



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*  
**2019**



# CONTENTS

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|   |    |
|---|----|
| Corporate Information   | 2  |
| Corporate Profile   | 3  |
| Financial Summary   | 5  |
| Chairman's Statement  | 6  |
| Management Discussion and Analysis                                      | 7  |
| Directors and Senior Management   | 14 |
| Corporate Governance Report   | 18 |
| Directors' Report   | 27 |
| Independent Auditor's Report  | 45 |
| Consolidated Statement of Profit or Loss and Other Comprehensive Income | 52 |
| Consolidated Statement of Financial Position                            | 53 |
| Consolidated Statement of Changes in Equity                             | 54 |
| Consolidated Statement of Cash Flows                                    | 55 |
| Notes to the Consolidated Financial Statements                          | 57 |

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

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

Mr. Zhang Bin\*

### Independent Non-executive Directors

Mr. Leung Shu Sun Sunny

Mr. Liu Jian

Mr. Chu Xiaoliang

## COMPANY SECRETARY

Mr. 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 Evergrande 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

Ascenda Cachet CPA Limited

## LEGAL ADVISERS AS TO HONG KONG

Chiu & Partners

## COMPANY'S WEBSITE

[www.cnartfin.com.hk](http://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

\* resigned on 30 September 2019

## 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.

## CORPORATE PROFILE

### **We enjoy synergy brought by the operations of our art pawn loan and art auction**

From 2010 onward when we started to develop our operations along the art finance industry, we are among the few corporations in China which are capable to build an integrated business model through which we provide clients with a platform for trading of and financing with artworks. Our ability of providing comprehensive services along artwork enhances our brand penetration in the art markets, concentrates our resources in developing high quality services along artworks and hence contributes to our success in art operations. Such business model and the synergy brought by these two complementary segments benefit us in (among others) the following manner:

- We have built a professional authentication and appraisal team. Professionalism and expertise in artwork authentication and appraisal is one of the most important elements in both of our art pawn loan and art auction operations.
- Over years of operation, some of the artwork interested parties are common clients of both of our business segments who are borrowers of our pawn loan and also customers in our art auctions as sellers and/or buyers of artworks.
- Our storage facilities for keeping our artworks as loan collaterals and for art auction are located at our headquarters and under our own management. We have formulated specific measures on taking possession of, safekeeping and release of artworks into and out of our strong-rooms.

Those synergy effects brought by our ability to provide integrated art finance services enhance efficiency in our operation, reduce the overall operating costs and benefit us from economies of scale.

### **We have built up effective risk management and internal control systems**

We have been building, maintaining and constantly improving our internal control and risk management systems for our pawn loan and auction business. For our art and asset pawn operation, we have adopted and implemented a comprehensive set of specific measures at every stage of our art and asset pawn operation from receiving loan application up to repayment of loan. In particular, we adopt prudent artwork appraised loan-to-value ratio to reduce our risk exposure. As far as our art and asset auction business is concerned, we also adopt multiple steps in conducting screening, authentication and valuation of our auction lots. We believe our risk management and internal control systems are effective and efficient in reducing various risks involved in our operations, as evidenced by our low impaired loan ratio.

### **We have an experienced and stable management team led by visionary founder**

Our management team comprises experienced industry experts who have spearheaded our rapid development in becoming a leading art finance service provider in China in recent years. Our Chairman 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.

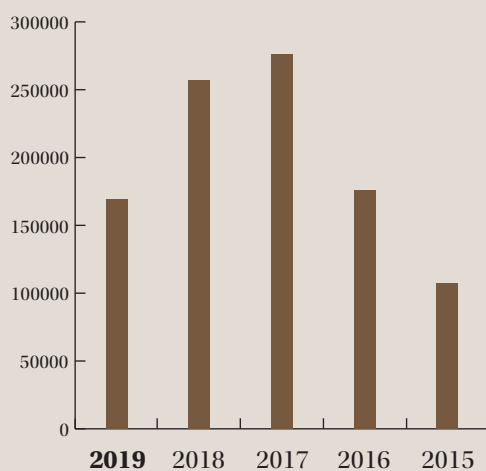
Given the nature of our art-related operations, we also established long-term relationship with external experts for conducting artworks authentication and valuation. The joint efforts of our senior management and experts have contributed to our development and growth as a specialised art pawn loan service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

# FINANCIAL SUMMARY

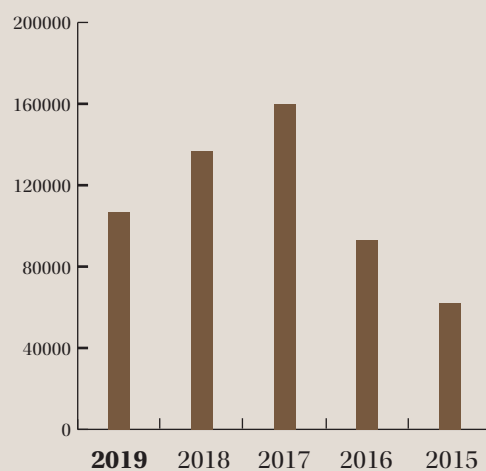
|                           | For the year ended or as at 31 December |                 |                 |                 |                 |
|---------------------------|---|-----------------|-----------------|-----------------|-----------------|
|                           | 2019<br>RMB'000                         | 2018<br>RMB'000 | 2017<br>RMB'000 | 2016<br>RMB'000 | 2015<br>RMB'000 |
| <b>Operating Results</b>  |   |                 |                 |                 |                 |
| Revenue                   | <b>163,969</b>                          | 257,199         | 276,499         | 176,882         | 107,574         |
| Profit for the year       | <b>107,527</b>                          | 137,287         | 160,636         | 93,432          | 62,394          |
| <b>Financial Position</b> |   |                 |                 |                 |                 |
| Total assets              | <b>1,204,484</b>                        | 1,185,618       | 1,197,476       | 699,752         | 364,720         |
| Bank balances and cash    | <b>588,113</b>                          | 571,596         | 527,265         | 463,080         | 292,837         |
| Loans to customers        | <b>533,832</b>                          | 396,927         | 319,912         | 234,183         | 64,813          |
| Total liabilities         | <b>194,689</b>                          | 357,528         | 479,556         | 80,896          | 76,353          |
| Net assets                | <b>1,009,795</b>                        | 828,090         | 717,920         | 618,856         | 288,367         |

Notes: The summary of the consolidated results and financial positions of the Group for the years ended 31 December 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

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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 2019 (the "Reporting Year").

In 2019, we experienced a year filled with challenges and fluctuation. With the continuation of trade war between China and the United States, the growing concerns on Brexit and deleveraging policy in China, the overall economy was uncertain and the market sentiment is affected.

During the year, we held the four auctions throughout the year. Even under the uncertain economic environment, we received a satisfactory market response. With certain costs control measurements implemented, we have largely reduced our operating and administrative costs in response to the market condition.

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 our mature business team and comprehensive risk management systems, we have been maintaining high quality loan portfolio.

Following the outbreak of coronavirus disease in late 2019, our living and working environment in the mainland China has been inevitably affected. The World Health Organisation further declared the coronavirus pandemic in March 2020 which deepen the market concerns on the worldwide economy and the art market. We expect the art market will be facing a tough year. Strategically, leveraging on our existing rich resources and network in the art market, we will continue to strengthen our relationship with the collectors and our business partners while we exercise caution in our business operation.

By taking unique advantage of having support from the mainland China and our connections 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, 27 March 2020

# MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET REVIEW

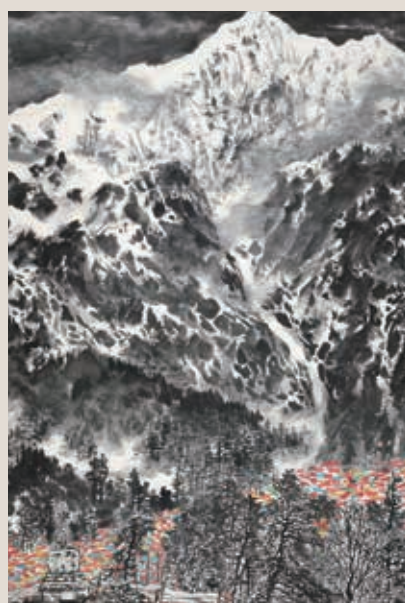
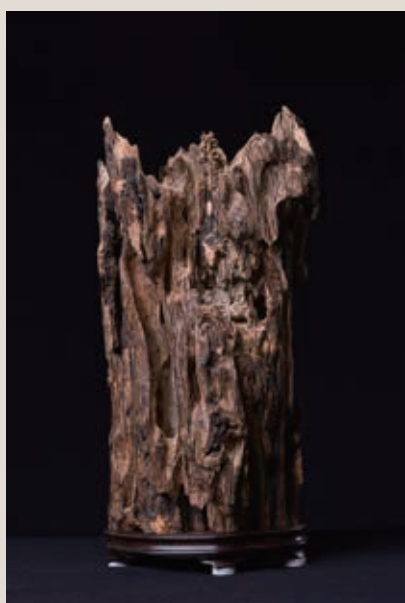
### Company Financial Performance

Our revenue for the year ended 31 December 2019 amounted to approximately RMB164.0 million, representing a year-on-year decrease of 36%. The revenue from art auction business and art pawn loan business have recorded decreases of 47% and 24% respectively.

Profit for the year ended 31 December 2019 amounted to approximately RMB107.5 million, representing a year-on-year decrease of 22%.

### Company Business Highlights

| Operating Information  | Year ended 31 December |      | Change<br>% |
|--|------------------------|------|-------------|
|  | 2019                   | 2018 |             |
| Aggregate transaction value of art auction (RMB million)                 | <b>342</b>             | 638  | (46)        |
| Aggregate transaction value of spring auction (RMB million)              | <b>196</b>             | 243  | (19)        |
| Aggregate transaction value of autumn auction (RMB million)              | <b>82</b>              | 229  | (64)        |
| Aggregate transaction value of pure online auction (RMB million)         | <b>64</b>              | 129  | (50)        |
| Aggregate transaction value of special collection auctions (RMB million) | <b>-</b>               | 37   | (100)       |
| Overall commission rate for art auction business (%)                     | <b>23</b>              | 22   | 5           |
| Total new loan amount granted secured by artwork (RMB million)           | <b>881</b>             | 683  | 29          |
| Loan default rate (%)  | <b>0</b>               | 0    | -           |





# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

In 2019, the international and domestic market experienced a volatile year marked by heightened concerns about the trade war between China and the United States, Brexit and threats to worldwide economic growth. The Company and its subsidiaries (together, the “Group”) adjusted the marketing strategy in response to the unstable environment.

For the year ended 31 December 2019 (the “Reporting Year”), the Group’s revenue was approximately RMB164 million, representing an decrease of 36% from RMB257.2 million for the same period in 2018. The profit for the year was approximately RMB107.5 million, representing an decrease of 22% from RMB137.3 million for the same period in 2018.

### Art Auction Business

The Group’s art and asset auction business adapted a prudent strategy in business development. The number of auctions held in the Reporting Year was reduced to four from eight in the same period in 2018 in respond to the market demand.

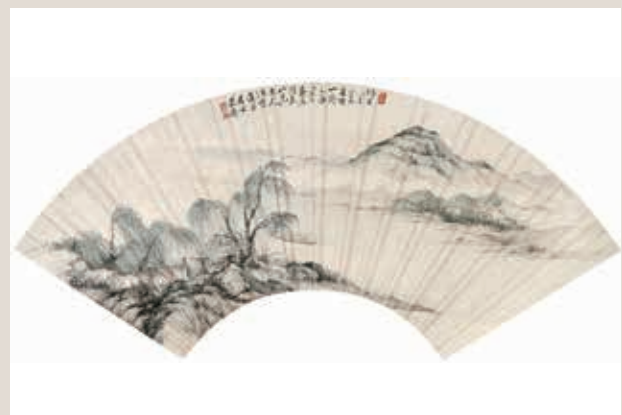
During the Reporting Year, revenue from the art and asset auction segment of the Company was approximately RMB73.5 million, representing a decrease of 47% from RMB138.3 million for the same period last year. Profits of art and asset auction segment was RMB79.1 million, representing a decrease of 35% from RMB122.1 million for the same period last year.

During the Reporting Year, we held our spring and autumn auctions in Yixing and two pure online art auctions. The aggregate transaction value (excluding buyer commission) amounted to RMB342 million, representing a decrease of approximately 46% from approximately RMB638 million for the same period last year as the number of auctions were reduced.

### Art and Asset Pawn Loan Business

During the Reporting Year, revenue from the art and asset pawn segment was approximately RMB90.5 million, representing a decrease of approximately 24% from approximately RMB118.9 million for the same period last year. The decrease is the result of the reduced monthly composite administrative fee charged on pawn loans and reduced average loan balance in the mainland China during the Reporting Year.

Profits of art and asset pawn segment was RMB87.9 million, representing a decrease of approximately 26% from approximately RMB119.2 million in 2018. During the Reporting Year, the total amount of new loans granted by the Group amounted to approximately RMB880.5 million.



## MANAGEMENT DISCUSSION AND ANALYSIS

Our artwork collateral portfolio mainly includes zisha artworks as well as paintings and calligraphies and jewel artworks.

| <b>Loans secured by artwork</b>         | <b>Year ended 31 December</b> |             |
|---|-------------------------------|-------------|
|   | <b>2019</b>                   | <b>2018</b> |
| Total new loan amount granted (RMB'000) | <b>880,450</b>                | 683,400     |
| Total number of new loans granted       | <b>98</b>                     | 76          |
| Number of new loans renewed             | <b>76</b>                     | 58          |
| Renewal ratio of new loan (%)           | <b>78</b>                     | 76          |
| Average initial loan term (days)        | <b>40</b>                     | 72          |

| <b>Loans secured by assets</b>          | <b>Year ended 31 December</b> |             |
|---|-------------------------------|-------------|
|   | <b>2019</b>                   | <b>2018</b> |
| Total new loan amount granted (RMB'000) | <b>368</b>                    | 360         |
| Total number of new loans granted       | <b>52</b>                     | 49          |
| Number of new loans renewed             | <b>48</b>                     | 41          |
| Renewal ratio of new loan (%)           | <b>92</b>                     | 84          |
| Average initial loan term (days)        | <b>41</b>                     | 42          |

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.



# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

Our revenue for the year ended 31 December 2019 amounted to approximately RMB164.0 million, representing a year-on-year decrease of 36%, from approximately RMB257.2 million for the year ended 31 December 2018, primarily due to (i) the outbreak of trade war between China and the United States adversely affecting the market sentiment during the year, (ii) the reduction of numbers of auctions from eight in 2018 to four in 2019 due to our adjustment on the market strategy and (iii) the reduction of monthly composite administrative fee charged on pawn loans.

### Operating expenses

Our operating expenses significantly decreased by approximately RMB7.1 million, or approximately 58%, from approximately RMB12.2 million for the year ended 31 December 2018 to approximately RMB5.1 million for the year ended 31 December 2019, primarily due to the costs saved from the reduction in the number of auctions held.

### Impairment losses, net of reversal

For the year ended 31 December 2019, we reversed impairment losses approximately RMB2.4 million.

### Administrative expenses

Our administrative expenses decreased by approximately RMB26.9 million, or approximately 57%, from approximately RMB47.4 million for the year ended 31 December 2018 to approximately RMB20.5 million for the year ended 31 December 2019, primarily due to the reduced operation scale in Hong Kong and Shanghai during the Reporting Year.

### Other gains and losses

Our other gains and losses decreased by approximately RMB0.6 million from the losses of approximately RMB1.9 million for the year ended 31 December 2018 to the losses of approximately RMB1.3 million for the year ended 31 December 2019, primarily due to the decreased exchange loss arisen from the depreciation of RMB.

### Reportable segment profit

As a result of the foregoing, reportable segment profit decreased by RMB74.3 million from RMB241.3 million for the year ended 31 December 2018 to RMB167.0 million for the year ended 31 December 2019.

### Profit before tax

As a result of the foregoing, our profit before tax decreased by approximately RMB47.5 million, or approximately 24%, from approximately RMB194.9 million for the year ended 31 December 2018 to approximately RMB147.4 million for the year ended 31 December 2019.

### Income tax expense

Our income tax expenses decreased by approximately RMB17.7 million, or approximately 31%, from approximately RMB57.6 million for the year ended 31 December 2018 to approximately RMB39.9 million for the year ended 31 December 2019, 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 RMB27.2 million, or approximately 20%, from approximately RMB135.5 million for the year ended 31 December 2018 to approximately RMB108.3 million for the year ended 31 December 2019, primarily due to a decrease in profit for the year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 2019, net working capital (calculated as current assets less current liabilities) was RMB1,005.4 million, representing an increase of RMB182.7 million as compared with RMB822.7 million as of 31 December 2018. The current ratios (calculated as current assets/current liabilities) are 6.3 times and 3.3 times as of 31 December 2019 and 31 December 2018 respectively.

The following table summarises the consolidated statement of cash flows for the two years ended 31 December 2019 and 2018:

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| Net cash (used in)/from operating activities | (66,339)        | 12,612          |
| Net cash from investing activities           | 3,470           | 1,774           |
| Net cash from financing activities           | 79,371          | 31,676          |

As of 31 December 2019, the Group's total bank balances and cash increased by 3% to RMB588.1 million from RMB571.6 million as of 31 December 2018.

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 2019, 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 nil and RMB1.1 million for the years ended 31 December 2019 and 2018 respectively.

### Capital Commitment

As at 31 December 2019, the Group did not have material capital commitments.

### Events after the reporting period

Save as disclosed in note 38 to the financial statements, the Group did not have any significant events after the end of the reporting period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Human Resources and Training

As of 31 December 2019, the Group had a total of 32 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 2019.

## 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 Governing the Listing of Securities (the "Listing Rules") 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 years ended 31 December 2017 and 2018 respectively.

Save as disclosed above, further details of the Share Option Scheme of the Company are set out in note 28 to the consolidated financial statements.

## USE OF NET PROCEEDS

On 8 November 2016 (the "Listing Date"), the Company issued 400,000,000 new ordinary shares of aggregate nominal value of HK\$4,000,000 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 2019, RMB106.3 million has been used to increase the registered capital of Hexin Pawn. Approximately RMB42.5 million has been utilised in establishing branches in Hong Kong and Shanghai. Approximately RMB1.5 million has been utilised in strengthening online auction platform and developing online loan financing platform. RMB21.3 million has been utilised for general operation expenses. The remaining net proceeds of approximately RMB41.0 million were deposited with certain licensed financial institutions as of 31 December 2019.

On 17 May 2019, the Company issued 78,000,000 new ordinary shares of nominal value of HK\$780,000 at HK\$1.30 per share to expand the Group's auction operations and related financing operations in Hong Kong. The closing price of the ordinary share on 25 April 2019, being the terms of the issue were fixed, was HK\$1.44.

The four places procured by the placing agent are: (i) China Everbright Dragon Fund Limited (中國光大龍騰基金有限公司), a company incorporated in the Cayman Islands with limited liability, which is a Greater-China fund managed by China Everbright Assets Management Limited (中國光大資產管理有限公司); (ii) Grand Harvest Corporation Limited (宏豐有限公司), a company incorporated in Hong Kong with limited liability which is principally engaged in property holding; (iii) Ms. Ying Xiaofang (應小芳); and (iv) Mr. Huang, Yonggang (黃勇剛).

The net proceeds after deducting the transaction expenses amounted to HK\$100.3 million (equivalent to RMB87.8 million), equivalent to HK\$1.29 per share.

Up to 31 December 2019, approximately RMB79.0 million and approximately RMB8.8 million have been used in the pre-auction and post-auction financing business in Hong Kong and general working capital use of the Company respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 2019. In addition, the Group had no significant investments held during the year ended 31 December 2019.

## OUTLOOK AND PROSPECTS

Following the outbreak of coronavirus disease in late 2019, our living and working environment in the mainland China has been significantly affected. Since late January 2020, the central government of the PRC has implemented a number of measurements for disease prevention and controls. The general public are advised to stay at home and avoid unnecessary travel while certain public transportation services and highways were discontinued, business operations are advised to suspend, Chinese New Year holiday has been prolonged by the central government, following by special working shift arrangement to avoid concentration of staff in office.

Without doubt, the incident led significant disruption to the PRC society and our business operations.

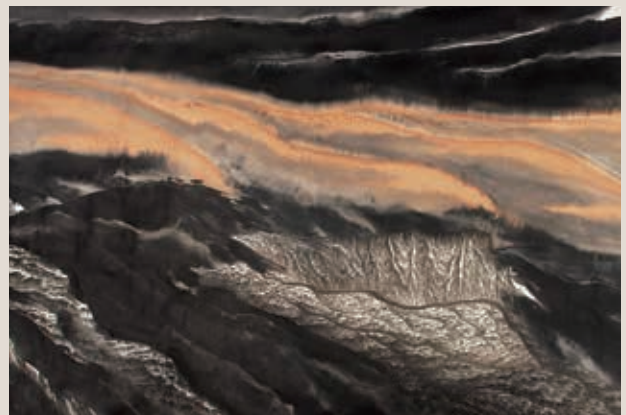
### Auction Business

In the first quarter of 2020, the future development of the coronavirus disease is highly uncertain, market sentiment is highly affected. Collectors are on the sidelines and on hold their consignment plan. We have deferred certain customers' visit schedule and business plan in order to avoid social contact. Our first online auction in March 2020 has been cancelled for disease prevention and control. We are continuously communicating with the PRC local government for the suitability of holding large scale auction.

Following the coronavirus pandemic, the global and PRC art market is expected to be negatively affected in 2020. We adopt a relatively prudent strategy in business development while focusing on strengthening our network and relationship with the collectors.

### Pawn Business

Following the outbreak of coronavirus disease, the PRC economy is largely affected in the first quarter of 2020. Credit risk is expected to rise. Our business adopts a more conservative attitude in granting pawn loans to new customers in 2020. Additional risk management measurements has been introduced for better credit risk control.



# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

Our Board is responsible for and has general powers for managing and leading our business. Our Board consists of one executive Director and three independent non-executive Directors (the “INED”).

### Executive Director

**Mr. Fan Zhijun (范志君先生)** (formerly known as Fan Zhijun (范志君)), aged 53, 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.

## DIRECTORS AND SENIOR MANAGEMENT

### INEDs

**Mr. Leung Shu Sun Sunny (梁樹新先生)**, aged 57, 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 66, 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 69, 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.



# DIRECTORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT

**Mr. Zhang Bin (張斌先生)** (formerly known as Zhang Qigi (張琦琦)), aged 44, is the chief operations officer of our Group, and he is mainly responsible for financial planning and management, daily management and operations of the Group.

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 was appointed as our executive Director on 16 March 2016, primarily responsible for financial planning and management, accounting and treasury functions of our Group. With effective from 30 September 2019, Mr. Zhang resigned as the executive Director of the Company and has been redesignated as chief operations officer of the Group.

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.

**Mr. Wong Hong Tak Hagan (王康德先生)**, aged 35, is the financial controller and company secretary of our Company who joined our Group in July 2018. He is mainly responsible for overseeing the corporate finance, project acquisitions, investor relationship, financial reporting and company secretarial matters of our Group.

Mr. Wong holds a master degree in business administration from the University of Hong Kong and 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.

## DIRECTORS AND SENIOR MANAGEMENT

**Mr. Xu Zhongliang (徐中良先生)**, aged 52, is the chief administrative officer of our Group and he is mainly responsible for overseeing the human resources and administration of our Group. Mr. Xu joined the Group in January 2020.

Mr. Xu completed his studies in computer software from Xian Jiaotong University in July 1990.

Prior to joining our Group, Mr. Xu worked in China Construction Bank Co., Ltd. Yixing Sub-branch as manager of computer section and deputy branch manager from August 1990 to March 2008, and worked at China Merchants Bank from March 2008 to May 2016. Yixing Sub-branch served as the branch manager. From May 2016 to August 2017, he served as the general manager of the business development department at the Bank of East Asia Wuxi Branch.

**Ms. Xu Yiyun (徐逸雲女士)**, aged 43, 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 64, is the chief risk control officer of our Group, and he is mainly responsible for assisting the Chief Internal Control Officer with internal control matters and risk management of our Group, and overseeing the operation of the risk control committee of loan operations. Mr. Jiang joined our Group in February 2015 as the chief risk control officer of Hexin Pawn.

Mr. Jiang completed studies in public administration (行政管理專業) from the Party School of the Central Committee of the Communist Party of China, PRC, in July 1999.

Prior to joining our Group, Mr. Jiang held various senior positions as branch office supervisor, branch manager and head of housing credit department of Yixing branch of China Construction Bank for about nineteen years from January 1996 to January 2015.

# CORPORATE GOVERNANCE REPORT

The board (the “Board”) of directors (the “Directors”) of the Company hereby presents the corporate governance report for the year ended 31 December 2019.

## 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 that:

### Code provision A.2.1

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

The Company considers that having Mr. Fan Zhijun acting as both the chairman and chief executive officer will provide a strong and consistent leadership to the Group and allow for more effective strategic planning and management of the Group. In view of Mr. Fan’s experiences in the art finance industry and his involvement in the management and operation of the Group since the establishment of the Group, the Board believes that he is the most suitable candidate to be the chief executive officer and it is in the best interests of the Group for Mr. Fan to take up the dual roles of chairman and chief executive officer. As the Board is comprised of one executive Director and three independent non-executive Directors, the Board is appropriately structured with balance of power to provide sufficient checks and balance to protect the interests of the Company and the Shareholders and the deviation from Code A.2.1 of the CG Code is appropriate in such circumstances.

## 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*)

#### Independent Non-Executive Directors:

Mr. Leung Shu Sun Sunny

Mr. Liu Jian

Mr. Chu Xiaoliang

# CORPORATE GOVERNANCE REPORT

## Board Meetings and Attendance

During the year, the Board met four times with attendance as follows:

| Directors  | Attendance |
|--|------------|
| Mr. Fan Zhijun ( <i>Chairman</i> )                     | 4/4        |
| Mr. Zhang Bin ( <i>resigned on 30 September 2019</i> ) | 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 14 to 15, 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.

# CORPORATE GOVERNANCE REPORT

In accordance with Article 105(A) and (B) of the Articles of Association, one-third of the Directors of the Company for the time being (or, if their number is not a multiple of three, the number nearest to but no less than one-third) shall retire from office at each annual general meeting provided that every Director shall be subject to retirement by rotation at least once every three years. Any Directors so to retire shall be those subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected as Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. In accordance with Article 109 of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Accordingly, Mr. Fan Zhijun and Mr. Leung Shu Sun Sunny will retire and, being eligible, will offer himself for re-election at the forthcoming 2020 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:

| <b>Name of Director</b>   | <b>Audit Committee</b> | <b>Remuneration Committee</b> | <b>Nomination Committee</b> | <b>Risk Management Committee</b> |
|---------------------------|------------------------|-------------------------------|-----------------------------|----------------------------------|
| <i>Executive Director</i> |                        |                               |                             |                                  |
| Mr. Fan Zhijun            | -                      | Member                        | Chairman                    | Member                           |
| <i>INEDs</i>              |                        |                               |                             |                                  |
| Mr. Leung Shu Sun Sunny   | Chairman               | -                             | Member                      | Member                           |
| Mr. Liu Jian              | Member                 | Member                        | -                           | -                                |
| Mr. Chu Xiaoliang         | Member                 | Chairman                      | Member                      | Chairman                         |

Each of the above committees has written terms of reference. The functions of the above four committees are summarised as follows:

# CORPORATE GOVERNANCE REPORT

## 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 Ascenda Cachet CPA Limited and thus recommended the Board for the approval of the consolidated financial statements for the year ended 31 December 2019.

During the Reporting Year, the Audit Committee held three meetings for reviewing the final results for the year ended 31 December 2018 and the interim financial results for the six months ended 30 June 2019 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 three meetings with attendance as shown below:

| <b>Audit Committee Members</b>              | <b>Attendance/<br/>Number of Meeting</b> |
|---|--|
| Mr. Leung Shu Sun Sunny ( <i>Chairman</i> ) | 3/3                                      |
| Mr. Liu Jian                                | 3/3                                      |
| Mr. Chu Xiaoliang                           | 3/3                                      |

## 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 2019, 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.

| <b>Remuneration Committee Members</b> | <b>Attendance/<br/>Number of Meeting</b> |
|---------------------------------------|--|
| Mr. Chu Xiaoliang ( <i>Chairman</i> ) | 1/1                                      |
| Mr. Fan Zhijun                        | 1/1                                      |
| Mr. Liu Jian                          | 1/1                                      |

# CORPORATE GOVERNANCE REPORT

## 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 2019, 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.

| <b>Nomination Committee Members</b> | <b>Attendance/<br/>Number of Meeting</b> |
|-------------------------------------|--|
| Mr. Fan Zhijun ( <i>Chairman</i> )  | 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.

| <b>Risk Management Committee Members</b> | <b>Attendance/<br/>Number of Meeting</b> |
|--|--|
| Mr. Chu Xiaoliang ( <i>Chairman</i> )    | 1/1                                      |
| Mr. Leung Shu Sun Sunny                  | 1/1                                      |
| Mr. Fan Zhijun                           | 1/1                                      |

# CORPORATE GOVERNANCE REPORT

## 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               | Directors' Continuous Professional Development |                                  |
|-------------------------|--|----------------------------------|
|                         | Attending training course(s)                   | Reading of relevant materials(s) |
| Mr. Fan Zhijun          | ✓  | ✓                                |
| 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 2019.

## 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.



# CORPORATE GOVERNANCE REPORT

## 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 2019, the total fees paid/payable in respect of audit and non-audit services provided to the Group by the auditors are set out below:

|   | RMB'000 |
|---|---------|
| <b>(a) Ascenda Cachet CPA Limited</b>   |         |
| <b>Audit service</b>  | 2,038   |
| <b>Non-audit services</b>   |         |
| Review of continuing connected transactions   | 44      |
| Review of preliminary announcement of annual results  | 44      |
|   | 88      |
|   | 2,126   |
| <b>(b) Deloitte Touche Tohmatsu</b>   |         |
| <b>Non-audit services</b>   |         |
| Review of condensed consolidated financial statements for the six months ended 30 June 2019 | 791     |

## 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, 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.

# CORPORATE GOVERNANCE REPORT

## 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.

# CORPORATE GOVERNANCE REPORT

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## **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 overseas 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.

# DIRECTORS' REPORT

The Board of the Company is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

## 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 36 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 2019.

An analysis of the Group's revenue and operating profit for the year ended 31 December 2019 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 2019 is set out in the section headed "Management Discussion and Analysis" from pages 8 to 9 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 34(b) to the consolidated financial statements.

## EVENTS AFTER THE REPORTING PERIOD

Details of the significant events occurred after 31 December 2019 are set out in note 38 to the consolidated financial statements.

## 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 13 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 and Hong Kong, 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.

# DIRECTORS' REPORT

## 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 2019 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 52 to 118. The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: HK1.0 cent per share).

## CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The forthcoming AGM is scheduled to be held on Tuesday, 26 May 2020. To ascertain shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 21 May 2020 to Tuesday, 26 May 2020, 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, 20 May 2020.

## RESERVES

Changes to the reserves of the Group during the year ended 31 December 2019 are set out in the consolidated statement of changes in equity. Changes to the reserves of the Company during the year ended 31 December 2019 are set out in note 37 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 movements of the Company's share capital are set out in note 27 to the consolidated financial statements.

## SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2019 are set out in note 36 to the consolidated financial statements.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five 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 2019.

# DIRECTORS' REPORT

## 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 28 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 and Chief Executive Officer*)

Mr. Zhang Bin (*resigned on 30 September 2019*)

### Independent Non-executive Directors

Mr. Leung Shu Sun Sunny

Mr. Liu Jian

Mr. Chu Xiaoliang

## UPDATE ON DIRECTORS AND CHIEF EXECUTIVE OFFICER INFORMATION

The following is updated information of the directors and the chief executive officer required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

1. Ms. Li Si Mo has resigned as the chief executive officer of the Company with effect from 31 May 2019.
2. Mr. Fan Zhijun, an executive director of the Company and the chairman of the board of directors of the Company, has been appointed as the chief executive officer of the Company with effect from 2 July 2019.
3. Mr. Zhang Bin has resigned as an executive director of the Company and a member of the risk management committee of the Board ("Risk Management Committee") and has been redesignated as chief operations officer of the Group with effect from 30 September 2019.
4. Mr. Fan Zhijun, the Chairman of the Board and an executive Director of our Company, has been appointed a member of the Risk Management Committee with effect from 30 September 2019.

## 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.

# DIRECTORS' REPORT

## 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 2019 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 2019, 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<br>(Note 1) | Approximate<br>Percentage of<br>Shareholding |
|------------------|------------------------------------|------------------------------|--|
| Fan Zhijun       | Interest of controlled corporation | 1,000,768,000 (L)            | 59.64%                                       |
|                  |                                    | 1,000,384,000 (S)            | 59.62%                                       |

Notes:

- (1) The letter "L" denotes the Director's long position in the shares/underlying shares. The letter "S" denotes the person's short position in the shares/underlying shares.
- (2) These shares are held by Intelligenes Investment Co., Ltd (the "Intelligenes 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<br>Associated Corporation | Capacity  | Approximate<br>Percentage of<br>Shareholding |
|------------------|-----------------------------------|---|--|
| Fan Zhijun       | Hexin Pawn<br>(Note 1)            | Beneficial owner; interest of<br>controlled corporation | 15%  |
| Fan Zhijun       | Hexin Auction<br>(Note 2)         | Beneficial owner  | 85%  |

# DIRECTORS' REPORT

## Notes:

- (1) 15% of the registered capital in Hexin Pawn is beneficially owned by Mr. Fan Zhijun, among which, 10% of the registered capital is registered under the name of Mr. Fan Zhijun and 5% 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 38% 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 38% 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 28 to the consolidated financial statements, as at 31 December 2019, 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 2019, 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:

| Name of Shareholder   | Nature of interest/Capacity   | Number of Shares<br>(Note 1) | Approximate percentage of Shareholding in our Company |
|---|---|------------------------------|---|
| Zhang Xiaoxing  | Interest of spouse (Note 2)   | 1,000,768,000 (L)            | 59.64%  |
|   |   | 1,000,384,000 (S)            | 59.62%  |
| Intelligensis Inv   | Beneficial owner  | 1,000,768,000 (L)            | 59.64%  |
|   |   | 1,000,384,000 (S)            | 59.62%  |
| Golden Sand Inv   | Interest of controlled corporation (Note 3)   | 1,000,768,000 (L)            | 59.64%  |
|   |   | 1,000,384,000 (S)            | 59.62%  |
| Mauve Jade Inv  | Interest of controlled corporation (Note 4)   | 1,000,768,000 (L)            | 59.64%  |
|   |   | 1,000,384,000 (S)            | 59.62%  |
| Ms. Fan Qinzhi  | Interests of controlled corporation and held jointly with other persons (Notes 3 and 4) | 1,000,768,000 (L)            | 59.64%  |
|   |   | 1,000,384,000 (S)            | 59.62%  |
| Mr. Fan Yajun   | Interests held jointly with other persons (Note 5)                                      | 1,000,768,000 (L)            | 59.64%  |
|   |   | 1,000,384,000 (S)            | 59.62%  |
| Zhou Jianyuan   | Interest of spouse (Note 6)   | 1,000,768,000 (L)            | 59.64%  |
|   |   | 1,000,384,000 (S)            | 59.62%  |
| Ms. Wu Jian   | Interests held jointly with other persons (Note 5)                                      | 1,000,768,000 (L)            | 59.64%  |
|   |   | 1,000,384,000 (S)            | 59.62%  |
| Xu Zhongliang   | Interest of spouse (Note 7)   | 1,000,768,000 (L)            | 59.64%  |
|   |   | 1,000,384,000 (S)            | 59.62%  |
| Ms. Xu Min  | Interests held jointly with other persons (Note 5)                                      | 1,000,768,000 (L)            | 59.64%  |
|   |   | 1,000,384,000 (S)            | 59.62%  |
| Winwin International Strategic Investment Funds SPC (“WIS”) | Security interest (Note 8)  | 1,000,384,000 (L)            | 59.62%  |



# DIRECTORS' REPORT

## Notes:

- (1) The letter "L" denotes the Director's long position in the shares/underlying shares. The letter "S" denotes the person's short position in the shares/underlying shares.
- (2) 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.
- (3) The said 1,000,768,000 shares is held in the name of Intelligenes Inv. Intelligenes Inv is held as to 69.5% by Golden Sand Inv. By virtue of the SFO, Golden Sand Inv is deemed to be interested in the same parcel of shares in which Intelligenes Inv is interested.
- (4) Intelligenes Inv is held as to 69.5% by Golden Sand Inv, which is in turn held as to 74.1% by Mauve Jade Inv, which is in turn held as to 67.2% by Mr. 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 Intelligenes Inv is interested.
- (5) Mr. Fan Zhijun, Ms. Fan Qinzhi, Mr. Fan Yajun, Ms. Wu Jian and Ms. Xu Min together control 1,000,768,000 shares representing approximately 59.64% interest of the total issued share capital of our Company through Mauve Jade Inv, Golden Sand Inv and Intelligenes 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 1,000,768,000 shares representing 59.64% interest in the total issued share capital of our Company.
- (6) 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.
- (7) 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.
- (8) WIS, acting for and on behalf of Win Win Stable No.1 Fund SP, had security interest in 1,000,384,000 shares of the Company.

Save as disclosed above, as at 31 December 2019, 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 28 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 2019, the Group's largest customer accounted for approximately 4.1% (2018: 4.9%) of the Group's revenue and the five largest customers accounted for approximately 15.0% (2018: 15.7%) of the Group's revenue.

For the year ended 31 December 2019, the Group's largest supplier accounted for approximately 27.4% (2018: 26.2%) of the Group's total purchases and the five largest suppliers accounted for approximately 72.8% (2018: 57.8%) 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 2019.

## 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 2019.

# DIRECTORS' REPORT

## 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 2019 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 31 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's distributable reserves calculated under the Companies Law comprise the share premium, other reserves and retained earnings amounted to approximately RMB152.5 million.

## RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

Other than as disclosed above, during the year ended 31 December 2019, 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 the Company has an unexpired service contract with the Group, which is not determinable by the 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 2019.

# DIRECTORS' REPORT

## 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

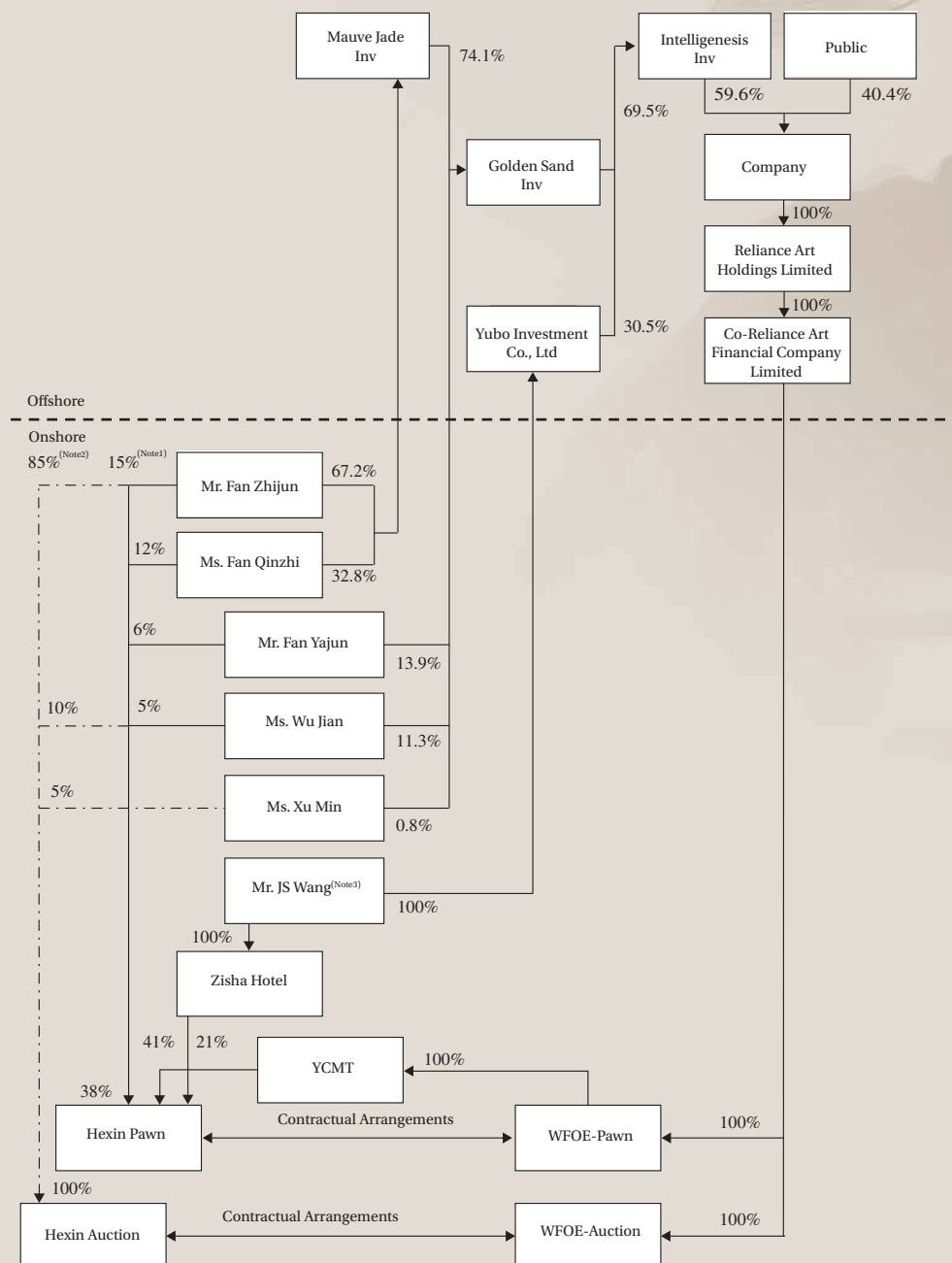
Reference is made to the Prospectus. We conduct our art and asset pawn business and art and asset auction business through our PRC Operating Entities: (i) Hexin Pawn is engaged in the provision of pawn loan services secured by artworks and assets as collaterals which are regulated under the Pawning Measures; 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 controlling equity interest in Hexin Pawn and Hexin Auction (collectively the “PRC Operating Entities”), and our Company through our three wholly owned enterprises established in PRC, namely Yixing Han Xin Information Technology Service Co., Ltd (the “WFOE-Pawn”), Yixing Zi Yu Information Technology Service Co., Ltd (the “WFOE-Auction”) and Yixing Changxiang Materials Trading Company Limited (“YCMT”), control the PRC Operating Entities through two sets of agreements and direct shareholding. 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.

The Company engaged our PRC legal counsel to review the Contractual Arrangements. Based on our recently obtained PRC legal opinion, the Contractual Arrangements are valid, legal binding and enforceable under the current PRC laws.

# DIRECTORS' REPORT

The following diagram sets out the simplified structure of the Group as at 31 December 2019 to illustrate the Contractual Arrangements:



## Notes:

- (1) Among the 15% registered capital of Hexin Pawn beneficially owned by Mr. Fan Zhijun, 5% 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.

# DIRECTORS' REPORT

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

By means of the Contractual Arrangements, the 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 the Group:

|               | Segment revenue    |         | Segment results    |         | Segment assets    |         |
|---------------|--------------------|---------|--------------------|---------|-------------------|---------|
|               | For the year ended |         | For the year ended |         | As at 31 December |         |
|               | 31 December        |         | 31 December        |         |                   |         |
|               | 2019               | 2018    | 2019               | 2018    | 2019              | 2018    |
|               | RMB'000            | RMB'000 | RMB'000            | RMB'000 | RMB'000           | RMB'000 |
| Hexin Pawn    | 90,487             | 118,909 | 87,902             | 119,234 | 462,646           | 398,636 |
| Hexin Auction | 73,482             | 122,152 | 74,304             | 115,127 | 75,782            | 209,540 |

## 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 (" <b>HP Exclusive Operation Services Agreement</b> ")                      | <ul style="list-style-type: none"> <li>– WFOE-Pawn (as service provider)</li> <li>– Hexin Pawn (as service recipient)</li> <li>– all HP Equity-holders (i.e. Mr. Fan Zhijun, Ms. Fan Qinzhi, Mr. Fan Yajun, Ms. Wu Jian, Wuxi Culture and Zisha Hotel)</li> </ul> |
| 2 | Exclusive call option agreement in relation to 100% equity interests of Jiangsu Hexin Pawn Company Limited (" <b>HP Exclusive Call Option Agreement</b> ")           | <ul style="list-style-type: none"> <li>– WFOE-Pawn (as option holder)</li> <li>– Hexin Pawn (as option grantor)</li> <li>– all HP Equity-holders (as option grantors)</li> </ul>  |
| 3 | Equity-holders' rights entrustment agreement in relation to 100% equity interests of Jiangsu Hexin Pawn Company Limited (" <b>HP Equity Entrustment Agreement</b> ") | <ul style="list-style-type: none"> <li>– WFOE-Pawn</li> <li>– Hexin Pawn</li> <li>– all HP Equity-holders (as principals)</li> </ul>  |
| 4 | Equity pledge agreement in relation to 100% equity interests of Jiangsu Hexin Pawn Company Limited (" <b>HP Equity Pledge Agreement</b> ")                           | <ul style="list-style-type: none"> <li>– WFOE-Pawn (as pledgee)</li> <li>– Hexin Pawn</li> <li>– all HP Equity-holders (as pledgors)</li> </ul>   |

# DIRECTORS' REPORT

## (B) HA Structured Contracts:

|   | <b>Component agreement</b>  | <b>Parties to such component agreement</b>  |
|---|---|---|
| 1 | Exclusive operation services agreement in relation to Jiangsu Hexin Auction Company Limited (" <b>HA Exclusive Operation Services Agreement</b> ")                      | <ul style="list-style-type: none"> <li>– WFOE-Auction (as service provider)</li> <li>– Hexin Auction (as service recipient)</li> <li>– all HA Equity-holders (i.e. Mr. Fan Zhijun, Ms. Wu Jian and Ms. Xu Min)</li> </ul> |
| 2 | Exclusive call option agreement in relation to 100% equity interests of Jiangsu Hexin Auction Company Limited (" <b>HA Exclusive Call Option Agreement</b> ")           | <ul style="list-style-type: none"> <li>– WFOE-Auction (as option holder)</li> <li>– Hexin Auction (as option grantor)</li> <li>– all HA Equity-holders (as option grantors)</li> </ul>                                    |
| 3 | Equity-holders' rights entrustment agreement in relation to 100% equity interests of Jiangsu Hexin Auction Company Limited (" <b>HA Equity Entrustment Agreement</b> ") | <ul style="list-style-type: none"> <li>– WFOE-Auction</li> <li>– Hexin Auction</li> <li>– all HA Equity-holders (as principals)</li> </ul>  |
| 4 | Equity pledge agreement in relation to 100% equity interests of Jiangsu Hexin Auction Company Limited (" <b>HA Equity Pledge Agreement</b> ")                           | <ul style="list-style-type: none"> <li>– WFOE-Auction (as pledgee)</li> <li>– Hexin Auction</li> <li>– all HA Equity-holders (as pledgors)</li> </ul>   |

Principal terms and effect of the Structured Contracts (as amended and supplemented by the Supplemental Agreements) are set out below:

## (A) HP Structured Contracts:

### (A1) HP Exclusive Operation Services Agreement

*Services to be engaged:* Hexin Pawn agreed to engage (and all HP Equity-holders agreed for Hexin Pawn to engage) WFOE-Pawn on an exclusive basis to provide technical services, management support services and consultancy services in connection with and beneficial to Hexin Pawn's business (as specified in Hexin Pawn's business licence, including but not limited to the provision of pawn loan services).

*Operation service fees:* In consideration for the provision of such services by WFOE-Pawn, Hexin Pawn agreed to recognise operation service fees payable to WFOE-Pawn on a quarterly basis. The annual operation service fee comprises:

- (i) a basic service fee equals to the amount of Hexin Pawn's total revenue before tax less all the related costs and expenses reasonably incurred by Hexin Pawn for the relevant financial year calculated in accordance with the PRC accounting standards, which is subject to audit and the determination by WFOE-Pawn at its discretion ("*Service Fee Discretion*") having regard to the specific operational, financial and development needs of Hexin Pawn and the benefit brought to Hexin Pawn by the services provided by WFOE-Pawn; and
- (ii) an additional service fee to be agreed between WFOE-Pawn and Hexin Pawn for specific technical services, management support services and consultancy services to be provided by WFOE-Pawn upon Hexin Pawn's request from time to time.

## DIRECTORS' REPORT

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.

## DIRECTORS' REPORT

*Undertakings given by HP Equity-holders: The HP Equity-holders have given undertakings on a joint and several basis to perform certain acts or to refrain from performing certain other acts, including but not limited to the following:*

- *Negative covenants given by HP Equity-holders: unless prior written consent of WFOE-Pawn will have been obtained, the HP Equity-holders shall not:*
  - (i) transfer or otherwise dispose of or create encumbrance or any other third party rights over the equity interest held by them in Hexin Pawn;
  - (ii) approve the increase or reduction of the registered capital in Hexin Pawn, or alter its equity structure;
  - (iii) approve Hexin Pawn to make any investment in any other entities, or engage in any merger or acquisition transactions;
  - (iv) approve the disposal (nor procure the management of Hexin Pawn to dispose) of any material assets of Hexin Pawn which include assets with a value that exceeds RMB100,000;
  - (v) approve the termination (nor procure the management of Hexin Pawn to terminate) any material contracts (which include any contract under which the amount involved exceeds RMB100,000, any contract which has material impact on the business or assets of Hexin Pawn, including the HP Exclusive Operation Services Agreement) entered into by Hexin Pawn, nor enter into any other contracts which are in conflict with any such material contracts;
  - (vi) approve or acquiesce to the declaration or distribution in substance by Hexin Pawn of any dividends or any other distributable profits;
  - (vii) alter the constitutional documents of Hexin Pawn;
  - (viii) approve or acquiesce to any lending or borrowings, or the provision of any guarantee or other forms of security, or the undertaking of any obligations in substance by Hexin Pawn, other than in its ordinary course of business;
  - (ix) approve or acquiesce to Hexin Pawn engaging in any transactions or actions which in substance may prejudice the assets, rights, obligations or operation of Hexin Pawn; and
- *Affirmative undertakings given by HP Equity-holders: the HP Equity-holders have undertaken to the following:*
  - (i) ensuring that Hexin Pawn will conduct all its operations in the normal course of business, and ensuring that Hexin Pawn validly exist and not be liquidated or dissolved in accordance with good financial and commercial standards and practices;
  - (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;



## DIRECTORS' REPORT

- (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).

## DIRECTORS' REPORT

*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.

## DIRECTORS' REPORT

*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 2019.

## **UNWINDING OF THE CONTRACTUAL ARRANGEMENTS**

Up to 31 December 2019, 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.

# DIRECTORS' REPORT

## 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 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 Intelligenes 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 Intelligenes Inv which would be considered as a breach of the Undertakings.

In order to carry out the Proposed Transaction, Intelligenes 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.

## DIRECTORS' REPORT

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 transactions. The auditor has issued an independent assurance report 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 independent assurance report on the continuing connected transactions for the year ended 31 December 2019 issued by the auditor 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 2019 are set out in note 35 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.

### 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 by Ascenda Cachet CPA Limited who shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for reappointment.

During the year ended 31 December 2019, Deloitte Touche Tohmatsu resigned as the auditor of the Company with effect from 27 December 2019 and Ascenda Cachet CPA Limited was appointed as the auditor of the Company with effect from 27 December 2019 to fill the casual vacancy and to hold office until the conclusion of the 2020 annual general meeting. Save for the above, there were no other change of auditors of the Company in the preceding three years.

By order of the Board

**Fan Zhijun**

*Chairman*

Hong Kong, 27 March 2020

# INDEPENDENT AUDITOR'S REPORT



13F Neich Tower  
128 Gloucester Road  
Wanchai Hong Kong  
香港灣仔  
告士打道128號  
祥豐大廈13樓F室

**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 (hereinafter collectively referred to as the “**Group**”) set out on pages 52 to 118, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

We have fulfilled the responsibilities described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (Continued)

### Impairment of the Group's loan receivables

Refer to notes 4 and 5 to the consolidated financial statements for the directors' disclosures of the related accounting policies, judgements and estimates and note 34(b) to the consolidated financial statements for further information.

#### Key Audit Matter

#### How our audit addressed the Key Audit Matter

The carrying amount of the Group's loan receivables was approximately RMB533,832,000 (net of impairment losses of approximately RMB4,652,000) as at 31 December 2019.

We identified the impairment of the Group's loan receivables 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.

The Group has applied the general approach for impairment assessment of loan receivables and recognised lifetime ECL where significant increase in credit risk since initial recognition was identified.

In determining whether the credit risk has increased significantly since initial recognition, the Group performed assessment on each of the loan receivables on an individual basis and considered both reasonable and supportable quantitative and qualitative information. The Group, amongst other factors, assessed whether there was 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.

Our procedures in relation to management's impairment assessment on the Group's loan receivables included, among others, the followings:

- Understanding the process with respect to the impairment assessment of the Group's loan receivables 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 loan receivables 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;

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (Continued)

### Impairment of the Group's loan receivables (Continued)

| Key Audit Matter   | How our audit addressed the Key Audit Matter  |
|--|---|
| <p>Significant judgments and estimation were involved when performing valuation of the collateral. As at 31 December 2019, no significant increase in credit risk since initial recognition was identified and accordingly, no lifetime ECL was recognised.</p>  | <ul style="list-style-type: none"><li>Assessing the appropriateness of whether loan receivables 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;</li></ul>  |
| <p>As disclosed in notes 5 and 34(b) to the consolidated financial statements, where no significant increase in credit risk since initial recognition was identified, the Group grouped the loan receivables on the basis of shared credit risk characteristics and measured impairment at 12-month ECL ("12m ECL") on a collective basis.</p>                       | <ul style="list-style-type: none"><li>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;</li><li>Making a selection of loan receivables to test the accuracy and completeness of key data sources applied in the ECL computation; and</li></ul> |
| <p>The measurement of 12m ECL involved 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.</p> | <ul style="list-style-type: none"><li>Checking settlement from customers after the financial year-end relating to the loan receivables as at 31 December 2019, on a sample basis.</li></ul>   |
| <p>Based on the management's assessment on the impairment of loan receivables under 12m ECL, the Group provided additional impairment losses on loan receivables of approximately RMB513,000 for the year ended 31 December 2019. The management concluded that the impairment losses on loan receivables was adequate as at 31 December 2019.</p>                   |   |



# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (Continued)

### Revenue recognition on auction revenue from art and asset auction business

Refer to note 4 to the consolidated financial statements for the directors' disclosures of the related accounting policies and note 6 to the consolidated financial statements for further information.

#### Key Audit Matter

#### How our audit addressed the Key Audit Matter

The Group recognised total auction revenue from art and asset auction business amounting to RMB73,482,000 for the year ended 31 December 2019.

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.

Auction revenue represented primarily buyer's and seller's commission from provision of art and asset auction services provided by the Group which was calculated at a percentage of hammer prices of the auction sales, and was recognised at a point in time upon the fall of hammer when the Group transferred the promised auction services to its customers.

Our procedures in relation to revenue recognition on auction revenue from art and asset auction business included, among others, the followings:

- 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 an auction held during the year and examining the auction register to verify the hammer prices of the auction sales on a sample basis;
- Inspecting the terms of agreements with customers on a sample basis and assessing the revenue recognition criteria;
- 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.

# INDEPENDENT AUDITOR'S REPORT

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## **OTHER MATTER**

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 29 March 2019.

## **INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON**

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 THE DIRECTORS 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

# INDEPENDENT AUDITOR'S REPORT

## 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 HKSA's 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 HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

# INDEPENDENT AUDITOR'S REPORT

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

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

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

The engagement director on the audit resulting in the independent auditor's report is Sze Wing Chun.

### **Ascenda Cachet CPA Limited**

*Certified Public Accountants*

Hong Kong, 27 March 2020

### **Sze Wing Chun**

Practising Certificate Number P06035

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

|  | Notes | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-------|-----------------|-----------------|
| <b>Revenue</b>   | 6     |                 |                 |
| Interest revenue   |       | 90,487          | 118,909         |
| Service revenue  |       | 73,482          | 138,290         |
| <b>Total revenue</b>   |       | <b>163,969</b>  | 257,199         |
| Other income   | 7     | 8,293           | 3,002           |
| Other gains and losses   | 8     | (1,312)         | (1,944)         |
| Operating expenses   |       | (5,070)         | (12,205)        |
| Net impairment losses reversed/(recognised)  | 9     | 2,424           | (3,685)         |
| Administrative expenses  |       | (20,539)        | (47,444)        |
| Finance costs  | 10    | (361)           | (32)            |
| <b>Profit before tax</b>   |       | <b>147,404</b>  | 194,891         |
| Income tax expenses  | 11    | (39,877)        | (57,604)        |
| <b>Profit for the year attributable to owners of the Company</b>                     | 12    | <b>107,527</b>  | 137,287         |
| Other comprehensive income/(expense)   |       |                 |                 |
| <i>Item that may be subsequently reclassified to profit or loss:</i>                 |       |                 |                 |
| Exchange differences arising on translation of foreign operations                    |       | 755             | (1,751)         |
| <b>Total comprehensive income for the year attributable to owners of the Company</b> |       | <b>108,282</b>  | 135,536         |
| <b>Earnings per share (RMB cents)</b>  | 16    |                 |                 |
| Basic  |       | 6.52            | 8.58            |
| Diluted  |       | 6.50            | 8.56            |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

|  | Notes | 2019<br>RMB'000  | 2018<br>RMB'000  |
|--|-------|------------------|------------------|
| <b>Non-current assets</b>                    |       |                  |                  |
| Property, plant and equipment                | 17    | 2,025            | 4,155            |
| Right-of-use assets                          | 18    | 5,110            | -                |
| Deferred tax asset                           | 19    | 1,262            | 1,922            |
|  |       | <b>8,397</b>     | <b>6,077</b>     |
| <b>Current assets</b>                        |       |                  |                  |
| Loan receivables                             | 20    | 533,832          | 396,927          |
| Trade and other receivables                  | 21    | 74,142           | 211,018          |
| Bank balances and cash                       | 22    | 588,113          | 571,596          |
|  |       | <b>1,196,087</b> | <b>1,179,541</b> |
| <b>Current liabilities</b>                   |       |                  |                  |
| Accruals and other payables                  | 23    | 86,524           | 250,770          |
| Amount due to immediate holding company      | 24    | 95,238           | 84,378           |
| Lease liabilities                            | 25    | 1,150            | -                |
| Obligations under finance leases             | 26    | -                | 384              |
| Tax payable                                  |       | 7,743            | 21,273           |
|  |       | <b>190,655</b>   | <b>356,805</b>   |
| <b>Net current assets</b>                    |       | <b>1,005,432</b> | <b>822,736</b>   |
| <b>Total assets less current liabilities</b> |       | <b>1,013,829</b> | <b>828,813</b>   |
| <b>Non-current liabilities</b>               |       |                  |                  |
| Lease liabilities                            | 25    | 4,034            | -                |
| Obligations under finance leases             | 26    | -                | 723              |
|  |       | <b>4,034</b>     | <b>723</b>       |
| <b>Net assets</b>                            |       | <b>1,009,795</b> | <b>828,090</b>   |
| <b>Capital and reserves</b>                  |       |                  |                  |
| Share capital                                | 27    | 14,679           | 13,995           |
| Reserves                                     |       | 995,116          | 814,095          |
| <b>Total equity</b>                          |       | <b>1,009,795</b> | <b>828,090</b>   |

The consolidated financial statements on pages 52 to 118 were approved and authorised for issue by the Board of Directors on 27 March 2020 and are signed on its behalf by:

**Fan Zhijun**  
DIRECTOR

**Leung Shu Sun Sunny**  
INDEPENDENT NON-EXECUTIVE DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

|   | Share capital<br>RMB'000 | Share premium<br>RMB'000 | Statutory reserve<br>RMB'000<br>(Note) | Capital reserve<br>RMB'000 | Share option reserve<br>RMB'000 | Translation reserve<br>RMB'000 | Retained profits<br>RMB'000 | Total<br>RMB'000 |
|---|--------------------------|--------------------------|--|----------------------------|---------------------------------|--------------------------------|-----------------------------|------------------|
| At 1 January 2018   | 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 arising on translation of foreign operations | -                        | -                        | -                                      | -                          | -                               | (1,751)                        | -                           | (1,751)          |
| 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 and 1 January 2019                            | <b>13,995</b>            | <b>126,055</b>           | <b>59,965</b>                          | <b>172,301</b>             | <b>5,560</b>                    | <b>(1,912)</b>                 | <b>452,126</b>              | <b>828,090</b>   |
| Profit for the year   | -                        | -                        | -                                      | -                          | -                               | -                              | 107,527                     | 107,527          |
| Exchange differences arising on translation of foreign operations | -                        | -                        | -                                      | -                          | -                               | 755                            | -                           | 755              |
| Total comprehensive income for the year                           | -                        | -                        | -                                      | -                          | -                               | 755                            | 107,527                     | 108,282          |
| Appropriation to statutory reserve                                | -                        | -                        | 11,989                                 | -                          | -                               | -                              | (11,989)                    | -                |
| Dividends paid (Note 15)  | -                        | (14,394)                 | -                                      | -                          | -                               | -                              | -                           | (14,394)         |
| Issue of shares on placing of shares (Note 27)                    | 684                      | 88,264                   | -                                      | -                          | -                               | -                              | -                           | 88,948           |
| Direct expenses on issue of shares (Note 27)                      | -                        | (1,131)                  | -                                      | -                          | -                               | -                              | -                           | (1,131)          |
| At 31 December 2019   | <b>14,679</b>            | <b>198,794</b>           | <b>71,954</b>                          | <b>172,301</b>             | <b>5,560</b>                    | <b>(1,157)</b>                 | <b>547,664</b>              | <b>1,009,795</b> |

Note: The statutory reserve is non-distributable and the appropriation to this reserve is determined by the board of directors of the Company's subsidiaries established in the People's Republic of China (the "PRC") in accordance with the Articles of Association of these subsidiaries by way of appropriations from their net profits. Statutory reserve can be used to make up for previous year's losses or convert into additional capital of these subsidiaries.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| <b>OPERATING ACTIVITIES</b>                                      |                 |                 |
| Profit before tax  | 147,404         | 194,891         |
| Adjustments for:   |                 |                 |
| Depreciation of property, plant and equipment                    | 800             | 1,396           |
| Depreciation of right-of-use assets                              | 2,248           | -               |
| Net impairment losses (reversed)/recognised                      | (2,424)         | 3,685           |
| Bank interest income   | (2,592)         | (1,985)         |
| Gain on disposal of property, plant and equipment                | (57)            | -               |
| Gain on disposal of right-of-use assets                          | (114)           | -               |
| Finance costs  | 361             | 32              |
| Unrealised exchange losses                                       | 1,983           | 3,305           |
| Recognition of equity-settled share-based payments               | -               | 708             |
| Operating cash flows before movements in working capital         | 147,609         | 202,032         |
| Increase in loan receivables                                     | (136,716)       | (74,625)        |
| Decrease in trade and other receivables                          | 139,795         | 128,350         |
| Decrease in accruals and other payables                          | (164,280)       | (184,461)       |
| Cash (used in)/generated from operations                         | (13,592)        | 71,296          |
| Income tax paid  | (52,747)        | (58,684)        |
| <b>NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES</b>    | <b>(66,339)</b> | <b>12,612</b>   |
| <b>INVESTING ACTIVITIES</b>                                      |                 |                 |
| Bank interest received   | 2,592           | 1,985           |
| Proceeds from disposal of property, plant and equipment          | 58              | -               |
| Proceeds from disposal of right-of-use assets                    | 820             | -               |
| Payment for purchase of property, plant and equipment            | -               | (361)           |
| Repayment of advance to a director                               | -               | 150             |
| <b>NET CASH GENERATED FROM INVESTING ACTIVITIES</b>              | <b>3,470</b>    | <b>1,774</b>    |
| <b>FINANCING ACTIVITIES</b>                                      |                 |                 |
| Proceeds from placing of shares                                  | 88,948          | -               |
| Payment for transaction costs on issue of shares                 | (1,131)         | -               |
| Dividends paid   | (14,394)        | (25,799)        |
| Advance from immediate holding company                           | 26,907          | 58,534          |
| Repayment of advance from immediate holding company              | (18,030)        | (657)           |
| Settlement of lease liabilities/obligations under finance leases | (2,929)         | (214)           |
| Repayment of advances from directors                             | -               | (100)           |
| Repayment of advances from related parties                       | -               | (88)            |
| <b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>              | <b>79,371</b>   | <b>31,676</b>   |



# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

|   | Note | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|------|-----------------|-----------------|
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>  |      | <b>16,502</b>   | 46,062          |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>                                     |      | <b>571,596</b>  | 527,265         |
| <b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>  |      | <b>15</b>       | (1,731)         |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR AND REPRESENTED BY BANK BALANCES AND CASH</b> | 22   | <b>588,113</b>  | 571,596         |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 1. GENERAL

China Art Financial Holdings Limited (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 (the “Stock Exchange”). The addresses of the Company’s registered office and principal places of business are disclosed in the “Corporate Information” section to this annual report.

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

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are disclosed in note 36.

The consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) 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 established in the PRC, 宜興市漢信信息技術服務有限公司 Yixing Hanxin Information Technology Service Co., Ltd. (“WFOE-Pawn”) and 宜興市紫玉信息技術服務有限公司 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 Jiangsu Hexin Pawn Co., Ltd. (“Hexin Pawn”) and 江蘇和信拍賣有限公司 Jiangsu Hexin Auction Co., Ltd. (“Hexin Auction”), respectively, which constitute the contractual arrangements (the “Contractual Arrangements”) for the art and asset pawn business, and art and asset auction business respectively. 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. 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”).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

The Contractual Arrangements are irrevocable and enable the Group to:

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

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 these entities under the Contractual Arrangements, which are Hexin Pawn and Hexin Auction, are set out below.

|   | Hexin Pawn      |                 | Hexin Auction   |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2019<br>RMB'000 | 2018<br>RMB'000 | 2019<br>RMB'000 | 2018<br>RMB'000 |
| Non-current assets                          | 4,436           | 2,743           | 2,406           | 1,008           |
| Current assets                              | 601,393         | 538,583         | 527,321         | 645,223         |
| Current liabilities                         | (5,024)         | (7,228)         | (170,003)       | (343,554)       |
| Non-current liabilities                     | (1,935)         | -               | (1,935)         | -               |
| <b>Total equity</b>                         | <b>598,870</b>  | <b>534,098</b>  | <b>357,789</b>  | <b>302,677</b>  |
| Revenue                                     | 90,487          | 118,909         | 73,482          | 122,152         |
| Other income                                | 1,125           | 810             | 1,490           | 1,163           |
| Net impairment losses reversed/(recognised) | 129             | 2,390           | 2,937           | (3,546)         |
| Expenses                                    | (5,348)         | (5,923)         | (4,443)         | (7,636)         |
| Income tax expenses                         | (21,621)        | (29,130)        | (18,354)        | (28,237)        |
| <b>Profit for the year</b>                  | <b>64,772</b>   | <b>87,056</b>   | <b>55,112</b>   | <b>83,896</b>   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 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 16              | Leases   |
| HK(IFRIC)-Int 23      | Uncertainty over Income Tax Treatments               |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation       |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement            |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to HKFRSs  | Annual Improvements to HKFRSs 2015-2017 Cycle        |

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 positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### HKFRS 16 “Leases”

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases (“HKAS 17”), and the related interpretations.

#### Definition of a lease

The Group has elected 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. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

#### As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application on 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i) relied on the assessment of whether leases are onerous by applying HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” as an alternative of impairment review;
- ii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- iii) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in the PRC and certain leases of properties in Hong Kong were determined on a portfolio basis.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities ranged from 2.38% to 5.39%.

|   | Note | At<br>1 January 2019<br>RMB'000 |
|---|------|---------------------------------|
| Operating lease commitments disclosed as at 31 December 2018            | 32   | 7,919                           |
| Lease liabilities discounted at relevant incremental borrowing rates    |      | 6,618                           |
| Add: Obligations under finance leases recognised as at 31 December 2018 | (a)  | 1,107                           |
| Lease liabilities as at 1 January 2019                                  |      | 7,725                           |
| Analysed as:  |      |                                 |
| Current   |      | 2,125                           |
| Non-current   |      | 5,600                           |
| Total   |      | 7,725                           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

|   | Notes | RMB'000 |
|---|-------|---------|
| Right-of-use assets relating to operating leases recognised upon application of HKFRS 16                  |       | 6,618   |
| Amounts included in property, plant and equipment under HKAS 17 as assets previously under finance leases | (a)   | 1,400   |
| Adjustments on rental deposits as at 1 January 2019   | (b)   | 18      |
| Right-of-use assets as at 1 January 2019  |       | 8,036   |
| By class:   |       |         |
| Leased properties   |       | 6,636   |
| Motor vehicles  |       | 1,400   |
| Total   |       | 8,036   |

Notes:

- (a) In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to RMB1,400,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of RMB384,000 and RMB723,000 to lease liabilities as current and non-current liabilities respectively as at 1 January 2019.
- (b) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, those deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, RMB18,000 was adjusted to refundable rental deposits paid and right-of-use assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

The following adjustments were made to the amounts recognised in the consolidated statement of financial position as at 1 January 2019. Line items that were not affected by the changes have not been included.

|   | Notes | Carrying amounts previously reported as at 31 December 2018<br>RMB'000 | Adjustments<br>RMB'000 | Carrying amounts under HKFRS 16 as at 1 January 2019<br>RMB'000 |
|---|-------|--|------------------------|---|
| <b>Non-current assets</b>                     |       |  |                        |   |
| Property, plant and equipment                 | (a)   | 4,155  | (1,400)                | <b>2,755</b>  |
| Right-of-use assets                           |       | -  | 8,036                  | <b>8,036</b>  |
| <b>Current assets</b>                         |       |  |                        |   |
| Trade and other receivables – rental deposits | (b)   | 577  | (18)                   | <b>559</b>  |
| <b>Current liabilities</b>                    |       |  |                        |   |
| Lease liabilities                             | (a)   | -  | (2,125)                | <b>(2,125)</b>  |
| Obligations under finance leases              | (a)   | (384)  | 384                    | -   |
| <b>Non-current liabilities</b>                |       |  |                        |   |
| Lease liabilities                             | (a)   | -  | (5,600)                | <b>(5,600)</b>  |
| Obligations under finance leases              | (a)   | (723)  | 723                    | -   |

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

### 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 17                                   | Insurance Contracts <sup>1</sup>   |
| Amendments to HKFRS 3                      | Definition of a Business <sup>2</sup>  |
| Amendments to HKFRS 10 and HKAS 28         | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup> |
| Amendments to HKAS 1 and HKAS 8            | Definition of Material <sup>4</sup>  |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform <sup>4</sup>  |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2021.

<sup>2</sup> 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.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2020.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

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

### Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group’s annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

### Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with 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 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 accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), 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 subsidiaries to bring their accounting policies into line with the Group’s accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue from contracts with customers

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases

#### Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 3)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

#### The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3)

##### *Allocation of consideration to components of a contract*

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

##### *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

##### *Right-of-use assets*

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight line basis over the shorter of its estimated useful life and the lease term.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

#### The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3) (Continued)

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

#### *Refundable rental deposits*

Refundable rental deposits paid are accounted under HKFRS 9 “Financial Instruments” (“HKFRS 9”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

#### *Lease liabilities*

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

#### *Lease modifications*

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### The Group as a lessee (prior to 1 January 2019)

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.

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 a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

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

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis.

### 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.

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 28.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 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/accumulated losses.

##### *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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

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 to the same taxable entity by the same taxation authority.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

### 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.

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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets (including property, plant and equipment, and right-of-use assets) to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant 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.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. 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 or the group of cash-generating units. 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 or the group of cash-generating units. 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 or a group of cash-generating units) 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 or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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. 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.

(i) Interest revenue on loans to customers for art and asset pawn business, (ii) interest income for artwork auction financing from art and asset auction business, and (iii) bank interest income, which are derived from the Group's ordinary course of business are presented as revenue and other income, respectively.

### Financial assets

#### *Classification and subsequent measurement of financial assets*

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

##### *Impairment of financial assets*

The Group performs impairment assessment under expected credit losses (“ECL”) model on financial assets (including loan receivables, trade receivables, other receivables and bank balances). 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, 12-month ECL (“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.

(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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

##### Impairment of financial assets (Continued)

###### (i) Significant increase in credit risk (Continued)

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 foregoing, 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.

###### (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

##### Impairment of financial assets (Continued)

#### (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 loan receivables 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.

#### (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. loan receivables and trade receivables are each assessed for expected credit losses collectively as a separate group after individual assessment. Other receivables 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

##### *Impairment of financial assets (Continued)*

##### (v) Measurement and recognition of ECL (Continued)

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 loan receivables and trade receivables where the corresponding adjustment is recognised through a loss allowance account.

##### *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 amount due to 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 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 directors of the Company are 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.

### Critical judgments in applying accounting policies

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, 無錫和信文化藝術有限公司 Wuxi Hexin Culture and Art Company Limited 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 Arrangements" of the Prospectus. 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, the directors of the Company consider that the Group has power over the relevant activities of Hexin Pawn and Hexin Auction and receives a majority of the economic benefits from their 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

### Key sources of estimation uncertainty (Continued)

#### Impairment of loan receivables

The Group applies the general approach for impairment assessment of its loan receivables and recognises lifetime ECL where significant increase in credit risk since initial recognition has been identified. As disclosed in note 34(b), in determining whether the credit risk has increased significantly since initial recognition, the Group performs assessment on each of the loan receivables 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 34(b), where no significant increase in credit risk since initial recognition has been identified, the Group groups the loan receivables 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 2019, the carrying amount of loan receivables (net of impairment allowances) amounted to RMB533,832,000 (2018: RMB396,927,000). As no significant increase in credit risk since initial recognition was identified as at 31 December 2019 and 2018, no lifetime ECL was recognised. Impairment loss on loan receivables was measured at 12m ECL, and total impairment losses on loan receivables amounting to RMB4,652,000 and RMB4,139,000 were recognised as at 31 December 2019 and 2018, respectively.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 6. REVENUE AND SEGMENT INFORMATION

### Revenue

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

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Interest revenue:                                   |                 |                 |
| Interest revenue from art and asset pawn business   | 90,487          | 118,909         |
| Service revenue:                                    |                 |                 |
| Auction revenue from art and asset auction business | 73,482          | 138,290         |
| <b>Total</b>  | <b>163,969</b>  | 257,199         |

Interest revenue on loans to customers for art and asset pawn business is 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. 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.

### Disaggregation of revenue from contracts with customers for auction revenue from art and asset auction business

|                                     | 2019<br>RMB'000 | 2018<br>RMB'000 |
|-------------------------------------|-----------------|-----------------|
| <b>By types of auction products</b> |                 |                 |
| Zisha artwork                       | 34,893          | 52,133          |
| Calligraphies and paintings         | 32,498          | 65,212          |
| Jewel artwork                       | 6,091           | 16,975          |
| Others                              | -               | 3,970           |
| <b>Total</b>                        | <b>73,482</b>   | 138,290         |
| <b>By geographical locations</b>    |                 |                 |
| The PRC, excluding Hong Kong        | 73,482          | 122,153         |
| Hong Kong                           | -               | 16,137          |
| <b>Total</b>                        | <b>73,482</b>   | 138,290         |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 6. REVENUE AND SEGMENT INFORMATION (Continued)

### Segment Information

The segment information reported externally was analysed based on (i) art and asset pawn business, and (ii) art and asset auction business, which is consistent with the internal information that is regularly reviewed by the chief executive officer 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 business activities.

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies described in note 4. Segment result represents the profit earned by each segment without allocation of certain 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, bank balances and cash, tax payable, unallocated corporate assets and liabilities, and amount due to 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 revenue and results

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

|  | Art and asset<br>pawn<br>business<br>RMB'000 | Art and asset<br>auction<br>business<br>RMB'000 | Total<br>RMB'000 |
|--|--|---|------------------|
| <b>2019</b>  |  |   |                  |
| Segment revenue  | 90,487                                       | 73,482  | 163,969          |
| Interest income for artwork auction financing from<br>art and asset auction business | -  | 5,693   | 5,693            |
| Segment costs  | (2,714)                                      | (2,356)   | (5,070)          |
| Net impairment losses reversed   | 129  | 2,295   | 2,424            |
| <b>Segment results</b>   | <b>87,902</b>                                | <b>79,114</b>                                   | <b>167,016</b>   |
| Other income   |  |   | 2,600            |
| Other gains and losses   |  |   | (1,312)          |
| Central administrative expenses  |  |   | (20,539)         |
| Finance costs  |  |   | (361)            |
| <b>Profit before tax</b>   |  |   | <b>147,404</b>   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 6. REVENUE AND SEGMENT INFORMATION (Continued)

### Segment revenue and results (Continued)

|   | Art and asset<br>pawn<br>business<br>RMB'000 | Art and asset<br>auction<br>business<br>RMB'000 | Total<br>RMB'000 |
|---|--|---|------------------|
| <b>2018</b>                                 |  |   |                  |
| Segment revenue                             | 118,909                                      | 138,290   | 257,199          |
| Segment costs                               | (2,085)                                      | (10,120)  | (12,205)         |
| Net impairment losses reversed/(recognised) | 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          |

### Segment assets and liabilities

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

|   | Art and asset<br>pawn<br>business<br>RMB'000 | Art and asset<br>auction<br>business<br>RMB'000 | Total<br>RMB'000 |
|---|--|---|------------------|
| <b>2019</b>                             |  |   |                  |
| <b>Assets</b>                           |  |   |                  |
| Segment assets                          | 462,646                                      | 150,661   | 613,307          |
| Unallocated assets                      |  |   |                  |
| Deferred tax asset                      |  |   | 1,262            |
| Bank balances and cash                  |  |   | 588,113          |
| Corporate assets                        |  |   | 1,802            |
| Consolidated total assets               |  |   | 1,204,484        |
| <b>Liabilities</b>                      |  |   |                  |
| Segment liabilities                     | 3,490  | 84,465  | 87,955           |
| Unallocated liabilities                 |  |   |                  |
| Amount due to immediate holding company |  |   | 95,238           |
| Tax payable                             |  |   | 7,743            |
| Corporate liabilities                   |  |   | 3,753            |
| Consolidated total liabilities          |  |   | 194,689          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 6. REVENUE AND SEGMENT INFORMATION (Continued)

### Segment assets and liabilities (Continued)

|   | Art and asset<br>pawn<br>business<br>RMB'000 | Art and asset<br>auction<br>business<br>RMB'000 | Total<br>RMB'000 |
|---|--|---|------------------|
| <b>2018</b>   |  |   |                  |
| <b>Assets</b>   |  |   |                  |
| Segment assets  | 398,636                                      | 210,543   | 609,179          |
| Unallocated assets  |  |   |                  |
| Deferred tax asset  |  |   | 1,922            |
| Bank balances and cash  |  |   | 571,596          |
| Corporate assets  |  |   | 2,921            |
| Consolidated total assets   |  |   | 1,185,618        |
| <b>Liabilities</b>  |  |   |                  |
| Segment liabilities   | 1,458  | 246,633   | 248,091          |
| Unallocated liabilities   |  |   |                  |
| Amount due to immediate holding company                                   |  |   | 84,378           |
| Tax payable   |  |   | 21,273           |
| Corporate liabilities   |  |   | 3,786            |
| Consolidated total liabilities  |  |   | 357,528          |
| <b>Other segment information</b>  |  |   |                  |
|   | Art and asset<br>pawn<br>business<br>RMB'000 | Art and asset<br>auction<br>business<br>RMB'000 | Total<br>RMB'000 |
| <b>2019</b>   |  |   |                  |
| Segment information included in the measure of segment results or assets: |  |   |                  |
| Depreciation of property, plant and equipment                             | 484  | 138   | 622              |
| Depreciation of right-of-use assets                                       | 368  | 368   | 736              |
| Gain on disposal of property, plant and equipment                         | -  | 57  | 57               |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 6. REVENUE AND SEGMENT INFORMATION (Continued)

### Other segment information (Continued)

|  | Art and asset<br>pawn<br>business<br>RMB'000 | Art and asset<br>auction<br>business<br>RMB'000 | Total<br>RMB'000 |
|--|--|---|------------------|
| <b>2018</b>  |  |   |                  |
| Segment information included in the measure<br>of segment results or assets: |  |   |                  |
| Additions of property, plant and equipment                                   | -  | 1,135   | 1,135            |
| Depreciation of property, plant and equipment                                | 830  | 121   | 951              |

### Geographical information

The following table sets out information about the geographical locations of the Group's revenue from external customers and specified non-current assets. The geographical location of the Group's revenue from external customers is based on the location of the Group's operations for art and asset pawn business, and the location of services rendered for art and asset auction business. The Group's specified non-current assets comprise property, plant and equipment, and right-of-use assets, and the geographical location of these specified non-current assets is based on the physical location of these assets.

|  | Revenue from<br>external customers |                 | Specified<br>non-current assets |                 |
|--|------------------------------------|-----------------|---------------------------------|-----------------|
|  | 2019<br>RMB'000                    | 2018<br>RMB'000 | 2019<br>RMB'000                 | 2018<br>RMB'000 |
| The PRC, excluding Hong Kong (place of domicile) | 163,969                            | 241,062         | 5,687                           | 2,774           |
| Hong Kong  | -                                  | 16,137          | 1,448                           | 1,381           |
|  | 163,969                            | 257,199         | 7,135                           | 4,155           |

### Information about major customers

All external customers individually accounted for less than 10% of the Group's total revenue for the years ended 31 December 2019 and 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 7. OTHER INCOME

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Bank interest income  | 2,592           | 1,985           |
| Interest income for artwork auction financing from art and asset auction business | 5,693           | -               |
| Others  | 8               | 1,017           |
|   | <b>8,293</b>    | <b>3,002</b>    |

## 8. OTHER GAINS AND LOSSES

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Net foreign exchange losses                       | (1,483)         | (2,722)         |
| Gain on disposal of property, plant and equipment | 57              | -               |
| Gain on disposal of right-of-use assets           | 114             | -               |
| Government grants (Note)                          | -               | 687             |
| Others  | -               | 91              |
|   | <b>(1,312)</b>  | <b>(1,944)</b>  |

Note: The amount represented a one-off grant from the PRC government authority as a result of introduction of foreign investment capital into the PRC.

## 9. NET IMPAIRMENT LOSSES REVERSED/(RECOGNISED)

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| Net impairment losses reversed/(recognised) on:                                      |                 |                 |
| Loans to customers for art and asset pawn business                                   | 129             | 2,390           |
| Loans to customers for artwork auction financing from art and asset auction business | (642)           | -               |
| Net impairment losses on loan receivables  | (513)           | 2,390           |
| Trade receivables for art and asset auction business                                 | 588             | (3,238)         |
| Other receivables from customers in respect of art and asset auction business        | 2,349           | (2,837)         |
|  | <b>2,424</b>    | <b>(3,685)</b>  |

Details of impairment assessment are set out in note 34(b).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 10. FINANCE COSTS

|                               | 2019<br>RMB'000 | 2018<br>RMB'000 |
|-------------------------------|-----------------|-----------------|
| Interest on lease liabilities | 361             | -               |
| Finance lease charges         | -               | 32              |
|                               | <b>361</b>      | 32              |

## 11. INCOME TAX EXPENSES

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| Current tax                            |                 |                 |
| PRC Enterprise Income Tax ("EIT")      | 39,217          | 57,839          |
| Hong Kong Profits Tax                  | -               | -               |
|  | <b>39,217</b>   | 57,839          |
| Deferred tax charge/(credit) (Note 19) | 660             | (235)           |
|  | <b>39,877</b>   | 57,604          |

Under the PRC EIT law, the tax rate of the Company's subsidiaries established in the PRC was 25% for the years ended 31 December 2019 and 2018.

No provision for Hong Kong Profits Tax was made during the years ended 31 December 2019 and 2018 as the Group did not have assessable profits arising in Hong Kong during both years.

Income tax expenses for the year can be reconciled to the profit before tax as follows:

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| Profit before tax  | 147,404         | 194,891         |
| Tax at the PRC EIT rate of 25% (2018: 25%)   | 36,851          | 48,723          |
| Effect of different tax rates of the group entities operating in other jurisdictions | 959             | 3,344           |
| Tax effect of non-deductible expenses  | 1,595           | 3,309           |
| Tax effect of non-taxable income   | -               | (705)           |
| Tax effect of tax losses not recognised  | 593             | 2,583           |
| Others   | (121)           | 350             |
| Income tax expenses for the year   | <b>39,877</b>   | 57,604          |

Details of deferred taxation are set out in note 19.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 12. PROFIT FOR THE YEAR

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Profit for the year has been arrived at after charging:               |                 |                 |
| Directors' remuneration   | 1,475           | 722             |
| Other staff salaries and allowances                                   | 6,440           | 11,404          |
| Retirement benefit scheme contributions, excluding those of directors | 295             | 509             |
| Equity-settled share option expenses                                  | -               | 708             |
| <b>Total staff costs</b>  | <b>8,210</b>    | <b>13,343</b>   |
| Auditors' remuneration  |                 |                 |
| - audit services  | 2,038           | 2,300           |
| - other services  | 879             | 900             |
| Depreciation of property, plant and equipment                         | 800             | 1,396           |
| Depreciation of right-of-use assets                                   | 2,248           | -               |

## 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<br>RMB'000 | Salaries<br>and other<br>benefits<br>RMB'000 | Retirement<br>benefit<br>scheme<br>contributions<br>RMB'000 | Total<br>RMB'000 |
|--|-----------------|--|---|------------------|
| <b>For the year ended 31 December 2019</b> |                 |  |   |                  |
| <b>Executive directors</b>                 |                 |  |   |                  |
| Mr. Fan Zhijun (Note a)                    | -               | 862  | 34  | 896              |
| Mr. Zhang Bin (Note b)                     | -               | 175  | 5   | 180              |
| <b>Independent non-executive directors</b> |                 |  |   |                  |
| Mr. Leung Shu Sun Sunny                    | -               | 133  | -   | 133              |
| Mr. Liu Jian                               | -               | 133  | -   | 133              |
| Mr. Chu Xiaoliang                          | -               | 133  | -   | 133              |
|  | -               | 1,436  | 39  | 1,475            |
| <b>Chief Executive Officer</b>             |                 |  |   |                  |
| Ms. Li Simo (Note a)                       | -               | 111  | -   | 111              |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

|  | Fees<br>RMB'000 | Salaries<br>and other<br>benefits<br>RMB'000 | Retirement<br>benefit<br>scheme<br>contributions<br>RMB'000 | Total<br>RMB'000 |
|--|-----------------|--|---|------------------|
| <b>For the year ended 31 December 2018</b> |                 |  |   |                  |
| <b>Executive directors</b>                 |                 |  |   |                  |
| Mr. Fan Zhijun (Note a)                    | -               | 120  | 9   | 129              |
| Mr. Zhang Bin (Note b)                     | -               | 205  | 7   | 212              |
| <b>Independent non-executive directors</b> |                 |  |   |                  |
| Mr. Leung Shu Sun Sunny                    | -               | 127  | -   | 127              |
| Mr. Liu Jian                               | -               | 127  | -   | 127              |
| Mr. Chu Xiaoliang                          | -               | 127  | -   | 127              |
|  | -               | 706  | 16  | 722              |
| <b>Chief Executive Officer</b>             |                 |  |   |                  |
| Ms. Li Simo (Note a)                       | -               | 1,604  | -   | 1,604            |

Notes:

- (a) Ms. Li Simo resigned as the Chief Executive Officer of the Company on 31 May 2019 and Mr. Fan Zhijun was appointed as the Chief Executive Officer of the Company on 2 July 2019.
- (b) Mr. Zhang Bin resigned as the executive director of the Company on 30 September 2019.

The executive directors' emoluments shown above represented those for their services in connection with the management of the affairs of the Company and its subsidiaries during the years ended 31 December 2019 and 2018.

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 waive any remuneration during the years ended 31 December 2019 and 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 14. INDIVIDUALS WITH THE HIGHEST EMOLUMENTS AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Five highest paid individuals

Of the five individuals with the highest emoluments, one (2018: Nil) is a director of the Company whose emoluments are disclosed in note 13. The aggregate of the emoluments in respect of the remaining four (2018: five) individuals are as follows:

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Salaries and other benefits             | 2,222           | 4,329           |
| Discretionary bonus                     | -               | 17              |
| Retirement benefit scheme contributions | 60              | 43              |
| Equity-settled share option expenses    | -               | 303             |
|   | <b>2,282</b>    | <b>4,692</b>    |

The emoluments of the above four (2018: five) individuals with the highest emoluments are within the following bands:

|                                | Number of individuals |          |
|--------------------------------|-----------------------|----------|
|                                | 2019                  | 2018     |
| Bands:                         |                       |          |
| Nil to HK\$1,000,000           | 4                     | 3        |
| HK\$1,500,001 to HK\$2,000,000 | -                     | 2        |
|                                | <b>4</b>              | <b>5</b> |

During the years ended 31 December 2019 and 2018, no emoluments were paid by the Group to any of the directors of the Company or the Chief Executive Officer or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Certain employees of the Group 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 28.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 14. INDIVIDUALS WITH THE HIGHEST EMOLUMENTS AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

### (b) Senior management's emoluments

The emoluments paid or payable to senior management (including one (2018: one) highest paid individual as disclosed above) are within the following bands:

|                                | Number of individuals |      |
|--------------------------------|-----------------------|------|
|                                | 2019                  | 2018 |
| Bands:                         |                       |      |
| Nil to HK\$1,000,000           | 5                     | 5    |
| HK\$1,500,001 to HK\$2,000,000 | -                     | 1    |
|                                | 5                     | 6    |

## 15. DIVIDENDS

|   | 2019    | 2018    |
|---|---------|---------|
|   | RMB'000 | RMB'000 |
| 2018 final dividend of HK1.0 cent (2018: 2017 final dividend of HK2.0 cents) per ordinary share | 14,394  | 25,799  |

During the year ended 31 December 2019, the Company declared and paid a dividend of HK1.0 cent per ordinary share in an aggregate amount of HK\$16,780,000 (equivalent to RMB14,394,000).

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 16. EARNINGS PER SHARE

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

|  | <b>2019</b>      | 2018        |
|--|------------------|-------------|
|  | <b>RMB'000</b>   | RMB'000     |
| <b>Earnings</b>  |                  |             |
| Profit for the year for the purpose of calculating basic and diluted earnings per share              | <b>107,527</b>   | 137,287     |
|  | <b>2019</b>      | 2018        |
|  | <b>'000</b>      | <b>'000</b> |
| <b>Number of shares</b>  |                  |             |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share   | <b>1,648,937</b> | 1,600,000   |
| Effect on dilutive potential ordinary shares from share options                                      | <b>5,993</b>     | 3,249       |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | <b>1,654,930</b> | 1,603,249   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 17. PROPERTY, PLANT AND EQUIPMENT

|  | Leasehold<br>improvement<br>RMB'000 | Furniture,<br>fixtures and<br>equipment<br>RMB'000 | Motor<br>vehicles<br>RMB'000 | Total<br>RMB'000 |
|--|-------------------------------------|--|------------------------------|------------------|
| <b>Cost</b>                              |                                     |  |                              |                  |
| At 1 January 2018                        | 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           |
| Adjustments upon application of HKFRS 16 | -                                   | -  | (1,639)                      | (1,639)          |
| At 1 January 2019 (Restated)             | 3,980                               | 1,047  | 3,511                        | 8,538            |
| Disposals                                | -                                   | -  | (533)                        | (533)            |
| Exchange differences                     | 53                                  | 31   | -                            | 84               |
| At 31 December 2019                      | 4,033                               | 1,078  | 2,978                        | 8,089            |
| <b>Accumulated depreciation</b>          |                                     |  |                              |                  |
| At 1 January 2018                        | 2,963                               | 458  | 1,205                        | 4,626            |
| Charge for the year                      | 440                                 | 134  | 822                          | 1,396            |
| At 31 December 2018                      | 3,403                               | 592  | 2,027                        | 6,022            |
| Adjustments upon application of HKFRS 16 | -                                   | -  | (239)                        | (239)            |
| At 1 January 2019 (Restated)             | 3,403                               | 592  | 1,788                        | 5,783            |
| Charge for the year                      | 172                                 | 123  | 505                          | 800              |
| Eliminated on disposals                  | -                                   | -  | (532)                        | (532)            |
| Exchange differences                     | 7                                   | 6  | -                            | 13               |
| At 31 December 2019                      | 3,582                               | 721  | 1,761                        | 6,064            |
| <b>Carrying amount</b>                   |                                     |  |                              |                  |
| At 31 December 2019                      | 451                                 | 357  | 1,217                        | 2,025            |
| At 31 December 2018                      | 577                                 | 455  | 3,123                        | 4,155            |

The above items of property, plant and equipment after taking into account the residual values, 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  |

As at 31 December 2018, the carrying amount of motor vehicles of RMB3,123,000 included an amount of RMB1,400,000 in respect of assets held under finance leases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 18. RIGHT-OF-USE ASSETS

|  | Leased<br>properties<br>RMB'000 | Motor<br>vehicles<br>RMB'000 | Total<br>RMB'000       |
|--|---------------------------------|------------------------------|------------------------|
| Upon application of HKFRS 16 on 1 January 2019 | 6,636                           | 1,400                        | 8,036                  |
| Depreciation charge for the year               | (1,881)                         | (367)                        | (2,248)                |
| Disposals                                      | -                               | (706)                        | (706)                  |
| Exchange differences                           | 19                              | 9                            | 28                     |
| At 31 December 2019                            | 4,774                           | 336                          | 5,110                  |
|  |                                 |                              | <b>2019</b><br>RMB'000 |
| Expense relating to short-term leases          |                                 |                              | 130                    |
| Total cash outflows for leases                 |                                 |                              | 3,059                  |

The Group leased various offices and motor vehicles for its operations. Lease contracts were entered into for fixed terms of two to eight years, but may have extension and termination options. Lease terms were negotiated on an individual basis and contained different terms and conditions.

## 19. DEFERRED TAXATION

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

|  | Impairment<br>allowances<br>RMB'000 |
|--|-------------------------------------|
| At 1 January 2018                      | 1,687                               |
| Credited to profit or loss (Note 11)   | 235                                 |
| At 31 December 2018 and 1 January 2019 | 1,922                               |
| Charged to profit or loss (Note 11)    | (660)                               |
| At 31 December 2019                    | 1,262                               |

At the end of the reporting period, the Group has unused tax losses of approximately RMB22,390,000 (2018: RMB20,097,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in the above are tax losses of approximately RMB3,983,000 (2018: RMB2,408,000) which can only be carried forward for a maximum period of five years. Other losses may be carried forward indefinitely.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 20. LOAN RECEIVABLES

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| Art and asset pawn loans to customers            | 463,222         | 401,066         |
| Less: Impairment allowances                      | (4,010)         | (4,139)         |
|  | <b>459,212</b>  | 396,927         |
| Loans to customers for artwork auction financing | 75,262          | -               |
| Less: Impairment allowances                      | (642)           | -               |
|  | <b>74,620</b>   | -               |
| <b>Total</b>                                     | <b>533,832</b>  | 396,927         |

Details of the impairment assessment of loan receivables are set out in note 34(b).

### (a) Art and asset pawn loans to customers

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 granted to customers carried fixed interest rates ranging from 25% to 45% (2018: 45% to 50%) per annum during the year ended 31 December 2019. Art and asset pawn loans to customers were 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 artwork and other assets, mainly Zisha artwork, 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.

### Ageing analysis of art and asset pawn loans to customers

The ageing analysis of art and asset pawn loans to customers (net of impairment allowances) by issue date of initial pawn tickets upon granting of the pawn loans is set out below:

|                | 2019<br>RMB'000 | 2018<br>RMB'000 |
|----------------|-----------------|-----------------|
| Within 1 month | 250,355         | 38,763          |
| 1 - 3 months   | 194,009         | 315,835         |
| 3 - 6 months   | 14,848          | 42,329          |
| <b>Total</b>   | <b>459,212</b>  | 396,927         |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 20. LOAN RECEIVABLES (Continued)

### (b) Loans to customers for artwork auction financing

The loans to customers for artwork auction financing are arising from the Group's art and asset auction business. During the year ended 31 December 2019, the Group granted certain secured loans in an aggregate principal amount of HK\$90,100,000 (equivalent to RMB79,885,000) to certain independent third parties, and the borrowers repaid part of the principal and interest in an aggregate amount of HK\$12,500,000 (equivalent to RMB11,019,000) to the Group during the year.

The loans were carried at a fixed interest rate of 12% per annum and were due for repayment of twelve months from the first drawdown date. The Group has the overriding right to demand immediate repayment of all outstanding principal, interest and other amounts from the borrowers. The borrowers have undertaken not to create or permit to subsist any mortgage, pledge, lien, charge, assignment or other security interest over the collateral without the Group's prior written consent. The borrowers will also indemnify the Group against any cost, loss or liability incurred by the Group as a result of breach of the facility letters or occurrence of any event of defaults as stated in the facility letters.

Loans to customers for artwork auction financing were all denominated in Hong Kong dollars. These loans are backed by collateral as security and the major type of collateral is Zisha artwork. There have not been any significant changes in the quality of the collateral held.

### Ageing analysis of loans to customers for artwork auction financing

The ageing analysis of loans to customers for artwork auction financing (net of impairment allowances) is prepared based on contractual due date and is set out below:

|                  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|------------------|-----------------|-----------------|
| Not yet past due | 74,620          | -               |



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 21. TRADE AND OTHER RECEIVABLES

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Trade receivables for art and asset auction business                          | 14,828          | 42,593          |
| Less: Impairment allowances   | (122)           | (710)           |
|   | <b>14,706</b>   | 41,883          |
| Other receivables from customers in respect of art and asset auction business | 58,823          | 167,535         |
| Other receivables and deposits  | 613             | 1,600           |
|   | <b>59,436</b>   | 169,135         |
| <b>Total</b>  | <b>74,142</b>   | 211,018         |

As at 31 December 2019 and 2018, trade receivables for art and asset auction business arose from contracts with customers which amounted to RMB14,706,000 and RMB41,883,000, respectively.

Buyers of artwork are required to settle the entire purchase price of the artwork within 7 days after the date of auction. The 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 the ageing analysis of trade receivables for art and asset auction business (net of impairment allowances) presented based on the invoice dates.

|                   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|-------------------|-----------------|-----------------|
| Less than 60 days | 14,706          | 41,883          |

Details of impairment assessment of trade and other receivables are set out in note 34(b).

## 22. BANK BALANCES AND CASH

The Group's bank balances carried prevailing market interest rates ranging from 0% to 0.35% (2018: 0% to 0.35%) per annum.

As at 31 December 2019, the Group had bank balances denominated in RMB that were either not freely convertible or were subject to exchange controls in the PRC amounting to RMB587,533,000 (2018: RMB569,987,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 23. ACCRUALS AND OTHER PAYABLES

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| Payables on behalf of customers in respect of art and asset auction business | 72,512          | 224,807         |
| Other payables for art and asset auction business                            | 351             | 377             |
| Accrued expenses   | 3,807           | 3,391           |
| Other tax payables   | 4,138           | 13,143          |
| Security deposits received for auctions                                      | 5,400           | 8,800           |
| Others   | 316             | 252             |
|  | <b>86,524</b>   | <b>250,770</b>  |

For the payables of art and asset auction business, 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 were aged within 60 days as at 31 December 2019 and 2018 based on the dates of relevant auction services rendered.

## 24. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount is non-trade in nature, unsecured, interest-free and repayable on demand.

## 25. LEASE LIABILITIES

|   | At 31 December<br>2019<br>RMB'000 |
|---|-----------------------------------|
| <b>Lease liabilities payable:</b>   |                                   |
| Within one year   | 1,150                             |
| Within a period of more than one year but not more than two years                     | 835                               |
| Within a period of more than two years but not more than five years                   | 2,342                             |
| More than five years  | 857                               |
|   | <b>5,184</b>                      |
| Less: Amounts due for settlement within twelve months shown under current liabilities | <b>(1,150)</b>                    |
| Amounts due for settlement after twelve months shown under non-current liabilities    | <b>4,034</b>                      |

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances as at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have also been aggregated with the brought forward balances relating to certain leases previously classified as finance leases (see note 26). Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to HKFRS 16 are set out in note 3.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 26. OBLIGATIONS UNDER FINANCE LEASES

|  | Minimum<br>lease<br>payments<br>RMB'000 | Present<br>value of<br>minimum lease<br>payments<br>RMB'000 |
|--|---|---|
| <b>Obligations under finance leases payable as at 31 December 2018:</b>                  |   |   |
| Within one year  | 435                                     | 384   |
| Within a period of more than one year but not more than two years                        | 435                                     | 390   |
| Within a period of more than two years but not more than five years                      | 360                                     | 333   |
|  | 1,230                                   | 1,107   |
| Less: Future finance charges   | (123)                                   | -   |
| Present value of lease obligations   | 1,107                                   | 1,107   |
| Less: Amounts due for settlement within twelve months<br>shown under current liabilities |   | (384)   |
| Amounts due for settlement after twelve months<br>shown under non-current liabilities    |   | 723   |

During the year ended 31 December 2018, the Group leased its motor vehicles under finance leases. The lease terms ranged from 3 to 5 years. The weighted average effective interest rate was 4.28%-8.55% per annum. The leases were on fixed repayment bases and no arrangement was entered into for contingent rental payments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 27. SHARE CAPITAL

|  | Number    | Amount         |          |
|--|-----------|----------------|----------|
|  | of shares | (Equivalent to |          |
|  | '000      | HK\$'000       | RMB'000) |
| <i>Ordinary shares of HK\$0.01 each</i>                  |           |                |          |
| <b>Authorised</b>  |           |                |          |
| At 1 January 2018, 31 December 2018 and 31 December 2019 | 5,000,000 | 50,000         | 43,420   |
| <b>Issued and fully paid</b>                             |           |                |          |
| At 1 January 2018, 31 December 2018 and 1 January 2019   | 1,600,000 | 16,000         | 13,995   |
| Issue of shares on placing of shares (Note)              | 78,000    | 780            | 684      |
| At 31 December 2019                                      | 1,678,000 | 16,780         | 14,679   |

Note: On 17 May 2019, the Company completed a placing of 78,000,000 new ordinary shares of the Company at HK\$1.3 per share to certain independent third parties. The net proceeds (after deduction of transaction costs of RMB1,131,000) of approximately RMB87,817,000 are used for development of the artwork auction financing in Hong Kong and for general working capital purpose. These shares rank pari passu with the then existing shares of the Company in all respects.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

## 28. 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 officer 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 28. SHARE-BASED PAYMENTS (Continued)

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.

The table below discloses the movement of the Company's share options held by the Group's employees:

| Date of grant | Exercise price | Vesting date    | Exercisable period             | Number of share options under the Scheme outstanding as at 1 January 2018, 31 December 2018 and 31 December 2019 |
|---------------|----------------|-----------------|--------------------------------|--|
| 2 June 2017   | HK\$0.8        | 2 June 2017     | 2 June 2017 to 1 June 2022     | 8,000,000  |
| 2 June 2017   | HK\$0.8        | 2 December 2017 | 2 December 2017 to 1 June 2022 | 8,000,000  |
| 2 June 2017   | HK\$0.8        | 2 June 2018     | 2 June 2018 to 1 June 2022     | 7,000,000  |
|               |                |                 |                                | <b>23,000,000</b>  |

The Group recognised the equity-settled share option expenses of RMB708,000 for the year ended 31 December 2018 in relation to the share options granted the Group's employees by the Company, which was credited to share option reserve during that year.

### Fair value of share options and assumptions

The fair value of the share options granted on 2 June 2017 were calculated using the Binomial model.

The inputs into the model were 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 was used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options were 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 was 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 share options had been granted and remained outstanding under the Scheme as at 31 December 2019 was 23,000,000 (2018: 23,000,000), representing approximately 1.37% (2018: 1.44%) of the total issued ordinary shares of the Company as at 31 December 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 29. 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<br>RMB'000 | Amounts due to directors<br>RMB'000 | Amounts due to related parties<br>RMB'000 | Amount due to immediate holding company<br>RMB'000<br>(Note 24) | Obligations under finance leases/<br>Lease liabilities<br>RMB'000<br>(Notes 25 & 26) | Total<br>RMB'000 |
|-----------------------------------|-----------------------------|-------------------------------------|---|---|--|------------------|
| At 1 January 2018                 | -                           | 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               |
| Dividends declared                | 25,799                      | -                                   | -   | -   | -  | 25,799           |
| Exchange differences              | -                           | -                                   | -   | 3,305   | -  | 3,305            |
| At 31 December 2018               | -                           | -                                   | -   | 84,378  | 1,107  | 85,485           |
| Effect on application of HKFRS 16 | -                           | -                                   | -   | -   | 6,618  | 6,618            |
| At 1 January 2019 (Restated)      | -                           | -                                   | -   | 84,378  | 7,725  | 92,103           |
| Financing cash flows              | (14,394)                    | -                                   | -   | 8,877   | (2,929)  | (8,446)          |
| Non-cash changes:                 |                             |                                     |   |   |  |                  |
| Finance costs                     | -                           | -                                   | -   | -   | 361  | 361              |
| Dividends declared                | 14,394                      | -                                   | -   | -   | -  | 14,394           |
| Exchange differences              | -                           | -                                   | -   | 1,983   | 27   | 2,010            |
| At 31 December 2019               | -                           | -                                   | -   | 95,238  | 5,184  | 100,422          |

## 30. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2018, the Group entered into a 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 (2019: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 31. RETIREMENT BENEFIT PLANS

The employees of the subsidiaries established in the PRC 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 MPF Scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The Group's contribution to the retirement benefit schemes amounted to RMB334,000 (2018: RMB525,000) for the year ended 31 December 2019.

## 32. OPERATING LEASES

### The Group as lessee

|   | 2018<br>RMB'000 |
|---|-----------------|
| <hr/>   |                 |
| Minimum lease payments paid to the following parties under operating leases in respect of rented premises during the year ended 31 December 2018: |                 |
| Mr. Fan Zhijun  | 900             |
| Outsiders   | 7,124           |
| <hr/>   |                 |
| Total   | 8,024           |
| <hr/>   |                 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 32. OPERATING LEASES (Continued)

### The Group as lessee (Continued)

As at 31 December 2018, 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:

|                            | At 31 December<br>2018<br>RMB'000 |
|----------------------------|-----------------------------------|
| Within one year            |                                   |
| Mr. Fan Zhijun             | 900                               |
| Outsiders                  | 1,168                             |
|                            | 2,068                             |
| Between one and five years |                                   |
| Mr. Fan Zhijun             | 3,600                             |
| Outsiders                  | 451                               |
|                            | 4,051                             |
| Over five years            |                                   |
| Mr. Fan Zhijun             | 1,800                             |
| Total                      | 7,919                             |

Operating lease payments represented rentals payable by the Group for its office premises and car park lots. Leases and rentals were negotiated and fixed for terms of one to eight years. None of the leases included contingent rentals.

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under the approach, the Group adjusted the opening balances as at 1 January 2019 to recognise lease liabilities relating to these leases (see note 3). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the Group's accounting policies set out in note 4, and the details regarding the Group's future lease payments are disclosed in note 25.

## 33. 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 amount due to immediate holding company, lease liabilities and obligations under finance leases, net of bank balances and cash. There was no net debt for the Group as at 31 December 2019 and 2018.

The directors of the Company review 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 buy-backs as well as the issue of new debt or the redemption of existing debt.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 34. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Financial assets at amortised cost      | 1,196,087       | 1,179,541       |
| Financial liabilities at amortised cost | 179,001         | 319,721         |

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

The Group's major financial instruments include loan receivables, trade and other receivables, bank balances and cash, other payables, amount due to immediate holding company, lease liabilities and obligations under finance leases.

The management of the Group monitors and manages the financial risks relating to the operations of the Group through internal risk assessment which analyses exposures by degree and magnitude of risks. The risks 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. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### Market risk

##### *Interest rate risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposures to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

The most significant interest-bearing asset is loan receivables from customers, which bear fixed interest rates to generate cash flows independent from market interest rates. 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 that 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 2019 amounted to RMB98,772,000 (2018: RMB120,894,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 34. FINANCIAL INSTRUMENTS (Continued)

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

#### Market risk (Continued)

##### 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")) as at 31 December 2019 and 2018 are as follows:

|                      | Currency | 2019<br>RMB'000 | 2018<br>RMB'000 |
|----------------------|----------|-----------------|-----------------|
| Monetary assets      | HKD      | 235             | 9               |
| Monetary liabilities | HKD      | (97,943)        | (84,378)        |
| Net exposure         | HKD      | (97,708)        | (84,369)        |

The Group currently does not have a foreign exchange hedging policy to eliminate the currency exposures. However, the management of the Group monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposures should the need arise.

##### Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in HKD against RMB. The following table details the Group's sensitivity to a 5% increase and decrease in RMB, the functional currency of respective group entities, against HKD. 5% 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, amount due to immediate holding company, and accruals and other payables which are denominated in HKD.

|                                 | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---------------------------------|-----------------|-----------------|
| Increase in profit for the year | 4,079           | 3,522           |

In the opinion of the management of the Group, the sensitivity analysis is unrepresentative of the inherent currency risk because the year end exposure does not reflect the exposure during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 34. FINANCIAL INSTRUMENTS (Continued)

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

#### Credit risk and impairment assessment

As at 31 December 2019, the carrying amounts of financial assets best represent the Group's maximum exposure to credit risk. Other than the entire balance of loan receivables from customers (net of impairment allowances) of RMB533,832,000 (2018: RMB396,927,000) which are backed by collateral as security as disclosed in note 20, 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, the management of the Group employs a range of policies and practices to mitigate credit risk.

#### *Loans to customers for art and asset pawn business, and for artwork auction financing from art and asset auction business*

The Group manages its credit risk primarily through the taking of specific classes of collateral from customers. All loans granted are backed by collateral as security. The principal collateral types for loans to customers are the artwork and other assets, mainly Zisha artwork, 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 collateral and generally does not exceed 75% of the appraised value of artwork at the loan application stage.

The Group maintains a reasonably diversified client base. As at 31 December 2019, the Group's concentration of credit risk on loans to customers included ten major customers in the PRC accounting for 22.9% (2018: 26.4%) of the total loan receivables (before impairment allowances).

Loans to customers are subject to impairment under the expected credit loss model. At the end of each 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:

- for pawn loans only, the loans are renewed continuously such that the entire loan period is more than 6 months from the date of the loans initially granted; or
- the interest payments or the principal of the 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 collateral, the Group has engaged an independent qualified professional valuer to perform valuation of selected high-valued artwork collateral.

For loans to customers that have been assessed with no significant increase in credit risk 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 customers) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 34. 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, and for artwork auction financing from art and asset auction business (Continued)*

Lifetime ECL is recognised on loans to customers that are considered to be credit-impaired. 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 loan; or
- the customer has not ransomed the pawned assets or the pledged assets; or
- the customer is placed under legal proceedings and is deemed a defaulter under court orders.

The Group's internal credit grading assessment of loans to customers for art and asset pawn business comprise 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 of the loans initially granted  | Lifetime ECL – not credit-impaired |
| Higher risk            | There has been a significant increase in credit risk since initial recognition as evidenced by: <ul style="list-style-type: none"> <li>• the pawn loans are renewed continuously such that the entire loan period is more than 6 months from the date of the loans initially granted; or</li> <li>• the interest payments or the principal of the pawn loans are delayed or past due; or</li> <li>• there is a significant drop in the value of the collateral at the end of the reporting period.</li> </ul> | Lifetime ECL – not credit-impaired |
| Loss                   | There is evidence indicating the asset is credit-impaired such as the following events of default: <ul style="list-style-type: none"> <li>• the customer does not have the ability to repay the pawn loan; or</li> <li>• the customer has not ransomed the pawned assets; or</li> <li>• the customer is placed under legal proceedings and is deemed a defaulter under court orders.</li> </ul>   | 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 off              |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 34. 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, and for artwork auction financing from art and asset auction business (Continued)*

The Group's internal credit grading assessment of loans to customers for artwork auction financing from art and asset auction business comprise the following categories:

| Internal credit rating | Description   | Lifetime ECL or 12m ECL            |
|------------------------|---|------------------------------------|
| Lower risk             | The counterparty has a low risk of default  | 12m ECL                            |
| Higher risk            | There has been a significant increase in credit risk since initial recognition as evidenced by: <ul style="list-style-type: none"> <li>• the interest payments or the principal of the loans are delayed or past due; or</li> <li>• there is a significant drop in the value of the collateral at the end of the reporting period.</li> </ul>   | Lifetime ECL - not credit-impaired |
| Loss                   | There is evidence indicating the asset is credit-impaired such as the following events of default: <ul style="list-style-type: none"> <li>• the customer does not have the ability to repay the loan; or</li> <li>• the customer has not ransomed the pledged assets; or</li> <li>• the customer is placed under legal proceedings and is deemed a defaulter under court orders.</li> </ul> | 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 off              |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 34. 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, and for artwork auction financing from art and asset auction 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          |                                |
|-------------|---------------------|--------------------------------|--------------------------------|
|             |                     | At 31 December 2019<br>RMB'000 | At 31 December 2018<br>RMB'000 |
| Lower risk  | 12m ECL             | 463,222                        | 401,031                        |
| Medium risk | 12m ECL             | -                              | 35                             |
|             |                     | <b>463,222</b>                 | <b>401,066</b>                 |

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

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

|   | 12m ECL<br>RMB'000 | Lifetime ECL (credit-impaired)<br>RMB'000 | Total<br>RMB'000 |
|---|--------------------|---|------------------|
| At 1 January 2018                                       | -                  | 6,529                                     | 6,529            |
| Impairment losses recognised/(reversed) during the year | 4,139              | (6,529)                                   | (2,390)          |
| At 31 December 2018 and 1 January 2019                  | 4,139              | -   | 4,139            |
| Impairment losses reversed during the year              | (129)              | -   | (129)            |
| At 31 December 2019                                     | 4,010              | -   | 4,010            |

The lifetime ECL for credit-impaired loans to customers amounting to RMB6,529,000 was reversed during the year ended 31 December 2018 as a result of full settlement of the loans received from customers during that year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 34. 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, and for artwork auction financing from art and asset auction business (Continued)*

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

|            | 12m or<br>lifetime ECL | Gross<br>carrying<br>amount<br>At<br>31 December<br>2019<br>RMB'000 |
|------------|------------------------|---|
| Lower risk | 12m ECL                | 75,262  |

Loans to customers for artwork auction financing from art and asset auction business is assessed on 12m ECL basis as there has been no significant increase in credit risk since initial recognition.

The following table shows the reconciliation of impairment allowances that has been recognised for loans to customers for artwork auction financing from art and asset auction business:

|  | 12m ECL<br>RMB'000 |
|--|--------------------|
| At 1 January 2018, 31 December 2018 and 1 January 2019 | -                  |
| Impairment losses recognised during the year           | 642                |
| At 31 December 2019                                    | 642                |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 34. 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 artwork to perform their obligations to pay the commission fee and purchase cost on time as detailed in note 21. As auction items will only be delivered to the buyers after full payment are settled, the directors of the Company considered that the credit risk arising from these outstanding balances is manageable.

The Group established policies to ensure that auction revenue from art and asset auction business are made to customers with an appropriate credit history and the Group assesses the credit worthiness and financial strength of its customers as well as considering prior transaction history with the customers. The management of the Group makes periodic collective assessment as well as individual assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the debtors. If the other receivables from buyers in respect of art and asset auction business has not been received, the Group is not obligated to pay the corresponding other payables to sellers in respect of art and asset auction business. If the buyer defaults on payment, the auction sale may be cancelled, and the auction items will be returned to the seller. Both of the other receivables and other payables in respect of art and asset auction business in relation to such cancelled auction sale shall be derecognised simultaneously. As such, the management of the Group believes the credit risk relating to other receivables in respect of art and asset auction business is not significant.

The Group has concentration of credit risk as 38.9% (2018: 50.7%) 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 2019.

Trade receivables and other receivables arising from art and asset auction business are subject to impairment assessment under the expected credit loss model. For trade receivables with gross carrying amount of RMB14,828,000 (2018: RMB42,593,000) as at 31 December 2019, the Group applies the simplified approach for impairment assessment and always recognises lifetime ECL. For other receivables with gross carrying amount of RMB59,311,000 (2018: RMB170,372,000) as at 31 December 2019, 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 0.82% (2018: 1.67%) had been applied as at 31 December 2019 which is 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 34. 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)

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

|  | Lifetime ECL<br>(not credit-<br>impaired)<br>RMB'000 | Lifetime ECL<br>(credit-<br>impaired)<br>RMB'000 | Total<br>RMB'000 |
|--|--|--|------------------|
| At 1 January 2018                            | 329  | -  | 329              |
| Impairment losses recognised during the year | 381  | 2,857  | 3,238            |
| Write-off                                    | -  | (2,857)  | (2,857)          |
| At 31 December 2018 and 1 January 2019       | 710  | -  | 710              |
| Impairment losses reversed during the year   | (588)  | -  | (588)            |
| At 31 December 2019                          | 122  | -  | 122              |

The Group wrote-off trade receivables of RMB2,857,000 during the year ended 31 December 2018 when there was information indicating that the debtor was in severe financial difficulty and there was no realistic prospect of recovery.

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

|  | 12m ECL<br>RMB'000 |
|--|--------------------|
| At 1 January 2018                            | -                  |
| Impairment losses recognised during the year | 2,837              |
| At 31 December 2018 and 1 January 2019       | 2,837              |
| Impairment losses reversed during the year   | (2,349)            |
| At 31 December 2019                          | 488                |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 34. FINANCIAL INSTRUMENTS (Continued)

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

#### Credit risk and impairment assessment (Continued)

##### Bank balances

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

##### Liquidity risk

In management of liquidity risk, the management of the Group 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, amount due to immediate holding company, lease liabilities 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, lease 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<br>average<br>effective<br>interest rate<br>% | Within 1 year<br>or on demand<br>RMB'000 | More than<br>1 year but less<br>than 2 years<br>RMB'000 | More than<br>2 years<br>but less than<br>5 years<br>RMB'000 | More than<br>5 years<br>RMB'000 | Total<br>undiscounted<br>cash flows<br>RMB'000 | Carrying<br>amounts at<br>31 December<br>2019<br>RMB'000 |
|--|--|--|---|---|---------------------------------|--|--|
| Other payables                             | -  | 78,579                                   | -   | -   | -                               | 78,579   | 78,579   |
| Amount due to immediate<br>holding company | -  | 95,238                                   | -   | -   | -                               | 95,238   | 95,238   |
| Lease liabilities                          | 2.38-5.39  | 1,359                                    | 1,002   | 2,596   | 857                             | 5,814  | 5,184  |
|  |  | 175,176                                  | 1,002   | 2,596   | 857                             | 179,631  | 179,001  |

|  | Weighted<br>average<br>effective<br>interest rate<br>% | Within 1 year<br>or on demand<br>RMB'000 | More than<br>1 year but less<br>than 2 years<br>RMB'000 | More than<br>2 years<br>but less than<br>5 years<br>RMB'000 | More than<br>5 years<br>RMB'000 | Total<br>undiscounted<br>cash flows<br>RMB'000 | Carrying<br>amounts at<br>31 December<br>2018<br>RMB'000 |
|--|--|--|---|---|---------------------------------|--|--|
| Other payables                             | -  | 234,236                                  | -   | -   | -                               | 234,236  | 234,236  |
| Amount due to immediate<br>holding company | -  | 84,378                                   | -   | -   | -                               | 84,378   | 84,378   |
| Obligations under<br>finance leases        | 4.28-8.55  | 435                                      | 265   | 530   | -                               | 1,230  | 1,107  |
|  |  | 319,049                                  | 265   | 530   | -                               | 319,844  | 319,721  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 34. 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.

The 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.

## 35. RELATED PARTY DISCLOSURES

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

### (a) At the end of the reporting period, the Group had the following outstanding balance with Mr. Fan Zhijun:

|  | At<br>31 December<br>2019<br>RMB'000 | At<br>31 December<br>2018<br>RMB'000 |
|--|--------------------------------------|--------------------------------------|
| Lease liabilities due to Mr. Fan Zhijun (Note) | 4,528                                | -                                    |

Note: The Group is the lessee in respect of office premises rented by Mr. Fan Zhijun for a fixed lease term of eight years, which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under the approach, the Group adjusted the opening balances as at 1 January 2019 to recognise lease liabilities relating to these leases. From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the Group's accounting policies set out in note 4. The lease liabilities due to Mr. Fan Zhijun were RMB5,154,000 and RMB4,528,000, respectively as at 1 January 2019 and 31 December 2019, and the related interest expenses on lease liabilities during the year ended 31 December 2019 was RMB232,000 (see note 35(b)).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 35. RELATED PARTY DISCLOSURES (Continued)

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

|  | 2019<br>RMB'000 | 2018<br>RMB'000 |
|--|-----------------|-----------------|
| Interest expenses on lease liabilities (see note 35(a))    | 232             | -               |
| Operating lease expenses for office premises under HKAS 17 | -               | 900             |

(c) Compensation of key management personnel

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

|   | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-----------------|-----------------|
| Salaries and other benefits             | 2,540           | 5,128           |
| Discretionary bonus                     | -               | 122             |
| Retirement benefit scheme contributions | 71              | 72              |
|   | <b>2,611</b>    | <b>5,322</b>    |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 36. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2019 and 2018 are as follows:

| Name of company   | Place of incorporation/<br>establishment | Equity interest attributable to the Group as at 31 December |           | Issued and full paid share/<br>registered capital | Legal form                | Principal activities         |
|---|--|---|-----------|---|---------------------------|------------------------------|
|   |  | 2019<br>%   | 2018<br>% |   |                           |                              |
| <i>Directly held:</i>   |  |   |           |   |                           |                              |
| Reliance Art Holdings Limited                                       | BVI                                      | 100   | 100       | USD50,000   | Limited liability company | Investment holding           |
| <i>Indirectly held:</i>   |  |   |           |   |                           |                              |
| Artfund International (Hong Kong) Auction Company Limited           | Hong Kong                                | 100   | 100       | HK\$10,000,000                                    | Private limited company   | Auction and related 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                                   | 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 Pawn (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<br>Yixing Hanjin Culture and Art Company Limited      | The PRC                                  | 100   | 100       | RMB500,000  | Limited liability company | Investment holding           |
| 宜興程翔物資貿易有限公司<br>Yixing Chengxiang Materials Trading Company Limited | The PRC                                  | 100   | 100       | RMB15,000,000                                     | Limited liability company | Investment holding           |
| 上海沁信文化藝術有限公司<br>Shanghai Qinxin Culture and Art 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 WFOE-Pawn and WFOE-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 to be wholly-owned subsidiaries of WFOE-Pawn and WFOE-Auction respectively and are treated as indirect subsidiaries of the Company.

None of the subsidiaries had issued any debt securities at the end of each reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

|   | Notes | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|-------|-----------------|-----------------|
| <b>Non-current assets</b>               |       |                 |                 |
| Investment in a subsidiary              | (a)   | 24,578          | 33,771          |
| Amounts due from subsidiaries           | (b)   | 151,444         | 150,239         |
|   |       | <b>176,022</b>  | <b>184,010</b>  |
| <b>Current assets</b>                   |       |                 |                 |
| Amount due from a subsidiary            | (c)   | 84,690          | -               |
| Bank balances and cash                  |       | 233             | 7               |
|   |       | <b>84,923</b>   | <b>7</b>        |
| <b>Current liabilities</b>              |       |                 |                 |
| Accruals and other payables             |       | 2,705           | 2,386           |
| Amount due to immediate holding company |       | 95,238          | 84,378          |
| Amount due to a subsidiary              |       | 2,173           | 2,173           |
|   |       | <b>100,116</b>  | <b>88,937</b>   |
| <b>Net current liabilities</b>          |       | <b>(15,193)</b> | <b>(88,930)</b> |
| <b>Net assets</b>                       |       | <b>160,829</b>  | <b>95,080</b>   |
| <b>Capital and reserves</b>             |       |                 |                 |
| Share capital                           |       | 14,679          | 13,995          |
| Reserves                                |       | 146,150         | 81,085          |
| <b>Total equity</b>                     |       | <b>160,829</b>  | <b>95,080</b>   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

|  | Share<br>premium<br>RMB'000 | Share<br>option<br>reserve<br>RMB'000 | Accumulated<br>losses<br>RMB'000 | Total<br>RMB'000 |
|--|-----------------------------|---------------------------------------|----------------------------------|------------------|
| At 1 January 2018                                  | 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 and 1 January 2019             | 126,055                     | 5,560                                 | (50,530)                         | 81,085           |
| Loss and total comprehensive expense for the year  | -                           | -                                     | (7,674)                          | (7,674)          |
| Dividends paid                                     | (14,394)                    | -                                     | -                                | (14,394)         |
| Issue of shares on placing of shares               | 88,264                      | -                                     | -                                | 88,264           |
| Direct expenses on issue of shares                 | (1,131)                     | -                                     | -                                | (1,131)          |
| At 31 December 2019                                | 198,794                     | 5,560                                 | (58,204)                         | 146,150          |

Notes:

- 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 RMB24,578,000 (2018: RMB33,771,000) arising from the non-current intercompany advance to subsidiaries.
- The amounts due from subsidiaries are unsecured, interest-free and expected to be realised within five years from the end of the reporting period, and are therefore measured at amortised cost using the effective interest rate of 5% per annum.
- The amount due from a subsidiary is unsecured, interest-free and repayable on demand.

## 38. EVENTS AFTER THE REPORTING PERIOD

Following the outbreak of coronavirus disease in late 2019, the central government of the PRC has implemented a number of measurements for disease prevention and controls. The business environment in Mainland China has been significantly affected. The World Health Organisation further declared the coronavirus pandemic in March 2020, a series of precautionary and control measures have been implemented across the globe. The future development of the coronavirus disease and its disruption to business and economic environment are highly uncertain. The Group has been assessing the operational and financial impact of the coronavirus disease on the Group. However, given the dynamic nature of the incident, it is not practicable to provide a reasonable estimate of its impacts on the Group's financial position, performance and cashflows when this report is published.

## 39. COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 as at 1 January 2019. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3.