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

ANNUAL REPORT 2016

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Fan Zhijun *(Chairman and Chief Executive Officer)*
Mr. Zhang Bin

Independent Non-executive Directors

Mr. Leung Shu Sun Sunny
Mr. Liu Jian
Mr. Chu Xiaoliang

COMPANY SECRETARY

Mr. Tang Man Joe

AUTHORISED REPRESENTATIVES

Mr. Fan Zhijun
Mr. Tang Man Joe

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 4018, 40/F, Jardine House
1 Connaught Place
Hong Kong

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

Northern side of Jiefang East Road
Yicheng Street
Yixing City
Jiangsu Province
China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Center
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANK IN HONG KONG

Bank of Communication Co., Ltd. Hong Kong Branch

PRINCIPAL BANK IN CHINA

Jiangsu Yixing Rural Commercial Bank

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISERS

Chiu & Partners

COMPLIANCE ADVISER

Halcyon Capital Limited

COMPANY'S WEBSITE

www.cnartfin.com.hk

STOCK CODE

The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited

Stock Code 1572

Corporate Profile

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. 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 Frost & Sullivan, in 2016, 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. We are headquartered in Yixing city, Jiangsu Province, 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.

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, we were awarded the AA-Grade Auction Qualification by China Association of Auctioneers.

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.

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. 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.

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.

Corporate Profile

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. 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:

— We have built a professional authentication and appraisal team. 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.

— Over years of operation, some of the 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. We have 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.

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. 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. 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.

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. Fan Zhijun 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. Fan Zhijun was born in an art family. His uncle, Mr. Fan Baowen (范保文) was a master of Chinese landscape painting. Mr. Fan Zhijun has accumulated years of interest and knowledge on authenticating and appraising Chinese artworks. 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.

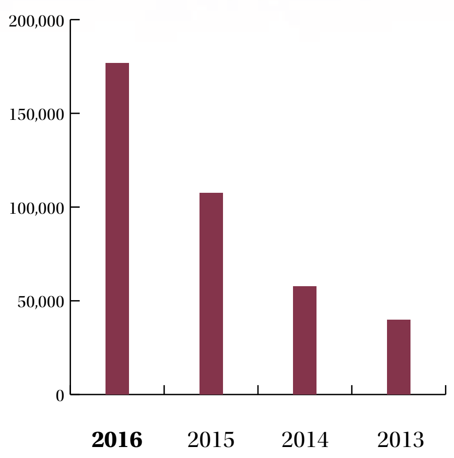
Financial Summary

	For the year ended or as at 31 December			
	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Operating Results				
Revenue	**176,882**	**107,574**	**57,698**	**39,869**
Profit attributable to owners of the Company	**89,916**	**46,854**	**25,901**	**16,435**
Financial Position				
Total assets	**699,752**	**364,720**	**161,388**	**121,568**
Cash at bank and on hand	**463,080**	**292,837**	**64,059**	**36,594**
Loans to customers	**234,183**	**64,813**	**93,049**	**80,490**
Total liabilities	**80,896**	**76,353**	**7,415**	**4,311**
Net assets	**618,856**	**288,367**	**153,973**	**117,554**

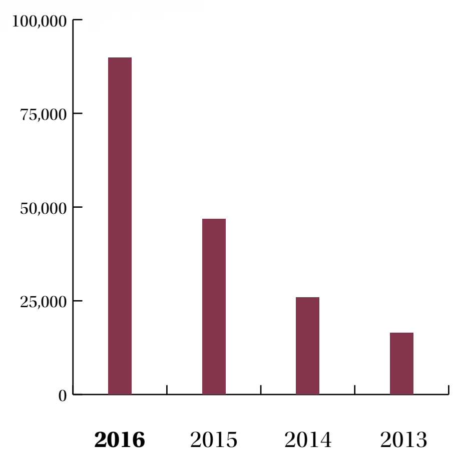
Notes: The summary of the consolidated results and financial positions of the Group for the years ended 31 December 2013, 2014 and 2015 were extracted from the Company's prospectus dated 27 October 2016 (the "Prospectus"). Such summary was prepared as if the group reorganisation had been completed throughout these financial years.

No financial information of the Group for the year ended 31 December 2012 has been published.

Revenue (RMB'000)



Profit attributable to owners of the Company (RMB'000)



Chairman's Statement

Dear Shareholders:

On behalf of the board (the "Board") of directors (the "Directors") of China Art Financial Holdings Limited (the "Company"), I am pleased to present the annual report of the Company for the financial year ended 31 December 2016 (the "Reporting Year").

2016 marked the first year of China's "Thirteenth Five-Year" Plan, and also a milestone for the Company. On 8 November, we were successfully listed on the Stock Exchange of Hong Kong and officially entered the stage of international financial market, allowing us to further implement our development plans with proceeds raised as well as enhance our corporate reputation and corporate governance.

Last year was full of opportunities and challenges. We have experienced the continuous downward pressure in domestic macroeconomy and the transitional dilemma, but also saw a prosperous development of China's cultural industry and a steady growth in artwork market. Facing the complicated international and domestic economic situation, the management of the Company, under the leadership of the Board of Directors, proactively adapted to the new situation of economic and industrial development, stayed at the cutting edge of market trends and actively pursued innovation to launch the first spring auction and pure online auction. A synergy between of auction and pawn businesses was developed and a fast growth in revenues and profits have been achieved successfully.

In the new year to come, the Company will take the successful listing in Hong Kong as a new momentum and starting point to consolidate our existing businesses advantages and actively expand the business network. For art auction business, we will further development the business and pay special attention on online auction. For art pawn business, we will increase registered capital, enlarge loan portfolio, expand loan offices network, as well as develop and utilize online platform. In addition, we will continue to build the one-stop art finance service platform by integrating art pawn loan and art auction businesses, and seek opportunities for mergers and acquisitions of enterprises and IT companies engaging in related businesses, or form an alliance with them to increase returns and expand market share.

With our in-depth understanding of the industry, effective risk management system, strong brand reputation in the industry and leading market position, we will capture the opportunity presented by the fast growing art financial market and strive to become the largest art financial integrated service provider in China, creating greater value for shareholders. investors, customers and employees!

Fan Zhijun
Chairman

16 March 2017, Hong Kong

Management Discussion and Analysis

MARKET REVIEW

China's Economy Entered into the Bottom Out Phrase

In 2016, the major economies around the world were still recovering slowly, while changes in the political landscape brought a lot of uncertainties. The Brexit referendum and the US presidential election caused market turmoil, which increased the complexity of the global economy. China's gross domestic product (GDP) growth rate continued to fall in 2016 with a year-on-year increase rate of 6.7%, representing a slight growth decline compared to 6.9% in 2015. The domestic economy stepped out from the fast decline phrase into a L-Shaped bottom out phase, showing a stable economic trend, which was also in line with the market expectation.

Tremendous Potential in Domestic Art Financial Industry

Domestic art market was still undergoing adjustments in 2016 as affected by the macroeconomy. In terms of total transaction value in 2016, China ranked the third in the global art market, outperforming the rest of the world. The aggregate transaction value of the Chinese art auction market in 2016 was RMB52.7 billion, which was similar to that of 2015. The price of Chinese artworks became more rational, putting greater emphasis on the cultural, heritage and art values of artworks. "The Wu Wang Zui Gui Tu Juan (五王醉歸圖卷)" of Ren Ren Fa (任仁發) (a painter in Yuan Dynasty) was auctioned off at RMB303.6 million, breaking the highest hammer price record in global auctions of Chinese artwork in 2016 and also the highest record in art auction market over the past five years, which demonstrates a tremendous potential in art auction market. The aggregate transaction value of the Chinese art pawn loan market in 2016 was RMB5.3 billion, representing an increase of 15.2% over that of 2015, as an increasing number of art collectors and art owners are willing to use their collections as collateral of pawn loan.

Facing macroeconomic and industrial opportunities and challenges in 2016, the Company proactively adapted to the new situation, continued to focus on artwork-related services strategically, made full use of geographical advantages, pursued a synergy of auction and pawn businesses, actively promoted innovation, and expanded online auction business to achieve a rapid growth of results. According to Frost & Sullivan, in 2016, the Group was the largest art pawn loan service provider in China in terms of revenue; 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.

BUSINESS REVIEW

The Group's auction and pawn loan business segments continued to develop and achieve remarkable results. For the year ended 31 December 2016, the Group's revenue was approximately RMB176.9 million, representing an increase of 64.4% from RMB107.6 million for the same period in 2015. The profit attributable to owners of the Company was approximately RMB89.9 million, representing an increase of 91.7% from RMB46.9 million for the same period in 2015.

Art and Asset Auction Business

The Group's art and asset auction business continued to grow. During the Reporting Year, revenue from the art and asset auction segment of the Company was approximately RMB92.6 million, representing an increase of 91.7% from RMB48.3 million for the same period last year, of which, revenue of art auction representing 100% of auction segment revenue. Profits of art and asset auction segment was RMB89.7 million, representing an increase of 103.4% from RMB44.1 million for the same period last year.

The breakdown of art and asset auction business of the Group in 2016 and 2015 was as follows:

	Year ended 31 December				
	2016		2015		
	RMB'000	**%**	RMB'000	%	% of change
Art auction revenue	**92,609**	**100**	47,845	99.0	93.6
Asset auction revenue	**–**	**–**	470	1.0	(100.0)
Total	**92,609**	**100**	48,315	100	91.7

In 2016, the Group successfully organized its first spring auction in late-June (the "**Spring Auction**") which achieved an aggregate hammer price of approximately RMB165 million, of which the aggregate hammer price of zisha artworks was approximately RMB121 million.

The Group successfully organized its Autumn Auction (the "**Autumn Auction**"), in mid-December 2016, receiving an overwhelming market response. The total hammer price for the auction lots reached RMB280 million, representing an increase of approximately 17.2% as compared with that of the 2015 autumn auction and an increase of approximately 69.7% as compared with that of the 2016 Spring Auction. The highlight of the auction was a zisha teapot set made by Master Gu Jingzhou, which recorded the highest hammer price of approximately RMB45 million.

During the Reporting Year, the aggregate hammer price of auctions organized by the Group amounted to approximately RMB490 million and the aggregate hammer price of zisha artworks reached RMB297 million. In 2016, the Group held one Spring Auction, one Autumn Auction and three pure online auctions.

To capture opportunities from the Chinese online auction market, one of the biggest markets worldwide, the Group also launched pure online art auctions in 2016 and organized three pure online art auctions which were held in January, April and September 2016 respectively.

Art and Asset Pawn Loan Business

The Group steadily developed its art and asset pawn loan business with a remarkable effectiveness in risk management. During the Reporting Year, revenue from the pawn loan segment was approximately RMB84.3 million, representing an increase of 42.2% from RMB59.3 million for the same period last year. Profits of pawn loan segment was RMB77.7 million, representing an increase of 39.0% from RMB55.9 million for the same period last year. As of 31 December 2016, the total amount of new loans granted by the Group amounted to approximately RMB597 million.

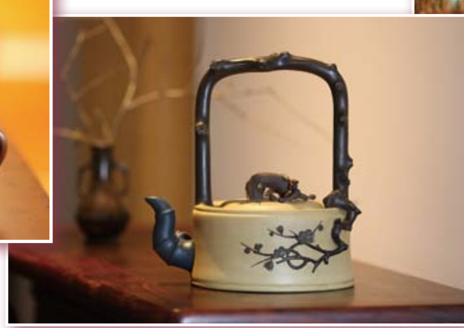
The breakdown of art and asset pawn loan business of the Group in 2016 and 2015 was as follows:

	Year ended 31 December				
	2016		2015		
	RMB'000	**%**	RMB'000	%	% of change
Art pawn loan revenue	**83,539**	**99.1**	58,639	99.0	42.5
Asset pawn loan revenue	**734**	**0.9**	620	1.0	18.4
Total	**84,273**	**100**	59,259	100	42.2

In 2016, approximately RMB569 million of new loan amount the Group granted were secured by artworks. Our artwork collateral portfolio mainly includes zisha artworks as well as paintings and calligraphies and jewel artworks. As at 31 December 2016, the Group 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.

	Year ended 31 December	
Loans secured by artwork	**2016**	2015
Total new loan amount granted (RMB'000)	**569,260**	315,280
Total number of new loans granted	**105**	61
Number of new loans renewed	**63**	52
Renewal ratio of new loan (%)	**60.0**	85.2
Average initial loan term (days)	**69**	51

	Year ended 31 December	
Loans secured by assets	**2016**	2015
Total new loan amount granted (RMB'000)	**27,513**	7,653
Total number of new loans granted	**167**	132
Number of new loans renewed	**91**	93
Renewal ratio of new loan (%)	**54.5**	70.5
Average initial loan term (days)	**48**	32



Management Discussion and Analysis

The group implemented a risk management system which we believe to be effective in reducing various risks involved in our art and asset pawn business. The Group established a multi-level internal approval system and an effective risk management system, and had a professional internal and external authentication team. The Group also hired third party authoritative authentication institutions as company's independent advisor. The Group's risk management achieved remarkable results, of which the art and asset pawn loan business did not experience any default during the Reporting Year.

The Group adopted the target appraised loan-to-value ratio of not exceeding 75% for artwork as collateral at the time of the collateral appraisal. For asset as collateral, the Group adopted the target appraised loan-to-value ratios of not exceeding 75%, 90% and 50% for real properties, personal properties and equity interest respectively. The Group's art and asset pawn business was funded by our registered capital and retained earnings. As of 31 December 2016, the Group's impaired loan ratio was 0%.

FINANCIAL REVIEW

Revenue

Our revenue increased by approximately RMB69.3 million, or approximately 64.4%, from approximately RMB107.6 million for the year ended 31 December 2015 to approximately RMB176.9 million for the year ended 31 December 2016, primarily due to (i) the significant increase in our art and asset auction revenue of approximately RMB44.3 million as a result of our expansion to organise our first Spring Auction and three online auctions during the year and (ii) the steady increase in our art and asset pawn revenue of approximately RMB25.0 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 respective segment revenue of the Group in 2016 and 2015 was as follows:

	Year ended 31 December		
	2016	2015	
	RMB'000	RMB'000	% of change
Art and asset auction business	**92,609**	48,315	91.7
Art and asset pawn business	**84,273**	59,259	42.2
Total	**176,882**	107,574	64.4

Other income

Our other income increased by approximately RMB1.2 million, or approximately 400.0%, from approximately RMB0.3 million for the year ended 31 December 2015 to approximately RMB1.5 million for the year ended 31 December 2016, primarily due to increase in bank deposit and increase arising from sales of artworks received as gifts from independent third parties.

Business tax and surcharges

Our business tax and surcharges decreased by approximately RMB3.2 million, or approximately 52.5%, from approximately RMB6.1 million for the year ended 31 December 2015 to approximately RMB2.9 million for the year ended 31 December 2016. This was primarily due to the implementation of the value-added tax in lieu of business tax commencing from 1 May 2016.

Operating expenses

Our operating expenses increased by approximately RMB1.0 million, or approximately 47.6%, from approximately RMB2.1 million for the year ended 31 December 2015 to approximately RMB3.1 million for the year ended 31 December 2016, primarily due to (i) the increase in advertising expenses as a result of our expansion to organise our first Spring Auction and (ii) the increase in the service fee incurred for the valuation services.

(Allowance) reversal of allowance on loans to customers for art and asset pawn business

For the year ended 31 December 2015, as a result of the recovery of the principal amount from a borrower which was secured by real estate collateral 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.

For the year ended 31 December 2016, we recognised the collectively assessed impairment allowance of approximately RMB3.5 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 RMB239.0 million as at 31 December 2016.

Administrative expenses

Our administrative expenses increased by approximately RMB10.9 million, or approximately 218.0%, from approximately RMB5.0 million for the year ended 31 December 2015 to approximately RMB15.9 million for the year ended 31 December 2016, primarily due to (i) the increase of approximately RMB2.2 million mainly as a result of listing-related expenses incurred in 2016 and (ii) the increase in general staff cost of approximately RMB4.7 million that was mainly attributable to the salaries and bonuses as a result of the expansion of operations after listing.

Reportable segment profit

As a result of the foregoing, reportable segment profit increased by RMB67.3 million from RMB100.1 million for the year ended 31 December 2015 to RMB167.4 million for the year ended 31 December 2016.

The respective reportable segment profit of the Group in 2016 and 2015 is as follows:

	Year ended 31 December		
	2016	2015	
	RMB'000	RMB'000	% of change
Art and asset auction business	**89,737**	44,105	103.5
Art and asset pawn business	**77,699**	55,947	38.9
Segment result	**167,436**	100,052	67.3

Listing expenses

Our listing expenses for the year ended 31 December 2016 amounted to RMB24.9 million, which primarily consisted of the service fees we paid to auditors and other professional parties in connection with our preparation for the listing of our shares on the main board of the Stock Exchange of Hong Kong Limited.

Profit before tax

As a result of the foregoing, our profit before tax increased by approximately RMB44.5 million, or approximately 49.9%, from approximately RMB89.1 million for the year ended 31 December 2015 to approximately RMB133.6 million for the year ended 31 December 2016.

Income tax expense

Our income tax expenses increased by approximately RMB13.5 million, or approximately 50.6%, from approximately RMB26.7 million for the year ended 31 December 2015 to approximately RMB40.2 million for the year ended 31 December 2016, primarily due to an increase in our Group's taxable income.

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 RMB43.0 million, or approximately 91.7%, from approximately RMB46.9 million for the year ended 31 December 2015 to approximately RMB89.9 million for the year ended 31 December 2016, while (ii) profit and total comprehensive income for the year attributable to non-controlling interests decreased by approximately RMB12.0 million, or approximately 77.4%, from approximately RMB15.5 million for the year ended 31 December 2015 to approximately RMB3.5 million for the year ended 31 December 2016.

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 our two operating subsidiaries in PRC 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 year ended 31 December 2016.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net Cash Flow

The Group maintains a strong and healthy financial position. The Group's principal sources of funds to finance the working capital, capital expenditure and other capital requirements were internally generated by cash flows. As of 31 December 2016, net working capital (calculated as current assets less current liabilities) was RMB616.4 million, representing an increase of RMB330.4 million as compared with RMB286.0 million as of 31 December 2015. The current ratios (calculated as current assets/current liabilities) are 8.6 times and 4.7 times as of 31 December 2016 and 31 December 2015 respectively.

The following table summarises the consolidated statement of cash flows for the two years ended 31 December 2016 and 2015:

	2016 **RMB'000**	2015 RMB'000
Net cash (used in) from operating activities	**(65,873)**	149,992
Net cash from investing activities	**775**	260
Net cash from financing activities	**230,501**	78,526

As of 31 December 2016, the Group's total bank balances and cash increased by 58.2% to RMB463.1 million from RMB292.8 million as of 31 December 2015. As of 31 December 2016 and 2015, the Group did not have any bank borrowings.

During the year, the Group did not engage in any derivative activities or use any financial instruments to hedge its balance sheet exposures.

The Group principally focused on the operation in the PRC. Except for the bank deposits denominated in foreign currencies, the Group was not subject to any other material risk directly relating to the foreign exchange fluctuation. For the year ended 31 December 2016, despite the depreciation of RMB against USD and HKD, the Directors expected any fluctuation of the RMB exchange rate would not materially and adversely affect the operations of the Group. The management will continue to monitor foreign currency exchange exposure and will take prudent measures to minimize the currency translation risk.

Gearing Ratio

Since our Group did not have any interest-bearing borrowings, gearing ratio was not applicable.

Contingent Liabilities

As of the date of this report, the Group did not have any material contingent liabilities nor any other off-balance sheet commitments and arrangements.

Capital Expenditure

Our capital expenditures primarily comprised expenditures on property and equipment, which amounted to RMB Nil and RMB33,000, respectively, for the years ended December 31, 2016 and 2015.

Capital Commitment

As at 31 December 2016, the Group did not have material capital commitments.

Subsequent Event

The Board recommends to distribute a final dividend of HK$3.0 cents (equivalent to RMB2.7 cents) per share and a special dividend of HK$2.0 cents (equivalent to RMB1.8 cents) per share in cash to the shareholders for the year ended 31 December 2016. The dividend mentioned above will be distributed upon approval of shareholders at the forthcoming annual general meeting of the Company.

Human Resources and Training

As of 31 December 2016, the Group had a total of 38 employees. The Group's employee remuneration policy is determined on the basis of their performance, qualifications, experience and prevailing market practice. Remuneration packages comprise salary, medical insurance, mandatory provident fund and year end discretionary bonus.

FOREIGN EXCHANGE RISKS

As most of the Group's monetary assets and liabilities are denominated in Renminbi and the Group conducts its business transactions principally in Renminbi and Hong Kong dollars, the exchange rate risk of the Group is not significant. The Group did not enter into any foreign exchange hedging instruments during the year ended 31 December 2016.

USE OF NET PROCEEDS

On 8 November 2016 (the "Listing Date"), the Company issued 400,000,000 new shares of nominal value of HK$0.01 each in connection with the listing of its shares on the Stock Exchange (the "IPO"). The net proceeds after deducting the underwriting commission and issuing expenses arising from the IPO amounted to HK$237.7 million (equivalent to RMB212.6 million).

Up to 31 December 2016, HK$80.0 million has been injected to PRC to increase the registered capital of Hexin Pawn. The remaining net proceeds of RMB157.7 million were deposited with certain licensed financial institutions as of 31 December 2016.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES OR ASSOCIATED COMPANIES

The Group had no material acquisition or disposal of subsidiaries or associated companies during the year ended 31 December 2016. In addition, the Group had no significant investments held during the year ended 31 December 2016.

OUTLOOK AND PROSPECTS

In 2017, China's economy will remain stable, but will still experience relatively large downward pressure. However, China's economy has the advantage of growth from a global perspective as the monetary policy will remain sound, the fiscal policy will maintain positive and an in-depth supply-side structural reform will be a major trend. Looking forward, since the Chinese government actively promotes close cooperation between the financial and cultural sectors, the Chinese art finance industry is expected to grow further. Meanwhile, it is expected that significant financial innovations in artwork and collection assets will be emerged.

Management Discussion and Analysis

Auction Business

First, the Group will focus more on online auction and other online operation, including optimizing and enhancing the arrangement of synchronised online biddings at each year's Spring Auction and Autumn Auction, and improving the promotion and service of pure online auctions. The Group will also continue to enrich the functions of our official website so as to facilitate our clients with convenient access to our integrated services; Secondly, the Group will establish new branches or subsidiaries. We intend to extend our business network and geographical presence in major cities in China such as Beijing, Shanghai and Hong Kong; Thirdly, the Group continue to expand our auction lot composition to include more art categories with strong market demand; Fourthly, the Group will proactively contact and pay visit to clients and strive to negotiate with additional artwork artists to sign artwork production and consignment agreement with us at the same time so as to enhance our good business relationship with them and expand the source of artworks for our auctions.

Pawn Loan Business

The Group will increase the registered capital of Hexin Pawn so as to enlarge our funding available for lending. Secondly, the Group will focus on growing our loan portfolio. In addition to the continuous emphasis on zisha artworks as well as paintings and calligraphies, the Group plan to diversify strategically our collateral composition to include more art categories with strong market demand. Thirdly, the Group will expand loan offices network, setting up new loan offices in cities with relatively strong local economies so that we may extend client base and deepen market penetration. Lastly, the Group will develop and utilise online platform. We plan to set up an online loan financing platform so that more clients can know and enjoy the Group's pawn loan services.

In addition, the Group will continue to build the one-stop art finance service platform by integrating art pawn loan and art auction businesses, and seek opportunities for mergers and acquisitions of enterprises and IT companies engaged in related businesses, or form an alliance with them to increase the Company's competitiveness.

Directors and Chief Executive

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 independent non-executive Directors (the "INED").

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. Fan Zhijun 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. Fan Zhijun is a brother of Mr. Fan Zhixin, a senior management of our Group.

As one of the founders of our Group, Mr. Fan Zhijun 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. Fan Zhijun 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. Fan Zhijun set up Jiangsu Hexin Pawn Company Limited (the "Hexin Pawn"), the first member of our Group, which commenced pawn loan business in the same year. In 2007, we diversified our business and started operation in the auction industry after the establishment of Jiangsu Hexin Auction Company Limited (the "Hexin Auction") in May 2007. Since their respective establishments, Mr. Fan Zhijun has been responsible for overseeing the daily operations and planning of business strategies and development of Hexin Pawn and Hexin Auction.

Mr. Fan Zhijun was born in an art family, his uncle, Mr. Fan Baowen (范保文) was a master of Chinese landscape painting. Mr. Fan Zhijun has accumulated years of interest and knowledge on authenticating and appraising Chinese artworks. Mr. Fan Zhijun 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. Fan Zhijun 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. Zhang Bin (張斌先生) (formerly known as Zhang Qigi (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.

Directors and Chief Executive

INEDs

Mr. Leung Shu Sun Sunny (梁樹新先生), aged 54, 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.

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. 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).

Mr. Liu has been serving as an INED of Enterprise Development Holdings Limited, a company whose shares are listed on the main board of the Stock Exchange (stock code: 1808) since January 2017. Save as disclosed above, Mr. Liu has not been a director of any other publicly listed company in the preceding three years.

Mr. Chu Xiaoliang (儲曉良先生), aged 66, 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.

SENIOR MANAGEMENT

Mr. Tang Man Joe (鄧文祖先生), aged 44, 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 Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants.

Mr. Tang has over 18 years of experience with listed and unlisted 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. Prior to joining our Group, he was in service with Deloitte Touche Tohmatsu as an accountant for about five years.

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. Fan Zhixin 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. Fan Zhixin 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.

Mr. Fan Zhixin is a brother of Mr. Fan Zhijun, our chairman, chief executive officer and an executive Director. Mr. Fan Zhixin 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. Fan Zhixin 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. Fan Zhixin 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. Fan Zhixin 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).

Directors and Chief Executive

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. 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.

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.

Corporate Governance Report

The Company has adopted the code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In the opinion of the Directors, the Company applied and complied with all the code provisions of the Code since the listing of shares of the Company on 8 November 2016 ("Listing Date") to 31 December 2016, except for certain deviations as specified and explained with considered reasons for such deviation.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in Company's securities. Having made specific enquiry of all Directors, all the Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code since the listing of shares of the Company on 8 November 2016 to 31 December 2016.

The Code sets out two levels of recommendations, namely, (a) code provisions that a listed company must either comply with or explain its non-compliance, and (b) recommended best practices that listed companies are encouraged to comply with but need not disclose in the case of non-compliance.

BOARD OF DIRECTORS

The board (the "Board") of directors (the "Directors") is responsible for overseeing the Group's businesses, strategic decisions and performance. The management has been delegated the authority and responsibility by the Board for the operations of the Group. In addition, the Board has also delegated various responsibilities to the Board committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Risk Management Committee. Further details of these committees are set out in this report.

Board Composition

The Board is composed of the following Directors who, have served throughout the Reporting Year and up to the date of this report:

Executive Directors:
Mr. Fan Zhijun *(Chairman)*
Mr. Zhang Bin (appointed on 16 March 2016)

Independent Non-Executive Directors:
Mr. Leung Shu Sun Sunny (appointed on 14 October 2016)
Mr. Liu Jian (appointed on 14 October 2016)
Mr. Chu Xiaoliang (appointed on 14 October 2016)

Board Meetings and Attendance
During the year, the Board met three times with attendance as follows:

Directors	Attendance
Mr. Fan Zhijun *(Chairman)*	3/3
Mr. Zhang Bin	3/3
Mr. Leung Shu Sun Sunny	1/3
Mr. Liu Jian	1/3
Mr. Chu Xiaoliang	1/3

The biographies of the Directors are set out on pages 16 to 17, which illustrate their diverse skills, expertise, experience and qualifications.

The Company has received annual written confirmation of independence from each independent non-executive Director in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the independent non-executive Directors are independent within the definition of the Listing Rules.

During the Reporting Year, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE AND CORPORATE GOVERNANCE REPORT

The Company has complied with the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules during the year ended 31 December 2016 except that:

(1) **Code provision A.2.1**

Code Provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Company consider that having Mr. Fan Zhijun acting as both the chairman and chief executive officer will provide a strong and consistent leadership to the Group and allow for more effective strategic planning and management of the Group. Further, in view of Mr. Fan's experience in the industry, personal profile and role in the Group and historical development of the Group, the Group considers it is to the benefit of the Group in the business prospects that Mr. Fan continues to act as both the chairman and chief executive officer after the Listing. Therefore, the Company currently has no intention to separate the functions of chairman and chief executive officer.

(2) **Code provision A.2.7**

The code provision A.2.7 of CG Code requires the chairman of the Board to hold meetings at least annually with the non-executive Directors (including independent non-executive Directors) without the executive Directors present.

As the Company was listed on the Stock Exchange in November 2016, the chairman did not hold a meeting with the non-executive Directors without the executive Directors present during the year. This constitutes a deviation from the code provision A.2.7 of CG Code.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Code provision A.4.1 of the CG Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all Directors appointed to fill a casual vacancy shall be subject to election by Shareholders at the first general meeting after appointment and that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years with effect from their respective date of appointment unless terminated by not less than two months' written notice served by either the executive Directors or the Company. Each of the independent non-executive Directors has signed an appointment letter with the Company for a term of three years with effect from their respective date of appointment. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

In accordance with Article 105(A) and (B) of the Articles of Association, one-third of the Directors of the Company for the time being (or, if their number is not a multiple of three, the number nearest to but no less than one-third) shall retire from office at each annual general meeting provided that every Director shall be subject to retirement by rotation at least once every three years. Any Directors so to retire shall be those subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected as Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. In accordance with Article 109 of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Accordingly, Mr. Fan Zhijun and Mr. Zhang Bin will retire and they being eligible, will offer themselves for re-election at the forthcoming 2017 annual general meeting.

None of Mr. Fan Zhijun and Mr. Zhang Bin has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than under normal statutory obligations.

RESPONSIBILITIES OF DIRECTORS

Every newly appointed Director is ensured to have a proper understanding of the operations and business of the Group and that he/she is fully aware of his/her responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company. The Directors are continually updated with legal and regulatory developments, business and market changes and the strategic development of the Group to facilitate the discharge of their responsibilities.

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
Executive Directors				
Mr. Fan Zhijun	—	Member	Chairman	—
Mr. Zhang Bin	—	—	—	Member
INEDs				
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.

The audit committee has been satisfied with the review of the audit scope, process and effectiveness, independence of Deloitte Touche Tohmatsu and thus recommended the Board for the approval of the consolidated financial statements for the year ended 31 December 2016.

During the year ended 31 December 2016, no meeting was held by the audit committee after the Listing Date. One meeting with 100% attendance by all audit committee's members was held in March 2017.

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 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.

During the year ended 31 December 2016, no meeting was held by the remuneration committee after the Listing Date. One meeting with 100% attendance by all remuneration committee's members was held in March 2017.

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.

During the year ended 31 December 2016, no meeting was held by the nomination committee after the Listing Date. One meeting with 100% attendance by all nomination committee's members was held in March 2017.

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, reviewing the adequacy of resources, qualification and experience of staff, 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.

During the year ended 31 December 2016, no meeting was held by the risk management committee after the Listing Date.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

As part of the ongoing process of Directors' training, the company secretary continuously updates all Directors on latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance of the same by all Directors. All Directors are encouraged to attend external forum or training courses on relevant topics which may count towards continuous professional development training.

Pursuant to Code A.6.5 which has come into effect from 1 April 2012, Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year, all Directors have participated in appropriate continuous professional development activities by attending training courses relevant to the Company's business and to the Directors' duties and responsibilities.

Directors	Directors' Continuous Professional Development Attending training course(s)
Mr. Fan Zhijun	✔
Mr. Zhang Bin	✔
Mr. Leung Shu Sun Sunny	✔
Mr. Liu Jian	✔
Mr. Chu Xiaoliang	✔

COMPANY SECRETARY

The Company Secretary supports the chairman, Board and Board committees by developing good corporate governance practices and procedures. The Company Secretary of the Company was an employee of the Company and the Company did not engage an external service provider as its company secretary. The Company Secretary took no less than 15 hours of the relevant professional training during the year ended 31 December 2016.

INTERNAL CONTROL

The Board should ensure that the Group maintains sound and effective internal controls, including adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function, to safeguard shareholders' investment and the asset of the Group.

During the year, the Company has engaged an external internal control advisory firm to carry out a review of the effectiveness of the internal control system and make recommendations for improvement of the internal control system. The Board has reviewed and considered that the Group's internal control system is adequate and effective.

ACCESS TO INFORMATION BY DIRECTORS

In respect of regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying Board papers are sent to all Directors in a timely manner. Notice of at least 14 days is given for a regular Board meeting to give all Directors an opportunity to attend. For all other Board meetings and Board committee meetings, reasonable notice is given.

All Directors are entitled to have access to Board papers, minutes and related materials at all times. During the year, all Directors have been provided with the Group's management information updates to keep them informed of the Group's affairs and facilitate them to discharge their duties under the Listing Rules.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

In determining the remuneration levels and packages of the Directors and senior management, the Company took into account of the prevailing practices and trends to reflect on the commitments, duties and responsibilities of the Directors and senior management and their contributions to the Group. Long-term inducements in the form of performance bonuses were also employed.

AUDITORS' REMUNERATION

For the year ended 31 December 2016, the total fees paid/payable in respect of audit and non-audit services provided to the Group by Deloitte Touche Tohmatsu are set out below:

	RMB'000
Audit service	
Audit of the annual consolidated financial statements	2,000
Accountants' Report	7,600
Non-audit services	266

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group and presenting a balanced, clear and comprehensive assessment of the Group's performance and prospects. The Directors are not aware of any material events or conditions that may cast doubt upon the Company's ability to continue as a going concern.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Group believes that effective communication with shareholders is key for improving investor relations and will ultimately assist the investment community in understanding the Group's business performance and strategies. Through regular, comprehensive, and interactive communication, we strive to enhance communication with investors through various communication channels. These include in-person meetings, telephone conferences, overseas roadshows, and project-site visits organised for the investor community. The Group seeks to establish a trusting and productive relationship with its shareholders and investors. The annual general meeting provides a forum for shareholders to raise questions with the Board. The Group organised briefings and media interviews for results announcements and maintained regular contact with the media through press releases, announcements, and other promotional materials. The Group is committed to enhancing corporate transparency and providing timely disclosure of information on the Group's developments to help shareholders and investors make informed investment decisions. The Group is dedicated to enhancing corporate governance practices on business growth and strives to attain a balance between corporate governance requirements and performance. The Board of Directors believes that sound corporate governance is essential to the success of the Group and will enhance shareholder value.

SHAREHOLDERS' RIGHTS

(I) Procedures for shareholders to convene a special general meeting

A special general meeting shall be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company. Such requisition shall be made in writing to the Board or the Company Secretary at the Company's Head Office and Principal Place of Business.

Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) may convene such meeting, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company.

(II) Procedures for which enquiries may be put to the Board

Shareholders may at any time send their enquiries to the Board in writing at the Company's Head Office and Principal Place of Business.

(III) Procedures for putting forward proposals by shareholders at shareholders' meeting

The number of members necessary for a requisition for putting forward a proposal at a general meeting shall be:

(a) any number of members representing not less than one-twentieth of the total voting rights at the date of the requisition; or

(b) not less than one hundred members.

A copy or copies of requisition signed by all requisitionists shall be deposited, with a sum reasonably sufficient to meet the Company's expenses in giving notice of the proposed resolution or circulating any necessary statement, at the Company's Head Office and Principal Place of Business in case of:

(a) a requisition requiring notice of a resolution, not less than six weeks before the meeting; and

(b) any other requisition, not less than one week before the meeting.

The Company will verify the requisition and upon confirming that the requisition is proper and in order, the Board will proceed with the necessary procedures.

CHANGE IN CONSTITUTIONAL DOCUMENTS

An amended and restated Memorandum and Articles of Association of the Company was adopted on 14 October 2016 and took effect from the Listing Date. Save as disclosed herein, there were no significant changes in the constitutional documents of the Company.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group is exposed to various risks in its businesses and operations. Through internal control systems and procedures, the Company has taken reasonable steps to ensure that significant risks are monitored and do not adversely affect the Group's operations and performances. The relevant risks are managed on an ongoing basis. A non-exhaustive list of principal risks and uncertainties facing the Group is set out below.

Market Risk

The Group's revenue is principally derived from PRC. The conditions of the economy as a whole and the arts pawn loan and the arts auction market may have significant impact to the Group's financial results and conditions.

Compliance Risk

The Group's operations require compliance with local and oversea laws (including those of PRC, Cayman Islands and British Virgin Islands) and regulations, including but not limited to pawn loan and auction as well as companies and securities laws. The Group has constantly monitored its compliance with relevant laws and regulations that have a significant impact on the Group.

PERMITTED INDEMNITY

Articles 188 of the Articles of Association provides that, among other, every Director and other officers of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur sustain by or 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 and related matters provided that the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of them.

In this connection, the Company has arranged Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company, although there are no restrictions against such rights under the laws in the Cayman Islands.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of the Company's shares in the market as at the date of this report.

AUDITOR

A resolution will be proposed at the Annual General Meeting to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The forthcoming AGM is scheduled to be held on Tuesday, 16 May 2017. To ascertain shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 11 May 2017 to Tuesday, 16 May 2017, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to attend and vote at the AGM, all transfer of shares accompanied by the relevant shares certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by 4:30 p.m. on Wednesday, 10 May 2017.

Directors' Report

The Board of the Company is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding. The principal activities of the subsidiaries include the provision of art finance service under two business segments: (i) art and asset pawn business and (ii) art and asset auction business.

Details of the principal activities of the subsidiaries are set out in Note 34 to the consolidated financial statements. There were no significant changes in the nature of the principal activities of the Company and the Group during the year ended 31 December 2016.

An analysis of the Group's revenue and operating profit for the year ended 31 December 2016 is set out in the section headed "Management Discussion and Analysis" in this annual report.

BUSINESS REVIEW

The business review of the Group as at 31 December 2016 is set out in the section headed "Management Discussion and Analysis" from pages 8 to 15 of this annual report.

POSSIBLE RISKS AND UNCERTAINTIES FACING THE COMPANY

Description of possible risks and uncertainties facing the Company is set out in the paragraph headed "31.b Financial risk management objectives and policies" in the section headed "Notes to the Consolidated Financial Statements" from pages 85 to 90 of this annual report.

EVENTS AFTER REPORTING YEAR

The Board recommends to distribute a final dividend of HK$3.0 cents (equivalent to RMB2.7 cents) per share and a special dividend of HK$2.0 cents (equivalent to RMB1.8 cents) per share in cash to the shareholders for the year ended 31 December 2016. The dividend mentioned above will be distributed upon approval of shareholders at the forthcoming annual general meeting of the Company.

FUTURE BUSINESS DEVELOPMENT

A discussion of the Group's future business development is set out in the "Chairman's Statement" on page 8 and "Management Discussion and Analysis" on page 14 to 15 of this annual report.

KEY FINANCIAL PERFORMANCE INDICATORS

An analysis of the Group's performance during the Reporting Year using key financial performance indicators is set out in the "Financial Summary" on page 5 of this annual report.

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to supporting the environmental sustainability. Being a comprehensive financing service provider in the PRC, the Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the Reporting Year, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

The Group is always committed to maintaining the highest environmental and social standards to ensure sustainable development of its business. A report on the environmental, social and governance aspects is being prepared with reference to Appendix 27 Environmental, Social and Governance Reporting Guide to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "HKEx") and will be published on the Company's and the HKEx's websites.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognises that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services to its customers and enhancing cooperation with its business partners.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2016 and the state of the Group's and the Company's affairs as at that date are set out in the financial statements on pages 50 to 96. The Board recommends a payment of a final dividend of HK$3.0 cents (2015: Nil) per share and a payment of special dividend of HK$2.0 cents (2015: Nil) for the year ended 31 December 2016, subject to the approval of the shareholders at the forthcoming annual general meeting to be held on Tuesday, 16 May 2017 (the "AGM"). The final and special dividend will be payable on or about 6 June 2017 to shareholders whose names appear on the register of members on 24 May 2017.

CLOSURE OF REGISTER OF MEMBERS

The forthcoming AGM is scheduled to be held on 16 May 2017. To ascertain shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 11 May 2017 to Tuesday, 16 May 2017, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to attend and vote at the AGM, all transfer of shares accompanied by the relevant shares certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by 4:30 p.m. on Wednesday, 10 May 2017.

RESERVES

Changes to the reserves of the Group during the year ended 31 December 2016 are set out in the consolidated statement of changes in equity. Changes to the reserves of the Company during the year ended 31 December 2016 are set out in Note 35 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Changes to the property, plant and equipment of the Group and the Company during the year are set out in Note 18 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in Note 26 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2016 are set out in Note 34 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last 4 financial years is set out in Page 5 of this annual report. This summary does not form part of the audited financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2016.

PERMITTED INDEMNITY PROVISION

According to the Company's Articles of Association, each Director is entitled to the compensation out of the assets of the Company for all losses or liabilities incurred due to the execution of his/her duties or taken place related to such execution. The Company has taken out the appropriate Directors' and officers' liability insurance policy for the Directors and officers of the Group as a means of security.

EQUITY-LINKED AGREEMENT

Apart from the Share Option Scheme of the Company set forth in note 27 to the financial statement, the Company has not entered into any equity-linked agreement during the Reporting Year or there was not any subsisting equity-linked agreement entered into by the Company at the end of the Reporting Year.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

Executive Directors

Mr. Fan Zhijun *(chairman)*
Mr. Zhang Bin (appointed on 16 March 2016)

Independent Non-executive Directors

Mr. Leung Shu Sun Sunny (appointed on 14 October 2016)
Mr. Liu Jian (appointed on 14 October 2016)
Mr. Chu Xiaoliang (appointed on 14 October 2016)

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this annual report, no contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors, namely, Mr. Leung Shu Sun Sunny, Mr. Liu Jian and Mr. Chu Xiaoliang, the annual confirmation letter of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that the independent non-executive Directors have been independent from their respective date of appointment to 31 December 2016 and remain independent as of the date of this annual report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

1. Directors' Interests in the Company

As at 31 December 2016, the interests of the Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) which are required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (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 taken under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(i) Long positions in the shares:

Name of Director	Capacity	Number of Shares	Approximate Percentage of Shareholding
Fan Zhijun	Interest of controlled corporation	996,000,000 (Note)	62.25%

Note: These shares are held by Intelligenesis Investment Co., Ltd (the "Intelligenesis Inv"), which is owned as to 69.5% by Golden Sand Investment Company Limited (the "Golden Sand Inv"), which is in turn held as to 74.1% by Mauve Jade Investment Limited (the "Mauve Jade Inv"), which is in turn held as to 67.2% by Mr. Fan Zhijun and 32.8% by Ms. Fan Qinzhi. Ms. Fan Qinzhi is the daughter of Mr. Fan Zhijun.

(ii) Long positions in underlying shares of equity derivatives of the Company — interests in share options of the Company (having been granted and remained outstanding):

Name	Capacity	Number of Shares in the Option	Exercisable Period	Price of Grant (HK$)	Subscription Price per Share (HK$)
Nil	Nil	Nil	Nil	Nil	Nil

2. DIRECTORS' INTERESTS IN ASSOCIATED CORPORATIONS

Name of Director	Name of Associated Corporation	Capacity	Approximate Percentage of Shareholding
Fan Zhijun	Hexin Pawn (Note 1)	Beneficial owner; interest of controlled corporation	26%
Fan Zhijun	Hexin Auction (Note 2)	Beneficial owner	85%

Notes:

(1) 26% of the registered capital in Hexin Pawn is beneficially owned by Mr. Fan Zhijun, among which, 18% of the registered capital is registered under the name of Mr. Fan Zhijun and 8% of the registered capital is registered under the name of Wuxi Hexin Culture and Art Company Limited (無錫和信文化藝術有限公司) ("Wuxi Culture"), which is wholly beneficially owned by Mr. Fan Zhijun. By virtue of the SFO, Mr. Fan Zhijun is deemed to be interested in the registered capital in Hexin Pawn held by Wuxi Culture. Mr. Fan Zhijun, Ms. Fan Qinzhi, Mr. Fan Yajun and Ms. Wu Jian are directly or indirectly interested in 64% of the registered capital of Hexin Pawn. Mr. Fan Zhijun, Ms. Fan Qinzhi, Mr. Fan Yajun, Ms. Wu Jian and Ms. Xu Min 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. Fan Zhijun shall prevail. Solely by virtue of the Act-in-Concert Confirmation, Mr. Fan Zhijun 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. Fan Zhijun. Mr. Fan Zhijun, Ms. Wu Jian and Ms. Xu Min are directly interested in 100% of the registered capital of Hexin Auction. Solely by virtue of the Act-in-Concert Confirmation, Mr. Fan Zhijun may be deemed to be interested in 100% of the registered capital of Hexin Auction.

Save as disclosed above, as at 31 December 2016, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be (i) notified to the 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 taken under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, the following parties (other than the Directors and chief executive of the Company) had interests and short positions of 5% or more of the shares or underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name of Shareholder	Nature of interest/Capacity	Number of Shares	Approximate percentage of Shareholding in our Company
Zhang Xiaoxing	Interest of spouse (Note 1)	996,000,000	62.25%
Intelligenesis Inv	Beneficial owner	996,000,000	62.25%
Golden Sand Inv	Interest of controlled corporation (Note 2)	996,000,000	62.25%
Mauve Jade Inv	Interest of controlled corporation (Note 3)	996,000,000	62.25%
Ms. Fan Qinzhi	Interests of controlled corporation and held jointly with other persons (Notes 2 and 3)	996,000,000	62.25%
Mr. Fan Yajun	Interests held jointly with other persons (Note 4)	996,000,000	62.25%
Zhou Jianyuan	Interest of spouse (Note 5)	996,000,000	62.25%
Ms. Wu Jian	Interests held jointly with other persons (Note 4)	996,000,000	62.25%
Xu Zhongliang	Interest of spouse (Note 6)	996,000,000	62.25%
Ms. Xu Min	Interests held jointly with other persons (Note 4)	996,000,000	62.25%
Mr. Lai Chau Yung	Beneficial owner	204,000,000	12.75%
Fu Ying	Interest of spouse (Note 7)	204,000,000	12.75%

Notes:

(1) Ms. Zhang Xiaoxing is the spouse of Mr. Fan Zhijun. By virtue of the SFO, Ms. Zhang Xiaoxing is deemed to be interested in the same parcel of shares in which Mr. Fan Zhijun is interested.

(2) The said 996,000,000 shares is 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.

(3) 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. Fan Zhijun and 32.8% by Ms. Fan Qinzhi. By virtue of the SFO, Mauve Jade Inv and Ms. Fan Qinzhi are deemed to be interested in the same parcel of shares in which Intelligenesis Inv is interested.

(4) Mr. Fan Zhijun, Ms. Fan Qinzhi, Mr. Fan Yajun, Ms. Wu Jian and Ms. Xu Min 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 Intelligenesis Inv. By virtue of the Act-in-Concert Confirmation, each of Mr. Fan Zhijun, Ms. Fan Qinzhi, Mr. Fan Yajun, Ms. Wu Jian and Ms. Xu Min are deemed to be interested in such 996,000,000 shares representing 62.25% interest in the total issued share capital of our Company.

(5) Ms. Zhou Jianyuan is the spouse of Mr. Fan Yajun. By virtue of the SFO, Ms. Zhou Jianyuan is deemed to be interested in the same parcel of shares in which Mr. Fan Yajun is interested.

(6) Mr. Xu Zhongliang is the spouse of Ms. Wu Jian. By virtue of the SFO, Mr. Xu Zhongliang is deemed to be interested in the same parcel of shares in which Ms. Wu Jian is interested.

(7) Ms. Fu Ying is the spouse of Mr. Lai Chau Yung. By virtue of the SFO, Ms. Fu Ying is deemed to be interested in the same parcel of shares in which Mr. Lai Chau Yung is interested.

Save as disclosed above, as at 31 December 2016, no person or corporation, other than the Directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

A share option scheme ("Scheme") was conditionally adopted by a resolution in writing passed by the then shareholders of the Company on 14 October 2016. Under the Scheme, our Directors may grant options to subscribe for shares of our Company to eligible participants, including without limitation employees of the Group, Directors of our Company, any of our subsidiaries or any entity ("Invested Entity") in which any member of our Group holds an equity interest. No share option was granted, exercised, cancelled or had lapsed under the Scheme since its adoption up to 31 December 2016. No share option was outstanding under the Scheme as at 31 December 2016.

Purpose and its participants

The purpose of the Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group. Eligible participants of the Scheme include (i) employees of the Company, any of our subsidiaries or any Invested Entity; (ii) non-executive Directors (including INEDs) of our Company, any of our subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of our Group or any Invested Entity; (iv) any customer of any member of our Group or any Invested Entity; (v) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity; (vi) 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; (vii) 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; (viii) 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 (ix) any company wholly owned by one or more eligible participants as referred to in the above categories.

Total number of shares available for issue

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 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 ("Issued Share Capital") from time to time. 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 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 date of listing of the shares of the Company on the Stock Exchange (and thereafter, if refreshed, shall not exceed 10% of the Issued Share Capital as at the date of approval of the refreshed limited by the shareholders). As at the date of this annual report, the maximum number of shares that may be granted under the Scheme was 160 million shares. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

No share option was granted, exercised, cancelled or had lapsed under the Scheme since its adoption up to 31 December 2016. No share option was outstanding under the Scheme as at 31 December 2016.

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 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.

Period within which the shares must be taken by under an option

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to each grantee, which 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.

The minimum period for which an option must be held before being exercised

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 Scheme for the holding of an option before it can be exercised.

The amount payable on acceptance of the option and the period within which payments be paid

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the Directors, which 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.

The basis of determining the exercise price

The subscription price for the shares under the 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.

The remaining life

Subject to any earlier termination in accordance with its rules, the Scheme shall remain in force for a period of ten years commencing on 14 October 2016. As at the date of this annual report, the Scheme had a remaining life of more than 9 years.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2016, the Group's largest customer accounted for approximately 5.8% of the Group's revenue and the five largest customers accounted for approximately 16.3% of the Group's revenue.

For the year ended 31 December 2016, the Group's largest supplier accounted for approximately 12.8% of the Group's total purchases and the five largest suppliers accounted for approximately 34.4% of the Group's total purchases.

Among the five largest suppliers, Zisha Hotel (which is beneficially owned by Mr. Wang Jiansong, one of our controlling shareholders), a 36% equity-holder of Hexin Pawn, leased its hotel premises for Spring Auction (and the relevant preview exhibition) held in June 2016 and Autumn Auction (and the relevant preview exhibition) held in December 2016 at the respective leasing fees of approximately RMB0.1 million and RMB0.1 million, respectively.

Save as disclosed above, none of the Directors, any of their close associates or any shareholders which, to the knowledge of our Directors, own more than 5% of the issued share capital of the Company had any interest in any of the five largest suppliers or customers during the year ended 31 December 2016.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and discussed the Group's internal controls and financial reporting matters with the management. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2016.

EMOLUMENT POLICY

The Company is well aware of the importance of incentivising and retaining its employees. The Group offers competitive remuneration packages to its employees and makes contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing fund for its employees. The Remuneration Committee is set up for reviewing the Group's emolument policy and remuneration package of the Directors and chief executive of the Group, having regard to the Group's overall operating results, individual performance and comparable market practices.

Details of the remuneration of the Directors for the year ended 31 December 2016 are set out in Note 14 to the consolidated financial statements of this annual report.

EMPLOYEE RETIREMENT BENEFITS

Particulars of the employee retirement benefits of the Group are set out in Note 15 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's distributable reserves calculated under the Companies Law comprise the share premium, other reserves and retained earnings amounted to approximately RMB195 million.

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

Other than as disclosed above, during the year ended 31 December 2016, none of the Company, or any of its subsidiaries, was a party to any arrangement to enable the Directors to have any right to subscribe for securities of the Company or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this annual report, none of the Directors or their respective close associates had interests in businesses which compete or are likely to compete either directly or indirectly with the businesses of the Group as are required to be disclosed pursuant to the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

No Director proposed to be re-elected at the forthcoming annual general meeting of our Company has an unexpired service contract with our Group, which is not determinable by our Group within one year without payment of compensation (other than statutory compensation).

NON-COMPETITION UNDERTAKING

Each of Mr. Fan Zhijun, Ms. Fan Qinzhi, Mr. Fan Yajun, Ms. Wu Jian, Ms. Xu Min and Mr. Wang Jiansong (the "Covenantors"), each being a controlling shareholder of the Company, has entered into a deed of non-competition (the "Deed of Non-Competition") in favour of the Company on 14 October 2016, pursuant to which each of the Covenantors has unconditionally, irrevocably and severally undertaken with the Group that they shall not, and shall procure that their respective members shall not, (except through the Group) directly or indirectly carry on, participate, acquire or hold any right or interest or otherwise be interested, involved or engaged in or connected with, any business which is in any respect in competition with or similar to or is likely to be in competition with the business of the Group. For details of the Deed of Non-Competition, please refer to the Prospectus.

Each of the Covenantors has provided to the Company a written confirmation in respect of his/her compliance with the Deed of Non-Competition. The independent non-executive Directors have reviewed the compliance with the non-competition undertaking by the Covenantors under the Deed of Non-Competition and are of the view that such non-competition undertaking has been complied with during the year ended 31 December 2016.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company, although there are no restrictions against such rights under the laws in the Cayman Islands.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following continuing connected transactions. Certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

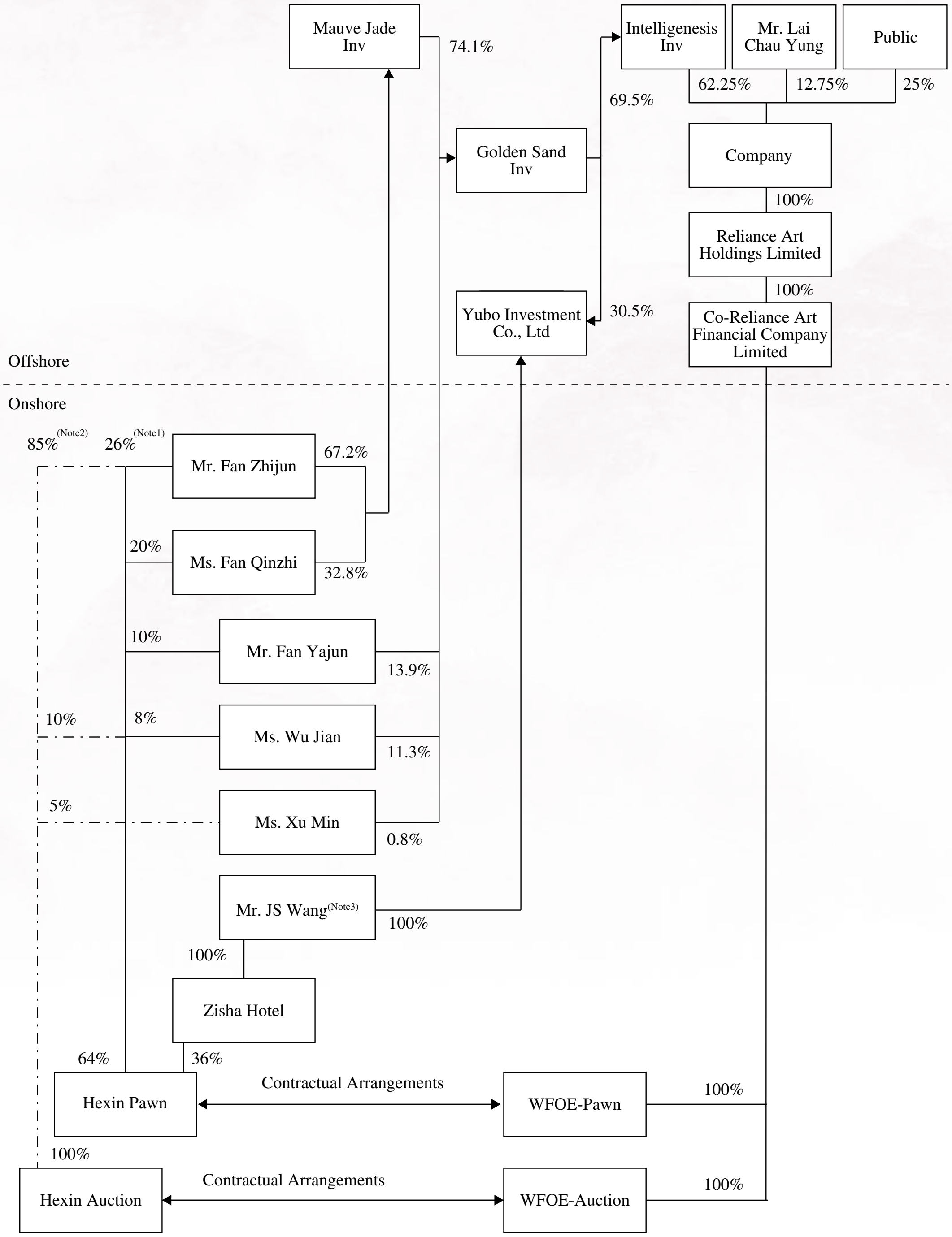
CONTRACTUAL ARRANGEMENTS

Reasons for using and risks associated with the Contractual Arrangements

Reference is made to the Prospectus. 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 (including but not limited to the requirement for a foreign investor intending to acquire any equity interest in a value-added telecommunication business (including our online auction operations) in PRC to demonstrate a "good track record and operating experience" in providing value-added telecommunication services overseas ("Qualification Requirements")) in these businesses. For such reasons, we do not hold any equity interest in Hexin Pawn and Hexin Auction (collectively the "PRC Operating Entities"), and our Company through our two wholly foreign-owned enterprises established in PRC, namely Yixing Han Xin Information Technology Service Co., Ltd (the "WFOE-Pawn") and Yixing Zi Yu Information Technology Service Co., Ltd (the "WFOE-Auction"), control the PRC Operating Entities through two sets of agreements. The first set was entered into between WFOE-Pawn, Hexin Pawn as well as Mr. Fan Zhijun, Wuxi Hexin Culture and Art Company Limited (the "Wuxi Culture"), Ms. Fan Qinzhi, Zisha Hotel, Mr. Fan Yajun and Ms. Wu Jian (collectively the "HP Equity-holders") (the "HP Structured Contracts") and the other set was entered into between WFOE-Auction, Hexin Auction as well as Mr. Fan Zhijun, Ms. Wu Jian and Ms. Xu Min (collectively the "HA Equity-holders") (the "HA Structured Contracts"), which constitute the contractual arrangements (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. The Contractual Arrangements are designed to provide the Group with effective control over the financial and operational policies of the PRC Operating Entity and, to the extent permitted by the PRC laws and regulations, the right to acquire the equity interests in and/or the assets of the PRC Operating Entity. Further, pursuant to the Contractual Arrangements, all economic benefits derived from the operation of the PRC Operating Entity are enjoyed by the Group and the financial results of the PRC Operating Entity are consolidated into the Group as if it were a wholly-owned subsidiary.

With the aim of fulfilling the Qualification Requirements, we have taken steps to implement our plan (the "QR Plan") as follows: we are currently operating an overseas website targeting clients and other users from Hong Kong, Taiwan and other countries. In the year of 2017, we plan to further develop our overseas website to become a trading and promotional platform for Chinese artists especially for zisha artists. In the long run, our overseas website will be developed into an internet platform to support the future art auctions to be held in Hong Kong. Details of the Qualification Requirement are set out in the section headed "Contractual Arrangements" of the Prospectus. Based on our previous telephone interview with an officer of the Communication Development Division (通信發展司) of the Ministry of Industry and Information Technology of PRC ("MIIT") in March 2016, MIIT, having preliminarily our plan to construct an overseas website, 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. Based on our recent inquiry with MIIT, there has been no change to its view as stated above.



Notes:

(1) Among the 26% registered capital of Hexin Pawn beneficially owned by Mr. Fan Zhijun, 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. Fan Zhijun.

(2) 85% of the registered capital in Hexin Auction was beneficially owned by, and registered in the name of Mr. Fan Zhijun.

(3) Among the 100% registered capital of Zisha Hotel beneficially owned by Mr. Wang Jiansong, 30% of the registered capital was registered in the name of Wang Junqian (son of Mr. Wang Jiansong) who has been holding such equity interest on trust for the benefit of Mr. Wang Jiansong, and the remaining 10% was registered in the name of Wang Hui (daughter of Mr. Wang Jiansong) who has been holding such equity interest on trust for the benefit of Mr. Wang Jiansong.

The significant and financial contribution of Hexin Pawn and Hexin Auction to our Group

By means of the Contractual Arrangements, our Group is permitted to engage in art and asset pawn business and online auction operation in the PRC. The following table sets out the respective financial contribution of Hexin Pawn and Hexin Auction to our Group:

	Contribution to our Group					
	Segment revenue For the year ended 31 December		Segment results For the year ended 31 December		Segment assets As at 31 December	
	2016 (RMB'000)	2015 (RMB'000)	**2016 (RMB'000)**	2015 (RMB'000)	**2016 (RMB'000)**	2015 (RMB'000)
Hexin Pawn	**59,259**	84,273	**77,699**	55,947	**235,303**	66,724
Hexin Auction	**48,315**	92,609	**89,737**	44,105	**174**	2,124

Note: Please refer to the paragraph headed "7. Segment Information" in the section headed "Notes to the Consolidated Financial Statements" from page 67 to 70 of this annual report.

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.

Component agreements which constitute the Structured Contracts and parties to such agreements:

(A) HP Structured Contracts:

	Component agreement	Parties to such component agreement
1	Exclusive operation services agreement in relation to Jiangsu Hexin Pawn Company Limited ("**HP Exclusive Operation Services Agreement**")	— WFOE-Pawn (as service provider) — Hexin Pawn (as service recipient) — all HP Equity-holders (i.e. Mr. Fan Zhijun, Ms. Fan Qinzhi, Mr. Fan Yajun, Ms. Wu Jian, Wuxi Culture and Zisha Hotel)
2	Exclusive call option agreement in relation to 100% equity interests of Jiangsu Hexin Pawn Company Limited ("**HP Exclusive Call Option Agreement**")	— 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 ("**HP Equity Entrustment Agreement**")	— 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 ("**HP Equity Pledge Agreement**")	— WFOE-Pawn (as pledgee) — Hexin Pawn — all HP Equity-holders (as pledgors)

(B) **HA Structured Contracts:**

	Component agreement	Parties to such component agreement
1	Exclusive operation services agreement in relation to Jiangsu Hexin Auction Company Limited ("**HA Exclusive Operation Services Agreement**")	— WFOE-Auction (as service provider) — Hexin Auction (as service recipient) — all HA Equity-holders (i.e. Mr. Fan Zhijun, Ms. Wu Jian and Ms. Xu Min)
2	Exclusive call option agreement in relation to 100% equity interests of Jiangsu Hexin Auction Company Limited ("**HA Exclusive Call Option Agreement**")	— WFOE-Auction (as option holder) — Hexin Auction (as option grantor) — all HA Equity-holders (as option grantors)
3	Equity-holders' rights entrustment agreement in relation to 100% equity interests of Jiangsu Hexin Auction Company Limited ("**HA Equity Entrustment Agreement**")	— WFOE-Auction — Hexin Auction — all HA Equity-holders (as principals)
4	Equity pledge agreement in relation to 100% equity interests of Jiangsu Hexin Auction Company Limited ("**HA Equity Pledge Agreement**")	— WFOE-Auction (as pledgee) — Hexin Auction — all HA Equity-holders (as pledgors)

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 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.

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 than Hexin Pawn validly exist and not be liquidated or dissolved in accordance with good financial and commercial standards and practices;

(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.

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 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.

(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.

MATERIAL CHANGES

Save as disclosed above, there has not been any material change in the Contractual Arrangements and/or the circumstances under which they were adopted for the year ended 31 December 2016.

UNWINDING OF THE CONTRACTUAL ARRANGEMENTS

Up to 31 December 2016, there has not been any unwinding of any Contractual Arrangements, nor has there been any failure to unwind any Contractual Arrangements when the restrictions that led to the adoption of the Contractual Arrangements are removed.

RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS

The following risks are associated with the Contractual Arrangements. Further details of the risks are set out on pages 47 to 54 of the Prospectus.

- 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;
- 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.

MITIGATION ACTIONS TAKEN BY THE COMPANY

- The Company has existing protections measures under the Contractual Arrangements. The Company's Internal Control Department will regularly review the compliance and performance of such conditions under the Contractual Arrangements.
- The Company's legal department will deal with matters relating to compliance and regulatory enquiries from relevant PRC authorities and report to the Board on a regular basis.

A waiver has been granted by the Stock Exchange regarding strict compliance with (i) the applicable disclosure and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in relation to the transactions contemplated under the Contractual Arrangements, (ii) the requirement of setting a maximum aggregate annual value (i.e. annual cap) for the fees payable to Huifang Tongda under the Contractual Arrangements, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less, for so long as the shares of the Company are listed on the Stock Exchange, subject to certain conditions as set out in the Prospectus. In addition, pursuant to the waiver granted by the Stock Exchange, the framework of the Contractual Arrangements 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) that the Group might wish to establish, without obtaining the approval of the independent non-executive Directors and the independent Shareholders, on substantially the same terms and conditions as the Contractual Arrangements.

The independent non-executive Directors of the Company have reviewed the Contractual Arrangements and confirmed that (i) the transactions carried out during the year have been entered into in accordance with the relevant provisions of the Contractual Arrangements; (ii) no dividends or other distributions have been made by the PRC Operating Entity to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and (iii) no new contracts or renewed contracts have been entered into on the same terms as the existing Contractual Arrangements from the Listing Date till the end of the year.

The independent non-executive Directors have confirmed that the above continuing connected transactions were entered into by the Group: (i) in the ordinary and usual course of its business; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant provisions of the Contractual Agreements that were fair and reasonable and in the interests of the Company and the shareholders as a whole.

Further, the Board has engaged the auditor of the Company to report on the Group's continuing connected transaction. The auditor has issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above in accordance with Listing Rule 14A.56 of the Listing Rules and confirmed that (i) nothing has come to their attention that causes them to believe that the continuing connected transactions carried out pursuant to the Contractual Arrangements during the year ended 31 December 2016 (a) have not received the approval of the Board and (b) were not entered into, in all material respects, in accordance with the relevant Contractual Arrangements; and (ii) no dividends or other distributions have been made by the PRC Operating Subsidiary to its shareholders during the year ended 31 December 2016.

A copy of the auditor's letter on the continuing connected transactions of the Group year ended 31 December 2016 has been provided by the Company to the Stock Exchange.

Details of the related party transactions entered into by the Group during the year ended 31 December 2016 are set out in note 33 to the consolidated financial statements. None of these related party transactions constitutes a connected transaction as defined under the Listing Rules which requires to be disclosed.

Save for the continuing connected transactions disclosed above and certain other connected transactions and continuing connected transactions which are exempted from reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules, during the Reporting Year, there were no other transactions which constituted connected transaction or continuing connected transactions that were subject to the reporting requirements under the Listing Rules.

INTEREST OF COMPLIANCE ADVISER

As notified by the Company's compliance adviser, Halcyon Capital Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 6 April 2016 effective on 8 November 2016, the Listing Date, neither the Compliance Adviser nor its Directors, employees or associates had any interests in relation to the Company as at 31 December 2016 which is required to be notified to the Company pursuant to the Listing Rules.

PUBLIC FLOAT

As at the date of this annual report and based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained the minimum public float of 25% as required under the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS FOR DIVIDEND

To ascertain the entitlement to the proposed final and special dividends for the year ended 31 December 2016, the register of members of the Company will be closed from Monday, 22 May 2017 to Wednesday, 24 May 2017, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to the proposed final and special dividends for the year ended 31 December 2016, all transfer of shares accompanied by the relevant shares certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by 4:30 p.m. on Friday, 19 May 2017.

TAX RELIEF

Our Company is not aware of any relief from taxation available to shareholders by reason of their holding of the Shares of the Company.

AUDITORS

The consolidated financial statements have been audited and agreed by Deloitte Touche Tohmatsu who shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for reappointment.

By order of the Board
Fan Zhijun
Chairman

Hong Kong, 16 March 2017

Deloitte. 德勤

TO THE SHAREHOLDERS OF CHINA ART FINANCIAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Art Financial Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 50 to 96, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans to customers	
We identified the impairment assessment of loans to customers for art and asset pawn business as a key audit matter due to its significance to the consolidated statement of financial position, combined with the significant judgement applied by management in the assessment of objective evidence of impairment and the estimation uncertainty in the determination of recoverable amount. The loans to customers are assessed for impairment individually and collectively. As at 31 December 2016, the Group's loans to customers amounted to RMB234,183,000, net of recognised impairment allowance of RMB4,780,000. As explained in notes 5 and 31(b) to the consolidated financial statements, the principal amount of loan that the Group grants to its customers depends on, and is at a discount to, the appraised value of the collateral pledged by customers at the loan application stage. The Group reviews its loan portfolios to assess impairment at least on a semi-annual basis and applies judgement to determine whether there is any observable data indicating that the value of collateral is lower than the principal amount of loan granted to the individual customer. The Group engaged an independent qualified professional valuer (the "Valuer") to perform valuation of selected high-valued artwork collaterals.	Our procedures in relation to impairment assessment of loans to customers for art and asset pawn business included: • Understanding the process with respect to the impairment assessment of loans to customers by the management; • Conducting physical inspection, on a sample basis, to verify the existence and condition of the high-valued artwork collaterals; • Evaluating the Valuer's competence, capabilities and objectivity; • Obtaining an understanding of the valuation methodology and testing the significant inputs used by the Valuer; • Assessing the reasonableness of value of collateral by comparing with publicly available valuations of comparable products on a sample basis; and • Evaluating if impairment loss is required by comparing the value of collateral with the principal amount of loans on a sample basis.
Revenue recognition on auction service revenue from art and asset auction business	
We identified recognition of auction service revenue from art and asset auction business as a key audit matter as it is quantitatively significant to the consolidated statement of profit or loss and other comprehensive income. As disclosed in note 6 to consolidated financial statements, the Group recognised auction service revenue, representing primarily the buyer's and seller's commission from provision of art and asset auction services, amounting to RMB 92,609,000 for the year ended 31 December 2016. Auction service revenue is generally recognised when related services are provided and is calculated at a percentage of hammer price of the auction sales.	Our procedures in relation to recognition of auction service revenue from art and asset auction business included: • Obtaining an understanding of the revenue business process and controls relating to this auction service revenue; • Testing the key controls over the recognition of auction service revenue; • Attending physically the auctions held during the year and examining the auction register to verify the hammer price of the auction sales on a sample basis; • Inspecting the terms of agreements with customers on a sample basis and assessing the recognition criteria; and • Performing substantive analytical procedures using the hammer prices recorded in the auction register and comparing with the auction service revenue recognised by the Group.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Li Man Kei.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
16 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	6	**176,882**	107,574
Other income	8	**1,494**	306
Other gains and losses	9	**5,499**	27
Business tax and surcharges		**(2,854)**	(6,099)
Operating expenses		**(3,135)**	(2,133)
(Allowance) reversal of allowance on loans to customers for art and asset pawn business, net	20	**(3,457)**	710
Administrative expenses		**(15,856)**	(4,991)
Listing expenses	10	**(24,946)**	(6,330)
Finance costs	11	**(30)**	–
Profit before tax		**133,597**	89,064
Income tax expense	12	**(40,165)**	(26,670)
Profit for the year	13	**93,432**	62,394
Profit and total comprehensive income for the year attributable to:			
— Owners of the Company		**89,916**	46,854
— Non-controlling interests		**3,516**	15,540
		93,432	62,394
Earnings per share for profit attributable to owners of the Company — basic (RMB cents)	17	**7.67**	7.93

Consolidated Statement of Financial Position

As at 31 December 2016

		As at 31 December	
		2016	2015
	Notes	**RMB'000**	RMB'000
Non-current assets			
Property, plant and equipment	18	**1,242**	2,036
Deferred tax asset	19	**1,195**	331
		2,437	2,367
Current assets			
Loans to customers for art and asset pawn business	20	**234,183**	64,813
Trade receivables, other receivables and prepayments	21	**52**	4,624
Amount due from a director	22	**–**	79
Bank balances and cash	23	**463,080**	292,837
		697,315	362,353
Current liabilities			
Other payables and accrual	24	**64,573**	54,992
Amounts due to related parties	25	**–**	6,526
Tax liabilities		**16,323**	14,835
		80,896	76,353
Net current assets		**616,419**	286,000
Net assets		**618,856**	288,367
Capital and reserves			
Share capital/paid-in capital	26	**13,995**	73,500
Reserves		**604,861**	127,942
Equity attributable to owners		**618,856**	201,442
Non-controlling interests		**–**	86,925
Total equity		**618,856**	288,367

The financial statements on pages 50 to 96 were approved and authorised for issue by the Board of Directors on 16 March 2017 and are signed on its behalf by:

Fan Zhijun
DIRECTOR

Zhang Bin
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Paid-in capital/ share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000 (Note a)	Capital reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
		Attributable to owners of the Company						
At 1 January 2015	31,900	–	7,439	–	65,289	104,628	49,345	153,973
Profit and total comprehensive income for the year	–	–	–	–	46,854	46,854	15,540	62,394
Appropriation to statutory reserve	–	–	5,336	–	(5,336)	–	–	–
Increase in paid-in capital of a subsidiary	38,400	–	–	–	–	38,400	21,600	60,000
Special contribution from a shareholder of a subsidiary (note b)	3,200	–	–	8,360	–	11,560	440	12,000
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 year	**–**	**–**	**–**	**–**	**89,916**	**89,916**	**3,516**	**93,432**
Arising from the Reorganisation	**(73,500)**	**–**	**–**	**73,500**	**–**	**–**	**–**	**–**
Appropriation to statutory reserve	**–**	**–**	**11,990**	**–**	**(11,990)**	**–**	**–**	**–**
Special contribution from a shareholder of the Company (note c)	**–**	**–**	**–**	**90,441**	**–**	**90,441**	**(90,441)**	**–**
Issue of new shares pursuant to the global offering (note 26)	**3,499**	**258,911**	**–**	**–**	**–**	**262,410**	**–**	**262,410**
Capitalisation issue of shares (note 26)	**10,496**	**(10,496)**	**–**	**–**	**–**	**–**	**–**	**–**
Expenses incurred in connection with issue of shares	**–**	**(25,353)**	**–**	**–**	**–**	**(25,353)**	**–**	**(25,353)**
At 31 December 2016	**13,995**	**223,062**	**24,765**	**172,301**	**184,733**	**618,856**	**–**	**618,856**

Notes:

(a) The statutory reserve is non-distributable and the appropriation to this reserve is determined by the board of directors of subsidiaries established in The People Republic of China (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.

(b) Capital reserve of RMB8,360,000 represents special capital contribution from a shareholder during the year ended 31 December 2015.

(c) On 15 April 2016, the equity holder, Mr. Fan Zhijun, has contributed additional equity interest in 江蘇和信典當有限公司 Jiangsu Hexin Pawn Co., Ltd ("Hexin Pawn") and 江蘇和信拍賣有限公司 Jiangsu Hexin Auction Co., Ltd. ("Hexin Auction") to the Group upon completion of the Contractual Arrangements (as defined in note 2 to the consolidated financial statements). Accordingly, Hexin Pawn and Hexin Auction became wholly owned subsidiaries of the Group subsequent to the Reorganisation (as defined in note 2 to the consolidated financial statements). 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 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 Statement of Cash Flows

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**133,597**	89,064
Adjustments for:		
Depreciation of property, plant and equipment	**794**	823
Allowance (reversal of allowance) on loans to customers for art and asset pawn business, net	**3,457**	(710)
Gain on disposal of property, plant and equipment	**–**	(2)
Bank interest income	**(696)**	(306)
Finance costs	**30**	–
Net foreign exchange gain	**(4,526)**	–
Operating cash flows before movements in working capital	**132,656**	88,869
(Increase) decrease in loans to customers for art and asset pawn business	**(172,827)**	28,946
Decrease (increase) in trade receivables, other receivables and prepayments	**4,572**	(4,319)
Increase in other payables and accrual	**9,267**	52,089
Cash (used in) generated from operations	**(26,332)**	165,585
Income tax paid	**(39,541)**	(15,593)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(65,873)**	149,992
INVESTING ACTIVITIES		
Bank interest income	**696**	306
Purchase of property, plant and equipment	**–**	(33)
Proceeds from disposal of property, plant and equipment	**–**	18
Repayment from (advance to) a director	**79**	(31)
NET CASH FROM INVESTING ACTIVITIES	**775**	260
FINANCING ACTIVITIES		
Issue of new shares pursuant to the global offering	**262,410**	–
Expenses incurred in connection with issue of shares	**(25,353)**	–
New bank loans raised	**19,847**	–
Repayment of bank loans	**(19,847)**	–
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	**1,309**	–
Repayment to a director	**(1,309)**	–
Advance from related parties	**11,316**	6,526
Repayment to related parties	**(17,842)**	–
Interest paid	**(30)**	–
NET CASH FROM FINANCING ACTIVITIES	**230,501**	78,526
NET INCREASE IN CASH AND CASH EQUIVALENTS	**165,403**	228,778
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**292,837**	64,059
Effect of foreign exchanges	**4,840**	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR AND REPRESENTED BY		
Bank balances and cash	**463,080**	292,837

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 Islands on 2 November 2015. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**HKSE**") since 8 November 2016. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company's immediate holding company and ultimate holding company are Intelligenesis Investment Co. Ltd. and Mauve Jade Investment Limited respectively, both are limited companies incorporated in the British Virgin Islands.

The principal activity of 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 art pawn loan business, while Hexin Auction has been principally engaged in the art auction business.

The consolidated financial statements are 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 THE CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the reorganisation, to rationale the structure of the Group to prepare for the listing of shares of the Company on the Main Board of HKSE (the "**Reorganisation**") which was completed by incorporating/establishing the Company, Reliance Art Holdings Limited ("**Reliance Art**"), Co-Reliance Art Financial Company Limited ("**Co-Reliance Art**"), 宜興市漢信信息技術服務有限公司 Yixing Hanxin Information Technology Service Company Limited ("**WFOE-Pawn**") and 宜興市紫玉信息技術服務有限公司 Yixing Ziyu Information Technology Service Company Limited ("**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 15 April 2016.

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 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 of the Company dated 27 October 2016.

2. GROUP REORGANISATION AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 therewith 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 date 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 32.

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 statement include the results, changes in equity and cash flows of the companies comprising the Group for both years and in accordance with the respective equity interests in the individual companies attributable to the controlling parties for both years.

The consolidated statement of financial position of the Group as at 31 December 2015 has 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 that date.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (THE "HKFRSs")

The Group has consistently applied all the HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") which are effective for the Group's financial year beginning on 1 January 2016 for both current and prior years.

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[2]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[2]
HKFRS 16	Leases[3]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 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.

- 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 balanced 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.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (THE "HKFRSs") (Continued)

HKFRS 9 Financial instruments (Continued)

- 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. Financial assets measured at amortised costs under HKFRS 9 will be subject to impairment provision of HKFRS 9. Generally the impairment model of HKFRS 9 will result in earlier loss recognition than that of HKAS 39.

- 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 quality 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 year.

Application of HKFRS 9 in the future may have following inputs on the financial assets of the Group:

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 may have a material impact on the classification and measurement of the Group's financial assets. The expected credit loss model may result in early provision of credit losses which are not yet inserted in relation to the Group's financial assets measured at amortised cost.

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.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (THE “HKFRSs”) (Continued)

HKFRS 15 Revenue from contracts with customers (Continued)

Under HKFRS 15, an entity recognises 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.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations as well as licensing application guidance.

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 statements. 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 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing/operating cash flows respectively.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB4,572,000 as disclosed in note 29. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

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 consolidated financial statements of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the HKFRSs issued by the HKICPA. In addition, the consolidated financial statement 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 consolidated financial statements have 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 consolidated financial statements incorporate the financial statements 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 are included in the consolidated statement 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 the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where 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 the 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 relevant components of equity including reserves 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 after reattribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Merger accounting for business consolidation involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or business in which the common control consolidation occurs as if they had been consolidated 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 consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control consolidation, to the extent of the continuation of the controlling party's interest.

The consolidated statement 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 consolidation.

The comparative amounts in the consolidated financial statements 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Taxable profit differs from profit before tax as reported in the statement 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 consolidated financial statements 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 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statement 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 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. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement 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 or deducted from the fair value of the financial assets or financial liabilities, 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 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;
- 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss of financial assets (Continued)

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 statement 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 statement 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss of financial assets (Continued)

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, amounts due to related parties and bank loans 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 (including all fees and points 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 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 asset 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 are the key assumptions 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 next financial year.

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 the value of collaterals is lower than the principal amount of loan granted to individual customer. As at 31 December 2016, the carrying amount of the Group's loans to customers for art and asset pawn business is RMB234,183,000 (2015: RMB64,813,000) net of allowance of RMB4,780,000 (2015: RMB1,323,000).

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 2016, the carrying amount of the Group's trade receivables is RMBnil (2015: RMB97,000).

Critical accounting judgement

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 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 and carries out hotel operation and became a non-controlling shareholder of Hexin Pawn on 28 July 2015 and ceased to be entitled to any economic benefit in Hexin Pawn on 15 April 2016. The current registered equity holders of Hexin Auction are Mr. Fan Zhijun, Ms. Wu Jian and Ms. Xu Min. A series of agreements, which constitute the Contractual Arrangements, were 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 are disclosed in the section headed "Contractual Arrangement" of the Company's prospectus dated 27 October 2016. 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 Hexin Auction 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. REVENUE

An analysis of the Group's revenue is as follows:

	2016 RMB'000	2015 RMB'000
Pawn loan revenue from art and asset pawn business	**84,273**	59,259
Auction service revenue from art and asset auction business	**92,609**	48,315
Total	**176,882**	107,574

7. 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, finance costs 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 other payables and accrual 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.

7. SEGMENT INFORMATION (Continued)

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**
2016			
Segment revenue	**84,273**	**92,609**	**176,882**
Segment cost	**(1,097)**	**(2,038)**	**(3,135)**
Business tax and surcharges	**(2,020)**	**(834)**	**(2,854)**
Allowance on loans to customers for art and asset pawn business	**(3,457)**	**–**	**(3,457)**
Segment result	**77,699**	**89,737**	**167,436**
Other income			**1,494**
Other gains and losses			**5,499**
Central administrative expenses			**(15,856)**
Listing expenses			**(24,946)**
Finance costs			**(30)**
Profit before tax			**133,597**

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Total RMB'000
2015			
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	710	–	710
Segment result	55,947	44,105	100,052
Other income			306
Other gains and losses			27
Central administrative expenses			(4,991)
Listing expenses			(6,330)
Profit before tax			89,064

7. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

The following is an analysis of the Group's assets and liabilities by operating and reportable segment.

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Total RMB'000
2016			
Assets			
Segment assets	**235,303**	**174**	**235,477**
Other unallocated assets			
Deferred tax asset			**1,195**
Bank balances and cash			**463,080**
Consolidated total assets			**699,752**
Liabilities			
Segment liabilities	**5,702**	**61,513**	**67,215**
Other unallocated liabilities			
Other payable for listing expenses			**8,147**
Other payables and accrual			**5,534**
Consolidated total liabilities			**80,896**

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Total RMB'000
2015			
Assets			
Segment assets	66,724	2,124	68,848
Other unallocated assets			
Deferred tax asset			331
Deferred listing costs			2,625
Amount due from a director			79
Bank balances and cash			292,837
Consolidated total assets			364,720
Liabilities			
Segment liabilities	2,865	64,714	67,579
Other unallocated liabilities			
Other payable for listing expenses			2,248
Amounts due to related parties			6,526
Consolidated total liabilities			76,353

7. SEGMENT INFORMATION (Continued)

Other segment information

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Total RMB'000
2016			
Segment information included in the measure of segment results or assets:			
Depreciation of property, plant and equipment	**681**	**113**	**794**
Allowance on loans to customers for art and asset pawn business, net	**3,457**	**–**	**3,457**
2015			
Segment information included in the measure of segment results or assets:			
Additions 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	(710)	–	(710)

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 year reported.

8. OTHER INCOME

	2016 **RMB'000**	2015 RMB'000
Interest income on bank deposits	**696**	306
Others	**798**	–
	1,494	306

9. OTHER GAINS AND LOSSES

	2016 RMB'000	2015 RMB'000
Net foreign exchange gain	**5,499**	27

10. LISTING EXPENSES

The amount represented professional fees incurred in relation to the global offering of the Company's shares which are not directly attributable to the issue of the new shares of the Company.

11. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on bank loans	**30**	–

12. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Current tax		
PRC Enterprise Income Tax ("**EIT**")	**41,029**	25,916
Deferred tax	**(864)**	754
	40,165	26,670

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Laws 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 consolidated financial statements as the income of the Group neither arises in nor is derived from Hong Kong during both years.

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%.

12. INCOME TAX EXPENSE (Continued)

The income tax expense for the year can be reconciled to the profit before tax as follows:

	2016	2015
	RMB'000	RMB'000
Profit before tax	**133,597**	89,064
Tax at the PRC EIT rate of 25%	**33,399**	22,266
Tax effect of deemed contribution for tax purpose	**–**	2,200
Tax expenses not deductible for tax purpose	**6,766**	2,204
Income tax expense	**40,165**	26,670

13. PROFIT FOR THE YEAR

	2016	2015
	RMB'000	RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration	**1,274**	349
Other staff's salaries and allowance	**6,577**	2,578
Retirement benefits scheme contributions	**184**	146
Total staff costs	**8,035**	3,073
Auditors' remuneration	**2,010**	5
Depreciation for property, plant and equipment	**794**	823

14. 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 years were as follows:

	Fee RMB'000	Salaries and other benefits RMB'000	Discretionary bonus RMB'000 (note)	Retirement benefit scheme contribution RMB'000	Total RMB'000
2016					
Executive directors					
Mr. Fan Zhijun (a)	**–**	**542**	**261**	**12**	**815**
Mr. Zhang Bin (a)	**–**	**159**	**210**	**6**	**375**
Non-executive director					
Mr. Fan Yajun (b)	**–**	**–**	**–**	**–**	**–**
Independent non-executive directors					
Mr. Leung Shu Sun Sunny (c)	**–**	**28**	**–**	**–**	**28**
Mr. Liu Jian (d)	**–**	**28**	**–**	**–**	**28**
Mr. Chu Xiaoliang (e)	**–**	**28**	**–**	**–**	**28**

	Fee RMB'000	Salaries and other benefits RMB'000	Discretionary bonus RMB'000 (note)	Retirement benefit scheme contribution RMB'000	Total RMB'000
2015					
Executive directors					
Mr. Fan Zhijun (a)	–	174	40	10	224
Mr. Zhang Bin (a)	–	95	25	5	125

Note: The discretionary bonus is determined based on the financial results of the subsidiaries operated in the PRC for both years.

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 director of the Company or its subsidies during both years.

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

The non-executive directors' and independent non-executive directors' emoluments shown above were for their services as directors of the Company.

(a) 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.

(b) Mr. Fan Yajun was appointed as non-executive director on 16 March 2016 and resigned on 17 April 2016.

(c) Mr. Leung Shu Sun Sunny was appointed as independent non-executive director on 14 October 2016.

(d) Mr. Liu Jian was appointed as independent non-executive director on 14 October 2016.

(e) Mr. Chu Xiaoliang was appointed as independent non-executive director on 14 October 2016.

15. EMPLOYEES' EMOLUMENTS

The five individuals with the highest emoluments in the Group include two (2015: one) directors of the Company whose emoluments are included in note 14 above for the year ended 31 December 2016. The remunerations of the remaining three (2015: four) individuals for the year ended 31 December 2016 are set out below:

	2016 RMB'000	2015 RMB'000
Salaries and other benefits	**1,042**	507
Discretionary bonus	**1,368**	74
Contributions to retirement benefit scheme	**13**	14
	2,423	595

The number of the highest paid employees who are not directors of the Company and whose remuneration fell within the following bonds is as follows:

	2016 No. of employees	2015 No. of employees
Nil to HK$1,000,000	**2**	4
HK$1,500,001 to HK$2,000,000	**1**	–
	3	4

During both years, 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 both years.

16. DIVIDEND

The Board recommends the payment of a final dividend for 2016 of HK$3.0 cents (equivalent to RMB2.7 cents) (2015: nil) per share (the "**Proposed Final Dividend**") amounting to HK$48,000,000 and a special dividend for 2016 of HK$2.0 cents (equivalent to RMB1.8 cents) (2015: nil) per share (the "**Proposed Special Dividend**") amounting to HK$32,000,000. The Proposed Final Dividend and the Proposed Special Dividend will be payable in cash.

The Proposed Final Dividend and the Proposed Special Dividend for the year ended 31 December 2016 are subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The final dividend and special dividend proposed after the end of the reporting period have not been recognised as liabilities at the end of the reporting period.

17. EARNINGS PER SHARE

	2016 **RMB'000**	2015 RMB'000
Earnings:		
Earnings for the purpose of calculating basic earning per share (profit for the year attributable to the owners of the Company)	**89,916**	46,854

	2016	2015
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,171,563,449**	590,890,535

The calculation of the basic earnings per share for both years is based on the assumption that the reorganisation and the capitalisation issue of 1,200,000,000 shares has been in effective on 1 January 2015 and adjusted for the capital contributions by shareholders during both years.

No diluted earnings per share is presented as there was no potential dilutive ordinary share in issue during both years.

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
COST				
At 1 January 2015	3,218	468	1,086	4,772
Additions	–	33	–	33
Disposals	–	–	(139)	(139)
At 31 December 2015 and 2016	3,218	501	947	4,666
DEPRECIATION				
At 1 January 2015	1,248	280	402	1,930
Provided for the year	560	66	197	823
Eliminated on disposals	–	–	(123)	(123)
At 31 December 2015	1,808	346	476	2,630
Provided for the year	559	56	179	794
At 31 December 2016	2,367	402	655	3,424
CARRYING VALUES				
At 31 December 2016	851	99	292	1,242
At 31 December 2015	1,410	155	471	2,036

The above items of property, plant and equipment are depreciated on a straight-line basis at the following periods:

Leasehold improvement	2–5 years
Furniture, fixtures and equipment	3–5 years
Motor vehicles	5 years

19. DEFERRED TAXATION

The following is the major deferred tax asset recognised and movements thereon during the years:

	Allowances for doubtful debt RMB'000
At 1 January 2015	1,085
Charge to profit or loss	(754)
At 31 December 2015	331
Credit to profit or loss	864
At 31 December 2016	1,195

20. LOANS TO CUSTOMERS FOR ART AND ASSET PAWN BUSINESS

	2016 **RMB'000**	2015 RMB'000
Art and asset pawn loans to customers, gross	**238,963**	66,136
Less: impairment allowances		
— Individually assessed	**–**	–
— Collectively assessed	**4,780**	1,323
	4,780	1,323
Art and asset pawn loans to customers, net	**234,183**	64,813

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 30% to 48% (2015: 18% to 48%) per annum during the year ended 31 December 2016. Loans to customers are all denominated in RMB.

20. LOANS TO CUSTOMERS FOR ART AND ASSET PAWN BUSINESS (Continued)

(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:

	2016 RMB'000	2015 RMB'000
Within 1 month	**83,892**	26,831
2–3 months	**112,787**	3,695
3–6 months	**37,504**	16,019
6–12 months	**–**	18,181
12–24 months	**–**	52
Over 24 months	**–**	35
Total	**234,183**	64,813

(b) Reconciliation of allowance account for losses on loans to customers

	2016 RMB'000	2015 RMB'000
Individually assessed:		
At beginning of year	**–**	2,562
Reversal of impairment loss	**–**	(253)
Loans written off as uncollectible	**–**	(2,309)
At end of year	**–**	–
Collectively assessed:		
At beginning of year	**1,323**	1,780
Impairment losses recognised (reversal)	**3,457**	(457)
At end of year	**4,780**	1,323

20. LOANS TO CUSTOMERS FOR ART AND ASSET PAWN BUSINESS (Continued)

(c) Net charge (reversal) of impairment allowance on loans to customers

	2016	2015
	RMB'000	RMB'000
Net charge (reversal) of impairment allowance		
Individually assessed	**–**	(253)
Collectively assessed	**3,457**	(457)
	3,457	(710)

21. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	2016	2015
	RMB'000	RMB'000
Trade receivables for art and asset auction business	**–**	97
Other receivables and prepayments:		
Receivables from customers in respect of art and asset auction business	**–**	1,629
Other receivables	**–**	131
Deferred listing costs	**–**	2,625
Prepayments	**52**	142
Total	**52**	4,624

Buyers of artworks are required to settle the entire purchase price of the artworks within seven days after the date of auction. An artwork will 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 receivables 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.

The Group's trade receivables balance of art and asset auction business are aged within one month after the date of auction services. Thus 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.

22. AMOUNT DUE FROM A DIRECTOR

Particulars of amount due from a director are disclosed as follows:

	2016	2015
	RMB'000	RMB'000
Mr. Fan Zhijun	**–**	79

	Maximum amount outstanding during the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Mr. Fan Zhijun	**79**	79

The amount due from a director is non-trade, unsecured, interest-free and repayable on demand.

23. BANK BALANCES AND CASH

The Group's bank balances carry interest at rates of from 0.01% to 1.1% (2015: 0.35%) per annum for the year ended 31 December 2016.

24. OTHER PAYABLES AND ACCRUAL

	2016	2015
	RMB'000	RMB'000
Payables on behalf of customers in respect of art and asset auction business	**35,924**	41,234
Other payables for art and asset auction business	**365**	478
Accrued staff costs	**3,558**	580
Other tax payables	**12,563**	9,958
Other payable for listing expenses	**8,147**	2,248
Others	**4,016**	494
	64,573	54,992

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.

The Group's payables on behalf of customers in respect of art and asset auction business are aged within one month after the date of auction services.

25. AMOUNTS DUE TO RELATED PARTIES

Particulars of amounts due to related parties are disclosed as follows:

	2016	2015
	RMB'000	RMB'000
Mr. Lai Chau Yung	–	6,406
Zisha Hotel	–	120
	–	6,526

The amount due to Mr. Lai Chau Yung is non-trade, unsecured, interest-free and repayable on demand.

Mr. Lai Chau Yung is a shareholder of the Company.

The amount due to Zisha Hotel is trade in nature, aged within one month as at 31 December 2015.

26. SHARE CAPITAL/PAID-IN CAPITAL

The paid-in capital of the Group as at 1 January 2015 and 31 December 2015 represented the aggregate amount of the fully paid registered capital or share capital of Hexin Pawn, Hexin Auction and the Company which were contributed by the controlling shareholders of the Group respectively and have not been eliminated prior to the completion of the Reorganisation.

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 statement of financial position. Upon the completion of the capital contribution from the equity holders of Hexin Pawn, the paid-in capital in the consolidated statement 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.

26. SHARE CAPITAL/PAID-IN CAPITAL (Continued)

Movements of the share capital of the Company since the date of the incorporation on 2 November 2015 to 31 December 2016 are as follows:

	Notes	Number of shares	Nominal value HK$'000	Nominal value RMB'000
Ordinary shares of HK$0.01 each				
Authorised				
At 2 November 2015 (date of incorporation) and 31 December 2015	(a)	38,000,000	380	332
Increase on 14 October 2016	(c)	4,962,000,000	49,620	43,088
At 31 December 2016		5,000,000,000	50,000	43,420
Issued and fully paid				
At 2 November 2015 (date of incorporation)	(a)	1	–	–
Issue of new shares to immediate holding company	(b)	9,999	–	–
At 31 December 2015		10,000	–	–
Issue of new shares pursuant to the global offering	(d)	400,000,000	4,000	3,499
Capitalisation issue of shares	(e)	1,199,990,000	12,000	10,496
At 31 December 2016		1,600,000,000	16,000	13,995

Notes:

(a) On 2 November 2015, the Company was incorporated with 38,000,000 authorised ordinary shares of HK$0.01 each, of which 1 subscriber share was allotted and issued, credit as fully paid up, to an officer of the registered agent of the Company, such share was transferred to the immediate holding company of the Company on the same date.

(b) On 29 December 2015, the Company allotted and issued 9,999 shares at par and credited as fully paid, represented share capital of HK$100 (approximately to RMB84) as at 31 December 2015.

(c) On 14 October 2016, the authorised share capital of the Company was 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.

(d) On 8 November 2016, 400,000,000 shares of HK$0.01 each of the Company were issued at a price of HK$0.75 each by way of global offering. On the same date, the shares of the Company were listed on the Main Board of the HKSE. The proceeds of HK$4,000,000 (equivalent to RMB3,499,000 representing the par value of the new shares were credited to the Company's share capital. The remaining proceeds of HK$296,000,000 (equivalent to RMB258,911,000), before the issuing expenses, were credited to the share premium of the Company.

(e) Pursuant to the written resolutions passed by all shareholders of the Company on 14 October 2016, the directors of the Company were authorised to capitalise HK$12,000,000 (equivalent to RMB10,496,000) standing to credit of the share premium amount of the Company by applying such sum in paying up in full at par of 1,199,990,000 ordinary shares of HK$0.01 each of the Company for allotment and issue to the shareholders of the Company on the register of members of the Company on the date before listing of the shares of the Company in proportion to their then existing respective shareholding in the Company, conditional on the share premium account of the Company being credited as a result of the issue of shares by the Company pursuant to the global offering. The global offering of the Company was completed on 8 November 2016.

27. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed by the Company on 14 October 2016 for the primary purpose of providing incentives to directors and eligible participants, and will expire on 13 October 2026. Under the Scheme, the board of directors of the Company may grant options to i) any employee ("Eligible Employee") (whether full-time or part-time including any executive director but excluding any non-executive director) of the Company, any of the subsidiaries or any entity ("Invested Entity") in which any member of the Group holds an equity interest; ii) any non-executive directors (including independent non-executive directors) of the Company, any of the subsidiaries or any Invested Entity; iii) any supplier of goods or services to any member of the Group or any Invested Entity; iv) any customer of any member of the Group or any Invested Entity; v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and viii) 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 the Group to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12 month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive directors (excluding independent non-executive directors who or whose associates is the proposed grantee of the options). Options granted to substantial shareholders or independent non-executive directors or any of their respective associates in aggregate over 0.1% of the Company's shares in issue or with a value based on the closing price of the shares at the date of each offer for the grant, in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

Options may be exercised at any time from the date of grant of the share option to the 10 anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

At 31 December 2016, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was nil (2015: nil).

28. 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 statement of profit or loss and other comprehensive income amounted to RMB202,000 (2015: RMB161,000) for the year ended 31 December 2016.

29. OPERATING LEASES

The Group as lessee

	2016 RMB'000	2015 RMB'000
Minimum lease payments paid to the following parties under operating leases in respect of rented premises during the years:		
Mr. Fan Zhijun	**600**	375
Outsiders	**302**	357
	902	732

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:

	2016 RMB'000	2015 RMB'000
Within one year		
Mr. Fan Zhijun	**600**	600
Outsiders	**147**	167
	747	767
Between one and five years		
Mr. Fan Zhijun	**2,400**	2,400
Outsiders	**–**	147
	2,400	2,547
Over five years		
Mr. Fan Zhijun	**1,425**	2,025
	4,572	5,339

Operating lease payment represent rentals payable by the Group for its offices premises. Leases are negotiated and rentals are fixed for terms of one to nine years.

30. 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 capital structure of the Group consists of share capital/paid-in capital, reserves and amounts due to related parties, net of bank balances and cash, and equity attributable to owners of the Company comprising share capital/paid-in capital and reserves .

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 debt.

31. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2016 **RMB'000**	2015 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**697,263**	359,586
Financial liabilities		
Amortised cost	**48,452**	50,980

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 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 and 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.

31. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

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. 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.

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 would have been increased/decreased by approximately RMB5,227,000 and (2015: RMB2,680,000), for the year ended 31 December 2016, mainly as a result of higher/lower interest rate on variable-rate bank deposits and 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 2016 are as follows:

	Currency	2016 RMB'000	2015 RMB'000
Monetary assets	HKD	**218,652**	–
Monetary liabilities	HKD	**7,251**	3,888
Net exposure	HKD	**211,401**	(3,888)

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.

31. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk (Continued)

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 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 for the year. For a 5% strengthening of HKD against RMB, there would be an equal and opposite impact on the profit before tax. The increase in profit for the year is mainly attributable to the exposure on bank balances and cash and other payables in HKD.

	2016	2015
	RMB'000	RMB'000
(Decrease) increase in profit	**(10,570)**	194

In management's opinion, the sensitivity analysis is unpresentative of the inherent currency risk as the year end exposure does not reflect the exposure during the year.

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 statement 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 consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group employs a range of policies and practices to mitigate credit risk.

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 enterprise 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.

31. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group maintains a reasonably diversified client base. As at 31 December 2016, the Group's concentration of credit risk on loans to customers for art and asset pawn business included ten major customers in the PRC accounting for 56.96% (2015: 81.14%). 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 21. As artwork 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 high credit ratings and good reputation established in the PRC and Hong Kong.

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	
	2016	2015
	RMB'000	RMB'000
Loans to customers, gross	**238,963**	66,136
Less: Impairment allowances	**4,780**	1,323
	234,183	64,813

Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at each of reporting date 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. In ascertaining the value of collateral, the Group also engaged an independent qualified professional valuer to perform valuation of selected high-valued artwork collaterals.

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 2016, the aggregate carrying amount of RMB5,000 (2015: nil) 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 20.

31. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

Loans to customers

Loans to customers are summarised as follows:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**238,958**	66,136
Past due but not impaired	**5**	–
Gross	**238,963**	66,136
Individually impaired	**–**	–
Collectively impaired	**4,780**	1,323
Net	**234,183**	64,813

(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:

	2016 RMB'000	2015 RMB'000
Collaterals backed art and asset pawn loans, gross past due within 1 month	**5**	–

31. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

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 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 following financial liabilities are interest free. The undiscounted amount is derived from interest rate curve at the end of each reporting period.

	Repayable on demand RMB'000	**Less than 1 year** RMB'000	**Total undiscounted cash flows and carrying amount** RMB'000
2016			
Other payables	48,452	–	48,452
2015			
Other payables	972	43,482	44,454
Amounts due to related parties	6,526	–	6,526
	7,498	43,482	50,980

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 consolidated financial statement approximate their fair value.

32. 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 interest As at 31 December		Profit allocated to non-controlling interests For the year 31 December		Accumulated non-controlling interests As at 31 December	
	2016	2015	**2016**	2015	**2016**	2015
Hexin Pawn	**–**	36%	**3,414**	14,046	**–**	83,824
Hexin Auction	**–**	5%	**102**	1,494	**–**	3,101
			3,516	15,540	**–**	86,925

Hexin Pawn

	2016 RMB'000	2015 RMB'000
Non-current assets	**2,315**	2,132
Current assets	**290,598**	233,578
Current liabilities	**5,702**	2,865
Equity attributable to owners of the Company	**287,211**	149,021
Non-controlling interests	**–**	83,824

	2016 RMB'000	2015 RMB'000
Revenue	**84,273**	59,259
Expenses	**(29,907)**	(20,242)
Profit and total comprehensive income for the year	**54,366**	39,017
Profit and total comprehensive income attributable to the owners of the Company	**50,952**	24,971
Profit and total comprehensive income attributable to the non-controlling interest	**3,414**	14,046
Net cash (outflow) inflow from operating activities	**(113,725)**	68,214
Net cash inflow from investing activities	**370**	180
Net cash inflow from financing activities	**–**	60,000
Net cash (outflow) inflow	**(113,355)**	128,394

32. PARTICULARS OF NON-WHOLLY OWNED SUBSIDIARIES OF THE COMPANY (Continued)

Hexin Auction

	2016 RMB'000	2015 RMB'000
Non-current assets	**122**	235
Current assets	**189,668**	126,627
Current liabilities	**62,231**	64,834
Equity attributable to owners of the Company	**127,559**	58,927
Non-controlling interests	**–**	3,101

	2016 RMB'000	2015 RMB'000
Revenue	**92,668**	48,315
Expenses	**(27,137)**	(18,432)
Profit and total comprehensive income for the year	**65,531**	29,883
Profit and total comprehensive income attributable to the owners of the Company	**65,429**	28,389
Profit and total comprehensive income attributable to the non-controlling interest	**102**	1,494
Net cash inflow from operating activities	**64,667**	88,304
Net cash inflow from investing activities	**359**	12,080
Net cash outflow from financing activities	**(120)**	–
Net cash inflow	**64,906**	100,384

33. RELATED PARTY DISCLOSURES

(a) Details of transactions, arrangements and contracts in which a director of the Company/a connected entity of a director of the Company has a material interest disclosed pursuant to section 22 of Cap 622G, in addition to note 22, are as follows:

During the year, the Group entered into the following significant transactions with Mr. Fan Zhijun:

	2016	2015
	RMB'000	RMB'000
Rental of offices	**600**	375

Operating lease commitments in respect of such office are disclosed in note 29.

(b) **Other related party transactions**

During the year, the Group entered into the following significant transactions with Zisha Hotel:

	2016	2015
	RMB'000	RMB'000
Rental of stage	**–**	120

During the year, the Group entered into the following significant transaction with Mr. Lai Chau Yung:

	2016	2015
	RMB'000	RMB'000
Payments made on behalf of the Group		
Staff cost	**669**	176
Listing expenses	**10,647**	6,230
	11,316	6,406

During the year, the Group entered into the following significant transactions with Ms. Zhou Jianyuan:

	2016	2015
	RMB'000	RMB'000
Pawn loan revenue	**–**	2,197

During the year ended 31 December 2016, art and asset pawn loans granted to Ms. Zhou amounted to Nil (2015: RMB10,800,000). The pawn loans granted were renewed two times and were repaid during the year ended 31 December 2015. No loans were granted or renewed during the year ended 31 December 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 granted.

Ms. Zhou Jianyuan is the spouse of a director of Hexin Pawn.

33. RELATED PARTY DISCLOSURES (Continued)

(c) Compensation of key management personnel

The remuneration of key management personnel during the year ended 31 December 2016 was as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other benefits	**2,055**	752
Discretionary bonus	**2,228**	145
Contributions to retirement benefit scheme	**37**	28
	4,320	925

The remuneration of key management personnel is determined by reference to the performance of individuals and market trend.

34. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2016 are as follows:

Name of company	Place of incorporation/ establishment	Equity interest attributable to the Group As at 31 December 2016 %	2015 %	Issued and fully paid share/ registered capital	Legal form	Principal activities
Directly held:						
Reliance Art Holdings Limited	British Virgin Islands (the "BVI")	**100%**	100%	USD50,000	Limited liability company	Investment holding
Indirectly held:						
Co-Reliance Art Financial Company Limited	Hong Kong	**100%**	–	HK$1	Private limited company	Investment holding
宜興市漢信信息技術服務有限公司 Yixing Hanxin Information Technology Service Company Limited	The People's Republic of China (the "PRC")	**100%**	–	HK$500,000	Limited liability company	Investment holding
宜興市紫玉信息技術服務有限公司 Yixing Ziyu Information Technology Service Company Limited	PRC	**100%**	–	HK$500,000	Limited liability company	Investment holding
江蘇和信拍賣有限公司 Jiangsu Hexin Auction Co., Ltd.	PRC	**100%**	95%	RMB10,000,000	Limited liability company	Auction services
江蘇和信典當有限公司 Jiangsu Hexin Pawn Co,, Ltd.	PRC	**100%**	64%	RMB100,000,000	Limited liability company	Pawn loan services

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Investment in a subsidiary	(a)	**20,253**	–
Amount due from a subsidiary	(b)	**73,305**	–
		93,558	–
Current assets			
Prepayments		**–**	2,625
Bank balances and cash		**127,513**	–
		127,513	2,625
Current liabilities			
Other payables and accrual		**11,790**	2,725
Amounts due to related parties		**–**	6,230
		11,790	8,955
Net current assets (liabilities)		**115,723**	(6,330)
Total assets less current liabilities		**209,281**	(6,330)
Net assets		**209,281**	(6,330)
Capital and reserves			
Share capital		**13,995**	–
Reserves		**195,286**	(6,330)
Total equity		**209,281**	(6,330)

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	Share capital RMB'000	Share premium RMB'000	Accumulated losses RMB'000	Total RMB'000
At 2 November 2015 (date of incorporation)	–	–	–	–
Loss and total comprehensive expense for the year	–	–	(6,330)	(6,330)
At 31 December 2015	–	–	(6,330)	(6,330)
Loss and total comprehensive expense for the year	–	–	(21,446)	(21,446)
Issue of new shares pursuant to the global offering	3,499	258,911	–	262,410
Capitalisation issue of shares	10,496	(10,496)	–	–
Expenses incurred in connection with issue of shares	–	(25,353)	–	(25,353)
At 31 December 2016	13,995	223,062	(27,776)	209,281

Note:

(a) Investment in a subsidiary represents the investment cost of HK$7.8 in Reliance Art, a wholly-owned subsidiary of the Company incorporated in the BVI on 3 December 2015, and deemed investment cost of RMB20,253,000, arising from the non-current intercompany advance to a subsidiary.

(b) This amount is unsecured, interest free and expected to be realised within 5 years from the end of the reporting period, and therefore measured at amortised cost at an effective interest rate of 5.0% per annum.

36. SUBSEQUENT EVENTS

No significant events took place subsequent to 31 December 2016.