中國藝術金融控股有限公司
China Art Financial Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code: 1572

ANNUAL REPORT

2018

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. Wong Hong Tak Hagan

AUTHORISED REPRESENTATIVES

Mr. Fan Zhijun
Mr. Wong Hong Tak Hagan

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 PEOPLE'S REPUBLIC OF CHINA (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 Communications (Hong Kong) Limited
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

COMPANY'S WEBSITE

www.cnartfin.com.hk

STOCK CODE

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

Stock Code 1572

CORPORATE PROFILE

We are a leading art finance service provider in China. We provide art finance services under two business segments: (i) art and asset pawn business and (ii) art and asset auction business. Art investment and art financing are the two dominating activities in the art finance market. We are principally engaged in the art pawn loan business (an important art financing channel in China) and art auction (a well-recognised art investment channel in China). 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 and executive Director, Mr. Fan Zhijun has accumulated over 15 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.

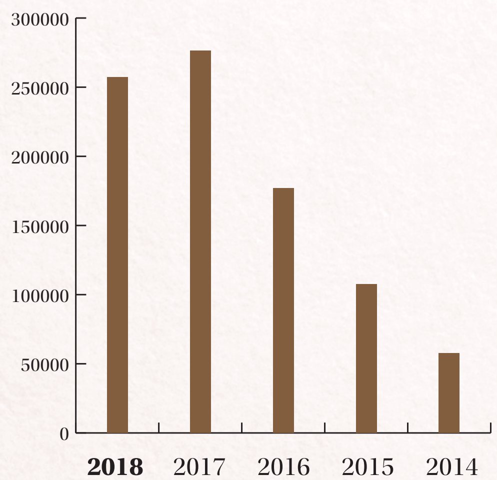
Given the nature of our art-related operations, we also established long-term relationship with external experts for conducting artworks authentication and valuation. The joint efforts of our senior management and experts have contributed to our development and growth as a specialised art pawn loan service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

FINANCIAL SUMMARY

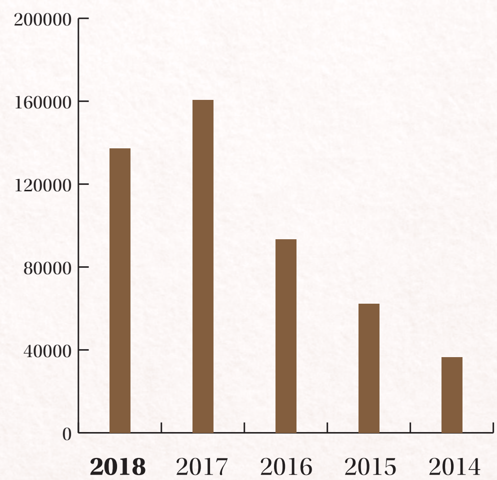
	For the year ended or as at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating Results					
Revenue	**257,199**	276,499	176,882	107,574	57,698
Profit for the year	**137,287**	160,636	93,432	62,394	36,419
Financial Position					
Total assets	**1,185,618**	1,197,476	699,752	364,720	161,388
Bank balances and cash	**571,596**	527,265	463,080	292,837	64,059
Loans to customers	**396,927**	319,912	234,183	64,813	93,049
Total liabilities	**357,528**	479,556	80,896	76,353	7,415
Net assets	**828,090**	717,920	618,856	288,367	153,973

Notes: The summary of the consolidated results and financial positions of the Group for the years ended 31 December 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 for the year 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 2018 (the "Reporting Year").

In 2018, we experienced a year filled with challenges and fluctuation. With the outbreak of trade war between China and the United States, the growing concerns on Brexit and deleverasins policy in China, the overall economy was uncertain and the market sentiment is affected.

During the year, we held the two spring auctions in May and June 2018 in Hong Kong and Yixing respectively. Even under the uncertain economic environment, we received a satisfactory market response. Following our strategy to refocus China market, we entered the Shanghai market in December 2018 and successfully held our first autumn auction in Shanghai. With our solid relationship with collectors and rich resources in China, the result was remarkable. On top of the three large scale spring and autumn auctions, we held two special collection auctions in Yixing and Nanjing in 2018. With specific themes, we were able to attract collectors of the specific collections.

In view of the volatile market condition, we adopted a conservative attitude in granting credit during the year for risk management purpose for our pawn business. With the gradually improving market sentiment in the fourth quarter of 2018, we restored the credit level for recurring clients.

In the coming year, we believe that under the improving market conditions such as the reducing trade tension between China and the United States and China central government's economic relief measurements as well as the improving living standard of residents, 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 and online platform, 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, 29 March 2019

MARKET REVIEW

Company Financial Performance

Our revenue for the year ended 31 December 2018 amounted to approximately RMB257.2 million, representing a year-on-year decrease of 7%. The revenue from art auction business and art pawn loan business have recorded decreases of 7% for both businesses.

Profit for the year for the year ended 31 December 2018 amounted to approximately RMB137.3 million, representing a year-on-year decrease of 15%.

Company Business Highlights

	Year ended 31 December		Change
Operating Information	**2018**	2017	%
Aggregate transaction value of art auction (RMB million)	**638**	764	(16)
Aggregate transaction value of spring auction (RMB million)	**243**	213	14
Aggregate transaction value of autumn auction (RMB million)	**229**	439	(48)
Aggregate transaction value of pure online auction (RMB million)	**129**	112	15
Aggregate transaction value of special collection auctions (RMB million)	**37**	–	–
Overall commission rate for art auction business (%)	**22**	19	3
Total new loan amount granted secured by artwork (RMB million)	**683**	708	(4)
Loan default rate (%)	**0**	0	–

Business Plan For 2019

The Company has planned to organize our spring auction in Yixing City and autumn auction in Shanghai in June and December 2019 respectively. Meanwhile, we are actively exploring to host an extra autumn auction in a first tier city in China. In addition, we plan to organise four pure online auctions in 2019. 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.

BUSINESS REVIEW

In 2018, the Group actively responded to the changes of the global and regional economic environment and took initiative to seek for new opportunity for market development. The Group's auction and pawn loan business segments achieved satisfying results. For the year ended 31 December 2018, the Group's revenue was approximately RMB257.2 million, representing an decrease of 7% from RMB276.5 million for the same period in 2017. The profit for the year was approximately RMB137.3 million, representing an decrease of 15% from RMB160.6 million for the same period in 2017.

Art Auction Business

The Group's art auction business continued to expand our geographic presence in China. During the Reporting Year, revenue from the art and asset auction segment of the Company was approximately RMB138.3 million, representing a decrease of 7% from RMB148.0 million for the same period last year. Profits of art and asset auction segment was RMB122.1 million, representing a decrease of 7% from RMB131.4 million for the same period last year.

During the Reporting Year, the Group held two spring auctions in Hong Kong and Yixing, autumn auction in Shanghai, four pure online art auctions and two special collection auctions. The aggregate transaction value (excluding buyer commission) amounted to RMB637.9 million, representing a decrease of approximately 17% from approximately RMB764.2 million for the same period last year.

In December 2018, the Group successfully organized its first autumn auction in Shanghai. The total hammer price for the auction lots (excluding buyer commission) reached RMB228.7 million. On top of the spring and autumn auctions, we held two special collection auctions in Yixing and Nanjing in 2018. With specific themes, we were able to attract collectors of the specific collections.

Since the launch of pure online art auctions in 2016, the Group has achieved continuing growth in the online platform. During the Reporting Year, the Company held four (2017: four) pure online art auctions. The total hammer price for the auction lots (excluding buyer commission) reached RMB129.2 million, representing an increase of approximately 16% from approximately RMB111.7 million for the same period last year.

Art and Asset Pawn Loan Business

Under the volatile market condition, we adopted a conservative attitude in granting credit during the year for risk management purpose. During the Reporting Year, revenue from the pawn loan segment was approximately RMB118.9 million, representing a decrease of 7% from RMB128.5 million for the same period last year. Profits of pawn loan segment was RMB119.2 million, representing a decrease of 3% from RMB122.8 million for the same period last year. As of 31 December 2018, the total amount of new loans granted by the Group amounted to approximately RMB683.8 million.

The breakdown of art and asset pawn loan business of the Group in 2018 and 2017 was as follows:

	Year ended 31 December				
	2018		2017		
	RMB'000	**%**	RMB'000	%	% of change
Art pawn loan revenue	**118,842**	**99.9**	122,763	95.6	(3)
Asset pawn loan revenue	**67**	**0.1**	5,712	4.4	(99)
Total	**118,909**	**100**	128,475	100	(7)

In 2018, approximately RMB683.4 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 2018, 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 3.6%, 2.7% and 2.4% of the principal amount of the loan respectively..

	Year ended 31 December	
Loans secured by artwork	**2018**	2017
Total new loan amount granted (RMB'000)	**683,400**	708,270
Total number of new loans granted	**76**	109
Number of new loans renewed	**58**	65
Renewal ratio of new loan (%)	**76.3**	59.6
Average initial loan term (days)	**72**	69

	Year ended 31 December	
Loans secured by assets	**2018**	2017
Total new loan amount granted (RMB'000)	**360**	25,607
Total number of new loans granted	**49**	73
Number of new loans renewed	**41**	50
Renewal ratio of new loan (%)	**83.7**	68.5
Average initial loan term (days)	**42**	41

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 2018, the Group's loan default rate was 0%.

FINANCIAL REVIEW

Revenue

Our revenue for the year ended 31 December 2018 amounted to approximately RMB257.2 million, representing a year-on-year decrease of 7%, from approximately RMB276.5 million for the year ended 31 December 2017, primarily due to (i) the outbreak of trade war between China and the United States adversely affecting the market sentiment during the year and (ii) the reduction of autumn auction from two autumn auctions in 2017 to one in 2018 due to our adjustment on the market strategy.

The respective segment revenue of the Group in 2018 and 2017 was as follows:

	Year ended 31 December		
	2018	2017	
	RMB'000	RMB'000	% of change
Art and asset auction business	**138,290**	148,024	(7)
Art and asset pawn business	**118,909**	128,475	(7)
Total	**257,199**	276,499	(7)

Business tax and surcharges

Our business tax and surcharges decreased by approximately 1%, from approximately RMB1.89 million for the year ended 31 December 2017 to approximately RMB1.88 million for the year ended 31 December 2018.

Operating expenses

Our operating expenses significantly decreased by approximately RMB8.4 million, or approximately 45%, from approximately RMB18.7 million for the year ended 31 December 2017 to approximately RMB10.3 million for the year ended 31 December 2018, primarily due to the reduction in equity-settled share option expense.

Impairment Losses, net of reversal

For the year ended 31 December 2018, we recognised impairment losses, net of reversal of approximately RMB3.7 million primarily due to recognition of impairment loss of RMB3.2 million for trade receivables.

Administrative expenses

Our administrative expenses increased by approximately RMB14.2 million, or approximately 43%, from approximately RMB33.2 million for the year ended 31 December 2017 to approximately RMB47.4 million for the year ended 31 December 2018, primarily due to the enlarged operation scale in Hong Kong and Shanghai during the Reporting Year.

Other gains and losses

Our other gains and losses increased by approximately RMB0.8 million from the losses of approximately RMB1.1 million for the year ended 31 December 2017 to the losses of approximately RMB1.9 million for the year ended 31 December 2018, primarily due to the exchange loss arisen from the depreciation of RMB.

Reportable segment profit

As a result of the foregoing, reportable segment profit decreased by RMB12.8 million from RMB254.1 million for the year ended 31 December 2017 to RMB241.3 million for the year ended 31 December 2018.

The respective reportable segment profit of the Group in 2018 and 2017 is as follows:

	Year ended 31 December		
	2018	2017	
	RMB'000	RMB'000	% of change
Art and asset auction business	**122,095**	131,393	(7)
Art and asset pawn business	**119,214**	122,754	(3)
Segment result	**241,309**	254,147	(5)

Profit before tax

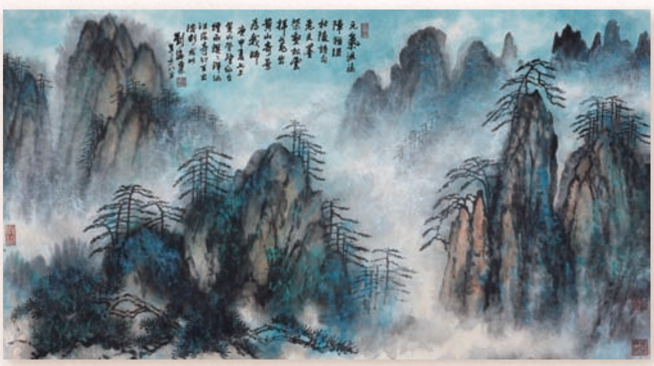
As a result of the foregoing, our profit before tax decreased by approximately RMB26.4 million, or approximately 12%, from approximately RMB221.3 million for the year ended 31 December 2017 to approximately RMB194.9 million for the year ended 31 December 2018.

Income tax expense

Our income tax expenses decreased by approximately RMB3.1 million, or approximately 5%, from approximately RMB60.7 million for the year ended 31 December 2017 to approximately RMB57.6 million for the year ended 31 December 2018, primarily due to a decrease in our Group's taxable income.

Profit and total comprehensive income for the year

Profit and total comprehensive income for the year decreased by approximately RMB25.0 million, or approximately 16%, from approximately RMB160.5 million for the year ended 31 December 2017 to approximately RMB135.5 million for the year ended 31 December 2018, primarily due to a decrease in profit for the year.



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 2018, net working capital (calculated as current assets less current liabilities) was RMB822.7 million, representing an increase of RMB110.4 million as compared with RMB712.3 million as of 31 December 2017. The current ratios (calculated as current assets/current liabilities) are 3.3 times and 2.5 times as of 31 December 2018 and 31 December 2017 respectively.

The following table summarises the consolidated statement of cash flows for the two years ended 31 December 2018 and 2017:

	2018 **RMB'000**	2017 RMB'000
Net cash from operating activities	**12,612**	116,274
Net cash from (used in) investing activities	**1,774**	(2,422)
Net cash from (used in) financing activities	**31,676**	(48,022)

As of 31 December 2018, the Group's total bank balances and cash increased by 8% to RMB571.6 million from RMB527.3 million as of 31 December 2017. As of 31 December 2018, the Group had obligations under finance leases amounting to approximately RMB1.1 million (2017: RMB0.5 million).

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. The Group was not subject to any other material risk directly relating to the foreign exchange fluctuation. For the year ended 31 December 2018, despite the depreciation of RMB against USD and HKD, the Directors expected any fluctuation of the RMB exchange rate would not materially and adversely affect the operations of the Group. The management will continue to monitor foreign currency exchange exposure and will take prudent measures to minimize the currency translation risk.

Gearing Ratio

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

Contingent Liabilities

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

Capital Expenditure

Our capital expenditures primarily comprised expenditures on property and equipment, which amounted to approximately RMB1.1 million and RMB4.4 million for the years ended 31 December 2018 and 2017 respectively.

Capital Commitment

As at 31 December 2018, the Group did not have material capital commitments.

Subsequent Event

No significant event took place subsequent to 31 December 2018.

Human Resources and Training

As of 31 December 2018, the Group had a total of 45 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 2018.

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, 28,000,000 and 23,000,000 share options vested on the date of grant, 2 December 2017 and 2 June 2018 respectively. 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 year ended 31 December 2017. The fair value of options granted was determined using the binomial option pricing model which amounted to approximately RMB19.4 million and RMB0.7 million was charged to profit or loss account of the Group during the Reporting Year.

Save as disclosed above, further details of the Share Option Scheme of the Company are set out in note 29 to the consolidated financial statements.

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 2018, RMB89.4 million has been injected to PRC to increase the registered capital of Hexin Pawn. Approximately RMB32.1 million has been utilised in establishing branch in Hong Kong and Shanghai. Approximately RMB21.3 million has been utilised for general operation expenses. The remaining net proceeds of approximately RMB69.8 million were deposited with certain licensed financial institutions as of 31 December 2018.

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 2018. In addition, the Group had no significant investments held during the year ended 31 December 2018.

OUTLOOK AND PROSPECTS

In 2019, the trade dispute between China and the United States is expected to approach to the end together with China central government's "tax reduction and fee reduction" economic relief measurements proposed in the first quarter of 2019. China's economy is expected to remain its stability under the improving market conditions. 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

In the world of digitalization, the Group is considering to further explore the opportunities in the online auction market by enhancing the functionality of our online auction platform by development of artwork transaction database and artwork mall. Online auction platform provides an accessible market place for the collectors to review the collections available in the Group and draws the attention of potential buyers to our brand and auctions. The Group will continue to expand our auction lot composition to include more art categories with strong market demand. We intend to extend our business network and geographical presence in major cities in China. 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 is aware of strong demand on artwork auction financing and considering to develop a new financing option for our auctions. There is a strong demand for pre-auction and post-auction financing from the sellers and buyers. The Group can provide pre-auction financing for sellers of artwork and post-auction financing for buyers to leverage their purchase power, which will enhance the pawn loan business and facilitate the auction business volume.

The Group will continue to 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. 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. 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 52, 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 15 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 43, 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 14 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 56, 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 65, 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 15 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 68, 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 34 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 38, 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. Wong Hong Tak Hagan (王康德先生), aged 34, is the financial controller and company secretary of our Company who joined our Group in July 2018. He is mainly responsible for overseeing the finance, accounting and company secretarial matters of our Group.

Mr. Wong holds a Bachelor Degree of Business Administration from the City University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants. He has extensive experience in financial management, project acquisitions, corporate finance activities, company secretarial matters, internal controls and compliance with the requirements under the Listing Rules gained from the listed companies in Hong Kong. He also worked in an international firm of Certified Public Accountants as an audit manager.

Mr. Fan Zhixin (范志新先生), aged 47, 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 42, 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 41, 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 63, 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 2018.

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 except Code A.6.7.

Code A.6.7 — Given that the independent non-executive directors and other non-executive directors should attend general meetings. Due to other pre-arranged business commitments which had to be attended, one independent non-executive Director was absent from the annual general meeting of the Company held on 18 May 2018; and one independent non-executive Director was absent from the extraordinary general meeting held on 7 September 2018. However, the other executive Directors and independent non-executive Directors had attended the general meetings to ensure effective communication with the Shareholders.

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)*	4/4
Mr. Zhang Bin	4/4
Mr. Leung Shu Sun Sunny	4/4
Mr. Liu Jian	4/4
Mr. Chu Xiaoliang	4/4

The biographies of the Directors are set out on pages 15 to 16, 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. Liu Jian will retire and, being eligible, will offer himself for re-election at the forthcoming 2019 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 2018.

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 2018 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 2018, the Remuneration Committee held one meeting 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 and other related matters.

Remuneration Committee Members	**Attendance/ Number of Meeting**
Mr. Chu Xiaoliang *(Chairman)*	1/1
Mr. Fan Zhijun	1/1
Mr. Liu Jian	1/1

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 2018, the Nomination Committee held one meeting with attendance as shown below to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and to consider the qualifications of the retiring directors standing for election at the annual general meeting. 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)*	1/1
Mr. Chu Xiaoliang	1/1
Mr. Leung Shu Sun Sunny	1/1

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	1/1
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 2018.

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 2018, 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	2,300
Non-audit services	
Review of the interim consolidated financial statements	800
Review of continuing connected transactions	50
Review of preliminary announcement of annual results	50

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.

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 2018.

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 38 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 2018.

An analysis of the Group's revenue and operating profit for the year ended 31 December 2018 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 2018 is set out in the section headed "Management Discussion and Analysis" from pages 7 to 14 of this annual report.

POSSIBLE RISKS AND UNCERTAINTIES FACING THE COMPANY

Description of possible risks and uncertainties facing the Company is set out in note 36(b) to the consolidated financial statements.

EVENTS AFTER REPORTING YEAR

No significant events took place subsequent to 31 December 2018.

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 14 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 2018 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 116. The Board recommends a payment of a final dividend for the year ended 31 December 2018 of HK1.0 cent (2017: HK2.0 cents) per share for the year ended 31 December 2018, subject to the approval of the shareholders at the forthcoming annual general meeting to be held on Tuesday, 28 May 2019 (the "AGM"). The final dividend will be payable on or about 29 July 2019 to shareholders whose names appear on the register of members on Monday, 8 July 2019.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The forthcoming AGM is scheduled to be held on Tuesday, 28 May 2019. To ascertain shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 23 May 2019 to Tuesday, 28 May 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to attend and vote at the AGM, all transfer of shares accompanied by the relevant shares certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by 4:30 p.m. on Wednesday, 22 May 2019.

CLOSURE OF REGISTER OF MEMBERS FOR DIVIDEND

To ascertain the entitlement to the proposed final dividend for the year ended 31 December 2018, the register of members of the Company will be closed from Monday, 8 July 2019 to Wednesday, 10 July 2019 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 2018, all transfer of shares accompanied by the relevant shares certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by 4:30 p.m. on Friday, 5 July 2019.

RESERVES

Changes to the reserves of the Group during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity. Changes to the reserves of the Company during the year ended 31 December 2018 are set out in note 39 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 17 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 28 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2018 are set out in note 38 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 2018.

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 29 to the consolidated financial statements, 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 2018 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 2018, 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	1,089,460,000 (Note)	68.09%

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.

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 and in the "SHARE-BASED PAYMENTS" disclosure in note 29 to the consolidated financial statements, as at 31 December 2018, 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 2018, 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)	1,089,460,000	68.09%
Intelligenesis Inv	Beneficial owner	1,089,460,000	68.09%
Golden Sand Inv	Interest of controlled corporation (Note 2)	1,089,460,000	68.09%
Mauve Jade Inv	Interest of controlled corporation (Note 3)	1,089,460,000	68.09%
Ms. Fan Qinzhi	Interests of controlled corporation and held jointly with other persons (Notes 2 and 3)	1,089,460,000	68.09%
Mr. Fan Yajun	Interests held jointly with other persons (Note 4)	1,089,460,000	68.09%
Zhou Jianyuan	Interest of spouse (Note 5)	1,089,460,000	68.09%
Ms. Wu Jian	Interests held jointly with other persons (Note 4)	1,089,460,000	68.09%
Xu Zhongliang	Interest of spouse (Note 6)	1,089,460,000	68.09%
Ms. Xu Min	Interests held jointly with other persons (Note 4)	1,089,460,000	68.09%
Zhongtai Securities Company Limited ("ZTS")	Interest of controlled corporation (Note 7)	996,000,000	62.25%

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 1,089,460,000 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 1,089,460,000 shares representing approximately 68.09% 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 1,089,460,000 shares representing 68.09% 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) ZTS had an indirect interest in the Company through its 100% indirect ownership in Zhongtai Financial Investment Limited, which had security interest in 996,000,000 shares of the Company.

Save as disclosed above, as at 31 December 2018, no person or corporation 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 29 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 2018, the Group's largest customer accounted for approximately 4.9% (2017: 3.6%) of the Group's revenue and the five largest customers accounted for approximately 15.7% (2017: 15.8%) of the Group's revenue.

For the year ended 31 December 2018, the Group's largest supplier accounted for approximately 26.2% (2017: 16.1%) of the Group's total purchases and the five largest suppliers accounted for approximately 57.8% (2017: 44.1%) 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 2018.

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 2018.

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 2018 are set out in note 13 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 33 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's distributable reserves calculated under the Companies Law comprise the share premium, other reserves and retained earnings amounted to approximately RMB81.1 million.

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

Other than as disclosed above, during the year ended 31 December 2018, 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 2018.

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

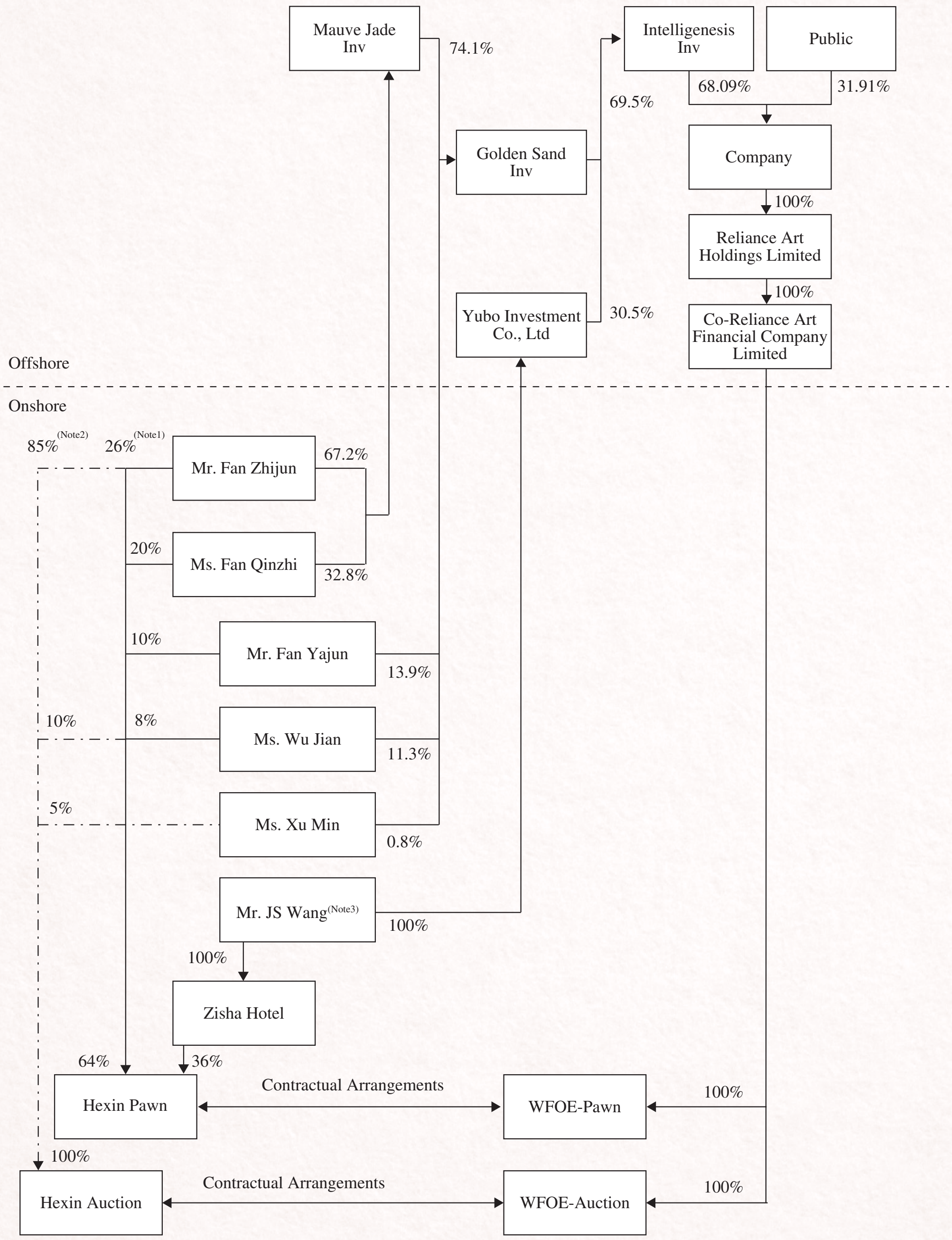
Reasons for using and risks associated with the Contractual Arrangements

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 2019, 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. 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 2018 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	
	2018 (RMB'000)	2017 (RMB'000)	**2018 (RMB'000)**	2017 (RMB'000)	**2018 (RMB'000)**	2017 (RMB'000)
Hexin Pawn	**118,909**	128,475	**87,056**	89,832	**541,326**	454,377
Hexin Auction	**122,152**	127,428	**83,896**	91,222	**646,234**	536,594

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 2018.

UNWINDING OF THE CONTRACTUAL ARRANGEMENTS

Up to 31 December 2018, 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.

NON-ENFORCEMENT OF UNDERTAKING

On 24 October 2016, each of Mr. ZJ Fan and the parties acting in concert with him (as a group of Controlling Shareholders) has given undertakings to the Company (the "Undertakings") committed, among others, not to dispose, directly or indirectly, and creation of charge over any of his/her interests in the Company. The Company has agreed with the Stock Exchange to enforce the Undertakings, which became effective from the date of the listing of the Shares on the Stock Exchange, being 8 November 2016, until compliance with the Draft Foreign Investment Law of China is not required and the Stock Exchange has consented to such termination.

On 26 July 2018, the Company was informed by Intelligenesis Inv that it entered into a subscription agreement with Zhongtai Financial Investment Limited, regarding a proposed issue of exchangeable notes (the "Proposed Transaction") on the same day. The Proposed Transaction is conditional upon, among others, creation of share charges on the 62.25% interests in the Company held by Intelligenesis Inv which would be considered as a breach of the Undertakings.

In order to carry out the Proposed Transaction, Intelligenesis Inv has requested the Company not to enforce the Undertakings (the "Non-enforcement").

On 7 September 2018, following the independent shareholders' passing of an ordinary resolution for approving the Non-enforcement in relation to the Proposed transaction at the extraordinary general meeting on the same date, the Company has proceeded with the Non-enforcement on the same day.

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 nothing has come to their attention that causes them to believe that (i) the Contractual Arrangements have not been approved by the Board; (ii) the transactions were not entered into, in all material respects, in accordance with the relevant agreements under the Contractual Arrangements governing such transactions; and (iii) dividends or other distributions have been made by Hexin Pawn and Hexin Auction to their equity holders.

A copy of the auditor's letter on the continuing connected transactions of the Group year ended 31 December 2018 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 2018 are set out in note 37 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.

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.

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, 29 March 2019

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 116, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 (the "**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 for art and asset pawn business

We identified the impairment 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 judgments and estimation involved in determining the amount of expected credit losses ("ECL") at the end of the reporting period.

As at 31 December 2018, the gross carrying amount of loans to customers for art and asset pawn business amounted to RMB401,066,000.

As disclosed in notes 5 and 36 to the consolidated financial statements, the Group applies the general approach for impairment assessment of its loans to customers and recognises lifetime ECL where significant increase in credit risk since initial recognition has been identified. In determining whether the credit risk has increased significantly since initial recognition, the Group performs assessment on each of the loans to customers on an individual basis and considers both reasonable and supportable quantitative and qualitative information. The Group, amongst other factors, assesses whether there is a significant drop in the value of the collateral at the end of the reporting period, which could indicate a significant increase in credit risk since initial recognition, by engaging an independent qualified professional valuer (the "Valuer") to ascertain the value of the collateral. Significant judgments and estimation are involved when performing valuation of the artwork collateral. As at 31 December 2018, no significant increase in credit risk since initial recognition has been identified and, accordingly, no lifetime ECL is recognised.

As disclosed in notes 5 and 36 to the consolidated financial statements, where no significant increase in credit risk since initial recognition has been identified, the Group groups the loans on the basis of shared credit risk characteristics and measures impairment at 12-month ECL ("12m ECL") on a collective basis. The measurement of 12m ECL involves significant judgment in (i) the selection of appropriate models and key inputs used in the ECL model, including the probability of default ("PD") and loss given default ("LGD"); and (ii) the selection and use of reasonable and supportable forward-looking information without undue cost or effort in the ECL model. As at 31 December 2018, 12m ECL for the loans to customers for art and asset pawn business of RMB4,139,000 is recognised..

Our procedures in relation to the impairment of loans to customers for art and asset pawn business included:

- Understanding the process with respect to the impairment assessment of loans to customers for art and asset pawn business under the ECL model adopted by management;
- Evaluating the reasonableness and appropriateness of the management's judgment in determining whether a significant increase in credit risk since initial recognition has occurred for each of the loans to customers on an individual basis;
- Evaluating the Valuer's competence, capabilities and objectivity and obtaining an understanding of the valuation methodology used by the Valuer in ascertaining the value of collateral;
- Assessing the appropriateness of whether loans with no significant increase in credit risk since initial recognition have been grouped based on common risk characteristics and assessed for 12m ECL on a collective basis;
- Evaluating the reasonableness and appropriateness of the ECL model and the assumptions, information and parameters used in the model, including PD, LGD and forward-looking factors; and
- Making a selection of loans to test the accuracy and completeness of key data sources applied in the ECL computation.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition on auction revenue from art and asset auction business	
We identified recognition of auction 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 amounting to RMB138,290,000 for the year ended 31 December 2018. Auction revenue represents primarily buyer's and seller's commission from provision of art and asset auction services which is calculated at a percentage of hammer pries of the auction sales, and is recognised at a point in time upon the fall of hammer when the Group transfers the promised auction services to the customers.	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 auction revenue; • Testing the key controls over the recognition of auction revenue; • Attending physically a selection of the auctions held during the year and examining the auction register to verify the hammer prices of the auction sales; • Inspecting the terms of agreements with customers on a sample basis and assessing the revenue recognition criteria; • Performing substantive analytical procedures using the hammer prices recorded in the auction register to compare with the auction revenue recognised by the Group; and • Testing auction revenue on a sample basis by examining the respective underlying documents.

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.

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

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

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

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

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

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

We communicate with 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 Chiu Mei Hing.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Revenue	6		
Interest revenue		**118,909**	128,475
Services revenue		**138,290**	148,024
Total revenue		**257,199**	276,499
Other income	7	**3,002**	1,463
Other gains and losses	8	**(1,944)**	(1,131)
Business tax and surcharges		**(1,878)**	(1,893)
Operating expenses		**(10,327)**	(18,710)
Impairment losses, net of reversal	9	**(3,685)**	(1,749)
Administrative expenses		**(47,444)**	(33,171)
Finance costs	10	**(32)**	(22)
Profit before tax		**194,891**	221,286
Income tax expense	11	**(57,604)**	(60,650)
Profit for the year	12	**137,287**	160,636
Other comprehensive expense			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(1,751)**	(161)
Profit and total comprehensive income for the year		**135,536**	160,475
Earnings per share (RMB cents)	16		
Basic		**8.58**	10.04
Diluted		**8.56**	10.02

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	17	**4,155**	4,416
Deferred tax asset	18	**1,922**	1,633
		6,077	6,049
Current assets			
Loans to customers for art and asset pawn business	19	**396,927**	319,912
Trade receivables, other receivables and prepayments	20	**211,018**	344,100
Amount due from a director	21	**–**	150
Bank balances and cash	22	**571,596**	527,265
		1,179,541	1,191,427
Current liabilities			
Other payables and accruals	23	**250,770**	433,539
Amounts due to directors	24	**–**	100
Amounts due to related parties	25	**–**	88
Amount due to immediate holding company	26	**84,378**	23,196
Obligations under finance leases	27	**384**	115
Tax liabilities		**21,273**	22,118
		356,805	479,156
Net current assets		**822,736**	712,271
Total assets less current liabilities		**828,813**	718,320
Non-current liability			
Obligations under finance leases	27	**723**	400
		828,090	717,920
Capital and reserves			
Share capital	28	**13,995**	13,995
Reserves		**814,095**	703,925
Total equity		**828,090**	717,920

The consolidated financial statements on pages 51 to 116 were approved and authorised for issue by the Board of Directors on 29 March 2019 and are signed on its behalf by:

Fan Zhijun	**Zhang Bin**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000 (Note)	Capital reserve RMB'000	Share option reserve RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2017	13,995	223,062	24,765	172,301	–	–	184,733	618,856
Profit for the year	–	–	–	–	–	–	160,636	160,636
Exchange differences on the translation of foreign operations	–	–	–	–	–	(161)	–	(161)
Profit and total comprehensive income for the year	–	–	–	–	–	(161)	160,636	160,475
Appropriation to statutory reserve	–	–	18,105	–	–	–	(18,105)	–
Dividends paid (note 15)	–	(71,208)	–	–	–	–	–	(71,208)
Recognition of equity-settled share-based payments	–	–	–	–	9,797	–	–	9,797
Transfer upon forfeiture of share options	–	–	–	–	(4,945)	–	4,945	–
At 31 December 2017	13,995	151,854	42,870	172,301	4,852	(161)	332,209	717,920
Adjustments (note 3)	–	–	–	–	–	–	(275)	(275)
At 1 January 2018 (restated)	13,995	151,854	42,870	172,301	4,852	(161)	331,934	717,645
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**137,287**	**137,287**
Exchange differences on the translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**(1,751)**	**–**	**(1,751)**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(1,751)**	**137,287**	**135,536**
Appropriation to statutory reserve	**–**	**–**	**17,095**	**–**	**–**	**–**	**(17,095)**	**–**
Dividends paid (note 15)	**–**	**(25,799)**	**–**	**–**	**–**	**–**	**–**	**(25,799)**
Recognition of equity-settled share-based payments	**–**	**–**	**–**	**–**	**708**	**–**	**–**	**708**
At 31 December 2018	**13,995**	**126,055**	**59,965**	**172,301**	**5,560**	**(1,912)**	**452,126**	**828,090**

Note: 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**194,891**	221,286
Adjustments for:			
Depreciation of property, plant and equipment		**1,396**	1,221
Impairment losses, net of reversal		**3,685**	1,749
Bank interest income		**(1,985)**	(1,432)
Finance costs		**32**	22
Unrealised exchange losses		**3,305**	1,484
Loss on disposals of property, plant and equipment		**–**	2
Recognition of equity-settled share-based payments		**708**	9,797
Operating cash flows before movements in working capital		**202,032**	234,129
Increase in loans to customers for art and asset pawn business		**(74,625)**	(87,478)
Decrease (increase) in trade receivables, other receivables and prepayments		**128,350**	(344,048)
(Decrease) increase in other payables and accruals		**(184,461)**	368,964
Cash generated from operations		**71,296**	171,567
Income tax paid		**(58,684)**	(55,293)
NET CASH FROM OPERATING ACTIVITIES		**12,612**	116,274
INVESTING ACTIVITIES			
Bank interest received		**1,985**	1,432
Repayment from a director		**150**	–
Purchase of property, plant and equipment		**(361)**	(3,788)
Advance to a director		**–**	(70)
Cash inflow arising on acquisition of a subsidiary	30	**–**	4
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**1,774**	(2,422)
FINANCING ACTIVITIES			
Advance from immediate holding company		**58,534**	23,196
Dividends paid		**(25,799)**	(71,208)
Repayment to immediate holding company		**(657)**	–
Settlement of obligations under finance leases		**(214)**	(116)
Repayment to directors		**(100)**	–
Repayment to related parties		**(88)**	–
Advance from related parties		**–**	68
Advance from a director		**–**	38
NET CASH FROM (USED IN) FINANCING ACTIVITIES	31	**31,676**	(48,022)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 **RMB'000**	2017 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS	**46,062**	65,830
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**527,265**	463,080
Effect of foreign exchange rate changes	**(1,731)**	(1,645)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR AND REPRESENTED BY		
Bank balances and cash	**571,596**	527,265

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. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("HKSE"). The addresses of the registered office and the principal place of business in Hong Kong and in the People's Republic of China (the "PRC") of the Company are disclosed in the corporate information section to the annual report.

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

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are disclosed in note 38.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Company's wholly-owned subsidiaries, 宜興市漢信資訊技術服務有限公司 Yixing Hanxin Information Technology Service Co., Ltd. ("WFOE-Pawn") and 宜興市紫玉資訊技術服務有限公司 Yixin Ziyu Information Technology Service Co., Ltd. ("WFOE-Auction"), entered into two series of agreements with 江蘇和信典當有限公司 ("Hexin Pawn") and 江蘇和信拍賣有限公司 ("Hexin Auction"), respectively, 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 respectively. 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 (the "Prospectus").

The Contractual Arrangements are irrevocable and enable the Group to:

- exercise effective financial and operational control over Hexin Pawn and Hexin Auction;
- exercise equity holders' voting rights of Hexin Pawn and Hexin Auction;
- receive all economic returns generated by Hexin Pawn and Hexin Auction in consideration for the exclusive technical services, management support services and consultancy services provided by the Group;
- obtain an irrevocable and exclusive right to purchase the entire equity interest in Hexin Pawn and Hexin Auction from the shareholders of Hexin Pawn and Hexin Auction; and
- obtain a pledge over the entire equity interest of Hexin Pawn and Hexin Auction from the shareholders of the Hexin Pawn and Hexin Auction as collateral security under the Contractual Arrangements.

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

Pursuant to the Contractual Arrangements entered into between the Group and all the equity holders of Hexin Pawn and Hexin Auction, the 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, respectively. Accordingly, Hexin Pawn and Hexin Auction are considered as indirect wholly-owned subsidiaries of the Company.

Further details of the financial information of entities under the Contractual Arrangements, which are Hexin Pawn and Hexin Auction, are set out below.

	Hexin Pawn		**Hexin Auction**	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current assets	**2,743**	4,171	**1,008**	242
Current assets	**538,583**	450,206	**645,226**	536,352
Current liabilities	**(7,228)**	(7,335)	**(343,557)**	(317,813)
Total equity	**534,098**	447,042	**302,677**	218,781
Revenue	**118,909**	128,475	**122,152**	127,428
Expenses	**(2,723)**	(8,591)	**(10,019)**	(5,724)
Income tax expense	**(29,130)**	(30,052)	**(28,237)**	(30,482)
Profit for the year	**87,056**	89,832	**83,896**	91,222

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)–Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and 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.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises pawn loan revenue from art and asset pawn business and auction revenue from art and asset auction business.

Pawn loan revenue from art and asset pawn business represents interest revenue on loans to customers for art and asset pawn business recognised using the effective interest method, which falls outside the scope of HKFRS 15.

Auction revenue from art and asset auction business is recognised at a point in time under HKFRS 15 when customers obtain control of the auction services rendered by the Group, which is the same as the revenue recognition under HKAS 18. Accordingly, there is no material impact on the Group's opening retained profits upon initial application of HKFRS 15.

Information about the Group's accounting policies resulting from application of HKFRS 15 are disclosed in note 4.

HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities, (ii) expected credit losses ("ECL") for financial assets; and (iii) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of HKFRS 9 are disclosed in note 4.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 9 "Financial Instruments" (Continued)

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Trade receivables RMB'000	**Deferred tax assets** RMB'000
Closing balance at 31 December 2017 — HKAS 39	53,961	1,633
Remeasurement of impairment under ECL model upon initial application of HKFRS 9	(329)	54
Opening balance at 1 January 2018	53,632	1,687

(i) Classification and subsequent measurement

Financial assets previously classified as loans and receivables under HKAS 39 are classified as financial assets at amortised cost under HKFRS 9. Financial liabilities at amortised cost under HKAS 39 will continue to be measured at amortised cost under HKFRS 9.

(ii) Impairment under ECL model

The Group applies HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables. Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including loans to customers for art and asset pawn business, other receivables and amount due from a director and bank balances, are measured on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, additional impairment loss on trade receivables in respect of art and asset auction business of RMB329,000 has been recognised against retained profits, which is charged against the balance through the use of an allowance account. Deferred tax arising on such additional impairment of RMB54,000 has been recognised against retained profits as at 1 January 2018.

The closing impairment allowances as at 31 December 2017 for loans to customers in respect of art and asset pawn business and trade receivables in respect of art and asset auction business can be reconciled to the opening impairment allowances as at 1 January 2018 as follows. None of the other financial assets have impairment allowances as at 31 December 2017 and 1 January 2018.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 9 "Financial Instruments" (Continued)

Summary of effects arising from initial application of HKFRS 9 (Continued)

(ii) Impairment under ECL model (Continued)

	Loans to customers for art and asset pawn business RMB'000	Trade receivables RMB'000
At 31 December 2017	6,529	–
Amount remeasured through opening retained profits	–	329
At 1 January 2018	6,529	329

Impact on opening consolidated statement of financial position arising from application of new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 RMB'000 (audited)	HKFRS 9 RMB'000	1 January 2018 RMB'000 (restated)
Deferred tax asset	1,633	54	1,687
Trade receivables, other receivables and prepayments	344,100	(329)	343,771
Reserves — retained profits	703,925	(275)	703,650

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

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC)–Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.

2 Effective for annual periods beginning on or after a date to be determined.

3 Effective for annual periods beginning on or after 1 January 2021.

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

5 Effective for annual periods beginning on or after 1 January 2020.

Except for the new HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and interpretation will have no material impact on the Group's consolidated financial statements in the foreseeable future.

HKFRS 16 "Leases"

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sale and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

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.

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

New and amendments to HKFRSs in issue but not yet effective (Continued)

HKFRS 16 "Leases" (Continued)

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.

Other than certain requirements which are also applicable to lessor, 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.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB7,919,000 as disclosed in note 34. 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 RMB577,000 (included in trade receivables, other receivables and prepayments) as rights 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 considered as additional lease payments and 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 Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK (IFRIC)–Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)–Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment, leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 "Impairment of Assets".

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 and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group 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 Group gains control until the date when the Group ceases to control the subsidiary.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 3)

Under HKFRS 15, the Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Revenue from art and asset auction services

Art and asset auction service revenue is recognised at a point in time upon the fall of hammer when the Group transfers the promised auction services to the customers.

Revenue recognition (prior to 1 January 2018)

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 is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (prior to 1 January 2018) (Continued)

Revenue from art and asset pawn services and interest income

The Group obtained business license of pawn broking and generates interest income by rendering art and asset pawn services. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Revenue from art and asset auction services

Art and asset auction service revenue is generally recognised when related services are provided. Art and asset auction services revenue includes buyer's and seller's commission, which are based on a percentage of hammer price of the auction sales.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases 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 obligations under finance leases.

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.

Operating lease payments are recognised as an expense on a straight line basis over the lease terms.

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 recognised at the rates of exchanges 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use of sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other 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.

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.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Scheme (the "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 benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees after deducting any amount already paid.

Share-based payments

Equity-settled share-based payment transactions

Share options granted to employees

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 29.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Equity-settled share-based payment transactions (Continued)

Share options granted to employees (Continued)

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.

Share options granted to suppliers/consultants

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses (unless the goods or services qualify for recognition as assets).

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 of income or expense that are taxable or deductible in other years and 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 the 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 differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment held for use in the supply of services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets 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 finance leases are 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 terms, assets are depreciated over the shorter of the lease terms 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 assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets 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).

The recoverable amounts of assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets (Continued)

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.

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 when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest on loans to customers for art and assets pawn business and interest income on bank deposits which are derived from the Group's ordinary course of business are presented as revenue and other income, respectively.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 3)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 3)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including loans to customers for art and asset pawn business, trade receivables, other receivables, amount due from a director and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 3) (Continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

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

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default; (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 3) (Continued)

(ii) Definition of default

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

Irrespective of the above, the Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of loans to customers for art and asset pawn business and trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 3) (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's loans to customers for art and asset pawn business and trade receivables are each assessed for expected credit losses collectively as a separate group after individual assessment. Other receivables, amount due from a director and bank balances are assessed for expected credit losses on an individual basis);

- Past-due status;

- Nature, size and industry of debtors; and

- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of loans to customers for art and asset pawn business and trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2019)

Financial assets are 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2019) (Continued)

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 impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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 a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation

For 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.

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 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.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

For other 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 other financial assets.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment 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.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of 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 an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities including other payables and amounts due to directors, related parties and immediate holding company are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are 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.

5. CRITICAL ACCOUNTING JUDGMENT 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.

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

Critical accounting judgment

The following is the critical judgement, apart from that involving estimation (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that has the most significant effect on the amounts recognised in the consolidated financial statements.

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 宜興程翔物資貿易有限公司 Yixing Changxiang Materials Trading Company Limited. 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 the Contractual Arrangements are disclosed in the section headed "Contractual Arrangement" of the Company's prospectus dated 27 October 2016. Pursuant to the Contractual Arrangements and undertakings, notwithstanding the fact that the Group does not hold direct equity interest in Hexin Pawn and Hexin Auction, management considers that the Group has power over the relevant activities of Hexin Pawn and Hexin Auction and receives 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.

Key sources of estimation uncertainty

The following is the key assumption concerning the future, and the key source of estimation uncertainty at the end of each reporting period that has a significant risk of causing a material adjustment to the carrying amount of asset within the next financial year.

Impairment of loans to customers for art and asset pawn business

The Group applies the general approach for impairment assessment of its loans to customers and recognises lifetime ECL where significant increase in credit risk since initial recognition has been identified. As disclosed in note 36, in determining whether the credit risk has increased significantly since initial recognition, the Group performs assessment on each of the loans to customers on an individual basis considering reasonable and supportable quantitative and qualitative information. The Group, amongst other factors, assesses whether there is a significant drop in the value of the collateral at the end of the reporting period, which could indicate a significant increase in credit risk since initial recognition, by engaging an independent qualified professional valuer to ascertain the value of the collateral. Significant judgments and estimation are involved when performing valuation of the artwork collateral. In cases where the value of the artwork collateral decreases significantly, a significant increase in credit risk arises and lifetime ECL should be recognised.

As disclosed in note 36, where no significant increase in credit risk since initial recognition has been identified, the Group groups the loans on the basis of shared credit risk characteristics and measurements impairment at 12m ECL. The measurement of 12m ECL involves significant judgment in (i) the selection of appropriate models and key inputs used in the ECL model, including the probability of default and loss given default; and (ii) the selection and use of reasonable and supportable forward looking information without undue cost or effort in the ECL model.

As at 31 December 2018, the gross carrying amount of loans to customers amounted to RMB401,066,000 (2017: RMB326,441,000). As no significant increase in credit risk since initial recognition has been identified, no lifetime ECL is recognised. Impairment loss for loans to customers for art and asset pawn business is measured at 12m ECL and 12m ECL of RMB4,139,000 is recognised as at 31 December 2018.

6. REVENUE AND SEGMENT INFORMATION

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

	2018 RMB'000	2017 RMB'000
Interest revenue:		
Pawn loan revenue from art and asset pawn business	**118,909**	128,475
Services revenue:		
Auction revenue from art and asset auction business	**138,290**	148,024
Total	**257,199**	276,499

Pawn loan revenue from art and asset pawn business represents interest revenue on loans to customers for art and asset paw business recognised using the effective interest method.

Auction revenue from art and asset auction business represents primarily buyer's and seller's commission from provision of art and asset auction services which is calculated at a percentage of hammer prices of the auction sales. Upon initial application of HKFRS 15 on 1 January 2018 as set out in note 3, such revenue constitutes revenue from contracts with customers and is recognised at a point in time upon the fall of hammer when the Group transfers the promised auction services to the customers, which is the same as the revenue recognition during the year ended 31 December 2017 under HKAS 18.

Disaggregation of revenue from contracts from customers

	2018 RMB'000
Types of auction products	
Zisha Artworks	**52,133**
Calligraphies and Paintings	**65,212**
Jewel Artworks	**16,975**
Others	**3,970**
Total	**138,290**
Geographical location	
The PRC, excluding Hong Kong	**122,153**
Hong Kong	**16,137**
Total	**138,290**

The Group has no unsatisfied performance obligations as at the end of the reporting period.

6. REVENUE AND SEGMENT INFORMATION (Continued)

The segment information reported externally was analysed based on the art and asset pawn business and the art and asset auction business, which is consistent with the internal information that is regularly reviewed by the executive directors and chief executive of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance. This is also the basis of organisation in the Group, whereby the management has chosen to organise the Group by these two services rendered.

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies described in note 3. Segment result represents the profit earned by each segment without allocation of other income, other gains and losses, central administrative expenses and finance costs. Segment assets and liabilities are allocated to each segment excluding deferred tax asset, amount due from a director, bank balances and cash, certain other payables and accruals and amount(s) due to related parties, directors and immediate holding company. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segment:

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Total RMB'000
2018			
Segment revenue	118,909	138,290	257,199
Segment costs	(1,189)	(9,138)	(10,327)
Business tax and surcharges	(896)	(982)	(1,878)
Impairment losses, net of reversal	2,390	(6,075)	(3,685)
Segment results	119,214	122,095	241,309
Other income			3,002
Other gains and losses			(1,944)
Central administrative expenses			(47,444)
Finance costs			(32)
Profit before tax			194,891

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

	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 costs	(2,982)	(15,728)	(18,710)
Business tax and surcharges	(990)	(903)	(1,893)
Impairment losses, net of reversal	(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

6. 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
2018			
Assets			
Segment assets	**245,562**	**366,538**	**612,100**
Other unallocated assets			
Deferred tax asset			**1,922**
Bank balances and cash			**571,596**
Consolidated total assets			**1,185,618**
Liabilities			
Segment liabilities	**7,157**	**263,354**	**270,511**
Other unallocated liabilities			
Other payables and accruals			**2,639**
Amount due to immediate holding company			**84,378**
Consolidated total liabilities			**357,528**

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

	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

Other segment information

	Art and asset pawn business RMB'000	**Art and asset auction business RMB'000**	**Total RMB'000**
2018			
Segment information included in the measure of segment results or assets:			
Additions of property, plant and equipment	**–**	**1,135**	**1,135**
Depreciation of property, plant and equipment	**830**	**566**	**1,396**

6. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information (Continued)

	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:			
Additions of property, plant and equipment	2,723	1,674	4,397
Depreciation of property, plant and equipment	995	226	1,221
Loss on disposals of property, plant and equipment	2	–	2

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 (Note)**	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
PRC	**241,062**	255,903	**2,774**	2,780
Hong Kong	**16,137**	20,596	**1,381**	1,636
	257,199	276,499	**4,155**	4,416

Note: Non-current assets exclude deferred tax asset.

Information about major customers

There was no revenue from transactions with a single external customer that contributes over 10% or more of the Group's total revenue for the years reported.

7. OTHER INCOME

	2018 RMB'000	2017 RMB'000
Interest income on bank deposits	**1,985**	1,432
Others	**1,017**	31
	3,002	1,463

8. OTHER GAINS AND LOSSES

	2018 RMB'000	2017 RMB'000
Net foreign exchange losses	**(2,722)**	(2,676)
Government grants (Note)	**687**	1,616
Loss on disposals of property, plant and equipment	**–**	(2)
Others	**91**	(69)
	(1,944)	(1,131)

Note: The amount for the year ended 31 December 2018 represents an one-off grant from the PRC government authority as a result of the introduction of foreign investment capital into the PRC. The amount for the year ended 31 December 2017 represented an one-off subsidy from the PRC government authority for the listing of the Company in November 2016.

9. IMPAIRMENT LOSSES, NET OF REVERSAL

	2018 RMB'000	2017 RMB'000
Impairment losses (reversed) recognised on:		
Loans to customers for art and asset pawn business	**(2,390)**	1,749
Trade receivables for art and asset auction business	**3,238**	–
Receivables from customers in respect of art and asset auction business	**2,837**	–
	3,685	1,749

Details of impairment assessment are set out in note 36.

10. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Finance lease charges	**32**	22

11. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current tax		
PRC Enterprise Income Tax ("EIT")	**57,839**	60,969
Hong Kong Profits Tax	**–**	119
	57,839	61,088
Deferred tax credit (note 18)	**(235)**	(438)
	57,604	60,650

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 subsidiaries is 25% for both years.

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profits that arises in or is derived from Hong Kong during the year ended 31 December 2017. On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25% and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2018 as the relevant subsidiaries in Hong Kong had no assessable profits.

11. INCOME TAX EXPENSE (Continued)

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

	2018	2017
	RMB'000	RMB'000
Profit before tax	**194,891**	221,286
Tax at the PRC EIT rate of 25% (2017: 25%)	**48,723**	55,322
Effect of different tax rate of applicable to subsidiaries operating in Hong Kong	**1,325**	(61)
Tax expenses not deductible for tax purpose	**4,149**	5,389
Tax effect of tax losses not recognised	**3,407**	–
Income tax expense	**57,604**	60,650

Details of deferred taxation are set out in note 18.

12. PROFIT FOR THE YEAR

	2018	2017
	RMB'000	RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration	**722**	1,421
Other staff salaries and allowances	**11,404**	7,519
Retirement benefit scheme contributions, excluding those of directors	**509**	364
Equity-settled share option expense	**708**	7,325
Total staff costs	**13,343**	16,629
Auditors' remuneration	**2,300**	2,200
Net foreign exchange losses	**2,722**	2,676
Depreciation for property, plant and equipment	**1,396**	1,221

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the directors and the chief executive of the Company during the years were as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
2018				
Executive directors				
Mr. Fan Zhijun	–	120	9	129
Mr. Zhang Bin	–	205	7	212
Independent non-executive directors				
Mr. Leung Shu Sun Sunny	–	127	–	127
Mr. Liu Jian	–	127	–	127
Mr. Chu Xiaoliang	–	127	–	127
	–	706	16	722
Chief Executive				
Ms. Li Simo	–	1,604	–	1,604

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

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
2017				
Executive directors				
Mr. Fan Zhijun (Note)	–	763	37	800
Mr. Zhang Bin	–	225	6	231
Independent non-executive directors				
Mr. Leung Shu Sun Sunny	–	130	–	130
Mr. Liu Jian	–	130	–	130
Mr. Chu Xiaoliang	–	130	–	130
	–	1,378	43	1,421
Chief Executive				
Ms. Li Simo (Note)	–	750	–	750

Note: Mr. Fan Zhijun resigned as Chief Executive of the Company and Ms. Li Simo was appointed as the Chief Executive of the Company on 20 September 2017.

The executive directors' emoluments shown above represent those for their services in connection with the management of the affairs of the Company and its subsidiaries during the year.

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

There was no arrangement under which a director or the chief executive waived or agreed to make any remuneration during the year.

14. EMPLOYEES' EMOLUMENTS

The remunerations of the five (2017: five) individuals with the highest emoluments in the Group, who are not directors of the Company, for the year ended 31 December 2018 are set out below:

	2018 RMB'000	2017 RMB'000
Salaries and other benefits	**4,329**	560
Discretionary bonus	**17**	68
Retirement benefit scheme contributions	**43**	43
Equity-settled share option expense	**303**	7,325
	4,692	7,996

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:

	2018 No. of employees	2017 No. of employees
Nil to HK$1,000,000	**3**	–
HK$1,500,001 to HK$2,000,000	**2**	3
HK$2,000,001 to HK$2,500,000	**–**	2
	5	5

During both years, no emoluments were paid by the Group to any of the directors of the Company or the Chief Executive or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

During the year ended 31 December 2017, 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 29.

15. DIVIDENDS

	2018 RMB'000	2017 RMB'000
2017 Final — HK2.0 cents (2017: 2016 Final — HK3.0 cents) per ordinary share	**25,799**	42,724
2016 Special — HK2.0 cents per ordinary share	**–**	28,484
	25,799	71,208

The Board recommends the payment of a final dividend for the year ended 31 December 2018 of HK$1.0 cent (equivalent to RMB0.9 cent) (2017: HK2.0 cents, equivalent to RMB1.7 cents) per share (the "Proposed Final Dividend") amounting to HK$16,000,000 (2017: HK$32,000,000). The Proposed Final Dividend will be payable in cash. The aggregate amount of the final dividend (2017: final and special dividends) declared and paid during the year ended 31 December 2018 amounted to HK$32,000,000 (equivalent to RMB25,799,000) (2017: HK$80,000,000, equivalent to RMB71,208,000).

The Proposed Final Dividend for the year ended 31 December 2018 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 the reporting period.

16. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2018 RMB'000	2017 RMB'000
Earnings:		
Profit for the year for the purpose of calculating basic and diluted earnings per share	**137,287**	160,636

	2018	2017
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,600,000,000**	1,600,000,000
Effect of dilutive potential ordinary shares on share options	**3,248,724**	3,361,653
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,603,248,724**	1,603,361,653

17. 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 2017	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
Additions	27	104	1,004	1,135
At 31 December 2018	3,980	1,047	5,150	10,177
DEPRECIATION				
At 1 January 2017	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
Provided for the year	440	134	822	1,396
At 31 December 2018	3,403	592	2,027	6,022
CARRYING VALUES				
At 31 December 2018	577	455	3,123	4,155
At 31 December 2017	990	485	2,941	4,416

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

Leasehold improvement	2–5 years or over the terms of the lease, whichever is shorter
Furniture, fixtures and equipment	3–5 years
Motor vehicles	5 years

The carrying value of motor vehicles of RMB3,123,000 (2017: RMB2,941,000) includes an amount of RMB1,400,000 (2017: RMB556,000) in respect of assets held under finance lease.

18. DEFERRED TAXATION

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

	Impairment allowances RMB'000
At 1 January 2017	1,195
Credit to profit or loss	438
At 31 December 2017	1,633
Effect of initial application of HKFRS 9 (note 3)	54
At 1 January 2018 (restated)	1,687
Credit to profit or loss	235
At 31 December 2018	1,922

At the end of the reporting period, the Group has unused tax losses of RMB20,648,000 (2017: Nil) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The tax losses arise from the Group's subsidiaries in Hong Kong and can be carried forward indefinitely.

19. LOANS TO CUSTOMERS FOR ART AND ASSET PAWN BUSINESS

	2018 **RMB'000**	2017 RMB'000
Art and asset pawn loans to customers, gross	**401,066**	326,441
Less: Impairment allowances	**(4,139)**	(6,529)
Art and asset pawn loans to customers, net	**396,927**	319,912

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 has 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 36% to 48% (2017: 32.4% to 48%) per annum during the year ended 31 December 2018. Loans to customers are all denominated in RMB.

All art and asset pawn loans granted are backed by collateral as security. The principal collateral types for loans to customers are the artworks, mainly zisha artworks, paintings and calligraphies. The Group is not permitted to sell or repledge the pawn assets in the absence of default by the customers. There have not been any significant changes in the quality of the collateral held.

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

Aging analysis of loans to customers

The aging analysis of loans to customers net of impairment allowances by issue date of initial pawn tickets upon granting of the pawn loans are set out below:

	2018 RMB'000	2017 RMB'000
Within 1 month	**38,763**	88,800
2–3 months	**315,835**	172,690
3–6 months	**42,329**	58,422
Total	**396,927**	319,912

Movement in impairment allowances on loans to customers

	2017 RMB'000
At beginning of the year	4,780
Impairment losses recognised	1,749
At end of the year	6,529

Details of the impairment assessment of loans to customers for art and asset pawn business are set out in note 36.

20. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Trade receivables for art and asset auction business, gross	**42,593**	53,961
Less: Impairment allowances	**(710)**	–
Trade receivables for art and asset auction business, net	**41,883**	53,961
Other receivables and prepayments:		
Receivables from customers in respect of art and asset auction business	**167,535**	289,389
Other receivables and deposits	**1,600**	734
Prepayments	**–**	16
	169,135	290,139
Total	**211,018**	344,100

20. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS (Continued)

As at 31 December 2018 and 1 January 2018, trade receivables for art and asset auction business arise from contracts with customers which amounted to RMB41,883,000 and RMB53,632,000, respectively.

Buyers of artworks are required to settle the entire purchase price of the artworks within 7 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.

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

	2018 **RMB'000**	2017 RMB'000
Less than 60 days	**42,593**	53,961

The following is an aged analysis of trade receivables for art and asset auction business for which the Group has not provided impairment losses. The Group did not hold any collateral over these balances.

	2017 RMB'000
0 to 30 days	53,961

No such analysis is presented as at December 2018 upon adoption of HKFRS 9 on 1 January 2018.

Details of impairment assessment of trade and other receivables are set out in note 36.

21. AMOUNT DUE FROM A DIRECTOR

As at 31 December 2017, the amount was due from Mr. Fan Zhijun and was non-trade nature, unsecured, interest-free and repayable on demand. The maximum outstanding balances during the period ended 31 December 2017 was RMB150,000. The amount was settled during the year ended 31 December 2018.

22. BANK BALANCES AND CASH

The Group's bank balances carry interest at rates of from 0.01% to 1.55% (2017: 0.01% to 1.10%) per annum as at 31 December 2018.

23. OTHER PAYABLES AND ACCRUALS

	2018 RMB'000	2017 RMB'000
Payables on behalf of customers in respect of art and asset auction business	**224,807**	405,835
Other payables for art and asset auction business	**377**	3,441
Accrued staff costs	**1,004**	1,675
Other tax payables	**13,143**	13,940
Security deposits received for auctions	**8,800**	4,293
Others	**2,639**	4,355
	250,770	433,539

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 from date of auction or receipt of settlement from buyer, whichever is later. 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.

24. AMOUNTS DUE TO DIRECTORS

Particulars of amounts due to directors are disclosed as follows:

	2018 RMB'000	2017 RMB'000
Mr. Fan Zhijun	**–**	39
Mr. Zhang Bin	**–**	61
	–	100

The amounts due to directors were non-trade nature, unsecured, interest-free and repayable on demand. The amounts were settled during the year ended 31 December 2018.

25. AMOUNTS DUE TO RELATED PARTIES

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

	2018	2017
	RMB'000	RMB'000
Mr. Fan Zhixin	–	17
Ms. Fan Qinzhi	–	15
Mr. Fan Yajun	–	1
Mr. 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 personnel 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 were non-trade nature, unsecured, interest-free and repayable on demand as at 31 December 2017. The amounts were settled during the year ended 31 December 2018.

26. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

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

27. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amount payable under finance leases:				
Within one year	**435**	135	**384**	115
Within a period of more than one year but not more than two years	**435**	135	**390**	121
Within a period of more than two years but not more than five years	**360**	292	**333**	279
	1,230	562	**1,107**	515
Less: Future finance charges	**(123)**	(47)	**–**	–
Present value of lease obligations	**1,107**	515	**1,107**	515
Less: Amount due for settlement within one year (shown under current liabilities)			**(384)**	(115)
Amounts due for settlement after one year (shown under non-current liabilities)			**723**	400

During the year ended 31 December 2018, the Group leased its motor vehicles under finance leases. The lease term ranges from 3 to 4 years (2017: 3 years). The weighted average effective interest rate is 6.86% (2017: 4.43%) per annum. The leases are on fixed repayment bases and no arrangement has been entered into for contingent rental payments.

28. SHARE CAPITAL

	Number of shares	Nominal value	
		HK$'000	RMB'000
Ordinary shares of HK$0.01 each			
Authorised			
At 1 January 2017 and 31 December 2017 and 2018	5,000,000,000	50,000	43,420
Issued and fully paid			
At 1 January 2017 and 31 December 2017 and 2018	1,600,000,000	16,000	13,995

29. 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 option 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 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest 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.

29. SHARE-BASED PAYMENTS (Continued)

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 1/1/2018	Granted during the year	Exercised during the year	Forfeited during the year (Note)	Outstanding at 31/12/2018
2 June 2017	HK$0.8	2 June 2017 to 1 June 2022	23,000,000	–	–	–	23,000,000
Exercisable at the end of the year							23,000,000
Weighted average exercise price (HK$)			0.8	–	–	–	0.8

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$0.8	2 June 2017 to 1 June 2022	–	79,000,000	–	(56,000,000)	23,000,000
Exercisable at the end of the year							–
Weighted average exercise price (HK$)			–	0.8	–	0.8	0.8

Note: The forfeiture during the year ended 31 December 2017 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 a 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.

29. SHARE-BASED PAYMENTS (Continued)

Fair value of the options granted during the year ended 31 December 2017 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 2018 was 23,000,000 (2017: 23,000,000), representing approximately 1.4% (2017: 1.4%) of the issued shares of the Company as at 31 December 2018.

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 RMB708,000 (2017: RMB9,797,000) for the year ended 31 December 2018 in relation to share options granted by the Company.

30. ACQUISITION OF A SUBSIDIARY

During the year ended 31 December 2017, 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; Ms. Fan Qinzhi, who 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, and as such, the acquisition did not constitute to a business combination. The acquisition was thus accounted for as an acquisition of assets through acquisition of a subsidiary.

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
Consideration payable	84

Cash inflow arising on acquisition:

Bank balances and cash acquired	4

31. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividend payable RMB'000	Amount due to directors RMB'000 (note 24)	Amounts due to related parties RMB'000 (note 25)	Amounts due to immediate holding company RMB'000 (note 26)	Obligations under finance leases RMB'000 (note 27)	Total RMB'000
At 1 January 2017	–	–	–	–	–	–
Financing cash flows	(71,208)	38	68	23,196	(116)	(48,022)
Non-cash changes:						
Acquisition of a subsidiary	–	62	20	–	–	82
New finance lease	–	–	–	–	609	609
Finance costs	–	–	–	–	22	22
Dividend declared	71,208	–	–	–	–	71,208
At 31 December 2017	–	100	88	23,196	515	23,899
Financing cash flows	(25,799)	(100)	(88)	57,877	(214)	31,676
Non-cash changes:						
New finance lease	–	–	–	–	774	774
Finance costs	–	–	–	–	32	32
Dividend declared	25,799	–	–	–	–	25,799
Exchange differences	–	–	–	3,305	–	3,305
At 31 December 2018	**–**	**–**	**–**	**84,378**	**1,107**	**85,485**

32. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2018, 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 RMB774,000 (2017: RMB609,000).

33. RETIREMENT BENEFIT PLANS

The employees of the PRC subsidiaries are members of a state-managed retirement benefit 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 benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions.

The Group has joined the 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 RMB525,000 (2017: RMB407,000) for the year ended 31 December 2018.

34. OPERATING LEASES

The Group as lessee

	2018 RMB'000	2017 RMB'000
Minimum lease payments paid to the following parties under operating leases in respect of rented premises during the year:		
Mr. Fan Zhijun	**900**	600
Outsiders	**7,124**	1,340
	8,024	1,940

At the end of the 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:

	2018 RMB'000	2017 RMB'000
Within one year		
Mr. Fan Zhijun	**900**	600
Outsiders	**1,168**	2,510
	2,068	3,110
Between one and five years		
Mr. Fan Zhijun	**3,600**	2,400
Outsiders	**451**	2,408
	4,051	4,808
Over five years		
Mr. Fan Zhijun	**1,800**	825
	7,919	8,743

Operating lease payment represent rentals payable by the Group for its auction venues, office premises, staff quarters and car park lots. Leases are negotiated and rentals are fixed for terms of one to eight years.

35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

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 leases, net of bank balances and cash, and equity attributable to owners of the Company comprising share capital and reserves.

Management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues and share repurchase backs as well as the issue of new debts or the redemption of existing debt.

36. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial assets at amortised cost	**1,179,541**	–
Loans and receivables (including cash and cash equivalents)	**–**	1,191,411
Financial liabilities		
Amortised cost	**321,001**	437,015

(b) Financial risk management objectives and policies

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

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 include 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. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

36. 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 asset is 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 customers.

The Group regularly calculates the impact on profit or loss of a possible interest rate shift on its interest-bearing bank deposits, and the directors of the Company expect the impact is immaterial to the Group.

Total interest income from financial assets that are measured at amortised cost for the year ended 31 December 2018 amounted to RMB120,894,000 (2017: RMB129,907,000).

Currency risk

Currency risk 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 (mainly Hong Kong dollars ("HKD")) at 31 December 2018 are as follows:

	Currency	**2018** **RMB'000**	2017 RMB'000
Monetary assets	HKD	**9**	4,499
Monetary liabilities	HKD	**84,378**	28,731
Net exposure	HKD	**(84,369)**	(24,232)

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.

36. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in HKD against RMB. The following table details the Group's sensitivity to a 5% increase and decrease in RMB, the functional currency of respective group entities, against HKD. 5% 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.

	2018 **RMB'000**	2017 RMB'000
Increase in profit for the year	**4,218**	1,012

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 and impairment assessment

As at 31 December 2018, the carrying amounts of financial assets best represent the Group's maximum exposure to credit risk. Other than the entire balance of loans to customers for art and asset pawn business (net of impairment allowances) of RMB396,927,000 (2017: RMB319,912,000) which is backed by collateral as security as disclosed in note 19, the Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

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

Loans to customers for art and asset pawn business

For art and asset pawn business, the Group manages its credit risk primarily through the taking of specific classes of collateral from customers. All art and asset pawn loans granted are backed by collateral as security. The principal collateral types for loans to customers are the artworks, mainly zisha artworks, paintings and calligraphies. In order to minimise credit risk, the principal amount of loans that the Group grants to its customers is subject to a discount to the appraised value of the collaterals and generally does not exceed 75% of the appraised value of artworks at the loan application stage.

The Group maintains a reasonably diversified client base. As at 31 December 2018, the Group's concentration of credit risk on loans to customers included ten major customers in the PRC accounting for 68.52% (2017: 43.10%) of the total balance (before impairment allowances).

36. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Loans to customers for art and asset pawn business (Continued)

Loans to customers are subject to impairment under the expected credit loss model. At the end of the reporting period, the Group recognises a loss allowance for ECL on loans to customers and measures the loss allowance equal to 12m ECL, unless where there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL.

In determining whether the credit risk for loans to customers has increased significantly since initial recognition, the Group performs assessment on each of the loans to customers on an individual basis. The Group considers there is a significant increase in credit risk since initial recognition for loans to customers when:

- the pawn loans are renewed continuously such that the entire loan period is more than 6 months from the date the loans are initially granted;
- the interest payments or the principal of the pawn loans are delayed or past due; or
- there is a significant drop in the value of the collateral at the end of the reporting period.

To ascertain the value of collaterals, the Group engages an independent qualified professional valuer to perform valuation of selected high-valued artwork collaterals.

For loans to customers that have been assessed with no significant increase in credit risk since initial recognition on the individual instrument level, the Group groups the loans on the basis of shared credit risk characteristics (i.e. based on internal credit rating on the basis of the frequency of renewal of pawn loans) and performs collective assessment for ECL which incorporates comprehensive credit information including forward-looking macroeconomic information.

The Group recognises lifetime ECL on loans to customers with significant increase in credit risk since initial recognition. Where no significant increase in credit risk has been identified, the Group recognises 12m ECL.

Loans to customers are considered to be credit-impaired when one or more events of default have occurred, such as:

- the customer does not have the ability to repay the pawn loan;
- the customer has not ransomed the pawned assets; or
- the customer is placed under legal proceedings and is deemed a defaulter under court orders.

Lifetime ECL is recognised on loans to customers that are considered to be credit-impaired.

36. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Loans to customers for art and asset pawn business (Continued)

The Group's internal credit grading assessment for loans to customers for art and asset pawn business comprises the following categories:

Internal credit rating	Description	Lifetime ECL or 12m ECL
Lower risk	The counterparty has a low risk of default and has renewed the pawn loan not more than 2 times	12m ECL
Medium risk	The counterparty has renewed the pawn loan more than 2 times, but has not renewed the pawn loan continuously such that the entire loan period is more than 6 months from the date the loan is initially granted	12m ECL
Higher risk	There have been significant increases in credit risk since initial recognition as evidenced by: • the pawn loans are renewed continuously such that the entire loan period is more than 6 months from the date the loans are initially granted; • the interest payments or the principal of the pawn loans are delayed or past due; or • there is a significant drop in the value of the collateral at the end of the reporting period.	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired such as the following events of default: • the customer does not have the ability to repay the pawn loan; • the customer has not ransomed the pawned assets; or • the customer is placed under legal proceedings and is deemed a defaulter under court orders.	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the customer is in severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written of

36. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Loans to customers for art and asset pawn business (Continued)

The table below details the credit risk exposures for loans to customers for art and asset pawn business which are subject to ECL assessment:

	12m or lifetime ECL	Gross carrying amount
		RMB'000
Lower risk	12m ECL	401,031
Medium risk	12m ECL	35
		401,066

Loans to customers for art and asset pawn business is assessed on 12m ECL basis as there had been no significant increase a credit risk since initial recognition.

The following tables show reconciliation of impairment allowances that has been recognised for loans to customers for art and asset pawn business:

	12m ECL	Lifetime ECL (credit-impaired)	Total
	RMB'000	RMB'000	RMB'000
As at 31 December 2017 under HKAS 39 and as at 1 January 2018	–	6,529	6,529
Impairment losses recognised (reversed)	4,139	(6,529)	(2,390)
As at 31 December 2018	4,139	–	4,139

The lifetime ECL for credit-impaired loans to customers as at 31 January 2018 of RMB6,529,000 was reversed during the year as a result of full settlement of the loans from customers. 12m ECL of RMB4,139,000 recognised during the year arises from new loans advanced to customers with gross carrying amount of RMB401,066,000.

36. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Trade receivables and other receivables from customers in respect of art and asset auction business

The Group's exposure to trade receivables and other receivables in respect of art and asset auction business relates to the failure of buyers of artworks to perform their obligations to pay the commission fee and purchase cost on time respectively as detailed in note 20. As auction items will 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 has concentration of credit risk as 20.87% (2017: 29.00%) of the total trade receivables and other receivables from customers in respect of art and asset auction business (before impairment allowances) were due from the Group's five largest customers as at 31 December 2018.

Trade receivables and other receivables arising from art and asset auction held by the Group are subject to impairment under the expected credit loss model. For trade receivables with gross carrying amount of RMB42,593,000, the Group applies the simplified approach for impairment assessment and always recognises lifetime ECL. For other receivables with gross carrying amount of RMB170,372,000, the Group recognises 12m ECL, unless where there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL.

As trade receivables and other receivables relate to individual counterparties from the auctions held by the Group, the Group does not differentiate the individual counterparties and thus considers them to have common risk characteristics and performs impairment assessment on a collective basis. An average loss rate of 1.67% had been applied which is estimated loss rates are estimated based on the Group's historical credit loss experience and is adjusted for forward-looking macro-economic information that is available with undue cost or effort.

During the year ended 31 December 2018, the Group provided impairment allowance of RMB3,238,000 and RMB2,837,000 for trade receivables and other receivables in respect of art and asset auction business, respectively.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach:

	Lifetime ECL (not credit–impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 31 December 2017 under HKAS 39	–	–	–
Adjustment upon initial application of HKFRS 9	329	–	329
As at 1 January 2018 (restated)	329	–	329
Impairment losses recognised	381	2,857	3,238
Write-offs	–	(2,857)	(2,857)
As at 31 December 2018	710	–	710

36. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Trade receivables and other receivables from customers in respect of art and asset auction business (Continued)

Lifetime ECL of RMB2,857,000 is recognised during the year on trade receivables recognised as at 1 January 2018 with gross carrying amount of RMB2,857,000 that are considered to be credit impaired during the year. Lifetime ECL of RMB381,000 recognised during the year arises from trade receivables recognised during the year with gross carrying amount of RMB42,593,000.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings or when the amounts are over two years past due, whichever occurs sooner.

The following table shows the movement in 12m ECL that has been recognised for other receivables in respect of art and asset auction business:

	12m ECL RMB'000
As at 31 December 2017 under HKAS 39 and as at 1 January 2018	–
Impairment losses recognised	2,837
As at 31 December 2018	2,837

12m ECL of RMB2,837,000 recognised during the year arises from other receivables recognised during the year with gross carrying amount of RMB170,372,000.

Bank balances

The credit risks on bank balances are limited because the counterparties are well-established banks which are regulated by relevant regulators or government authorities.

36. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk

In the management of liquidity risk, 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 table details the Group's remaining contractual maturity for its financial liabilities (other payables and amounts due to directors, related parties and immediate holding company) and obligations under finance leases based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities and obligations under finance leases 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 effective 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 31.12.2018 RMB'000
Other payables	–	12,688	–	223,935	–	–	236,623	236,623
Amount due to immediate holding company	–	84,378	–	–	–	–	84,378	84,378
Obligations under finance leases	6.86	–	36	72	327	795	1,230	1,107
		97,066	36	224,007	327	795	322,231	322,108

	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 31.12.2017 RMB'000
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 leases	4.43	–	11	22	102	427	562	515
		437,015	11	22	102	427	437,577	437,530

36. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flows analysis.

Management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

37. 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:

	2018 RMB'000	2017 RMB'000
Rental of office premises	**900**	600
Auction revenue from art and asset auction business	**–**	17

Operating lease commitments in respect of such offices are disclosed in note 34.

(b) Compensation of key management personnel

The remuneration of key management personnel during the year is as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other benefits	**5,128**	4,617
Discretionary bonus	**122**	117
Retirement benefit scheme contributions	**72**	151
Equity-settled share option expense	**–**	3,028
	5,322	7,913

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

38. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2018 and 2017 are as follows:

Name of company	Place of incorporation/ establishment	Equity interest attributable to the Group as at 31 December 2018 %	2017 %	Issued and full paid share/ registered capital	Legal form	Principal activities
Directly held:						
Reliance Art Holdings Limited	The BVI	**100**	100	USD50,000	Limited liability company	Investment holding
Indirectly held:						
Artfund International (Hong Kong) Auction Company Limited	Hong Kong	**100**	100	HK$10,000,000	Private limited company	Auction services
China Art Financial Investments Company Limited	Hong Kong	**100**	100	HK$1	Private limited company	Inactive
China Art Financial Management Company Limited	Hong Kong	**100**	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**	100	HK$1	Private limited company	Inactive
Artfund International Culture and Art Company Limited	Hong Kong	**100**	100	HK$1	Private limited company	Inactive
WFOE-Pawn	The PRC	**100**	100	HK$170,000,000 (2017: HK$147,750,000)	Limited liability company	Investment holding
WFOE-Auction	The PRC	**100**	100	HK$500,000	Limited liability company	Investment holding
Hexin Auction (Note)	The PRC	**100**	100	RMB10,000,000	Limited liability company	Auction services
Hexin Paw (Note)	The 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	The PRC	**100**	100	RMB500,000	Limited liability company	Investment holding
Chengxiang Materials	The PRC	**100**	100	RMB15,000,000	Limited liability company	Investment holding
上海沁信文化藝術有限公司 Shanghai Qinxin Culture and Art Company Limited (formerly known as 上海卓信拍賣有限公司 Shanghai Zhuoxin Auction Company Limited)	The PRC	**100**	100	RMB1,000,000	Limited liability company	Inactive

Note: As detailed in note 2, the Contractual Arrangements entered into between WOFE-Pawn and WOFE-Auction and all the equity holders of Hexin Pawn and Hexin Auction 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. Accordingly, Hexin Pawn and Hexin Auction are considered wholly-owned subsidiaries of WOFE-Pawn and WOFE-Auction respectively and are treated as indirect subsidiaries of the Company.

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

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Investment in a subsidiary	(a)	**33,771**	23,475
Amount due from a subsidiary	(b)	**150,239**	105,063
		184,010	128,538
Current asset			
Bank balances and cash		**7**	2,080
Current liabilities			
Other payables and accruals		**2,386**	5,251
Amount due to immediate holding company		**84,378**	–
Amounts due to fellow subsidiaries		**2,173**	–
		88,937	5,251
Net current liabilities		**(88,930)**	(3,171)
		95,080	125,367
Capital and reserves			
Share capital		**13,995**	13,995
Reserves		**81,085**	111,372
Total equity		**95,080**	125,367

39. 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 2017	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 upon forfeiture of share options	–	(4,945)	4,945	–
At 31 December 2017	151,854	4,852	(45,334)	111,372
Loss and total comprehensive expense for the year	–	–	(5,196)	(5,196)
Dividends paid	(25,799)	–	–	(25,799)
Recognition of equity-settled share-based payments	–	708	–	708
At 31 December 2018	126,055	5,560	(50,530)	81,085

Notes:

(a) Investment in a subsidiary represents the investment cost of HK$7.8 (equivalent to RMB6.4) in Reliance Art Holdings Limited, a wholly-owned subsidiary of the Company, and deemed investment cost of RMB33,771,000 (2017: RMB23,475,000) arising from the non-current intercompany advance to a subsidiary.

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