their respective associates must be approved by INEDs (excluding INED who or whose associates is the proposed grantee of the options).

(bb) Where any grant of options to a Substantial Shareholder or an INED or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of each offer for the grant, in excess of HK\$5 million;

such further grant of options must be approved by Shareholders in general meeting. Our Company must send a circular to the Shareholders, containing such information are required under the Listing Rules. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll.

Any change in the terms of options granted to a Substantial Shareholder or an INED or any of their respective associates must be approved by the Shareholders in general meeting.

*(vi) Time of acceptance and exercise of option*

An option may be accepted by a participant within 21 days from the date of the offer for the grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period (“**Option Period**”) may commence from the date of the offer for the grant of options is made, but shall end in any event not later than 10 years from the date of the offer for the grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

*(vii) Performance targets*

Unless the Directors otherwise determined and stated in the offer for the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

*(viii) Subscription price for the Shares and consideration for the option*

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant of the option, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant of the option; and (iii) the nominal value of a Share.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

*(ix) Ranking of the Shares*

- (aa) The Shares allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles of Association of our Company for the time being in force and will rank *pari passu* in all respects with the then fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the “**Exercise Date**”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been entered on the register of members of our Company as the holder thereof.
- (bb) Unless the context otherwise requires, references to “Shares” in the context of the Share Option Scheme include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or reconstruction of the share capital of our Company from time to time.

*(x) Restrictions on the time of the offer for the grant of options*

No offer for grant of options shall be made after inside information has come to our Company's knowledge until we have announced the information. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and (bb) the deadline for our Company to publish an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not



required under the Listing Rules) and ending on the date of the results announcement (covering any period of delay in publishing the results announcement), no offer for the grant of options may be made.

The Directors may not make any offer for the grant of options to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in Shares pursuant to Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

*(xi) Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of 10 years (“**Termination Date**”) commencing on the date on which the Share Option Scheme is adopted.

*(xii) Rights on ceasing employment*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and shall not be exercisable unless the Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part in accordance with the provisions of the Share Option Scheme within such period as the Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not.

*(xiii) Rights on death, ill-health or retirement*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part in accordance with the provisions of the Share Option Scheme within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as the Directors may determine.

*(xiv) Rights on dismissal*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of a termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his

creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or our Group or the Invested Entity into disrepute), his option (to the extent not already exercised) will lapse automatically on the date of cessation to be an Eligible Employee.

*(xv) Rights on breach of contract*

If in respect of a grantee other than an Eligible Employee, the Directors shall at their absolute discretion determine that (aa) (1) the grantee or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and our Group or any Invested Entity on the other part; or (2) the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option Scheme shall lapse as a result of any event specified in sub-paragraph (1), (2) or (3) above, his option will lapse automatically on the date on which the Directors have so determined.

*(xvi) Rights on a general offer or a scheme of arrangement*

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to Shareholders of our Company, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option in accordance with the provisions of the Share Option Scheme at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date which such offer (or, as the case may be, revised offer) closed or the relevant date for entitlements under such scheme of arrangement, as the case may be.

*(xvii) Rights on winding up*

In the event of a resolution being proposed for the voluntary winding-up of our Company during the Option Period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share

Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolutions is to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

*(xviii) Grantee being a company wholly owned by Eligible Participants*

If the grantee is a company wholly owned by one or more Eligible Participants:

- (aa) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options granted to such grantee, *mutatis mutandis*, as if such options had been granted to the relevant Eligible Participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant Eligible Participant; and
- (bb) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant Eligible Participant provided that the Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

*(xix) Adjustments to the subscription price*

In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of our Company whilst an option remains exercisable, such corresponding adjustment (if any) certified by the auditors for the time being or an independent financial adviser to our Company as fair and reasonable will be made to the number or nominal amount of Shares comprised in an option or which remains comprised in an Option or to which the Share Option Scheme or any option(s) relates (so far as unexercised) and/or the option price of the option concerned, provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital of our Company to which he was entitled prior to such alteration; (ii) the issue of Shares or other securities of our Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; (iii) no adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; (iv) notwithstanding (i) above, any adjustments as a result of an issue of securities with a price-dilutive element, such as a rights issue, open offer or capitalisation issue, should be based on a scrip factor similar to the one used in accounting standards in adjusting the earnings per share figures and any such adjustment shall comply with the supplementary guidance on Rule 17.03(13) of the Listing Rules as set out in the letter issued by the Stock Exchange dated 5 September 2005; and (v) any adjustment must be made in compliance with the Listing Rules and such applicable rules, codes, guidance notes and/or interpretation of the Listing Rules from time to time promulgated by the

Stock Exchange. In addition, in respect of any such adjustments, other than any adjustment made on a capitalisation issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

*(xx) Cancellation of options*

Subject to the provisions of the Share Options Scheme and Chapter 17 of the Listing Rules, any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of the Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant sub-paragraphs (iii) (cc) and (dd) above.

*(xxi) Termination of the Share Option Scheme*

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

*(xxii) Rights are personal to the grantee*

An option is personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreements so to do.

*(xxiii) Lapse of option*

The Option Period in respect of any option shall terminate automatically and that an option (to the extent not already exercised) shall lapse automatically on the earliest of:

- (aa) the expiry of the Option Period in respect of such option;
- (bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii); and
- (cc) the date on which the Directors exercise our Company's right to cancel the option by reason of a breach of paragraph (xxii) above by the grantee.

*(xxiv) Miscellaneous*

- (aa) The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares representing the General Scheme Limit to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.
- (bb) Provisions of the Share Option Scheme as to the definitions of “Eligible Participants”, “grantee”, “Option Period” and “Termination Date” and the terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the Shareholders in general meeting.
- (cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (dd) The terms of the Share Option Scheme and any amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (ee) Any change to the authority of the Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the Shareholders in general meeting.

***(b) Present status of the Share Option Scheme****(i) Application for approval*

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

*(ii) Grant of option*

As of the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(iii) *Value of options*

The Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option scheme as if they had been granted as of the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. The Directors believe that any calculation of the value of options as of the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

(iv) *Compliance with Listing Rules*

The Share Option Scheme complies with Chapter 17 of the Listing Rules.

#### 4. OTHER INFORMATION

##### 4.1 Estate duty, tax and other indemnities

Our Controlling Shareholders (the “**Indemnifiers**”) have entered into the Deed of Indemnity with and in favour of our Company (for itself and as trustee for each of its present subsidiaries) (being the material contract (l) referred to in paragraph 2.1 under this appendix) to provide indemnities on a joint and several basis, in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any relevant transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group at any time on or before the Listing; and
- (b) tax liabilities (including all actual fines, penalties, liabilities, costs, charges, expenses and interests relating to taxation) which might be payable by any member of our Group in respect of any income, profits, gains earned, accrued, received on or before the date of Listing, or any transactions, events, matters or things entered into or occurring on or before the Listing Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company or corporation.

The Indemnifiers are under no liability under the Deed of Indemnity in respect of any taxation:

- (a) to the extent that provision or reserve has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to 30 June 2016 (“**Accounts Date**”); or

- (b) to the extent that such taxation or liability for such taxation falling on any of the members of our Group in respect of their accounting periods commencing on the calendar day immediately after the Accounts Date and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily entered into by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction carried out, made or entered into pursuant to a legally binding commitment created on or before the Accounts Date or pursuant to any statement of intention made in this prospectus; or
- (c) to the extent that such taxation liabilities or claim arise or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of PRC, or any other relevant authority (whether in Hong Kong or PRC or any other part of the world) coming into force after the date of the Deed of Indemnity or the extent such a claim or liability arises or is increased by an increase in rates of taxation after the date of the Deed of Indemnity with retrospective effect; or
- (d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to the Accounts Date which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied pursuant to this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Under the Deed of Indemnity, the Indemnifiers have also undertaken to jointly and severally indemnify each member of our Group against any costs and expenses arising from any non-compliance of such member on or before the Listing Date and from any depletion in or reduction in value of assets or any loss (including all legal costs and suspension of operation), cost, expenses, damages or other liabilities which such member of our Group may incur or suffer arising from or in connection with the implementation of the Reorganisation.

The provisions contained in the Deed of Indemnity are conditional on the conditions stated in "Structure of the Global Offering — Conditions of the Global Offering" in this prospectus being fulfilled or, to the extent permitted, waived by the relevant party. If such conditions are not fulfilled or, to the extent permitted, waived on or before the date falling 30 days from the date of this prospectus, or such later date as the parties under the Deed of Indemnity may agree, the Deed of Indemnity shall become null and void and cease to have effect.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands or BVI is likely to fall on our Group.

#### **4.2 Sole Sponsor**

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering and any Shares which may be issued upon the exercise of options under the Share Option Scheme and the Over-allotment Option.

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules. Our Company agreed to pay the Sole Sponsor a fee of approximately HK\$7 million to act as the sole sponsor to our Company in relation to the Global Offering.

#### **4.3 Litigation**

As of the Latest Practicable Date, no member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Group member, that would have a material adverse effect on our results of operations or financial condition of our Group.

#### **4.4 Preliminary expenses**

The preliminary expenses of our Company are estimated to be approximately HK\$43,000 and are payable by our Company.

#### **4.5 Promoters**

Our Company has no promoter for the purpose of the Listing Rules. Within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

#### **4.6 Agency fees or commissions received**

Except as disclosed in “Underwriting — Underwriting Arrangements and Expenses — Underwriting Commission and Expenses” in this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital and/or debenture of any member of our Group within the two years immediately preceding the date of this prospectus.



#### 4.7 Qualification of experts

The qualifications of the experts who have given opinion and/or whose names are included in this prospectus are as follows:

Name	Qualifications
South China Capital Limited	A corporation licensed under the SFO and permitted to carry out Type 6 (advising on corporate finance) regulated activities (as defined in the SFO)
Deloitte Touche Tohmatsu	Certified Public Accountants
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Jingtian & Gongcheng	Qualified PRC lawyers
Frost & Sullivan	Independent industry consultants

#### 4.8 Consents of experts

Each of the experts referred to in paragraph 4.7 under this appendix has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its reports and/or letter and/or legal opinion (as the case may be) and reference to its name included in the form and context in which it is respectively appears.

#### 4.9 Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the COWUMPO insofar as applicable.

#### 4.10 Taxation of holders of Shares

##### (a) *Hong Kong*

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

##### (b) *Cayman Islands*

Under the present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfer of Shares.

(c) *Consultation with professional advisers*

Intending holders of our Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in our Shares or exercising any rights attaching to them. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

#### 4.11 Miscellaneous

- (a) Within the two years immediately preceding the date of this prospectus:
- (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash, save as disclosed in “History, Reorganisation and Development” in this prospectus;
  - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option other than pursuant to the Share Option Scheme;
  - (iii) neither our Company nor any of our subsidiaries has issued or agreed to issue any founders shares, management shares, deferred shares or any debentures;
  - (iv) no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares;
  - (v) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and
  - (vi) our Company has no outstanding convertible debt securities.
- (b) Our principal register of members will be maintained by our principal registrar, Codan Trust Company (Cayman) Limited, in the Cayman Islands and our Hong Kong register of members will be maintained by our Hong Kong Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Hong Kong Share Registrar and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to CCASS.

- (c) The Directors confirm that up to the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of our Group since 30 June 2016 (being the date to which the latest audited consolidated financial statements of our Group were made up).
- (d) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (e) Our Directors have been advised that, under Cayman Islands law, the use of a Chinese name by our Company does not contravene the Companies Law.
- (f) There has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.

#### **4.12 Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

## 1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, amongst other documents, copies of the **WHITE**, **YELLOW** and **GREEN** application forms, the written consents referred to in paragraph 4.8 under “Appendix IV — Statutory and General Information” to this prospectus, and certified copies of the material contracts referred to in “Appendix IV — Statutory and General Information — 2. Further Information About our Business — 2.1. Summary of material contracts” in this prospectus.

## 2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Chiu & Partners at 40/F, Jardine House, 1 Connaught Place, Hong Kong, during normal business hours from 9:00 a.m. up to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (a) our Memorandum of Association and Articles of Association;
- (b) the Accountant’s Report from Deloitte Touche Tohmatsu in respect of the historical financial information of our Group for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, the text of which is set out in Appendix I to this prospectus;
- (c) the report on the unaudited pro forma financial information of our Group from Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this prospectus;
- (d) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of the Cayman Islands company law referred to in Appendix III to this prospectus;
- (e) the legal opinion prepared by Jingtian & Gongcheng in respect of certain aspects of our Group and the property interests of our Group in the PRC and summary of PRC laws and regulations relating to our business;
- (f) the material contracts referred to in paragraph 2.1 under “Appendix IV — Statutory and General Information” to this prospectus;
- (g) the written consents referred to in paragraph 4.8 under “Appendix IV — Statutory and General Information” to this prospectus;
- (h) the rules of the Share Option Scheme; and
- (i) the service contracts and appointment letters referred to in paragraph 3.2 under “Appendix IV — Statutory and General Information” to this prospectus.

The background features a soft, warm-toned gradient with abstract, flowing lines. A prominent feature is a grid of thin, dark lines that curves and tapers across the upper portion of the image, creating a sense of depth and movement. The overall aesthetic is clean, modern, and professional.

**China Art Financial Holdings Limited**  
中國藝術金融控股有限公司