

Annual Report
2020



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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Fan Zhijun (*Chairman*)
Mr. Li Cheng ^{Note 1}
Ms. Lam Siu Mui ^{Note 5}

Non-executive Directors

Mr. Wang Shoulei ^{Note 5}
Mr. Chen Yunwei ^{Note 5}

Independent Non-executive Directors

Mr. Leung Shu Sun Sunny
Mr. Liu Jian
Mr. Chu Xiaoliang ^{Note 2}
Ms. Yin Xuhong ^{Note 1}

COMPANY SECRETARY

Mr. Wong Hong Tak Hagan ^{Note 3}
Mr. Li Yuen Shan ^{Note 4}

AUTHORISED REPRESENTATIVES

Mr. Fan Zhijun
Mr. Wong Hong Tak Hagan ^{Note 3}
Ms. Li Yuen Shan ^{Note 4}

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room A, 16/F,
Yue On Commercial Building,
385-387 Lockhart Road, Wan Chai,
Hong Kong

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC")

63 Jingyi South Road,
Yicheng Street,
Yixing City,
Jiangsu Province,
China

Note 1 appointed on 22 July 2020
Note 2 resigned on 22 July 2020
Note 3 resigned on 13 April 2021
Note 4 appointed on 13 April 2021
Note 5 appointed on 23 April 2021

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
CWB Wing Lung Bank Ltd.

PRINCIPAL BANK IN CHINA

Jiangsu Yixing Rural Commercial Bank
China Construction Bank

AUDITORS

Ascenda Cachet CPA Limited

LEGAL ADVISERS AS TO HONG KONG

Deacons
Chiu & Partners

COMPANY'S WEBSITE

www.cnartfin.com.hk

STOCK CODE

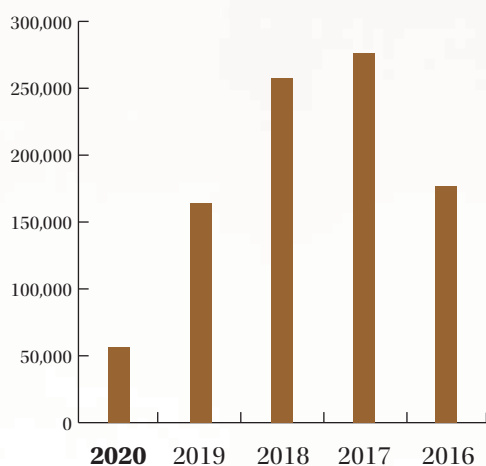
The shares of the Company are listed on
the Main Board of The Stock Exchange of
Hong Kong Limited

Stock Code 1572

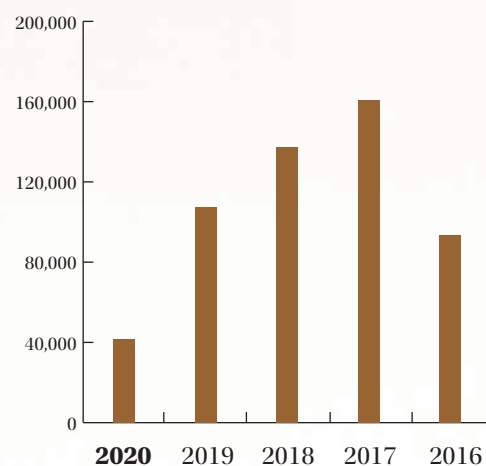
FINANCIAL SUMMARY

	For the year ended or as at 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Operating Results					
Revenue	56,736	163,969	257,199	276,499	176,882
Profit for the year	43,901	107,527	137,287	160,636	93,432
Financial Position					
Total assets	1,157,134	1,204,484	1,185,618	1,197,476	699,752
Bank balances and cash	827,661	588,113	571,596	527,265	463,080
Loans to customers	326,197	533,832	396,927	319,912	234,183
Total liabilities	103,311	194,689	357,528	479,556	80,896
Net assets	1,053,823	1,009,795	828,090	717,920	618,856

Revenue (RMB'000)



Profit for the year of the Company (RMB'000)



CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of China Art Financial Holdings Limited (the "Company"), I am pleased to present the annual report of the Company for the financial year ended 31 December 2020 (the "Reporting Year").

The year of 2020 has been an extremely challenging one for all our operations. Following the outbreak of coronavirus disease, we placed our employees and business partners' health and safety as the first priority. Business travels and face to face contacts had been largely reduced to avoid the risk of infection of coronavirus disease in the first half of 2020. A series of public health measurements has been implemented by local authorities to enhance the people's social distance and protect the public health. These measurements had inevitably affected our operations.

During the Reporting Year, we had cancelled all the artwork auctions for the year due to the crowd control measures implemented by the local government. With certain costs control measurements implemented, we have largely reduced our operating and administrative costs in response to the market condition which partially offset the effect from reduction of auction service income.

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.

In the middle of the year, we launched our new artwork sales operation for enriching our service variety to cater the market opportunities.

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, 31 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2020, the international and domestic markets experienced extreme challenging situation. Governments over the world had been implementing measurements to fight with the coronavirus disease 2019 (the “COVID-19”) pandemic, restricting the mobility and enhancing the social distance of the public. Business activities have been inevitably affected. The Company and its subsidiaries (together, the “Group”) adjusted the marketing strategy in response to the highly unstable environment.

Art and Asset Auction Business

Due to the COVID-19 pandemic, art museums, galleries and other art institutions closed for a long period of time, the public is restricted to maintain prolonged social distance. Business travels and meetings have been mostly suspended. We experienced difficulty in the soliciting artwork and meeting with the collectors as such activities will expose our staff in the medical risk. After taking into account the risks and benefits associated with auctions related activities, we decided to cancel all the auctions during the year to protect our staff and business partners and fight with the pandemic.

During the Reporting Year, there was no revenue from the art and assets auction segment, representing a decrease of 100% from RMB73.5 million for the same period in 2019. Profits of the art and asset auction segment was RMB4.2 million, representing a decrease of approximately 95% as compared with last year. The significant drop was mainly due to the cancellation of all auctions during the Reporting Year.



MANAGEMENT DISCUSSION AND ANALYSIS

Art and Asset Pawn Business

During the Reporting Year, revenue from the art and asset pawn segment was approximately RMB53.6 million, representing a decrease of approximately 41% from approximately RMB90.5 million in last year. The decrease was the result of the volume and loan period of art and asset pawn loans significantly reduced as the management adopted a prudent and conservative approach in granting loans amid the COVID-19 pandemic and adverse global financial market and reduced monthly composite administrative fee charged for pawn loans. Profits of the art and asset pawn segment was RMB51.3 million, representing a decrease of approximately 42% from approximately RMB87.9 million in last year.

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.



MANAGEMENT DISCUSSION AND ANALYSIS

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

Loans secured by artwork	Year ended 31 December	
	2020	2019
Total new loan amount granted (RMB'000)	756,000	880,450
Total number of new loans granted	113	98
Number of new loans renewed	69	76
Renewal ratio of new loan (%)	61	78
Average initial loan term (days)	45	40

Loans secured by assets	Year ended 31 December	
	2020	2019
Total new loan amount granted (RMB'000)	292	368
Total number of new loans granted	44	52
Number of new loans renewed	32	48
Renewal ratio of new loan (%)	73	92
Average initial loan term (days)	42	41

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

Art and Asset Sales Business

During the Reporting Year, the Group launched a new line of service, namely art and asset sales business. Due to the outbreak of COVID-19 and the adverse market conditions, some of the collectors have not been able to sell their artworks through art auctions. The Group is engaged in the business of solicitation and promotion of artwork for sales.

Revenue from the art and asset sales segment was approximately RMB3.2 million. Profits of the art and asset sales segment was RMB1.9 million.



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Our revenue for the year ended 31 December 2020 amounted to approximately RMB56.7 million, representing a year-on-year decrease of 65%, from approximately RMB164.0 million for the year ended 31 December 2019, primarily due to (i) the cancellation of all auctions during the Reporting Year, (ii) the decrease in volume and loan period of art and asset pawn loans as the management adopted a prudent and conservative approach in granting loans amid the coronavirus pandemic and adverse global financial market; and (iii) the reduction in the monthly composite administrative fee charged for pawn loans.

Operating expenses

Our operating expenses significantly decreased by approximately RMB1.7 million, or approximately 34%, from approximately RMB5.1 million for the year ended 31 December 2019 to approximately RMB3.4 million for the year ended 31 December 2020, 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 2020, we reversed impairment losses approximately RMB1.0 million.

Administrative expenses

Our administrative expenses decreased by approximately RMB10.9 million, or approximately 53%, from approximately RMB20.5 million for the year ended 31 December 2019 to approximately RMB9.6 million for the year ended 31 December 2020, primarily due to the reduced operation scale during the Reporting Year.

Other gains and losses

Our other gains and losses recorded other gains of RMB7.3 million for the Reporting Year while other losses of RMB1.3 million was recorded for the year ended 31 December 2019, preliminarily due to the net foreign exchange gain recorded during the Reporting Year.

Reportable segment profit

As a result of the foregoing, reportable segment profit decreased by RMB109.7 million from RMB167.0 million for the year ended 31 December 2019 to RMB57.3 million for the year ended 31 December 2020.

Profit before tax

As a result of the foregoing, our profit before tax decreased by approximately RMB89.7 million, or approximately 61%, from approximately RMB147.4 million for the year ended 31 December 2019 to approximately RMB57.7 million for the year ended 31 December 2020.

Income tax expense

Our income tax expenses decreased by approximately RMB26.1 million, or approximately 65%, from approximately RMB39.9 million for the year ended 31 December 2019 to approximately RMB13.8 million for the year ended 31 December 2020, primarily due to a decrease in our Group's taxable income.

Total comprehensive income for the year

Total comprehensive income for the year decreased by approximately RMB64.3 million, or approximately 59%, from approximately RMB108.3 million for the year ended 31 December 2019 to approximately RMB44.0 million for the year ended 31 December 2020, 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 2020, net working capital (calculated as current assets less current liabilities) was RMB1,051.3 million, representing an increase of RMB45.9 million as compared with RMB1,005.4 million as of 31 December 2019. The current ratios (calculated as current assets/current liabilities) are 11.2 times and 6.3 times as of 31 December 2020 and 31 December 2019 respectively.

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

	2020 RMB'000	2019 RMB'000
Net cash from/(used in) operating activities	232,373	(66,339)
Net cash from investing activities	3,349	3,470
Net cash from financing activities	3,833	79,371

As of 31 December 2020, the Group's total bank balances and cash increased by 41% to RMB827.7 million from RMB588.1 million as of 31 December 2019.

During the Reporting 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 2020, despite the appreciation of RMB against USD and HKD, the Directors expected any fluctuation of the RMB exchange rate would not materially and adversely affect the operations of the Group. The management will continue to monitor foreign currency exchange exposure and will take prudent measures to minimize the currency translation risk.

Gearing Ratio

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

Contingent Liabilities

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

Capital Expenditure

Our capital expenditures primarily comprised expenditures on property, plant and equipment, which amounted to RMB0.7 million and nil for the years ended 31 December 2020 and 2019 respectively.

Capital Commitment

As at 31 December 2020, the Group did not have material capital commitments.

Events after the reporting period

The Group did not have any significant event after the end of the Reporting Year.

MANAGEMENT DISCUSSION AND ANALYSIS

Human Resources and Training

As of 31 December 2020, the Group had a total of 27 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 2020.

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 27 to the consolidated financial statements.

USE OF NET PROCEEDS

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

Change of use of proceeds

The Group provides art finance services under three business segments, namely (i) art and asset pawn business, (ii) art and asset auction business and (iii) art and asset sales business. The Group has established good and stable relationship with artwork artists, agents, merchants, collectors and art galleries (collectively, the "Artwork Sellers") which enables the Group to source high-value artworks. The Group also has a professional authentication and appraisal team (the "Appraisal Team") to check the authenticity and assess the value of the artworks.

Due to the outbreak of COVID-19 and the adverse market conditions, some of the Artwork Sellers have not been able to sell their artworks and are willing to sell them at a significant discount. Leveraging on the Group's relationships with the Artwork Sellers and the expertise of the Appraisal Team, the Group believes that it will be able to identify suitable artworks for trading for the Group. The Group intends to sell the artworks acquired at its future auctions and/or private sales and expects that it will be able to generate profit for the Group through (i) gain on the difference between their acquisition price and sale price; and (ii) auction commissions when selling the artworks through its future auctions.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company noted that the outcomes of investment made in strengthening of online platform is below expectation and the high net worth buyers prefer viewing and inspecting the artworks in person to viewing the photos of the artworks online. The Board therefore considers that further investment in strengthening online auction platform and developing online loan financing platform may not be able to make a breakthrough in the Group's business and generate satisfactory financial results and return for the Group.

Having considered the above, the Board is of the view that the unutilised net proceeds originally allocated for strengthening online auction platform and developing online loan financing platform can be better utilised for generating profit for the Group by reallocating to trading of artworks.

On 29 July 2020 (the "Date of Reallocation"), the Board has resolved to reallocate the unutilised net proceeds, which were originally allocated for strengthening online auction platform and developing online loan financing platform, for trading of artworks.

Revised allocation of the net proceeds from the IPO on the Date of Reallocation and the unutilised net proceeds as at 31 December 2020 are set out as follows:

	Planned use of proceeds as disclosed in the prospectus of the Company dated 27 October 2016		Utilisation as at the Date of Reallocation	Unutilised net proceeds as at the Date of Reallocation	Revised allocation of the net proceeds		Unutilised net proceeds as at 31 December 2020
	HK\$ million	% of net proceeds	HK\$ million	HK\$ million	HK\$ million	% of revised allocation	HK\$ million
Increase the registered capital of Hexin Pawn	118.9	50	118.9	-	118.9	50	-
Strengthening online auction platform and developing online loan financing platform	47.5	20	2.0	45.5	2.0	1	-
Establishment of new loan offices in other part of China and new auction branches or subsidiaries in Beijing, Shanghai and Hong Kong	47.5	20	47.5	-	47.5	20	-
Trading of artworks	-	-	-	-	45.5	19	45.5
Funding of general operations	23.8	10	23.8	-	23.8	10	-
Total	237.7	100	192.2	45.5	237.7	100	45.5

The unutilised net proceeds is intended to be fully utilised for trading of artworks by December 2021.

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 2020. In addition, the Group had no significant investments held during the year ended 31 December 2020.

OUTLOOK AND PROSPECTS

We began our 2021 with the COVID-19 basically controlled in the Mainland China. Our national GDP resumed its growth and recorded a 2.3% growth in 2020, being the only major economy in the world to achieve positive economic growth. Our business activities are resuming to normal gradually. The Sino-American tension and COVID-19 pandemic around the globe continued to be the concerns of the market. Though the market is recovering, it is expected to be very volatile and tough for 2021.

Art and Asset Auction Business

With the gradually relaxing disease control measurements, we are continuously communicating with the PRC local government for the suitability of holding large scale auction and related activities. We are working to secure a safe environment to resume our art auction activities and host the art auctions in 2021. However, the suitability of holding large scale auction is not certain at the moment.

Art and Asset Pawn Business

In 2021, the Group would continue to adopt a conservative attitude in granting pawn loans to new customers. Credit risk is expected to rise and the Group's priority target is to minimize our credit exposure and secure our capital safety in the volatile market condition.

Art and Asset Sales Business

Since the second quarter of 2020, we launched the new line of service for artwork sales. Leveraging on the Group's relationships with the collectors and the expertise of the appraisal team, we believe that we will be able to identify suitable artworks for sales. We plan to sell the artworks acquired at future auctions and/or private sales and expects that it will be able to generate profit for the Group through (i) gain on the difference between their acquisition price and sale price; (ii) agency service income for solicitation and promotion of artwork for sales and (iii) auction commissions when selling the artworks through our future auctions.



DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

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

Executive Directors

Mr. Fan Zhijun (范志军先生) (formerly known as Fan Zhijun (范志君)) (“Mr. Fan”), aged 54, is the chairman of our Board and the executive Director of the Company. 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, auction and sales businesses. Mr. Fan was appointed as our Director on 2 November 2015 upon the incorporation of our Company and was re-designated as an executive Director on 18 April 2016. Mr. Fan served as the Chief Executive Officer of the Company between 2 July 2019 and 14 April 2021.

As one of the founders of our Group, Mr. Fan 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 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 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 has been responsible for overseeing the daily operations and planning of business strategies and development of Hexin Pawn and Hexin Auction.

Mr. Fan was born in an art family, his uncle, Mr. Fan Baowen (范博文) was a master of Chinese landscape painting. Mr. Fan has accumulated years of interest and knowledge on authenticating and appraising Chinese artworks. Mr. Fan is also a member of our internal authentication team for authenticating and appraising zisha artworks and paintings and calligraphies for our pawn loan and auction operations.

Mr. Fan completed his studies in accounting (會計學專業) at Soochow University (蘇州大學), PRC in July 2004 and obtained an executive master of business administration (EMBA) degree from the Cheung Kong Graduate School of Business (長江商學院), PRC in September 2013.

Mr. Li Cheng (李程先生) (“Mr. Li”), aged 28, was appointed as the executive Director of the Company on 22 July 2020.

He is responsible for formulating the development strategy plan, annual work plan, business development plan and overseeing the management of the Group. He is also responsible for organising the spring and autumn art and asset auction and sales businesses of the Group. Prior to joining of the Group, Mr. Li was a business manager of Ctrip.com from 2015 to 2017. Mr. Li graduated from Jiangsu University of Science and Technology (江蘇科技大學) with a bachelor of science degree in 2014. He also obtained a master of science degree from the University of Southampton in 2015.

Ms. Lam Siu Mui (林小梅) (“Ms. Lam”), aged 46, was appointed as the executive Director of the Company on 23 April 2021.

Ms. Lam was the founder of the family business in the late 1990s, which was mainly engaged in ginseng and seafood in North Point Hong Kong. In 2009, she founded Chiji supermarket in Hong Kong, successfully transforming the family business into a modern supermarket in a few years. Ms. Lam has a unique investment vision. She set up Yunchangtai group in mainland in 2013. The group acts as an agent for many international famous motorcycle brands, such as Vespa, Harley Davidson, etc. Yunchangtai group also includes a number of auto sales and service stores, which are well-known high-end vehicle 4S stores in Xiamen, Fujian Province. At present, she is honorary chairman of Dongguan Hong Kong Elite Association and the executive vice chairman of the Federation of Chinese leaders and presidents.

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Directors

Mr. Wang Shoulei (王守磊) (“Mr. Wang”), aged 38, was appointed as the non-executive Director of the Company on 23 April 2021.

Mr. Wang graduated with a master’s degree in Economics from Shanghai International Studies University. From December 2012 to June 2014, Mr. Wang was the Eastern China regional general manager and an executive director of the investment banking division of Zhongtai Financial International Limited (“Zhongtai International”). He was mainly responsible for investment banking operations in overseas markets and has comprehensive experience in initial public offerings, public bond issue, mergers and acquisitions, structured financing and acting as independent financial advisor. He was the managing director of the global capital markets department of Zhongtai International from December 2014 to November 2017. Since November 2017, he has been the managing director and head of debt capital market, managing director and head of structured finance of Zhongtai International. Mr. Wang has been a non-executive director of Jintai Energy Holdings Limited (formerly known as Yuhua Energy Holdings Limited), whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (stock code: 2728), since April 2017, and he was also a non-executive director of Starlight Culture Entertainment Group Limited, whose shares are listed on the Main Board of the Stock Exchange (stock code: 1159), from August 2017 to February 2020.

Mr. Chen Yunwei (陳運偉) (“Mr. Chen”), aged 34, graduated with a master’s degree in Economics from Shandong University. Mr. Chen was the co-head of structured finance of Zhongtai International. Mr. Chen has over 10 years’ experience in investment banking and has comprehensive experience in public bond issue, structured financing, cross broader financing and acting as independent financial advisor.

INEDs

Mr. Leung Shu Sun Sunny (梁樹新先生) (“Mr. Leung”), aged 58, 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).

DIRECTORS AND SENIOR MANAGEMENT

Mr. Liu Jian (劉健先生) (“Mr. Liu”), aged 67, 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) between January 2017 and March 2021.

Ms. Yin Xu Hong (殷旭紅) (“Ms. Yin”), aged 55, was appointed as our INED on 22 July 2020.

Ms. Yin graduated from Jiangsu Radio and Television University (江蘇廣播電視大學) specialising in industrial accounting. She worked as accountant at a number of accounting firms since 2001, including Wuxi Taixinhe Accounting Firm, Wuxi Baoguang Accounting Firm and Wuxi Public Accounting Firm. She is currently a project manager specialising in financial accounting and audit at Wuxi Public Accounting Firm.

SENIOR MANAGEMENT

Mr. Tong Zaan San (唐贊宸先生) (“Mr. Tong”), aged 42, is the chief executive officer of the Company since 14 April 2021.

Mr. Tong obtained his bachelor's degree in finance from Hunan University of Finance and Economics in June 1998. He obtained his MBA degree from Pacific States University in June 2000. Mr. Tong joined Xiangcai Securities Co., Ltd. and held the positions of customer manager, department head and director between March 2001 and December 2012. He served as an executive director of Zhonghan International Holding Group Co., Ltd. from April 2013 to April 2016. Mr. Tong worked in Lloyds TSB Financial Group Ltd. in the United Kingdom from 2017 to 2018. He was appointed as Executive Director of Lloyds (China) Investment Co., Ltd. and was fully responsible for the investment business in China from 2018 to 2019. Mr. Tong has been an executive director of Zhonghan Yaxin Asset Management Co., Ltd., (a Chinese private equity fund management company), from September 2017 to July 2019. He also served as the chairman of China National Nuclear (Shenzhen) Energy Technology Co., Ltd., a state-owned enterprise in China, from January 2018 to August 2020.

Mr. Tong also obtained the fund management qualification of Asset Management Association of China and Certified Financial Analyst (CFA) qualification of China Financial Analysis Institute.

Mr. Jiang Hao (江浩先生) (“Mr. Jiang”), aged 44, is the chief financial officer of the Company since 14 April 2021.

Mr. Jiang graduated from Fudan University with a bachelor's degree in economics in 1999. He is a fellow member of the Association of Chartered Certified Accountants (FCCA).

Mr. Jiang worked in the International Business Department of China Construction Bank Dalian Branch from July 1999 to July 2001, and from March 2004 to April 2008, he worked in ZTE Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 000063) and main board of the Stock Exchange (stock code: 763) respectively, as senior financing manager of the international financing department. Mr. Jiang worked in Sinogiant investment holding group as Chief Financial Officer from April 2008 to December 2015 and worked as chairman and general manager of Shenzhen Qianhai Baotai Xingye Investment Management Co., Ltd. from December 2015 to May 2019. From May 2019 to November 2019, he was the chief financial officer of IDT International Ltd, a company listed on the main board of the Stock Exchange (stock code: 167).

Mr. Jiang has 20 years of experience in financial management, capital operation, private equity fund, venture capital fund operation and rich overseas working experience.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang Bin (張斌先生) (formerly known as Zhang Qiqi (張琦琦)), (“Mr. Zhang”) aged 45, 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. Xu Zhongliang (徐中良先生), (“Mr. Xu”) aged 53, 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 in China Merchants Bank Yixing Sub-branch served as the branch manager from March 2008 to May 2016. 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), (“Ms. Xu”) aged 44, 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) (“Mr. Jiang”), aged 65, 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 2020.

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 two executive Directors 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.

CORPORATE GOVERNANCE REPORT

Board Composition

The Board is composed of the following Directors:

Executive Directors:

Mr. Fan Zhijun (*Chairman*)

Mr. Li Cheng (*appointed on 22 July 2020*)

Ms. Lam Siu Mui (*appointed on 23 April 2021*)

Non-executive Directors

Mr. Wang Shoulei (*appointed on 23 April 2021*)

Mr. Chen Yunwei (*appointed on 23 April 2021*)

Independent Non-Executive Directors:

Mr. Leung Shu Sun Sunny

Mr. Liu Jian

Ms. Yin Xu Hong (*appointed on 22 July 2020*)

Board Meetings and Attendance

During the Reporting Year, the Board met fifteen times with attendance as follows:

Directors	Attendance
Mr. Fan Zhijun (<i>Chairman</i>)	15/15
Mr. Li Cheng (<i>appointed on 22 July 2020</i>)	8/8
Mr. Leung Shu Sun Sunny	15/15
Mr. Liu Jian	15/15
Mr. Chu Xiaoliang (<i>resigned on 22 July 2020</i>)	7/7
Ms. Yin Xu Hong (<i>appointed on 22 July 2020</i>)	8/8

The biographies of the Directors are set out on pages 13 to 16, which illustrate their diverse skills, expertise, experience and qualifications.

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

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

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

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

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

CORPORATE GOVERNANCE REPORT

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

In accordance with Article 105(A) and (B) of the Articles of Association, one-third of the Directors of the Company for the time being (or, if their number is not a multiple of three, the number nearest to but no less than one-third) shall retire from office at each annual general meeting provided that every Director shall be subject to retirement by rotation at least once every three years. Any Directors so to retire shall be those subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected as Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. In accordance with Article 109 of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Accordingly, Mr. Li Cheng and Ms. Yin Xu Hong will retire and, being eligible, will offer himself or herself for re-election at the forthcoming 2021 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 on the date of this report is as follows:

Name of Director	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee
<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	-	-
Ms. Yin Xu Hong	Member	Chairman	Member	Chairman

CORPORATE GOVERNANCE REPORT

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

Audit Committee

Our audit committee has written terms of reference in compliance with Code C.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee of our Company are mainly to make recommendations to the Board on the appointment and dismissal of the external auditor, review the financial statements and material and provide advice in respect of financial reporting, risk management and oversee the internal control systems of our Company.

The audit committee has been satisfied with the review of the audit scope, process and effectiveness and independence of Ascenda Cachet CPA Limited and thus recommended the Board for the approval of the consolidated financial statements for the year ended 31 December 2020.

During the Reporting Year, the Audit Committee held four meetings for reviewing the final results for the year ended 31 December 2019 and the interim financial results for the six months ended 30 June 2020 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 four meetings with attendance as shown below:

Audit Committee Members	Attendance/ Number of Meeting
Mr. Leung Shu Sun Sunny (<i>Chairman</i>)	4/4
Mr. Liu Jian	4/4
Mr. Chu Xiaoliang (<i>resigned on 22 July 2020</i>)	3/3
Ms. Yin Xu Hong (<i>appointed on 22 July 2020</i>)	1/1

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 2020, the Remuneration Committee held one meeting with attendance as shown below to review and make recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the executive Directors, senior management and other related matters.

Remuneration Committee Members	Attendance/ Number of Meeting
Mr. Chu Xiaoliang (<i>Chairman</i>) (<i>resigned on 22 July 2020</i>)	1/1
Ms. Yin Xu Hong (<i>Chairlady</i>) (<i>appointed on 22 July 2020</i>)	0/0
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 2020, the Nomination Committee held two meetings with attendance as shown below to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and to consider the qualifications of the retiring directors standing for election at the annual general meeting. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

Nomination Committee Members	Attendance/ Number of Meeting
Mr. Fan Zhijun (<i>Chairman</i>)	2/2
Mr. Chu Xiaoliang (<i>resigned on 22 July 2020</i>)	2/2
Mr. Leung Shu Sun Sunny	2/2
Ms. Yin Xu Hong (<i>appointed on 22 July 2020</i>)	0/0

Risk Management Committee

The primary functions of our risk management committee include supervising the risk control condition in respect of credit risks, liquidity risks, operation risks, compliance risks, information technology risks and reputation risks; assessing our risk policies, management, tolerance and capacity; supervising our risk management and internal control systems, reviewing the adequacy of resources, qualification and experience of staff, and making proposals on the improvement plans of our risk management and internal control; discussing our risk management and internal control systems with the Board to ensure the effectiveness of such systems; and conducting regular review of and supervising the effectiveness of our risk management system.

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

Risk Management Committee Members	Attendance/ Number of Meeting
Mr. Chu Xiaoliang (<i>Chairman</i>) (<i>resigned on 22 July 2020</i>)	0/0
Ms. Yin Xu Hong (<i>Chairlady</i>) (<i>appointed on July 2020</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, 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. Li Cheng (<i>appointed on 22 July 2020</i>)	✓	✓
Mr. Leung Shu Sun Sunny	✓	✓
Mr. Liu Jian	✓	✓
Mr. Chu Xiaoliang (<i>resigned on 22 July 2020</i>)	✓	✓
Ms. Yin Xu Hong (<i>appointed on 22 July 2020</i>)	✓	✓

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 is a full time 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 2020. Mr. Wong Hong Tak Hagan resigned as the Company Secretary and Ms. Li Yuen Shan was appointed as the Company Secretary of the Company on 13 April 2021.

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 2020, 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
(a) Ascenda Cachet CPA Limited	
Audit service	1,955
Non-audit services	
Review of condensed consolidated financial statements for the six months ended 30 June 2020	392
Review of continuing connected transactions	43
Review of preliminary announcement of annual results	43
	478
	2,433

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

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 and sales 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, Hong Kong, 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 2020.

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 three business segments: (i) art and asset pawn business, (ii) art and asset auction business and (iii) art and asset sales business.

Details of the principal activities of the subsidiaries are set out in note 33 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 2020.

An analysis of the Group's revenue and operating profit for the year ended 31 December 2020 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 2020 is set out in the section headed "Management Discussion and Analysis" from pages 5 to 7 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 31(b) to the consolidated financial statements.

EVENTS AFTER THE REPORTING PERIOD

No significant events occurred after 31 December 2020.

FUTURE BUSINESS DEVELOPMENT

A discussion of the Group's future business development is set out in the "Chairman's Statement" on page 4 and "Management Discussion and Analysis" on page 12 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 3 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 2020 and the state of the Group's and the Company's affairs as at that date are set out in the consolidated financial statements on pages 50 to 110. The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: nil).

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The forthcoming AGM is scheduled to be held on Tuesday, 1 June 2021. To ascertain shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 27 May 2021 to Tuesday, 1 June 2021, 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, 26 May 2021.

RESERVES

Changes to the reserves of the Group during the year ended 31 December 2020 are set out in the consolidated statement of changes in equity. Changes to the reserves of the Company during the year ended 31 December 2020 are set out in note 34 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Changes to the property, plant and equipment of the Group 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 26 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2020 are set out in note 33 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 3 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 2020.

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 27 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.

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) Mr. Chu Xiaoliang has resigned as an independent non-executive Director and a member of the audit committee and the nomination committee, and the chairman of the remuneration committee and the risk management committee with effect from 22 July 2020.
- 2) Ms. Yin Xuhong has been appointed as an independent non-executive Director and a member of the audit committee and the nomination Committee, and the chairman of the remuneration committee and the risk management committee with effect from 22 July 2020.
- 3) Mr. Li Cheng has been appointed as an executive Director with effect from 22 July 2020.
- 4) Ms. Lam Siu Mui has been appointed as an executive Directors with effect from 23 April 2021.
- 5) Mr. Wang Shoulei has been appointed as a non-executive Directors with effect from 23 April 2021.
- 6) Mr. Chen Yunwei has been appointed as a non-executive Directors with effect from 23 April 2021.

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 Ms. Yin Xuhong, 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 2020 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 2020, 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 (Note 1)	Approximate Percentage of 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 Associated Corporation	Capacity	Approximate Percentage of Shareholding
Fan Zhijun	Hexin Pawn (Note 1)	Beneficial owner; interest of controlled corporation	15%
Fan Zhijun	Hexin Auction (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 27 to the consolidated financial statements, as at 31 December 2020, 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 2020, 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 (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%
Intelligenes 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%
Yuen Tsz Chun	Agent (Note 9)	1,000,384,000 (L)	59.62%
Ho Lai Ching	Interest of spouse (Note 10)	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.5 Fund SP, had security interest in 1,000,384,000 shares of the Company.
- (9) Yuen Tsz Chun was appointed as sole receiver on 11 May 2020 in respect of 1,000,384,000 ordinary shares of the Company pursuant to the relevant share charge.
- (10) Ho Lai Ching is the spouse of Yuen Tsz Chun. By virtue of the SFO, Ho Lai Ching is deemed to be interested in the same parcel of shares in which Yuen Tsz Chun is interested.

Save as disclosed above, as at 31 December 2020, 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 27 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 2020, the Group's largest customer accounted for approximately 3.2% (2019: 4.1%) of the Group's revenue and the five largest customers accounted for approximately 14.5% (2019: 15.0%) of the Group's revenue.

For the year ended 31 December 2020, the Group's largest supplier accounted for approximately 35.7% (2019: 27.4%) of the Group's total purchases and the five largest suppliers accounted for approximately 57.0% (2019: 72.8%) 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 2020.

DIRECTORS' REPORT

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 2020.

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 2020 are set out in note 13 to the consolidated financial statements.

EMPLOYEE RETIREMENT BENEFITS

Particulars of the employee retirement benefits of the Group are set out in note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's distributable reserves calculated under the Companies Law comprise the share premium and accumulated losses amounted to approximately RMB136.3 million.

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

Other than as disclosed above, during the year ended 31 December 2020, 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.

DIRECTORS' REPORT

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 2020.

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

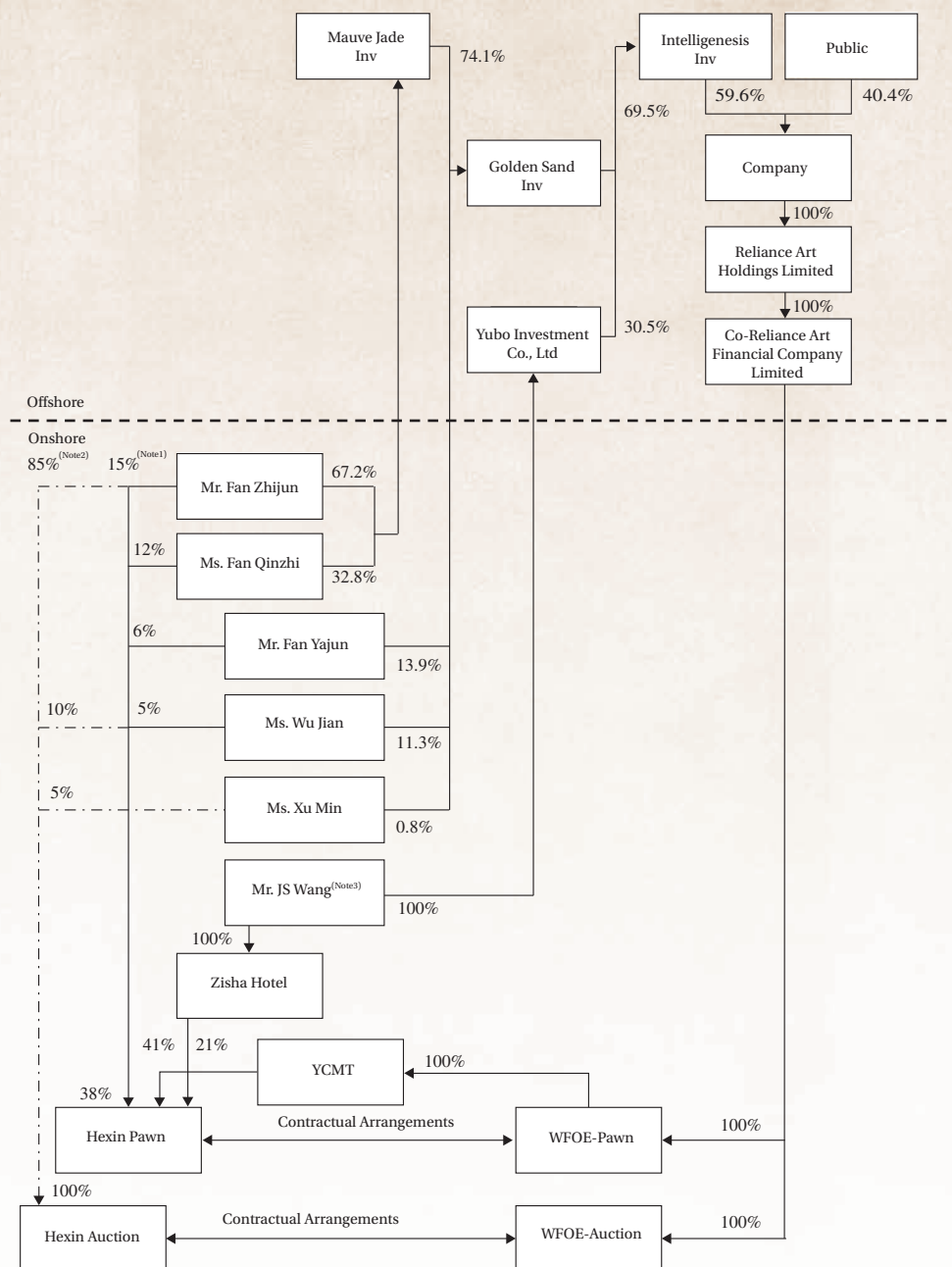
Reference is made to the Prospectus. We conduct our art and asset pawn business and art and asset auction business through our PRC Operating Entities: (i) Hexin Pawn is engaged in the provision of pawn loan services secured by artworks and assets as collaterals which are regulated under the Pawning Measures; 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 2020 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

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 information of Hexin Pawn and Hexin Auction:

	Revenue		Profit/(loss)		Total assets	
	For the year ended		For the year ended		As at 31 December	
	31 December		31 December		As at 31 December	
	2020	2019	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Hexin Pawn	53,576	90,487	38,401	64,772	642,533	605,829
Hexin Auction	3,160	73,482	2,351	55,112	521,753	529,727

SUMMARY OF THE MATERIAL TERMS OF THE STRUCTURED CONTRACTS

Date of the Structured Contracts:

All the HP Structured Contracts and the HA Structured Contracts were dated 15 April 2016. The parties to the HP Structured Contracts and the parties to the HA Structured Contracts each entered into a supplemental agreement (collectively, "Supplemental Agreements") dated 24 October 2016 to supplement and amend certain terms of the HP Structured Contracts and the HA Structured Contracts respectively.

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

(A) HP Structured Contracts:

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

DIRECTORS' REPORT

(B) HA Structured Contracts:

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

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

(A) HP Structured Contracts:

(A1) HP Exclusive Operation Services Agreement

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

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

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

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 2020.

UNWINDING OF THE CONTRACTUAL ARRANGEMENTS

Up to 31 December 2020, 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 2020 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 2020 are set out in note 32 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.

By order of the Board

Fan Zhijun
Chairman

Hong Kong, 31 March 2021

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 50 to 110, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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. Our description of how our audit addressed the key audit matter identified in our audit in relation to the impairment of the Group’s loan receivables 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 31(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 RMB326,197,000 (net of impairment losses of approximately RMB4,251,000) as at 31 December 2020.

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 assessed, amongst other factors, 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, through in-house valuation and 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 the high-valued collateral;
- Assessing whether loan receivables with no significant increase in credit risk since initial recognition have been appropriately grouped based on common risk characteristics and assessed for 12m ECL on a collective basis;

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 2020, no significant increase in credit risk since initial recognition was identified and accordingly, no lifetime ECL was recognised.</p> <p>As disclosed in notes 5 and 31(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> <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> <p>Based on the management's assessment on the impairment of loan receivables under 12m ECL, the Group reversed impairment losses on loan receivables of approximately RMB388,000 for the year ended 31 December 2020. The management concluded that the impairment losses on loan receivables of approximately RMB4,251,000 was adequate as at 31 December 2020.</p>	<ul style="list-style-type: none">• 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;• Making a selection of loan receivables to test the accuracy and completeness of key data sources applied in the ECL computation; and• Recalculating the impairment losses on loan receivables as at 31 December 2020.

INDEPENDENT AUDITOR'S REPORT

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 the 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

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, actions taken to eliminate threats or safeguards applied.

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, 31 March 2021

Sze Wing Chun

Practising Certificate Number P06035

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	6		
Interest revenue		53,576	90,487
Service revenue		3,160	73,482
Total revenue		56,736	163,969
Other income	7	5,819	8,293
Other gains and losses	8	7,306	(1,312)
Operating expenses		(3,344)	(5,070)
Net impairment losses reversed	9	998	2,424
Administrative expenses		(9,607)	(20,539)
Finance costs	10	(215)	(361)
Profit before tax		57,693	147,404
Income tax expenses	11	(13,792)	(39,877)
Profit for the year attributable to owners of the Company	12	43,901	107,527
Other comprehensive income			
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		127	755
Total comprehensive income for the year attributable to owners of the Company		44,028	108,282
Earnings per share (RMB cents)	16		
Basic		2.62	6.52
Diluted		2.62	6.50

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	17	763	2,025
Right-of-use assets	18	1,368	5,110
Deferred tax asset	19	1,063	1,262
		3,194	8,397
Current assets			
Loan receivables	20	326,197	533,832
Trade and other receivables	21	82	74,142
Bank balances and cash	22	827,661	588,113
		1,153,940	1,196,087
Current liabilities			
Accruals and other payables	23	4,391	86,524
Amount due to immediate holding company	24	94,693	95,238
Lease liabilities	25	524	1,150
Tax payable		2,980	7,743
		102,588	190,655
Net current assets		1,051,352	1,005,432
Total assets less current liabilities		1,054,546	1,013,829
Non-current liabilities			
Lease liabilities	25	723	4,034
Net assets		1,053,823	1,009,795
Capital and reserves			
Share capital	26	14,679	14,679
Reserves		1,039,144	995,116
Total equity		1,053,823	1,009,795

The consolidated financial statements on pages 50 to 110 were approved and authorised for issue by the Board of Directors on 31 March 2021 and are signed on its behalf by:

Fan Zhijun
DIRECTOR

Li Cheng
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000 (Note)	Capital reserve RMB'000	Share option reserve RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2019	13,995	126,055	59,965	172,301	5,560	(1,912)	452,126	828,090
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 26)	684	88,264	-	-	-	-	-	88,948
Direct expenses on issue of shares (Note 26)	-	(1,131)	-	-	-	-	-	(1,131)
At 31 December 2019 and 1 January 2020	14,679	198,794	71,954	172,301	5,560	(1,157)	547,664	1,009,795
Profit for the year	-	-	-	-	-	-	43,901	43,901
Exchange differences arising on translation of foreign operations	-	-	-	-	-	127	-	127
Total comprehensive income for the year	-	-	-	-	-	127	43,901	44,028
Appropriation to statutory reserve	-	-	3,840	-	-	-	(3,840)	-
At 31 December 2020	14,679	198,794	75,794	172,301	5,560	(1,030)	587,725	1,053,823

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 2020

	2020 RMB'000	2019 RMB'000
OPERATING ACTIVITIES		
Profit before tax	57,693	147,404
Adjustments for:		
Depreciation of property, plant and equipment	635	800
Depreciation of right-of-use assets	1,319	2,248
Net impairment losses reversed	(998)	(2,424)
Bank interest income	(2,636)	(2,592)
Loss/(gain) on disposal of property, plant and equipment	409	(171)
Gain on termination of leases	(179)	-
Finance costs	215	361
Unrealised exchange (gain)/loss	(5,929)	1,983
Operating cash flows before movements in working capital	50,529	147,609
Decrease/(increase) in loan receivables	208,190	(136,716)
Decrease in trade and other receivables	74,649	139,795
Decrease in accruals and other payables	(82,642)	(164,280)
Cash generated from/(used in) operations	250,726	(13,592)
Income tax paid	(18,353)	(52,747)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	232,373	(66,339)
INVESTING ACTIVITIES		
Bank interest received	2,636	2,592
Payment for purchase of property, plant and equipment	(172)	-
Proceeds from disposal of property, plant and equipment	885	878
NET CASH GENERATED FROM INVESTING ACTIVITIES	3,349	3,470
FINANCING ACTIVITIES		
Advance from immediate holding company	7,854	26,907
Repayment of advance from immediate holding company	(2,470)	(18,030)
Settlement of lease liabilities	(1,551)	(2,929)
Proceeds from placing of shares	-	88,948
Payment for transaction costs on issue of shares	-	(1,131)
Dividends paid	-	(14,394)
NET CASH GENERATED FROM FINANCING ACTIVITIES	3,833	79,371

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		239,555	16,502
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		588,113	571,596
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(7)	15
CASH AND CASH EQUIVALENTS AT END OF THE YEAR AND REPRESENTED BY BANK BALANCES AND CASH	22	827,661	588,113

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

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 Intelligenesis 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 33.

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 Yixing 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, art and asset auction business, and art and asset sales business. 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 2020

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	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Non-current assets	2,698	4,436	19	2,406
Current assets	639,835	601,393	521,734	527,321
Current liabilities	(4,627)	(5,024)	(161,612)	(170,003)
Non-current liabilities	(635)	(1,935)	-	(1,935)
Total equity	637,271	598,870	360,141	357,789
Revenue	53,576	90,487	3,160	73,482
Other income	1,075	1,125	1,581	1,490
Net impairment losses (recognised)/reversed	(241)	129	610	2,937
Expenses	(3,190)	(5,348)	(2,123)	(4,443)
Income tax expenses	(12,819)	(21,621)	(877)	(18,354)
Profit for the year	38,401	64,772	2,351	55,112

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year 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.

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 and the related Amendments ¹
Amendment to HKFRS 16	Covid-19-Related Rent Concessions ⁴
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ²

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 June 2020.

⁵ Effective for annual periods beginning on or after 1 January 2021.

The directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. 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 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 “Impairment of Assets”.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of 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 2020

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 or 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.

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using the most likely amount, which better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Revenue from art and asset auction services

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

Revenue from art and asset sales business

Agency service revenue from art and asset sales business is recognised at a point in time when the services are rendered which is the time when the Group concludes the contracts with the relevant buyers and sellers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Definition of a lease

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 after the date of initial application or arising from business combinations, 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

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 “Financial Instruments” 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, less any lease incentives receivable, 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 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are 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 or 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 2020

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 related to income 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. Such grants are presented under “other income”.

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 27.

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 2020

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Equity-settled share-based payment transactions (Continued)

Share options granted to employees (Continued)

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

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

Share options granted to non-employees

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 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 2020

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 are tangible assets that 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 2020

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 these 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 testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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 2020

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 “Revenue from Contracts with Customers”. 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, and (ii) interest income for artwork auction financing from art and asset auction business, and 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 2020

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, in which case 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 2020

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 2020

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 and 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 2020

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 2020

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 Arrangements

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 Chengxiang 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 other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 31(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 assesses, amongst other factors, 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, through in-house valuation and 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 31(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 2020, the carrying amount of loan receivables (net of impairment allowances) amounted to RMB326,197,000 (2019: RMB533,832,000). As no significant increase in credit risk since initial recognition was identified as at 31 December 2020 and 2019, no lifetime ECL was recognised. Impairment loss on loan receivables was measured at 12m ECL, and total impairment losses on loan receivables amounting to RMB4,251,000 and RMB4,652,000 were recognised as at 31 December 2020 and 2019, respectively.

Revenue recognition of agency service revenue from art and asset sales business

Management reviews agency service transactions to determine whether it is probable that future economic benefits arising from these transactions would flow to the Group taking into account the variable consideration in the transaction price. Variable consideration comprises the variable amount of the consideration in exchange for transferring the promised services to a customer that is contingent on the occurrence or non-occurrence of a future event. Under HKFRS 15, the Group is required to estimate the amount of consideration to which it will be entitled from the provision of agency service. The estimated amount of variable consideration will be included in the transaction price only to the extent that it is highly probable taking into consideration of the risk of fallen through price concession based on customary industry practice, that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. REVENUE AND SEGMENT INFORMATION

Revenue

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

	2020 RMB'000	2019 RMB'000
Interest revenue:		
Interest revenue from art and asset pawn business	53,576	90,487
Service revenue:		
Agency service revenue from art and asset sales business	3,160	-
Auction revenue from art and asset auction business	-	73,482
	3,160	73,482
Total	56,736	163,969

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.

Agency service revenue from art and asset sales business is recognised at a point in time when the services are rendered which is the time when the Group concludes the contracts with the relevant buyers and sellers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue (Continued)

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

	2020 RMB'000	2019 RMB'000
By types of artwork		
Zisha artwork	-	34,893
Calligraphies and paintings	-	32,498
Jewel artwork	-	6,091
Total	-	73,482
By geographical location		
The PRC, excluding Hong Kong	-	73,482

Disaggregation of revenue from contracts with customers for agency service revenue from art and asset sales business

	2020 RMB'000	2019 RMB'000
By types of artwork		
Zisha artwork	2,547	-
Calligraphies and paintings	613	-
Total	3,160	-
By geographical location		
The PRC, excluding Hong Kong	3,160	-

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 2020

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment Information

The segment information reported externally was analysed based on (i) art and asset pawn business, (ii) art and asset auction business, and (iii) art and asset sales 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 pawn business RMB'000	Art and asset auction business RMB'000	Art and asset sales business RMB'000	Total RMB'000
2020				
Segment revenue	53,576	-	3,160	56,736
Interest income for artwork auction financing from art and asset auction business	-	2,984	-	2,984
Segment costs	(2,078)	(42)	(1,224)	(3,344)
Net impairment losses (recognised)/reversed	(241)	1,239	-	998
Segment results	51,257	4,181	1,936	57,374
Other income				2,835
Other gains and losses				7,306
Central administrative expenses				(9,607)
Finance costs				(215)
Profit before tax				57,693

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Total RMB'000
2019			
Segment revenue	90,487	73,482	163,969
Interest income for artwork auction financing from 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
Segment results	87,902	79,114	167,016
Other income			2,600
Other gains and losses			(1,312)
Central administrative expenses			(20,539)
Finance costs			(361)
Profit before tax			147,404

Segment assets and liabilities

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

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Art and asset sales business RMB'000	Total RMB'000
2020				
Assets				
Segment assets	327,832	384	-	328,216
Unallocated assets				
Deferred tax asset				1,063
Bank balances and cash				827,661
Corporate assets				194
Consolidated total assets				1,157,134
Liabilities				
Segment liabilities	2,323	917	-	3,240
Unallocated liabilities				
Amount due to immediate holding company				94,693
Tax payable				2,980
Corporate liabilities				2,398
Consolidated total liabilities				103,311

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Total RMB'000
2019			
Assets			
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
Liabilities			
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

Other segment information

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Art and asset sales business RMB'000	Total RMB'000
2020				
Segment information included in the measure of segment results or assets:				
Additions to property, plant and equipment	659	-	-	659
Additions to right-of-use assets	1,023	-	-	1,023
Depreciation of property, plant and equipment	126	42	25	193
Depreciation of right-of-use assets	409	-	307	716

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information (Continued)

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Total RMB'000
2019			
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

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, and art and asset sales 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 external customers		Specified non-current assets	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
The PRC, excluding Hong Kong (place of domicile)	56,736	163,969	1,655	5,687
Hong Kong	-	-	476	1,448
	56,736	163,969	2,131	7,135

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 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

7. OTHER INCOME

	2020 RMB'000	2019 RMB'000
Bank interest income	2,636	2,592
Interest income for artwork auction financing from art and asset auction business	2,984	5,693
Government grants (Note)	188	-
Others	11	8
	5,819	8,293

Note: The Group was granted subsidies of RMB188,000 (2019: Nil) under the Employment Support Scheme launched by the Government of the Hong Kong Special Administrative Region for the payment of wages of employees during the year ended 31 December 2020.

8. OTHER GAINS AND LOSSES

	2020 RMB'000	2019 RMB'000
Net foreign exchange gain/(loss)	7,525	(1,483)
(Loss)/gain on disposal of property, plant and equipment	(409)	171
Gain on termination of leases	179	-
Others	11	-
	7,306	(1,312)

9. NET IMPAIRMENT LOSSES REVERSED

	2020 RMB'000	2019 RMB'000
Net impairment losses reversed/(recognised) on:		
Loans to customers for art and asset pawn business	(241)	129
Loans to customers for artwork auction financing from art and asset auction business	629	(642)
Net impairment losses reversed/(recognised) on loan receivables	388	(513)
Trade receivables for art and asset auction business	122	588
Other receivables from customers in respect of art and asset auction business	488	2,349
	998	2,424

Details of impairment assessment are set out in note 31(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest on lease liabilities	215	361

11. INCOME TAX EXPENSES

	2020 RMB'000	2019 RMB'000
Current tax		
PRC Enterprise Income Tax ("EIT")	13,596	39,217
Hong Kong Profits Tax	-	-
	13,596	39,217
Deferred tax charge (Note 19)	196	660
	13,792	39,877

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 2020 and 2019.

No provision for Hong Kong Profits Tax was provided for the year ended 31 December 2020 as the Group's estimated assessable profits arising in Hong Kong for the year was offset with the accumulated tax losses brought forward.

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

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

	2020 RMB'000	2019 RMB'000
Profit before tax	57,693	147,404
Tax at the PRC EIT rate of 25% (2019: 25%)	14,423	36,851
Effect of different tax rates of the group entities operating in other jurisdictions	(312)	959
Tax effect of non-deductible expenses	918	1,595
Tax effect of non-taxable income	(1,255)	-
Tax effect of tax losses not recognised	366	593
Tax effect of utilisation of tax losses previously not recognised	(406)	-
Others	58	(121)
Income tax expenses for the year	13,792	39,877

Details of deferred taxation are set out in note 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

12. PROFIT FOR THE YEAR

	2020 RMB'000	2019 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration	690	1,475
Other staff salaries and allowances	3,624	6,440
Retirement benefit scheme contributions, excluding those of directors	213	295
Total staff costs	4,527	8,210
Auditors' remuneration		
– audit services	1,955	2,038
– other services	478	879
Depreciation of property, plant and equipment	635	800
Depreciation of right-of-use assets	1,319	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 RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2020				
Executive directors				
Mr. Fan Zhijun (Note a)	–	182	21	203
Mr. Li Cheng (Note b)	–	120	6	126
Independent non-executive directors				
Mr. Leung Shu Sun Sunny	–	130	–	130
Mr. Liu Jian	–	130	–	130
Ms. Yin Xuhong (Note c)	–	28	–	28
Mr. Chu Xiaoliang (Note d)	–	73	–	73
	–	663	27	690

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For the year ended 31 December 2020

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

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

Notes:

- 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.
- Mr. Li Cheng was appointed as the executive director of the Company on 22 July 2020.
- Ms. Yin Xuhong was appointed as the independent non-executive director of the Company on 22 July 2020.
- Mr. Chu Xiaoliang resigned as the independent non-executive director of the Company on 22 July 2020.
- 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 2020 and 2019.

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 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 (2019: one) is a director of the Company whose emoluments are disclosed in note 13. The aggregate of the emoluments in respect of the remaining four (2019: four) individuals are as follows:

	2020 RMB'000	2019 RMB'000
Salaries and other benefits	1,358	2,222
Retirement benefit scheme contributions	77	60
	1,435	2,282

The emoluments of the above four (2019: four) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2020	2019
Bands:		
Nil to HK\$1,000,000	3	4
HK\$1,000,001 to HK\$1,500,000	1	-
	4	4

During the years ended 31 December 2020 and 2019, 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 27.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 three (2019: one) highest paid individuals as disclosed above) are within the following bands:

	Number of individuals	
	2020	2019
Bands:		
Nil to HK\$1,000,000	4	5
HK\$1,000,001 to HK\$1,500,000	1	-
	5	5

15. DIVIDENDS

	2020	2019
	RMB'000	RMB'000
2018 final dividend of HK1.0 cent per ordinary share (2020: Nil)	-	14,394

During the year ended 31 December 2019, the Company declared and paid a final dividend of HK1.0 cent per ordinary share in an aggregate amount of HK\$16,780,000 (equivalent to RMB14,394,000) in respect of the year ended 31 December 2018.

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

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For the year ended 31 December 2020

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:

	2020 RMB'000	2019 RMB'000
Earnings		
Profit for the year for the purpose of calculating basic and diluted earnings per share	43,901	107,527
	2020 '000	2019 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,678,000	1,648,937
Effect on dilutive potential ordinary shares from share options	–	5,993
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,678,000	1,654,930

No dilutive potential ordinary shares from share options was presented for the year ended 31 December 2020 as the exercise prices of the Company's outstanding share options were higher than the average market prices of the Company's ordinary shares during the year.

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For the year ended 31 December 2020

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost				
At 1 January 2019	3,980	1,047	3,511	8,538
Additions	-	-	706	706
Disposals	-	-	(1,239)	(1,239)
Exchange differences	53	31	-	84
At 31 December 2019 and 1 January 2020	4,033	1,078	2,978	8,089
Additions	654	38	-	692
Disposals	(4,009)	(504)	(2,338)	(6,851)
Exchange differences	(25)	(17)	-	(42)
At 31 December 2020	653	595	640	1,888
Accumulated depreciation				
At 1 January 2019	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 and 1 January 2020	3,582	721	1,761	6,064
Charge for the year	441	51	143	635
Eliminated on disposals	(4,009)	(252)	(1,296)	(5,557)
Exchange differences	(3)	(14)	-	(17)
At 31 December 2020	11	506	608	1,125
Carrying amount				
At 31 December 2020	642	89	32	763
At 31 December 2019	451	357	1,217	2,025

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

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For the year ended 31 December 2020

18. RIGHT-OF-USE ASSETS

	Leased properties RMB'000	Motor vehicles RMB'000	Total 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)
Reassessment	-	(706)	(706)
Exchange differences	19	9	28
At 31 December 2019 and 1 January 2020	4,774	336	5,110
Additions	1,416	-	1,416
Depreciation charge for the year	(1,193)	(126)	(1,319)
Reassessment	(3,804)	-	(3,804)
Exchange differences	(19)	(16)	(35)
At 31 December 2020	1,174	194	1,368

	2020 RMB'000	2019 RMB'000
Settlement for lease liabilities	1,551	2,929
Expense relating to short-term leases	122	130
Total cash outflows for leases	1,673	3,059

The Group leased various offices and motor vehicles for its operations. Lease contracts were entered into for fixed terms of two to five years (2019: 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 allowances RMB'000
At 1 January 2019	1,922
Charged to profit or loss (Note 11)	(660)
At 31 December 2019 and 1 January 2020	1,262
Charged to profit or loss (Note 11)	(196)
Exchange differences	(3)
At 31 December 2020	1,063

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

19. DEFERRED TAXATION (Continued)

As at 31 December 2020, the Group has unused tax losses of approximately RMB19,431,000 (2019: RMB19,938,000) 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 RMB4,310,000 (2019: RMB3,905,000) which can only be carried forward for a maximum period of five years. Other losses may be carried forward indefinitely.

20. LOAN RECEIVABLES

	2020 RMB'000	2019 RMB'000
Art and asset pawn loans to customers	330,448	463,222
Less: Impairment allowances	(4,251)	(4,010)
	326,197	459,212
Loans to customers for artwork auction financing	-	75,262
Less: Impairment allowances	-	(642)
	-	74,620
Total	326,197	533,832

Details of the impairment assessment of loan receivables are set out in note 31(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 12% to 37% (2019: 25% to 45%) per annum during the year ended 31 December 2020. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

20. LOAN RECEIVABLES (Continued)

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

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:

	2020 RMB'000	2019 RMB'000
Within 1 month	118,613	250,355
1 - 3 months	168,371	194,009
3 - 6 months	39,213	14,848
Total	326,197	459,212

(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 same year. During the year ended 31 December 2020, the Group received all outstanding principal and interests for the loans to customers for artwork auction financing.

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 had 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 were backed by collateral as security and the major type of collateral was Zisha artwork. There had 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:

	2020 RMB'000	2019 RMB'000
Not yet past due	-	74,620

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For the year ended 31 December 2020

21. TRADE AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables for art and asset auction business	–	14,828
Less: Impairment allowances	–	(122)
	–	14,706
Other receivables from customers in respect of art and asset auction business	–	58,823
Other receivables and deposits	82	613
	82	59,436
Total	82	74,142

As at 31 December 2019, trade receivables for art and asset auction business arose from contracts with customers which amounted to RMB14,706,000 (2020: Nil).

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 date.

	2020 RMB'000	2019 RMB'000
Less than 60 days	–	14,706

Details of impairment assessment of trade and other receivables are set out in note 31(b).

22. BANK BALANCES AND CASH

The Group's bank balances carried prevailing market interest rates ranging from 0% to 0.3% (2019: 0% to 0.35%) per annum.

As at 31 December 2020, 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 RMB826,556,000 (2019: RMB587,533,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

23. ACCRUALS AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Accrued expenses	3,330	3,807
Payables for purchase of property, plant and equipment	520	-
Payables on behalf of customers in respect of art and asset auction business	-	72,512
Other payables for art and asset auction business	-	351
Other tax payables	516	4,138
Security deposits received for auctions	-	5,400
Others	25	316
	4,391	86,524

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 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

	2020 RMB'000	2019 RMB'000
Lease liabilities payable:		
Within one year	524	1,150
Within a period of more than one year but not more than two years	288	835
Within a period of more than two years but not more than five years	435	2,342
More than five years	-	857
	1,247	5,184
Less: Amounts due for settlement within twelve months shown under current liabilities	(524)	(1,150)
Amounts due for settlement after twelve months shown under non-current liabilities	723	4,034

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26. SHARE CAPITAL

	Number of shares	Amount (Equivalent to RMB'000)	
	'000	HK\$'000	RMB'000
<i>Ordinary shares of HK\$0.01 each</i>			
Authorised			
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	5,000,000	50,000	43,420
Issued and fully paid			
At 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 January 2020 and 31 December 2020	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.

27. 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.

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For the year ended 31 December 2020

27. 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 2019, 31 December 2019 and 31 December 2020
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
				23,000,000

No equity-settled share option expense was recognised for the years ended 31 December 2020 and 2019 as all share options were vested in previous years.

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 2020 was 23,000,000 (2019: 23,000,000), representing approximately 1.37% (2019: 1.37%) of the total issued ordinary shares of the Company as at 31 December 2020.

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28. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Dividend payable RMB'000	Amount due to immediate holding company RMB'000 (Note 24)	Lease liabilities RMB'000 (Note 25)	Total RMB'000
At 1 January 2019	–	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 and 1 January 2020	–	95,238	5,184	100,422
Financing cash flows	–	5,384	(1,551)	3,833
Non-cash changes:				
Additions to lease liabilities	–	–	1,416	1,416
Finance costs	–	–	215	215
Reassessment on lease liabilities	–	–	(3,983)	(3,983)
Exchange differences	–	(5,929)	(34)	(5,963)
At 31 December 2020	–	94,693	1,247	95,940

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29. 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 RMB240,000 (2019: RMB334,000) for the year ended 31 December 2020.

30. 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 and lease liabilities, net of bank balances and cash. There was no net debt for the Group as at 31 December 2020 and 2019.

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.

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31. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2020 RMB'000	2019 RMB'000
Financial assets at amortised cost	1,153,940	1,196,087
Financial liabilities at amortised cost	96,485	179,001

(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 and lease liabilities.

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 2020 amounted to RMB59,196,000 (2019: RMB98,772,000).

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31. 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 following table details the Group's exposure to currency risk arising from monetary assets and liabilities denominated in a currency other than the functional currency of the group entities to which they relate.

	Currency	2020 RMB'000	2019 RMB'000
Monetary assets	HKD	819	235
Monetary liabilities	HKD	(96,840)	(97,943)
Net exposure	HKD	(96,021)	(97,708)

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 Hong Kong dollars ("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.

	2020 RMB'000	2019 RMB'000
Increase in profit for the year	4,009	4,079

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 2020

31. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment

As at 31 December 2020, 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 RMB326,197,000 (2019: RMB533,832,000) 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 2020, the Group's concentration of credit risk on loans to customers included ten major customers in the PRC accounting for 21.0% (2019: 22.9%) 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 carried out in-house valuation of all artwork collateral and has also engaged an independent qualified professional valuer to perform valuation of 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 2020

31. 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	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"> • 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 • the interest payments or the principal of the pawn loans are delayed or past due; or • there is a significant drop in the value of the collateral at the end of the reporting period. 	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired such as the following events of default: <ul style="list-style-type: none"> • the customer does not have the ability to repay the pawn loan; or • the customer has not ransomed the pawned assets; or • the customer is placed under legal proceedings and is deemed a defaulter under court orders. 	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the customer is in severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

31. 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 comprises 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"> • 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. 	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"> • the customer does not have the ability to repay the loan; or • the customer has not ransomed the pledged assets; or • the customer is placed under legal proceedings and is deemed a defaulter under court orders. 	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the customer is in severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

31. 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 2020 RMB'000	At 31 December 2019 RMB'000
Lower risk	12m ECL	330,377	463,222
Medium risk	12m ECL	71	-
		330,448	463,222

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 RMB'000
At 1 January 2019	4,139
Impairment losses reversed during the year	(129)
At 31 December 2019 and 1 January 2020	4,010
Impairment losses recognised during the year	241
At 31 December 2020	4,251

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

31. 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 lifetime ECL	Gross carrying amount	
		At 31 December 2020 RMB'000	At 31 December 2019 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 RMB'000
At 1 January 2019	-
Impairment losses recognised during the year	642
At 31 December 2019 and 1 January 2020	642
Impairment losses reversed during the year	(629)
Exchange differences	(13)
At 31 December 2020	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

31. 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% (2020: Nil) 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 respective 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 (2020: Nil) 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 (2020: Nil) 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% (2020: Nil) 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 2020

31. 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 (not credit- impaired) RMB'000
At 1 January 2019	710
Impairment losses reversed during the year	(588)
At 31 December 2019 and 1 January 2020	122
Impairment losses reversed during the year	(122)
At 31 December 2020	-

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 RMB'000
At 1 January 2019	2,837
Impairment losses reversed during the year	(2,349)
At 31 December 2019 and 1 January 2020	488
Impairment losses reversed during the year	(488)
At 31 December 2020	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

31. 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 and lease liabilities) based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities and lease liabilities based on the earliest dates on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts at 31 December 2020 RMB'000
Other payables	-	546	-	-	-	546	546
Amount due to immediate holding company	-	94,693	-	-	-	94,693	94,693
Lease liabilities	2.38-5.61	569	315	455	-	1,339	1,247
		95,808	315	455	-	96,578	96,486

	Weighted average effective interest rate %	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts at 31 December 2019 RMB'000
Other payables	-	78,579	-	-	-	78,579	78,579
Amount due to immediate 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

31. 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.

32. 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 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Lease liabilities due to Mr. Fan Zhijun	-	4,528

During the year ended 31 December 2020, the Group early terminated the lease agreements with Mr. Fan Zhijun and Mr. Fan Zhijun agreed not to claim for any compensations or losses from the Group as a result of the early termination of the leases.

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

	2020 RMB'000	2019 RMB'000
Interest expenses on lease liabilities	169	232

(c) Compensation of key management personnel

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

	2020 RMB'000	2019 RMB'000
Salaries and other benefits	1,984	2,540
Retirement benefit scheme contributions	89	71
	2,073	2,611

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 2020

33. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2020 and 2019 are as follows:

Name of company	Place of incorporation/ establishment	Equity interest attributable to the Group as at 31 December		Issued and fully paid share/ registered capital	Legal form	Principal activities
		2020 %	2019 %			
<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 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 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 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 2020

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2020 RMB'000	2019 RMB'000
Non-current assets			
Investments in subsidiaries	(a)	176,022	176,022
Current assets			
Amount due from a subsidiary	(b)	79,185	84,690
Bank balances and cash		817	233
		80,002	84,923
Current liabilities			
Accruals and other payables		2,147	2,705
Amount due to immediate holding company		94,693	95,238
Amounts due to subsidiaries	(b)	2,680	2,173
		99,520	100,116
Net current liabilities		(19,518)	(15,193)
Net assets		156,504	160,829
Capital and reserves			
Share capital		14,679	14,679
Reserves		141,825	146,150
Total equity		156,504	160,829

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

	Share premium RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 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 and 1 January 2020	198,794	5,560	(58,204)	146,150
Loss and total comprehensive expense for the year	-	-	(4,325)	(4,325)
At 31 December 2020	198,794	5,560	(62,529)	141,825

Notes:

- (a) Investments in subsidiaries represent 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 costs of RMB176,022,000 (2019: RMB176,022,000) arising from the non-current intercompany advance to a subsidiary.
- (b) The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.