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

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Fan Zhijun *(Chairman)*
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

Room 1907,19/F, China Evergande Centre,
38 Gloucester Road, Wan Chai,
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
Wan Chai
Hong Kong

PRINCIPAL BANK IN HONG KONG

Bank of Communication Co., Ltd. Hong Kong Branch
Wing Lung Bank Ltd.

PRINCIPAL BANK IN CHINA

Jiangsu Yixing Rural Commercial Bank

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISERS AS TO HONG KONG

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

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). 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.

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.

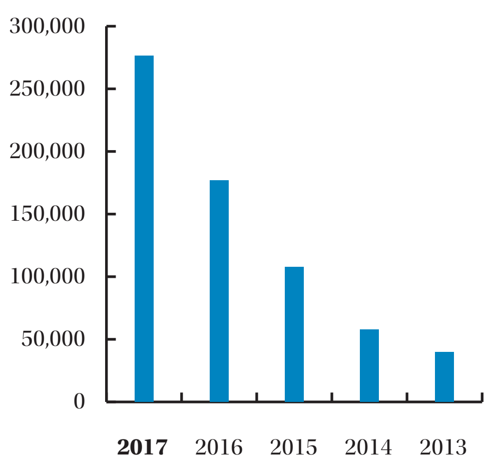
Given the nature of our art-related operations, we also established long-term relationship with external experts for conducting artworks authentication and valuation. The joint efforts of our senior management and experts have contributed to our development and growth as a specialised art pawn loan service provider and art auction house in China.

FINANCIAL SUMMARY

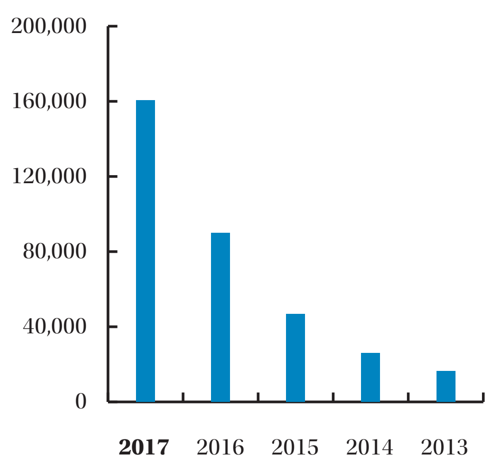
	For the year ended or as at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating Results					
Revenue	**276,499**	176,882	107,574	57,698	39,869
Profit attributable to owners of the Company	**160,475**	89,916	46,854	25,901	16,435
Financial Position					
Total assets	**1,197,476**	699,752	364,720	161,388	121,568
Cash at bank and on hand	**527,265**	463,080	292,837	64,059	36,594
Loans to customers	**319,912**	234,183	64,813	93,049	80,490
Total liabilities	**479,556**	80,896	76,353	7,415	4,311
Net assets	**717,920**	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.

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 2017 (the "Reporting Year").

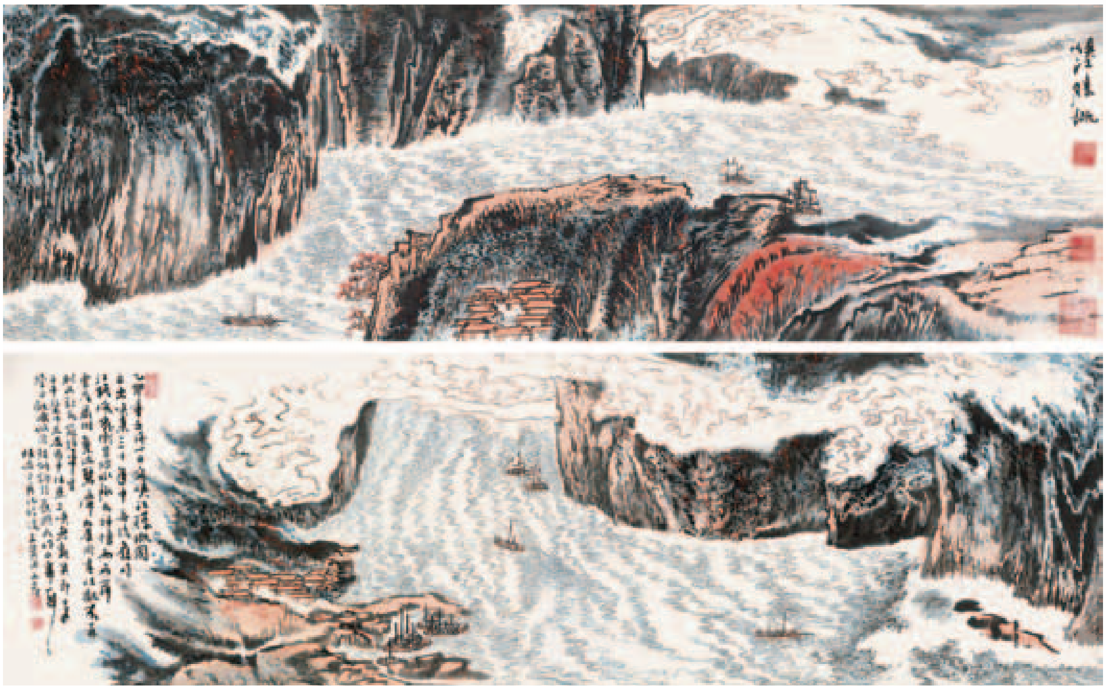
In 2017, the global economy has gradually been turning to a better landscape with a good growing momentum in the developed economies, while the growth of new emerging market and the developing economies has stabilised and shown an upward trend. With the transformation of development pattern, China economy is entering into a high-quality stage of development. Leveraging on the improving adaptability of the enterprises and the increasing economic stability, China's gross domestic product (GDP) recorded a year-on-year growth of 6.9% and securing the rapid growth of the economy. Under the optimistic economic environment, an obvious trend of upgrading consumption emerged and the Chinese government has also been actively promoted cooperation between the financial and cultural sectors, which in turn facilitating the continuous and stable development of the Chinese art finance industry.

In 2017, the Company proactively adapted to the new norm of economic and industrial development and stayed at the cutting edge of market trends, thus achieving remarkable results in art auction business and art pawn loan business which are the two main segments of the Company. In June 2017, the Company successfully held the first spring auction upon its listing and received an overwhelming market response. Artfund International (Hong Kong) Auction Company Limited, a subsidiary wholly-owned by the Company, has been established in Hong Kong and commenced its operation in August. Based in Hong Kong, the Company can further extended its business network of cultural and art finance. In November, the Company held its first autumn auction in Hong Kong and achieved remarkable results with total hammer price amounted to approximately HK$189.7 million. Such auction has formed a cornerstone for the Company's business development in Hong Kong as well as overseas and further enriched the diversity of the art related business.

In the year to come, we believe that under favorable conditions such as the steady growth of global economy as well as the improving living standard of residents, there will be a gradual increase in spiritual consumption expenditure of the public, which leads to an enormous demand for art finance service. In addition, leveraging on the strong development of e-commerce infrastructure, the rapidly rising online art market provides convenience to the massive group of artwork lovers and in turn brings huge market opportunities to the Company.

Looking forward, the Company will continue to extend its art finance business network, to further bring up and explore market demand and to enhance the risk management of the Company. By taking unique advantage of having support from the Mainland China and our connection with the world and seizing opportunities presented by the fast growing market, we strive to become the largest art financial integrated service provider in China in order to facilitate the rapid development of the art finance market in China and to create greater value for our shareholders, investors, customers and employees!

Fan Zhijun
Chairman
Hong Kong, 22 March 2018



MARKET REVIEW

Company Financial Performance

Our revenue increased by 56%, while two main businesses of China Art Financial Holdings Limited (the "Company") achieved a balanced and rapid growth. The revenue from art auction business and art pawn loan business have recorded increases of 60% and 52%, respectively.

Profit attributable to equity owners of the Company recorded a year-on-year increase of 78%, offsetting by the amortization of charges of approximately RMB9.8 million for the year ended 31 December 2017 arising from the issuance of share options by the Company on 2 June 2017 (please refer to section "Share Option Scheme" for details).

Company Business Highlights

	Year ended 31 December		Change
Operating Information	**2017**	2016	%
Aggregate transaction value of art auction (RMB million)	**764**	490	56
Aggregate transaction value of spring auction (RMB million)	**213**	164	30
Aggregate transaction value of autumn auction (RMB million)	**439**	280	57
Aggregate transaction value of pure online auction (RMB million)	**112**	46	143
Overall commission rate for art auction business (%)	**19**	19	–
Total new loan amount granted secured by artwork (RMB million)	**708**	569	24
Impaired loan rate (%)	**0**	0	–

Business Plan For 2018

The Company has planned to organize our first spring auction and autumn auction in Hong Kong in late May and November 2018 respectively. Meanwhile, we actively prepare for the spring and autumn auction to be held in Yixing in late June and December 2018 respectively. We plan to expand our auction business in other major cities in China. In addition, we plan to organise four pure online auctions in 2018. The Company injected RMB70 million into its wholly-owned subsidiary Jiangsu Hexin Pawn Company Limited (the "Hexin Pawn") as registered capital in 2017, with an aim to expand art pawn loan business in 2018. The Company will seek for merger and acquisition co-operation with suitable companies in art pawn loan and auction industry with synergy effects which can enhance overall strength in art finance services with the Company as disclosed in the prospectus of the Company dated 27 October 2016 (the "Prospectus").

BUSINESS REVIEW

In 2017, the Group actively responded to the changes of the economic environment and took initiative to seek for new opportunity for market development. The Group's auction and pawn loan business segments achieved remarkable results. For the year ended 31 December 2017, the Group's revenue was approximately RMB276.5 million, representing an increase of 56% from RMB176.9 million for the same period in 2016. The profit attributable to owners of the Company was approximately RMB160.5million, representing an increase of 78% from RMB89.9 million for the same period in 2016.

Art Auction Business

The Group's art auction business continued to grow soundly. During the Reporting Year, revenue from the art and asset auction segment of the Company was approximately RMB148.0 million, representing an increase of 60% from RMB92.6 million for the same period last year, of which, revenue of art auction representing 100% (2016: 100%) of auction segment revenue. Profits of art and asset auction segment was RMB131.4 million, representing an increase of 46% from RMB89.7 million for the same period last year.

During the Reporting Year, the Group held spring auction in Yixing, autumn auctions in both Hong Kong and Yixing and four pure online art auctions. The aggregate transaction value (excluding buyer commission) amounted to RMB764 million, representing an increase of approximately 56% from approximately RMB490 million for the same period last year.

On 25 June 2017, the Group successfully organized its first spring auction after listing. The total hammer price for the auction lots (excluding buyer commission) reached RMB213 million, representing an increase of approximately 30% from approximately RMB164 million of the 2016 spring auction.

On 24 to 25 November 2017, the Group successfully held its first autumn auction in Hong Kong, stepping into the Hong Kong art market for the first time and paving the way for its expansion of international business in the future. The total hammer price for the autumn auction (excluding buyer commission) reached approximately RMB160 million (equivalent to approximately HK$189.7 million).

Since the launch of pure online art auctions in 2016, the Group has achieved remarkable results. During the Reporting Year, the Company held four pure online art auctions (2016: three). The total hammer price for the auction lots (excluding buyer commission) reached RMB112 million, representing an increase of approximately 143% from approximately RMB46 million for the same period last year.

Art and Asset Pawn Loan Business

The Group steadily developed its art and asset pawn loan business with an outstanding effectiveness in risk management. During the Reporting Year, revenue from the pawn loan segment was approximately RMB128.5 million, representing an increase of 52% from RMB84.3 million for the same period last year. Profits of pawn loan segment was RMB122.8 million, representing an increase of 58% from RMB77.7 million for the same period last year. As of 31 December 2017, the total amount of new loans granted by the Group amounted to approximately RMB708.3 million.

The breakdown of art and asset pawn loan business of the Group in 2017 and 2016 was as follows:

	Year ended 31 December				
	2017		2016		
	RMB'000	**%**	RMB'000	%	% of change
Art pawn loan revenue	**122,763**	**96**	83,539	99	47
Asset pawn loan revenue	**5,712**	**4**	734	1	678
Total	**128,475**	**100**	84,273	100	52

In 2017, approximately RMB708.3 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 2017, 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	**2017**	2016
Total new loan amount granted (RMB'000)	**708,270**	569,260
Total number of new loans granted	**109**	105
Number of new loans renewed	**65**	63
Renewal ratio of new loan (%)	**59.6**	60.0
Average initial loan term (days)	**69**	69

	Year ended 31 December	
Loans secured by assets	**2017**	2016
Total new loan amount granted (RMB'000)	**25,607**	27,513
Total number of new loans granted	**73**	167
Number of new loans renewed	**50**	91
Renewal ratio of new loan (%)	**68.5**	54.5
Average initial loan term (days)	**41**	48

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 2017, the Group's impaired loan ratio was 0%.

FINANCIAL REVIEW

Revenue

Our revenue increased by approximately RMB99.6 million, or approximately 56%, from approximately RMB176.9 million for the year ended 31 December 2016 to approximately RMB276.5 million for the year ended 31 December 2017, primarily due to (i) the significant increase in our art and asset auction revenue of approximately RMB55.4 million as a result of our successful holding of the first autumn auction in Hong Kong and four online auctions during the year and (ii) the steady increase in our art and asset pawn revenue of approximately RMB44.2 million. Meanwhile, in April 2017, the registered capital in Hexin Pawn increased from RMB100 million to RMB170 million, which allowed our Group to lend larger loan amounts for each transaction and increased the total funding available for lending.

The respective segment revenue of the Group in 2017 and 2016 was as follows:

	Year ended 31 December		
	2017	2016	
	RMB'000	RMB'000	% of change
Art and asset auction business	**148,024**	92,609	60
Art and asset pawn business	**128,475**	84,273	52
Total	**276,499**	176,882	56

Business tax and surcharges

Our business tax and surcharges decreased by approximately RMB1.0 million, or approximately 34%, from approximately RMB2.9 million for the year ended 31 December 2016 to approximately RMB1.9 million for the year ended 31 December 2017. 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 RMB15.6 million, or approximately 503%, from approximately RMB3.1 million for the year ended 31 December 2016 to approximately RMB18.7 million for the year ended 31 December 2017, primarily due to the holding of the first autumn auction in Hong Kong.

Allowance recognised on loans to customers for art and asset pawn business

For the year ended 31 December 2017, we recognised the collectively assessed impairment allowance of approximately RMB1.7 million as a result of the increase in the gross loan amount outstanding from approximately RMB239.0 million as of 31 December 2016 to RMB326.4 million as of 31 December 2017.

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 RMB17.3 million, or approximately 109%, from approximately RMB15.9 million for the year ended 31 December 2016 to approximately RMB33.2 million for the year ended 31 December 2017, primarily due to (i) the increase of approximately RMB2.7 million mainly as a result of professional fee incurred after listing in 2017 and (ii) the increase in general staff cost of approximately RMB8.6 million that was mainly attributable to the salaries as a result of the expansion of operations after listing and the non-cash equity-settled share-based payment expenses of approximately RMB5.0 million relating to share options granted during the Reporting Year.

Other gains and losses

Our other gains and losses decreased by approximately RMB6.6 million from the gains of approximately RMB5.5 million for the year ended 31 December 2016 to the losses of approximately RMB1.1 million for the year ended 31 December 2017, primarily due to the exchange loss arisen from the appreciation of RMB.

Reportable segment profit

As a result of the foregoing, reportable segment profit increased by RMB86.7 million from RMB167.4 million for the year ended 31 December 2016 to RMB254.1 million for the year ended 31 December 2017.

The respective reportable segment profit of the Group in 2017 and 2016 is as follows:

	Year ended 31 December		
	2017	2016	
	RMB'000	RMB'000	% of change
Art and asset auction business	**131,393**	89,737	46
Art and asset pawn business	**122,754**	77,699	58
Segment result	**254,147**	167,436	52

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 RMB87.7 million, or approximately 66%, from approximately RMB133.6 million for the year ended 31 December 2016 to approximately RMB221.3 million for the year ended 31 December 2017.

Income tax expense

Our income tax expenses increased by approximately RMB20.5 million, or approximately 51%, from approximately RMB40.2 million for the year ended 31 December 2016 to approximately RMB60.7 million for the year ended 31 December 2017, 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 RMB70.6 million, or approximately 78%, from approximately RMB89.9 million for the year ended 31 December 2016 to approximately RMB160.5 million for the year ended 31 December 2017, while (ii) no profit and total comprehensive income for the year attributable to non-controlling interests realised.

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, no profit and total comprehensive income attributable to non-controlling interests realised for the year ended 31 December 2017.

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 2017, net working capital (calculated as current assets less current liabilities) was RMB712.3 million, representing an increase of RMB95.9 million as compared with RMB616.4 million as of 31 December 2016. The current ratios (calculated as current assets/current liabilities) are 2.5 times and 8.6 times as of 31 December 2017 and 31 December 2016 respectively.

The following table summarises the consolidated statement of cash flows for the two years ended 31 December 2017 and 2016:

	2017 **RMB'000**	2016 RMB'000
Net cash from (used in) operating activities	**116,274**	(65,873)
Net cash (used in) from investing activities	**(2,422)**	775
Net cash (used in) from financing activities	**(48,022)**	230,501

As of 31 December 2017, the Group's total bank balances and cash increased by 14% to RMB527.3 million from RMB463.1 million as of 31 December 2016. As of 31 December 2017, the Group had obligations under finance leases amounting to approximately RMB0.5 million (2016: nil).

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 2017, despite the appreciation 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 approximately RMB4.4 million and RMBnil for the years ended 31 December 2017 and 2016 respectively.

Capital Commitment

As at 31 December 2017, the Group did not have material capital commitments.

Subsequent Event

No significant events took place subsequent to 31 December 2017.

Human Resources and Training

As of 31 December 2017, the Group had a total of 72 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 2017.

SHARE OPTION SCHEME

The share option scheme (the "Share Option Scheme") was adopted by ordinary resolution passed by the shareholders of the Company on 14 October 2016. Under the Share Option Scheme, the directors of the Company may grant options to subscribe for shares of the Company to eligible participants, including without limitation employees of the Group, directors of the Company and its subsidiaries.

On 2 June 2017, the Company granted an aggregate of 79,000,000 share options at an exercise price of HK$0.80 per share to eligible grantees (the "Grantees"), primarily to provide incentives or rewards to the Grantees. None of the Grantees of the share options is a director, chief executive or substantial shareholder of the Company, or any of their respective associates (as defined under the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")). Among the 79,000,000 share options granted, 28,000,000 Share Options has vested on the date of grant, 28,000,000 share options has vested on 2 December 2017 and the remaining 23,000,000 share options will vest on 2 June 2018. Such grant of share options enabled the Grantees to subscribe for an aggregate of 79,000,000 new ordinary shares of HK$0.01 each in the share capital of the Company. Subject to the terms of the Share Option Scheme, the share options granted are valid for a period of 5 years commencing from the date of grant. 56,000,000 share options were forfeited during the Reporting Year. The fair value of options granted was determined using the binomial option pricing model which amounted to approximately RMB19.4 million and RMB9.8 million was charged to profit or loss account of the Group during the Reporting Year.

Save as disclosed above, no share option was granted, exercised, cancelled or had lapsed under the Share Option Scheme during the Reporting Year. As at 31 December 2017, an aggregate of 23,000,000 share options in the shares of the Company were outstanding.

USE OF NET PROCEEDS

On 8 November 2016, 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 2017, RMB70 million has been injected to PRC to increase the registered capital of Hexin Pawn. Approximately RMB3.6 million has been utilised in establishing branch in Hong Kong. Approximately RMB20.6 million has been utilised for general operation expenses. The remaining net proceeds of approximately RMB118.4 million were deposited with certain licensed financial institutions as of 31 December 2017.

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 2017. In addition, the Group had no significant investments held during the year ended 31 December 2017.

OUTLOOK AND PROSPECTS

In 2018, China's economy is expected to remain its stability, while the government will gradually reduce its target total outputs and lay more emphasis on its economic structural adjustment. Under the reform of the supply-side and with the acceleration in bringing down overcapacity, as well as the change of growth momentum, the economy is shifting to domestic growth. Thus, sectors such as high-end manufacturing and consumption upgrade may become the new growth factors in the transforming stage of the Chinese economy. Leveraging on the strong and growing demands for mental consumption resulting from the expansion of the middle class in the Mainland, China's economy will be further driven to shift from investment-based to consumption-based, and the artwork market will therefore continue to be prosperous. In the future the development of, domestic art financial industry will remain steadily to grow and will keep optimizing its services to satisfy the growing materialized cultural needs of the public.

Auction Business

Firstly, the Group will continue to expand our auction lot composition to include more art categories with strong market demand. 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 and Shanghai, and to solidify our business in Hong Kong region. Thirdly, the Group will focus more on online auction and other online operations, including optimizing and enhancing the arrangement of synchronised online and offline 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. 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 agreements with us at the same time so as to enhance our strong business relationship and expand the source of artworks for our auctions.

Pawn Loan Business

The Group will increase the registered capital of Hexin Pawn when opportunities arrive so as to enlarge our funding available for lending. Secondly, the Group will focus on growing the loan portfolio. In addition to the continuous emphasis on zisha artworks as well as paintings and calligraphies, the Group plans to diversify strategically the 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 proactively develop and utilise online platform. We plan to set up an online loan financing platform so that more clients can be aware of 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 to further develop our online auction platform and enhance its trading function. The Group will also seek opportunities for mergers and acquisitions of enterprises and IT companies engaged in related businesses, or form an alliance with them to increase the competitiveness of the Company.

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 51, is the chairman of our Board 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 42, 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.

INEDs

Mr. Leung Shu Sun Sunny (梁樹新先生), aged 55, 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 26 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 63, 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 67, 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

Ms. Li Simo (李思莫女士), aged 37, is the chief executive officer of our Group, and she is responsible for the day-to-day operations and strategic development of our Group.

Ms. Li obtained a Bachelor's degree at the Luxun Academy of Fine Arts (魯迅美術學院) in 2002.

Prior to joining our Group, Ms. Li worked as the general manager of the Chinese paintings and calligraphies department and the general manager of the Poly VIP department of Beijing Poly International Auction Corporation Limited* (北京保利國際拍賣有限公司), which is a subsidiary of Poly Culture Group Corporation Limited ("Poly Culture Group"), a company whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 03636). During her employment with Poly Culture Group, she served large commercial banks in China such as China Construction Bank, China CITIC Bank and China Minsheng Bank with research and development and customization of art financial products and finance advisory services. She previously worked in Dalian Dongguang International Art Development Co., Ltd* (大連東廣國際藝術發展有限公司). She has over 15 years of experience in art finance business, including over 10 years of experience in art auction business.

Mr. Tang Man Joe (鄧文祖先生), aged 45, 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 19 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 46, 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 40, is the chief administrative officer of our Group, and he is mainly responsible for overseeing the human resources and administration of our Group. Mr. Liu joined our Group as the head of general administration department of Hexin Pawn in March 2007 and was appointed as the secretary to the board of Directors of Hexin Pawn in January 2009. He has also been working as the head of general administration department and assistant to general manager of Hexin Auction since May 2007 and March 2011 respectively.

Mr. Liu completed his studies in business administration from China University of Petroleum (中國石油大學), PRC by attending long distance learning courses in July 2013. In December 2009, Mr. Liu obtained a second level qualification certificate as a human resources professional (二級人力資源管理師) from the Occupational Skill Appraisal Center of the Ministry of Human Resources and Social Security, PRC (中華人民共和國人力資源和社會保障部職業技能鑒定中心).

Ms. Xu Yiyun (徐逸雲女士), aged 40, 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 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 62, 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.

The board (the "Board") of directors (the "Directors") of the Company hereby presents the corporate governance report for the year ended 31 December 2017.

CORPORATE GOVERNANCE PRACTICES

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 throughout the Reporting Year.

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 during the Reporting Year.

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 of 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

Independent Non-Executive Directors:
Mr. Leung Shu Sun Sunny
Mr. Liu Jian
Mr. Chu Xiaoliang

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

Directors	Attendance
Mr. Fan Zhijun *(Chairman)*	5/5
Mr. Zhang Bin	5/5
Mr. Leung Shu Sun Sunny	5/5
Mr. Liu Jian	5/5
Mr. Chu Xiaoliang	5/5

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.

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. Leung Shu Sun Sunny and Mr. Chu Xiaoliang will retire and they being eligible, will offer themselves for re-election at the forthcoming 2018 annual general meeting.

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 and independence of Deloitte Touche Tohmatsu and thus recommended the Board for the approval of the consolidated financial statements for the year ended 31 December 2017.

During the Reporting Year, the Audit Committee held two meetings for reviewing the final results for the year ended 31 December 2017 and the interim financial results for the six months ended 30 June 2017 as well as the significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function and appointment of external auditors and engagement of non-audit services and relevant scope of works.

During the year, the Committee held two meetings with attendance as shown below:

Audit Committee Members	**Attendance/ Number of Meeting**
Mr. Leung Shu Sun Sunny *(Chairman)*	2/2
Mr. Liu Jian	2/2
Mr. Chu Xiaoliang	2/2

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 2017, the Remuneration Committee held two meetings with attendance as shown below to review and make recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the executive Directors, senior management, the newly appointed chief executive officer and other related matters.

Remuneration Committee Members	**Attendance/ Number of Meeting**
Mr. Chu Xiaoliang *(Chairman)*	2/2
Mr. Fan Zhijun	2/2
Mr. Liu Jian	2/2

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 2017, the Nomination Committee held two meetings with attendance as shown below to review the structure, size and composition of the Board and the independence of the independent non-executive Directors, to consider the qualifications of the retiring directors standing for election at the annual general meeting and to consider and recommend to the Board on the appointment of Ms. Li Simo as the chief executive officer. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

Nomination Committee Members	**Attendance/ Number of Meeting**
Mr. Fan Zhijun *(Chairman)*	2/2
Mr. Chu Xiaoliang	2/2
Mr. Leung Shu Sun Sunny	2/2

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, the Risk Management Committee held one meeting with attendance as shown below to review the effectiveness of our risk management system.

Risk Management Committee Members	Attendance/ Number of Meeting
Mr. Chu Xiaoliang *(Chairman)*	1/1
Mr. Leung Shu Sun Sunny	0/1
Mr. Zhang Bin	1/1

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 either by attending training courses or by reading materials relevant to the Company's business and to the Directors' duties and responsibilities.

	Directors' Continuous Professional Development	
Directors	Attending training course(s)	Reading of relevant materials(s)
Mr. Fan Zhijun	N/A	✔
Mr. Zhang Bin	N/A	✔
Mr. Leung Shu Sun Sunny	✔	✔
Mr. Liu Jian	N/A	✔
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 2017.

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.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including screening, authentication and valuation, financial reporting, human resources and information technology.

All divisions conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each division.

During the year, the Company has engaged an external internal control advisory firm to carry out a review of the effectiveness of the risk management and internal control system and make recommendations for improvement of the risk management and internal control system. The Board has reviewed and considered that the Group's risk management and 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 2017, 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	
Review of the interim consolidated financial statements	720
Non-audit services	100

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

There were no significant changes in the constitutional documents of the Company during the year.

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 Friday, 18 May 2018. To ascertain shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 15 May 2018 to Friday, 18 May 2018, 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 Monday, 14 May 2018.

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 2017.

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 40 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 2017.

An analysis of the Group's revenue and operating profit for the year ended 31 December 2017 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 2017 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 "37.b Financial risk management objectives and policies" in the section headed "Notes to the Consolidated Financial Statements" from pages 94 to 101 of this annual report.

EVENTS AFTER REPORTING YEAR

No significant events took place subsequent to 31 December 2017.

FUTURE BUSINESS DEVELOPMENT

A discussion of the Group's future business development is set out in the "Chairman's Statement" on page 6 and "Management Discussion and Analysis" on page 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 2017 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 51 to 108. The Board recommends a payment of a final dividend for the year ended 31 December 2017 of HK$2.0 cents (2016: HK$3.0 cents) per share and no special dividend (2016: HK$2.0 cents) for the year ended 31 December 2017, subject to the approval of the shareholders at the forthcoming annual general meeting to be held on Friday, 18 May 2018 (the "AGM"). The final dividend will be payable on or about 29 June 2018 to shareholders whose names appear on the register of members on 29 May 2018.

CLOSURE OF REGISTER OF MEMBERS

The forthcoming AGM is scheduled to be held on Friday, 18 May 2018. To ascertain shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 15 May 2018 to Friday, 18 May 2018, 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 Monday, 14 May 2018.

RESERVES

Changes to the reserves of the Group during the year ended 31 December 2017 are set out in the consolidated statement of changes in equity. Changes to the reserves of the Company during the year ended 31 December 2017 are set out in Note 41 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 29 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2017 are set out in Note 40 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last 5 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 2017.

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 30 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

Independent Non-executive Directors

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

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 2017 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 2017, 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 2017, 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 2017, 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 2017, 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

Particulars of the share option scheme, share options granted and movement are set out in note 30 to the consolidated financial statements.

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 2017, the Group's largest customer accounted for approximately 3.6% (2016: 5.8%) of the Group's revenue and the five largest customers accounted for approximately 15.8% (2016: 16.3%) of the Group's revenue.

For the year ended 31 December 2017, the Group's largest supplier accounted for approximately 16.1% (2016: 12.8%) of the Group's total purchases and the five largest suppliers accounted for approximately 44.1% (2016: 34.4%) of the Group's total purchases.

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 2017.

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 2017.

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 2017 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 34 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's distributable reserves calculated under the Companies Law comprise the share premium, other reserves and retained earnings amounted to approximately RMB111 million.

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

Other than as disclosed above, during the year ended 31 December 2017, 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 2017.

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

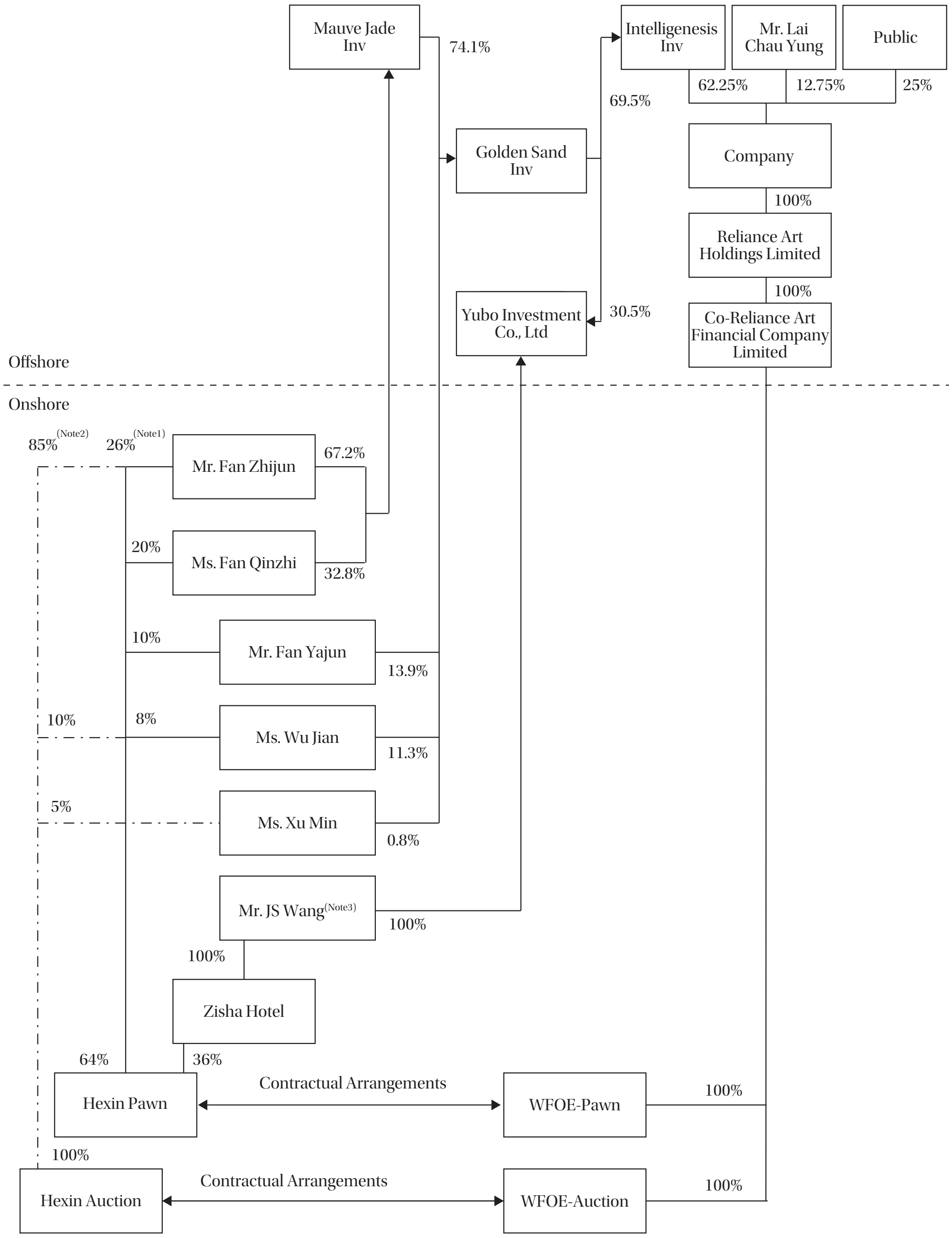
Reasons for using and risks associated with the Contractual Arrangements

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 2018, we plan to enhance 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.

The following diagram sets out the simplified structure of the Group as at 31 December 2017 to illustrates the Contractual Arrangements:



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	
	2017 (RMB'000)	2016 (RMB'000)	**2017 (RMB'000)**	2016 (RMB'000)	**2017 (RMB'000)**	2016 (RMB'000)
Hexin Pawn	**128,475**	84,273	**122,754**	77,699	**322,451**	235,303
Hexin Auction	**127,428**	92,609	**121,094**	89,737	**182,552**	174

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 2017.

UNWINDING OF THE CONTRACTUAL ARRANGEMENTS

Up to 31 December 2017, 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 during 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 2017 (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 2017.

A copy of the auditor's letter on the continuing connected transactions of the Group year ended 31 December 2017 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 2017 are set out in note 39 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 2017 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 dividend for the year ended 31 December 2017, the register of members of the Company will be closed from Friday, 25 May 2018 to Tuesday, 29 May 2018, 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 dividend for the year ended 31 December 2017, 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 Thursday, 24 May 2018.

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, 22 March 2018

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 51 to 108, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 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 judgements applied by the 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 2017, the Group's loans to customers amounted to RMB319,912,000, net of recognised impairment allowance of RMB6,529,000. As explained in notes 4 and 37 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 collaterals 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 collaterals 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 conditions of the high-valued artwork collaterals; • Evaluating the Valuers' 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 collaterals 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 collaterals with the principal amounts of loans on a sample basis.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition on commission income for 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 revenue, representing primarily the buyer's and seller's commission from provision of art and asset auction services, amounting to RMB148,024,000 for the year ended 31 December 2017. Auction revenue is generally recognised when related services are provided and is calculated at a percentage of hammer prices of the auction sales.	Our procedures in relation to revenue recognition on commission income for art and asset auction business included: • Obtaining an understanding of the revenue business processes and controls relating to this auction revenue; • Testing the key controls over the recognition of auction revenue; • Attending physically the auctions held during the year and examining the auction register to verify the hammer prices of the auction sales on a sample basis; • Inspecting the terms of agreements with customers on a sample basis and assessing the revenue recognition criteria; and • Performing substantive analytical procedure using the hammer prices recorded in the auction register and comparing with the auction 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.

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

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

- 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
22 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017** **RMB'000**	2016 RMB'000
Revenue	6	**276,499**	176,882
Other income	8	**1,463**	1,494
Other gains and losses	9	**(1,131)**	5,499
Business tax and surcharges		**(1,893)**	(2,854)
Operating expenses		**(18,710)**	(3,135)
Allowance on loans to customers for art and asset pawn business, net	20	**(1,749)**	(3,457)
Administrative expenses		**(33,171)**	(15,856)
Listing expenses	10	**–**	(24,946)
Finance costs	11	**(22)**	(30)
Profit before tax		**221,286**	133,597
Income tax expense	12	**(60,650)**	(40,165)
Profit for the year	13	**160,636**	93,432
Other comprehensive expense			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operation		**(161)**	–
Profit and total comprehensive income for the year		**160,475**	93,432
Profit for the year attributable to:			
— Owners of the Company		**160,636**	89,916
— Non-controlling interests		**–**	3,516
		160,636	93,432
Profit and total comprehensive income for the year attributable to:			
— Owners of the Company		**160,475**	89,916
— Non-controlling interests		**–**	3,516
		160,475	93,432
Earnings per share for profit attributable to owners of the Company (RMB cents)	17		
Basic		**10.04**	7.67
Diluted		**10.02**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	18	**4,416**	1,242
Deferred tax asset	19	**1,633**	1,195
		6,049	2,437
Current assets			
Loans to customers for art and asset pawn business	20	**319,912**	234,183
Trade receivables, other receivables and prepayments	21	**344,100**	52
Amount due from a director	22	**150**	–
Bank balances and cash	23	**527,265**	463,080
		1,191,427	697,315
Current liabilities			
Other payables and accruals	24	**433,539**	64,573
Amounts due to directors	25	**100**	–
Amounts due to related parties	26	**88**	–
Amount due to immediate holding company	27	**23,196**	–
Obligations under finance lease	28	**115**	–
Tax liabilities		**22,118**	16,323
		479,156	80,896
Net current assets		**712,271**	616,419
Total assets less current liabilities		**718,320**	618,856
Capital and reserves			
Share capital	29	**13,995**	13,995
Reserves		**703,925**	604,861
Total equity attributable to owners of the Company		**717,920**	618,856
Non-current liability			
Obligations under finance lease	28	**400**	–
		718,320	618,856

The financial statements on pages 51 to 108 were approved and authorised for issue by the Board of Directors on 22 March 2018 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 2017

	Attributable to owners of the Company									
	Paid-in capital/ share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000 (Note a)	Capital reserve RMB'000 (Note b)	Share option reserve RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2016	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 29)	3,499	258,911	–	–	–	–	–	262,410	–	262,410
Capitalisation issue of shares (note 29)	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
Exchange differences on the translation of foreign operation	**-**	**-**	**-**	**-**	**-**	**(161)**	**-**	**(161)**	**-**	**(161)**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**160,636**	**160,636**	**-**	**160,636**
Profit and total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**(161)**	**160,636**	**160,475**	**-**	**160,475**
Appropriation to statutory reserve	**-**	**-**	**18,105**	**-**	**-**	**-**	**(18,105)**	**-**	**-**	**-**
Dividends paid	**-**	**(71,208)**	**-**	**-**	**-**	**-**	**-**	**(71,208)**	**-**	**(71,208)**
Recognition of equity-settled share-based payments	**-**	**-**	**-**	**-**	**9,797**	**-**	**-**	**9,797**	**-**	**9,797**
Transfer from share option reserve to retained profits for options forfeited	**-**	**-**	**-**	**-**	**(4,945)**	**-**	**4,945**	**-**	**-**	**-**
At 31 December 2017	**13,995**	**151,854**	**42,870**	**172,301**	**4,852**	**(161)**	**332,209**	**717,920**	**-**	**717,920**

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's 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 at 1 January 2016 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 Company Limited ("Hexin Pawn") and 江蘇和信拍賣有限公司 Jiangsu Hexin Auction Company Limited ("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 2017

	Note	2017 RMB'000	2016 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**221,286**	133,597
Adjustments for:			
Depreciation of property, plant and equipment		**1,221**	794
Allowance on loans to customers for art and asset pawn business, net		**1,749**	3,457
Bank interest income		**(1,432)**	(696)
Finance costs		**22**	30
Net foreign exchange loss (gain)		**1,484**	(4,526)
Loss on disposal of property, plant and equipment		**2**	–
Recognition of equity-settled share-based payments		**9,797**	–
Operating cash flows before movements in working capital		**234,129**	132,656
Increase in loans to customers for art and asset pawn business		**(87,478)**	(172,827)
(Increase) decrease in trade receivables, other receivables and prepayments		**(344,048)**	4,572
Increase in other payables and accruals		**368,964**	9,267
Cash generated from (used in) operations		**171,567**	(26,332)
Income tax paid		**(55,293)**	(39,541)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**116,274**	(65,873)
INVESTING ACTIVITIES			
Bank interest income		**1,432**	696
Purchase of property, plant and equipment		**(3,788)**	–
Advance to a director		**(70)**	–
Repayment from a director		**–**	79
Cash inflow arising on acquisition	31	**4**	–
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(2,422)**	775

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
FINANCING ACTIVITIES		
Interest paid	**(22)**	(30)
Dividends paid	**(71,208)**	–
Advance from immediate holding company	**23,196**	–
Settlement of obligations under finance lease	**(94)**	–
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)
Advance from a director	**38**	1,309
Repayment to a director	**–**	(1,309)
Advance from related parties	**68**	11,316
Repayment to related parties	**–**	(17,842)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(48,022)**	230,501
NET INCREASE IN CASH AND CASH EQUIVALENTS	**65,830**	165,403
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**463,080**	292,837
Effect of foreign exchanges	**(1,645)**	4,840
CASH AND CASH EQUIVALENTS AT END OF THE YEAR AND REPRESENTED BY		
Bank balances and cash	**527,265**	463,080

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 in Hong Kong and principal place of business in the People's Republic of China (the "PRC") are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands; Room 1907, 19/F, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong; Northern side of Jiefang East Road, Yicheng Street, Yixing City, Jiangsu Province, China.

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"), 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 Co., Ltd. ("WFOE-Pawn") and 宜興市紫玉信息技術服務有限公司 Yixing Ziyu Information Technology Service Co., Ltd. ("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 as below.

	Hexin Pawn		**Hexin Auction**	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current assets	**4,171**	2,315	**242**	122
Current assets	**450,206**	290,598	**536,352**	189,668
Current liabilities	**7,335**	5,702	**317,813**	62,231
Equity attributable to owners	**447,042**	287,211	**218,781**	127,559
Revenue	**128,475**	84,273	**127,428**	92,668
Expenses	**(8,591)**	(11,785)	**(5,724)**	(5,293)
Tax	**(30,052)**	(18,122)	**(30,482)**	(21,844)
Profit for the year	**89,832**	54,366	**91,222**	65,531
Profit and total comprehensive income attributable to the owners of the Company	**89,832**	50,952	**91,222**	65,429
Profit and total comprehensive income attributable to the non-controlling interest	**–**	3,414	**–**	102

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

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 statement of cash flows 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.

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

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") for the first time in the current year.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As Part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

Except as described as below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 32. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 32, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRs that have been issued but are not yet effective.

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2021

HKFRS 9 *Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. 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 that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("**FVTOCI**"). All other financial assets are measured at their fair value at subsequent accounting periods. 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.

3. APPLICATION OF NEW AND REVISED 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 Financial Instruments: Recognition and Measurement ("**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.

- Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

  Classification and measurement:
  - All financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

  Impairment:
  - In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

  - Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on loans to customers for art and asset pawn business and trade and other receivables. Such further impairment and recognised under expected credit loss model would reduce the opening retained profits as at 1 January 2018.

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 NEW AND REVISED 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 may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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 ("**HKAS 17**") 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. Upon application of 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 cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

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

HKFRS 16 *Leases* (Continued)

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB8,743,000 as disclosed in note 35. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, 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.

In addition, the Group currently considers refundable rental deposits paid of RMB726,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

The Directors of the Company do not anticipate that the application of the other new and revised HKFRSs will have a material 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 statements include 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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 and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interest. Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Asset held under finance lease are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing cost. Contingent rentals are recognised as expenses in the periods in which they are incurred.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

In preparing financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants (Continued)

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Scheme ("**MPF Scheme**") are recognised as an expense when employees have rendered services entitling them to the contributions.

Short term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

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 consolidated 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

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.

Assets held under a finance lease is depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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 is belonged. 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 (or a cash-generating unit) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible assets (Continued)

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.

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 (other than financial assets or financial liabilities at fair value through profit or loss) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss of financial assets (Continued)

For certain categories of financial assets, such as loans to customers for art and asset pawn business and trade receivables, the Group first assesses whether objective evidence of impairment exists individually. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated 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.

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.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and loans to customers for art and asset pawn business, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or a loan to customer for art and asset pawn business is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the group entity are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including other payables, amounts due to directors, related parties and immediate holding company and obligations under finance lease) are measured at amortised cost, using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

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 have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment arrangements

Equity settled share based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity settled share based transactions are set out in note 30.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve).

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss. When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium.

When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

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 sources 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 there is a measurable decrease in the value of collaterals which is used to estimate the future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. As at 31 December 2017, the carrying amount of the Group's loans to customers for art and asset pawn business was RMB319,912,000 (2016: RMB234,183,000) net of allowance of RMB6,529,000 (2016: RMB4,780,000).

Estimated allowance on 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 2017, the carrying amount of the Group's trade receivables was RMB53,961,000 (2016: nil).

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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, 宜興陶都紫砂賓館有限公司 Yixing Taodu Zisha Hotel Company Limited ("**Zisha Hotel**") and Yixing Changxiang Materials Trading Company Limited 宜興程翔物資貿易有限公司. 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 benefits 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 relevant activities 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:

	2017	2016
	RMB'000	RMB'000
Pawn loan revenue from art and asset pawn business	**128,475**	84,273
Auction revenue from art and asset auction business	**148,024**	92,609
Total	**276,499**	176,882

7. REVENUE AND SEGMENT INFORMATION

The segment information reported externally was analysed on the basis of services rendered in the PRC and Hong Kong, i.e. art and asset pawn business and art and asset auction business which is consistent with the internal information that are regularly reviewed by the executive 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. Segment result represents the profit earned by each segment without allocation of central administration expenses, other income, other gains and losses, finance costs and listing expenses. Segment assets and liabilities are allocated to each segment excluding deferred tax asset, amount due from a director, bank balances and cash, other payables for listing expenses and other payables and accruals and amounts due to related parties, directors and immediate holding company. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

7. REVENUE AND 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**
2017			
Segment revenue	**128,475**	**148,024**	**276,499**
Segment cost	**(2,982)**	**(15,728)**	**(18,710)**
Business tax and surcharges	**(990)**	**(903)**	**(1,893)**
Allowance on loans to customers for art and asset pawn business	**(1,749)**	**–**	**(1,749)**
Segment results	**122,754**	**131,393**	**254,147**
Other income			**1,463**
Other gains and losses			**(1,131)**
Central administrative expenses			**(33,171)**
Finance costs			**(22)**
Profit before tax			**221,286**

	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 results	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

7. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Total RMB'000
2017			
Assets			
Segment assets	**322,451**	**345,977**	**668,428**
Other unallocated assets			
Deferred tax asset			**1,633**
Amount due from a director			**150**
Bank balances and cash			**527,265**
Consolidated total assets			**1,197,476**
Liabilities			
Segment liabilities	**7,490**	**444,327**	**451,817**
Other unallocated liabilities			
Other payables and accruals			**4,355**
Amounts due to related parties			**88**
Amounts due to directors			**100**
Amount due to immediate holding company			**23,196**
Consolidated total liabilities			**479,556**

	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 accruals			5,534
Consolidated total liabilities			80,896

7. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Total RMB'000
2017			
Segment information included in the measure of segment results or assets:			
Addition of non-current assets	**2,723**	**1,674**	**4,397**
Depreciation of property, plant and equipment	**995**	**226**	**1,221**
Loss on disposal of property, plant and equipment	**2**	**–**	**2**
Allowance on loans to customers for art and asset pawn business, net	**1,749**	**–**	**1,749**

	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

Geographical information

The Group's revenue from external customers is derived from its operations and services rendered in the PRC and Hong Kong, and non-current assets of the Group are located in the PRC and Hong Kong.

	Revenue from external customers		Non-current assets	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
PRC	**255,903**	176,882	**2,780**	1,242
Hong Kong	**20,596**	–	**1,636**	–
	276,499	176,882	**4,416**	1,242

Note: Non-current assets exclude deferred tax asset.

7. REVENUE AND SEGMENT INFORMATION (Continued)

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

	2017	2016
	RMB'000	RMB'000
Interest income on bank deposits	**1,432**	696
Others	**31**	798
	1,463	1,494

9. OTHER GAINS AND LOSSES

	2017	2016
	RMB'000	RMB'000
Net foreign exchange (loss) gain	**(2,676)**	5,499
Government grants (Note)	**1,616**	–
Loss on disposal of property, plant and equipment	**(2)**	–
Others	**(69)**	–
	(1,131)	5,499

Note: The amount represented one-off subsidy from government for the Listing of the Group in November 2016.

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 in 2016.

11. FINANCE COSTS

	2017	2016
	RMB'000	RMB'000
Interest on bank loans	**–**	30
Finance lease charges	**22**	–
	22	30

12. INCOME TAX EXPENSE

	2017 **RMB'000**	2016 RMB'000
Current tax		
PRC Enterprise Income Tax ("EIT")	**60,969**	41,029
Hong Kong Profits Tax	**119**	–
	61,088	41,029
Deferred tax (note 19)	**(438)**	(864)
	60,650	40,165

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.

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%.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit that arises in or is derived from Hong Kong during the year. No provision for Hong Kong Profits Tax has been made in the previous year's consolidated financial statements as the income of the Group neither arose in nor was derived from Hong Kong in previous year.

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

	2017 **RMB'000**	2016 RMB'000
Profit before tax	**221,286**	133,597
Tax at the PRC EIT rate of 25% (2016: 25%)	**55,322**	33,399
Effect of different tax rate of applicable to subsidiaries operating in Hong Kong	**(61)**	–
Tax expenses not deductible for tax purpose	**5,389**	6,766
Income tax expense	**60,650**	40,165

13. PROFIT FOR THE YEAR

	2017 RMB'000	2016 RMB'000
Profit and total comprehensive income for the year has been arrived at after charging (crediting):		
Directors' remuneration	**1,421**	1,274
Other staffs' salaries and allowances	**7,519**	6,577
Retirement benefits scheme contributions	**364**	184
Equity-settled share option expense	**7,325**	–
Total staff costs	**16,629**	8,035
Auditors' remuneration	**2,200**	2,010
Exchange loss (gain)	**2,676**	(5,499)
Depreciation for property, plant and equipment	**1,221**	794

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:

	Fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonus RMB'000 (note)	Retirement benefits scheme contributions RMB'000	Total RMB'000
2017					
Executive directors					
Mr. Fan Zhijun (a)	–	763	–	37	800
Mr. Zhang Bin (a)	–	225	–	6	231
Independent non-executive directors					
Mr. Leung Shu Sun Sunny	–	130	–	–	130
Mr. Liu Jian	–	130	–	–	130
Mr. Chu Xiaoliang	–	130	–	–	130

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

	Fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonus RMB'000 (note)	Retirement benefits scheme contributions 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

Note: The discretionary bonus is determined based on the financial results of the subsidiaries operated in the PRC in 2016.

Mr. Fan Zhijun is the Chief Executive of the Company since 22 April 2016. His emoluments disclosed above include those for services rendered by him as director of the Company or its subsidiaries during both years.

The non-executive director's and independent non-executive directors' emoluments shown above were paid 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 16 May 2017.

(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 for the year ended 31 December 2017 include no (2016: two) directors of the Company whose emoluments are included in note 14 above. The remunerations of the remaining five (2016: three) individuals for the year ended 31 December 2017 are set out below:

	2017 **RMB'000**	2016 RMB'000
Salaries and other benefits	**560**	1,042
Discretionary bonus	**68**	1,368
Contributions to retirement benefits scheme	**43**	13
Equity-settled share option expense	**7,325**	–
	7,996	2,423

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

	2017 **No. of employees**	2016 No. of employees
Nil to HK$1,000,000	**–**	2
HK$1,000,000 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**3**	1
HK$2,000,001 to HK$2,500,000	**2**	–
	5	3

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 of the Company waived any emoluments during both years.

During the year, certain employees were granted with share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 30.

16. DIVIDENDS

	2017 RMB'000	2016 RMB'000
2016 Final — HK$3.0 cents per ordinary share	42,724	–
2016 Special — HK$2.0 cents per ordinary share	28,484	–
	71,208	–

The Board recommends the payment of a final dividend for the year ended 31 December 2017 of HK$2.0 cents (equivalent to RMB1.7 cents) (2016: HK$3.0 cents, equivalent to RMB2.7 cents) per share (the "**Proposed Final Dividend**") amounting to HK$32,000,000 and no special dividend for the year ended 31 December 2017 (2016: HK$2.0 cents, equivalent to RMB1.8 cents). The Proposed Final Dividend will be payable in cash. The aggregate amount of the final dividend and special dividend declared and paid in the year ended 31 December 2017 amounted to HK$80,000,000 (equivalent to RMB71,208,000) (2016: nil).

The Proposed Final Dividend for the year ended 31 December 2017 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and has not been recognised as liabilities at the end of reporting period.

17. EARNINGS PER SHARE

	2017 RMB'000	2016 RMB'000
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share (profit for the year attributable to the owners of the Company)	160,636	89,916

	2017	2016
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,600,000,000	1,171,563,449
Effect of dilutive potential ordinary shares on share options	3,361,653	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,603,361,653	1,171,563,449

No diluted earnings per share for the year ended 31 December 2016 is presented as there was no potential dilutive ordinary share in issue in 2016.

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 2016 and 31 December 2016	3,218	501	947	4,666
Additions	735	463	3,199	4,397
Disposals	–	(21)	–	(21)
At 31 December 2017	3,953	943	4,146	9,042
DEPRECIATION				
At 1 January 2016	1,808	346	476	2,630
Provided for the year	559	56	179	794
At 31 December 2016	2,367	402	655	3,424
Provided for the year	596	75	550	1,221
Eliminated on disposals	–	(19)	–	(19)
At 31 December 2017	2,963	458	1,205	4,626
CARRYING VALUES				
At 31 December 2017	990	485	2,941	4,416
At 31 December 2016	851	99	292	1,242

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

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

The net book value of motor vehicles of HK$2,941,000 includes an amount of HK$498,000 (2016: nil) in respect of asset held under finance lease.

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 2016	331
Credit to profit or loss	864
At 31 December 2016	1,195
Credit to profit or loss	438
At 31 December 2017	1,633

20. LOANS TO CUSTOMERS FOR ART AND ASSET PAWN BUSINESS

	2017 **RMB'000**	2016 RMB'000
Art and asset pawn loans to customers, gross	**326,441**	238,963
Less: impairment allowances		
— Individually assessed	**–**	–
— Collectively assessed	**6,529**	4,780
	6,529	4,780
Art and asset pawn loans to customers, net	**319,912**	234,183

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 to or within five days after the maturity date of the loan period. The loans provided to customers carry fixed interest rates ranging from 32.4% to 48% (2016: 30% to 48%) per annum during the year ended 31 December 2017. 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 initial pawn tickets are set out below:

	2017 RMB'000	2016 RMB'000
Within 1 month	**88,800**	83,892
2–3 months	**172,690**	112,787
3–6 months	**58,422**	37,504
Total	**319,912**	234,183

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

	2017 RMB'000	2016 RMB'000
Individually assessed:		
At beginning of year	**–**	–
Reversal of impairment loss	**–**	–
Loans written off as uncollectible	**–**	–
At end of year	**–**	–
Collectively assessed:		
At beginning of year	**4,780**	1,323
Impairment losses recognised	**1,749**	3,457
At end of year	**6,529**	4,780

21. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	2017 RMB'000	2016 RMB'000
Trade receivables for art and asset auction business	**53,961**	–
Other receivables and prepayments:		
Receivables from customers in respect of art and asset auction business	**289,389**	–
Other receivables and deposit	**734**	–
Prepayments	**16**	52
	290,139	52
Total	**344,100**	52

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) will be paid to the seller subsequently. The commission income from buyer is recognised as trade receivables for art and asset auction business and the unsettled hammer price is recognised as other receivables from customers in respect of art and asset auction business. In determining the recoverability of a trade receivable for art and asset auction business and other receivables from customers in respect of art and asset auction business, the Group considers any change in the credit quality of the trade receivables and other 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. An aggregate amount of trade receivables and other receivables of RMB37,402,000 and RMB152,191,000 were subsequently settled up to the date of the approval of consolidated financial statements, respectively.

The following is an aged analysis of trade receivables for art and asset auction business presented based on the invoice dates.

	2017 RMB'000	2016 RMB'000
Less than 60 days	**53,961**	–

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB53,961,000 (2016: nil) which are past due as at the reporting date for which 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.

Ageing of trade receivables which are past due but not impaired.

	2017 RMB'000	2016 RMB'000
0 to 30 days	**53,961**	–

22. AMOUNT DUE FROM A DIRECTOR

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

	2017	2016
	RMB'000	RMB'000
Mr. Fan Zhijun	**150**	–

	Maximum amount outstanding during the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Mr. Fan Zhijun	**150**	79

The amount due from a director is non-trade nature, 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% (2016: 0.01% to 1.1%) per annum for the year ended 31 December 2017.

24. OTHER PAYABLES AND ACCRUALS

	2017	2016
	RMB'000	RMB'000
Payables on behalf of customers in respect of art and asset auction business	**405,835**	35,924
Other payables for art and asset auction business	**3,441**	365
Accrued staff costs	**1,675**	3,558
Other tax payables	**13,940**	12,563
Other payable for listing expenses	**–**	8,147
Deposit received from customers	**4,293**	–
Others	**4,355**	4,016
	433,539	64,573

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) 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 60 days after the date of auction services.

25. AMOUNTS DUE TO DIRECTORS

Particulars of amounts due to directors are disclosed as follows:

	2017 RMB'000	2016 RMB'000
Mr. Fan Zhijun	**39**	–
Mr. Zhang Bin	**61**	–
	100	–

The amounts due to directors are non-trade nature, unsecured, interest-free and repayable on demand.

26. AMOUNTS DUE TO RELATED PARTIES

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

	2017 RMB'000	2016 RMB'000
Mr. Fan Zhixin	**17**	–
Ms. Fan Qinzhi	**15**	–
Mr. Fan Yajun	**1**	–
Ms. Wu Jian	**1**	–
Mr. Tang Man Joe	**48**	–
Ms. Li Simo	**6**	–
	88	–

Mr. Fan Zhixin, Mr. Fan Yajun, Ms. Wu Jian, Mr. Tang Man Joe and Ms. Li Simo are key management personnels of the Group. Ms. Fan Qinzhi is the close family member of Mr. Fan Zhijun, a director of the Company.

The amounts due to related parties are non-trade nature, unsecured, interest-free and repayable on demand.

27. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount due to immediate holding company is non-trade nature, unsecured, interest-free and repayable on demand.

28. OBLIGATIONS UNDER FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amount payable under finance lease:				
Within one year	**135**	–	**115**	–
Within a period of more than one year but not more than two years	**135**	–	**121**	–
Within a period of more than two years but not more than five years	**292**	–	**279**	–
	562	–	**515**	–
Less: future finance charges	**(47)**	–	**–**	–
Present value of lease obligations	**515**	–	**515**	–
Less: Amount due for settlement within one year			**(115)**	–
Amounts due after one year			**400**	–

During the year ended 31 December 2017, the Group leased its motor vehicle under finance lease. The lease term is four years. For the year ended 31 December 2017, the average effective borrowing rate is 4.43% (2016: nil) per annum. The lease is on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

29. SHARE CAPITAL

	Notes	Number of shares	Nominal value HK$'000	Nominal value RMB'000
Ordinary shares of HK$0.01 each				
Authorised				
At 1 January 2016		38,000,000	380	332
Increase on 14 October 2016	(a)	4,962,000,000	49,620	43,088
At 31 December 2016 and 2017		5,000,000,000	50,000	43,420
Issued and fully paid				
At 1 January 2016		10,000	–	–
Issue of new shares pursuant to the global offering	(b)	400,000,000	4,000	3,499
Capitalisation issue of shares	(c)	1,199,990,000	12,000	10,496
At 31 December 2016 and 2017		1,600,000,000	16,000	13,995

Notes:

(a) 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.

(b) 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.

(c) 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.

30. SHARE-BASED PAYMENTS

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.

The table below discloses movement of the Company's share options held by the Group's senior management, consultant and employees:

Date of grant of share options	Exercise price per share	Exercisable period	Outstanding at 1/1/2017	Granted during the year	Exercised during the year	Forfeited during the year (Note)	Outstanding at 31/12/2017
2 June 2017	HK$0.8	2 June 2017 to 1 June 2022	–	79,000,000	–	(56,000,000)	23,000,000
Exercisable at the end of the year							–
Weighted average exercise price			–	0.8	–	0.8	0.8

Note: The forfeiture represented the share options granted to the senior management of the Group, which were forfeited upon their resignations on 29 September 2017, as well as the share options granted to consultant, which were forfeited upon the termination of the consultancy service contracts.

The closing price of the Company's shares immediately before 2 June 2017, the date of grant, was HK$0.77.

30. SHARE-BASED PAYMENTS (Continued)

Share options which vested on 2 June 2017, 2 December 2017 and will vest on 2 June 2018 respectively have been granted during the year ended 31 December 2017. Fair value of these options were calculated using the binomial model.

The inputs into the model are as follows:

	2 June 2017 share options
Grant date share price	**HK$0.77**
Exercise price	**HK$0.80**
Expected life	**5 years**
Expected volatility	**55.00%**
Dividend yield	**3.8%**
Risk-free interest rate	**1.00%**

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

Expected volatility was determined by using the historical volatility of the share prices of the Company. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The number of shares in respect of which options had been granted and remained outstanding under the Scheme as at 31 December 2017 was 23,000,000 (31 December 2016: nil), representing approximately 1.4% (31 December 2016: nil) of the issued shares of the Company as at 31 December 2017.

The estimated fair value of the options granted on 2 June 2017 is RMB19,411,000 (equivalent to HK$22,217,000).

The exercisable period of the share options is as follows:

(a) 28,000,000 share options vested on the 2 June 2017 and are exercisable from 2 June 2017 to 1 June 2022;

(b) 28,000,000 share options vested on 2 December 2017 and are exercisable from 2 December 2017 to 1 June 2022; and

(c) 23,000,000 share options will vest on 2 June 2018 and are exercisable from 2 June 2018 to 1 June 2022.

The Group recognised the total expense of RMB9,797,000 (2016: nil) for the year ended 31 December 2017 in relation to share options granted by the Company.

31. ACQUISITION OF A SUBSIDIARY

During the year, the Group acquired the entire equity interest of 宜興程翔物資貿易有限公司Yixing Chengxiang Materials Trading Company Limited ("**Chengxiang Materials**") at a cash consideration of RMB84,000 from Mr. Fan Zhijun and Mr. Zhang Bin, who are directors of the Company; Mr. Fan Yajun, Mr. Fan Zhixin and Ms. Wu Jian, who are key management personnel of the Group and Ms. Fan Qinzhi is the close family member of a director of the Company; and Mr. Wang Jiansong and Ms. Xu Min, who are shareholders of the Company's immediate holding company and intermediate holding company respectively. Chengxiang Material is an inactive company.

Details of the net assets acquired in respect of the above transaction are summarised below:

Consideration satisfied by:

	RMB'000
Consideration payable:	
Amounts due to directors	62
Amounts due to related parties	20
Other payables	2
	84

Net assets acquired:

	RMB'000
Amount due from a director	80
Bank balances and cash	4
	84

	RMB'000
Consideration payable	84
Cash inflow arising on the acquisition:	
Bank balances and cash acquired	4

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Amounts due to directors RMB'000 (Note 25)	Amounts due to related parties RMB'000 (Note 26)	Amount due to immediate holding company RMB'000 (Note 27)	Obligations under finance lease RMB'000 (Note 28)	Total RMB'000
At 1 January 2017	–	–	–	–	–
Acquisition of a subsidiary	62	20	–	–	82
Financing cash flows	38	68	23,196	(116)	23,186
New finance lease (non-cash)	–	–	–	609	609
Finance costs	–	–	–	22	22
At 31 December 2017	100	88	23,196	515	23,899

33. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2017, the Group entered into finance lease arrangement in respect of acquisition of a motor vehicle with a total capital value at the inception of the lease of RMB609,000.

34. RETIREMENT BENEFITS PLANS

The employees of the PRC entities are members of a state-managed retirement benefits scheme operated by the government of the 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 Group has joined MPF scheme for all employees in Hong Kong. The MPF scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF scheme are held separately from those of the Group in funds under the control of an independent trustee.

Under the rules of the MPF scheme, the employer and its employees are each required to make contributions to the MPF scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The total cost charged to the consolidated statement of profit or loss and other comprehensive income amounted to RMB407,000 (2016: RMB202,000) for the year ended 31 December 2017.

35. OPERATING LEASES

The Group as lessee

	2017 RMB'000	2016 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**	600
Outsiders	**1,340**	302
	1,940	902

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:

	2017 RMB'000	2016 RMB'000
Within one year		
Mr. Fan Zhijun	**600**	600
Outsiders	**2,510**	147
	3,110	747
Between one and five years		
Mr. Fan Zhijun	**2,400**	2,400
Outsiders	**2,408**	–
	4,808	2,400
Over five years		
Mr. Fan Zhijun	**825**	1,425
	8,743	4,572

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 eight years.

36. 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 net debts, including amounts due to directors, related parties and immediate holding company and obligations under finance lease net of bank balances and cash, and equity attributable to owners of the Company comprising share 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.

37. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2017 **RMB'000**	2016 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,191,411**	697,263
Financial liabilities		
Obligations under finance lease	**515**	–
Amortised cost	**437,015**	48,452
	437,530	48,452

b. Financial risk management objectives and policies

The Group's major financial instruments include loans to customers for art and asset pawn business, trade receivables, other receivables, amount due from a director, bank balances and cash, other payables, amount due to directors, related parties and immediate holding company and obligations under finance lease.

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.

37. 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, which the directors of the Company expect the impact is immaterial to the Group.

Currency risk

Currency risks refers to the unfavourable volatility 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 2017 are as follows:

	Currency	**2017** **RMB'000**	2016 RMB'000
Monetary assets	HKD	**4,499**	218,652
Monetary liabilities	HKD	**28,731**	7,251
Net exposure	HKD	**(24,232)**	211,401

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.

37. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market 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 for the year. The increase in profit for the year is mainly attributable to the exposure on bank balances and cash and other payables in HKD.

	2017	2016
	RMB'000	RMB'000
Increase (decrease) in profit for the year	**1,012**	(8,826)

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.

37. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

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 does not exceed 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.

The Group maintains a reasonably diversified client base. As at 31 December 2017, 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 43.10% (2016: 56.96%). 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.

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.

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 consider 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.

37. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group has concentration of credit risk as 29% of the total trade receivables for art and asset auction business and receivables from customers in respect of art and asset auction business were due from the Group's five largest customers for the year ended 31 December 2017. The Group has assessed the credit worthiness of these customers, who has good credit history in the past. In this regard, the directors of the Company considered that the credit risk is low.

Impairment and provisioning policies

Impairment provisions are recognised 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	
	2017	2016
	RMB'000	RMB'000
Loans to customers, gross	**326,441**	238,963
Less: Impairment allowances	**6,529**	4,780
	319,912	234,183

Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at each 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 2017, no (2016: RMB5,000) loan to customers was past due.

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.

37. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

Loans to customers

Loans to customers are summarised as follows:

	2017 **RMB'000**	2016 RMB'000
Neither past due nor impaired	**326,441**	238,958
Past due but not impaired	**–**	5
Gross	**326,441**	238,963
Individually impaired	**–**	–
Collectively impaired	**6,529**	4,780
Net	**319,912**	234,183

(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:

	2017 **RMB'000**	2016 RMB'000
Collaterals backed art and asset pawn loans, gross past due within 1 month	**–**	5

37. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

Trade and other receivables for art and asset auction business

Trade receivables for art and asset auction business are summarised as follows:

	2017 **RMB'000**	2016 RMB'000
Neither past due nor impaired	**–**	–
Past due but not impaired	**53,961**	–
Total	**53,961**	–

Other receivables from customers in respect of art and asset auction business are summarised as follows:

	2017 **RMB'000**	2016 RMB'000
Neither past due nor impaired	**–**	–
Past due but not impaired	**289,389**	–
Net	**289,389**	–

Trade receivables for art and asset auction business and other receivables from customers in respect of art and asset auction business that are past due but not impaired relate to the customers whose credit quality has been assessed to be good before they are accepted as customers for art and asset auction business. The directors believe that no impairment allowance is necessary in respect of these balances as the directors consider that there is no change in the credit quality of the trade receivables and other receivables from the date credit was initially granted up to the reporting date and trade receivables and other receivables of RMB37,402,000 and RMB152,191,000 were subsequently settled up to the date of the approval of consolidated financial statements, respectively.

37. 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 risk table

The following tables details the Group's remaining contractual maturity for its financial liabilities (other payables, amounts due to directors, related parties and immediate holding company and obligations under finance lease) based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate	Repayable on demand	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total undiscounted cash flows	Carrying amounts at 31/12/2017
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities								
Other payables	-	413,631	-	-	-	-	413,631	413,631
Amounts due to directors	-	100	-	-	-	-	100	100
Amounts due to related parties	-	88	-	-	-	-	88	88
Amount due to immediate holding company	-	23,196	-	-	-	-	23,196	23,196
Obligations under finance lease	4.43	-	11	22	102	427	562	515
		437,015	11	22	102	427	437,577	437,530

37. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity risk table (Continued)

	Weighted average interest rate %	Repayable on demand RMB'000	Less than 1 month RMB'000	1–3 months RMB'000	3 months to 1 year RMB'000	1–5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts at 31/12/2016 RMB'000
Non-derivative financial liabilities								
Other payables	–	48,452	–	–	–	–	48,452	48,452

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.

38. 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 operate in the PRC is set out below:

Name of subsidiary	Proportion of ownership interests and voting rights held by non-controlling interests as at 31 December 2016	Profit allocated to non-controlling interests for the year 31 December 2016	Accumulated non-controlling interests as at 31 December 2016
Hexin Pawn	–	3,414	–
Hexin Auction	–	102	–
	–	3,516	–

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

Details of non-wholly owned subsidiaries that have non-controlling interests (Continued)

Hexin Pawn

	2016 RMB'000
Non-current assets	2,315
Current assets	290,598
Current liabilities	5,702
Equity attributable to owners of the Company	287,211
Non-controlling interests	–

	2016 RMB'000
Revenue	84,273
Expenses	(29,907)
Profit and total comprehensive income for the year	54,366
Profit and total comprehensive income attributable to the owners of the Company	50,952
Profit and total comprehensive income attributable to the non-controlling interests	3,414
Net cash outflow from operating activities	(113,725)
Net cash inflow from investing activities	370
Net cash inflow from financing activities	–
Net cash outflow	(113,355)

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

Details of non-wholly owned subsidiaries that have non-controlling interests (Continued)

Hexin Auction

	2016 RMB'000
Non-current assets	122
Current assets	189,668
Current liabilities	62,231
Equity attributable to owners of the Company	127,559
Non-controlling interests	–

	2016 RMB'000
Revenue	92,668
Expenses	(27,137)
Profit and total comprehensive income for the year	65,531
Profit and total comprehensive income attributable to the owners of the Company	65,429
Profit and total comprehensive income attributable to the non-controlling interests	102
Net cash inflow from operating activities	64,667
Net cash inflow from investing activities	359
Net cash outflow from financing activities	(120)
Net cash inflow	64,906

39. RELATED PARTY DISCLOSURES

Other than those disclosed in the consolidated statement of financial position and other notes to the consolidated financial statements:

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

	2017 **RMB'000**	2016 RMB'000
Rental of offices	**600**	600
Auction revenue from art and asset auction business	**17**	–

Operating lease commitments in respect of such offices are disclosed in note 35.

(b) Other related party transactions

During the year, the Group entered into the following significant transactions with Mr. Lai Chau Yung, who is a shareholder of the Company:

	2017 **RMB'000**	2016 RMB'000
Payments made on behalf of the Group		
Staff cost	**–**	669
Listing expenses	**–**	10,647
	–	11,316

(c) Compensation of key management personnel

The remuneration of key management personnel during the year ended 31 December 2017 was as follows:

	2017 **RMB'000**	2016 RMB'000
Salaries and other benefits	**4,617**	2,055
Discretionary bonus	**117**	2,228
Equity-settled share option expense	**3,028**	–
Contributions to retirement benefits scheme	**151**	37
	7,913	4,320

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

40. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2017 are as follows:

Name of company	Place of incorporation/ establishment	Equity interest attributable to the Group as at 31 December 2017 %	2016 %	Issued and full paid share/ registered capital	Legal form	Principal activities
Directly held:						
Reliance Art Holdings Limited	British Virgin Islands	**100**	100	USD50,000	Limited liability company	Investment holding
Indirectly held:						
Artfund International (Hong Kong) Auction Company Limited	Hong Kong	**100**	–	HK$10,000,000	Private limited company	Auction services
China Art Financial Investments Company Limited	Hong Kong	**100**	–	HK$1	Private limited company	Inactive
China Art Financial Management Company Limited	Hong Kong	**100**	–	HK$1	Private limited company	Inactive
Co-Reliance Art Financial Company Limited	Hong Kong	**100**	100	HK$1	Private limited company	Investment holding
Hexin Consultancy Service Company Limited	Hong Kong	**100**	–	HK$1	Private limited company	Inactive
宜興市漢信信息技術服務有限公司 Yixing Hanxin Information Technology Service Co., Ltd.	PRC	**100**	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 Co., Ltd.	PRC	**100**	100	HK$500,000	Limited liability company	Investment holding
江蘇和信拍賣有限公司 Jiangsu Hexin Auction Company Limited	PRC	**100**	100	RMB10,000,000	Limited liability company	Auction services
江蘇和信典當有限公司 Jiangsu Hexin Pawn Company Limited	PRC	**100**	100	RMB100,000,000	Limited liability company	Pawn loan services
宜興市漢金文化藝術有限公司 Yixing Hanjin Culture and Art Company Limited	PRC	**100**	–	RMB500,000	Limited liability company	Investment holding
宜興程翔物資貿易有限公司 Yixing Chengxiang Materials Trading Company Limited	PRC	**100**	–	RMB15,000,000	Limited liability company	Investment holding
上海卓信拍賣有限公司 Shanghai Zhuoxin Auction Company Limited	PRC	**100**	–	RMB1,000,000	Limited liability company	Inactive

None of the subsidiaries had issued any debt securities at the end of the year.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2017 RMB'000	2016 RMB'000
Non-current assets			
Investment in a subsidiary	(a)	**23,475**	20,253
Amount due from a subsidiary	(b)	**105,063**	73,305
		128,538	93,558
Current asset			
Bank balances and cash		**2,080**	127,513
Current liability			
Other payables and accruals		**(5,251)**	(11,790)
Net current liabilities (assets)		**(3,171)**	115,723
Total assets less current liabilities		**125,367**	209,281
Capital and reserves			
Share capital		**13,995**	13,995
Reserves		**111,372**	195,286
Total equity		**125,367**	209,281

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

	Share premium RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2016	–	–	(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	258,911	–	–	258,911
Capitalisation issue of shares	(10,496)	–	–	(10,496)
Expenses incurred in connection with issue of shares	(25,353)	–	–	(25,353)
At 31 December 2016	223,062	–	(27,776)	195,286
Loss and total comprehensive expense for the year	–	–	(22,503)	(22,503)
Dividends paid	(71,208)	–	–	(71,208)
Recognition of equity-settled share-based payments	–	9,797	–	9,797
Transfer from share option reserve to accumulated profits for options forfeited	–	(4,945)	4,945	–
At 31 December 2017	151,854	4,852	(45,334)	111,372

Notes:

(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 RMB23,475,000 (2016: 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.

42. SUBSEQUENT EVENTS

No significant events took place subsequent to 31 December 2017.