中國藝術金融控股有限公司

China Art Financial Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code: 1572

ANNUAL REPORT 2023

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director
Mr. Fan Zhijun *(Chairman)*
(resigned on 15 September 2023)
Mr. Liu Xudong (resigned on 15 September 2023)
Mr. Fan Zhixin *(Co-Chairman)*
(appointed on 15 September 2023)

Non-executive Directors
Mr. Chen Yunwei
Mr. Tian Rui *(Co-Chairman)*
(appointed on 18 December 2023)

Independent Non-executive Directors
Mr. Leung Shu Sun Sunny
Mr. Liu Jian (resigned on 18 January 2023)
Ms. Shao Qiongqiong (appointed on 7 February 2023)
Ms. Yin Xuhong

AUDIT COMMITTEE
Mr. Leung Shu Sun Sunny *(Chairman of the Committee)*
Mr. Liu Jian (resigned on 18 January 2023)
Ms. Shao Qiongqiong (appointed on 7 February 2023)
Ms. Yin Xuhong

REMUNERATION COMMITTEE
Ms. Yin Xuhong *(Chairman of the Committee)*
Mr. Fan Zhijun (resigned on 15 September 2023)
Mr. Fan Zhixin (appointed on 15 September 2023)
Mr. Liu Jian (resigned on 18 January 2023)
Ms. Shao Qiongqiong (appointed on 7 February 2023)

NOMINATION COMMITTEE
Mr. Fan Zhixin *(Chairman of the Committee)*
(appointed on 15 September 2023)
Mr. Fan Zhijun (resigned on 15 September 2023)
Mr. Leung Shu Sun Sunny
Ms. Yin Xuhong

RISK MANAGEMENT COMMITTEE
Ms. Shao Qiongqiong *(Chairman of the Committee)*
(appointed on 7 February 2023)
Mr. Fan Zhijun (resigned on 15 September 2023)
Mr. Fan Zhixin (appointed on 15 September 2023)
Mr. Leung Shu Sun Sunny
Ms. Yin Xuhong

COMPANY SECRETARY
Mr. Im Kai Chuen Stephen

AUTHORISED REPRESENTATIVES
Mr. Fan Zhixin (appointed on 15 September 2023)
Mr. Fan Zhijun (resigned on 15 September 2023)
Mr. Im Kai Chuen Stephen

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
5/F., Dawning House
145 Connaught Road Central
Sheung Wan, 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

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
Ince & Co

COMPANY'S WEBSITE
www.cnartfin.com.hk

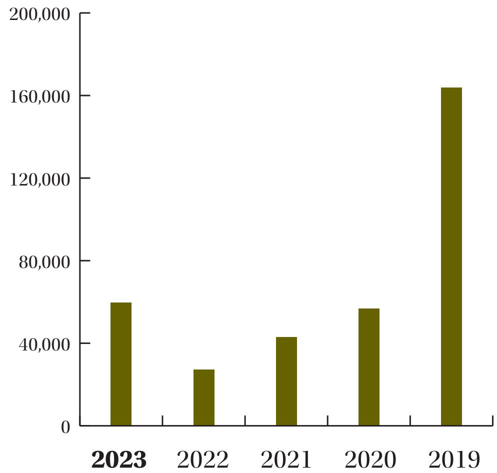
STOCK CODE
The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited

Stock Code 1572

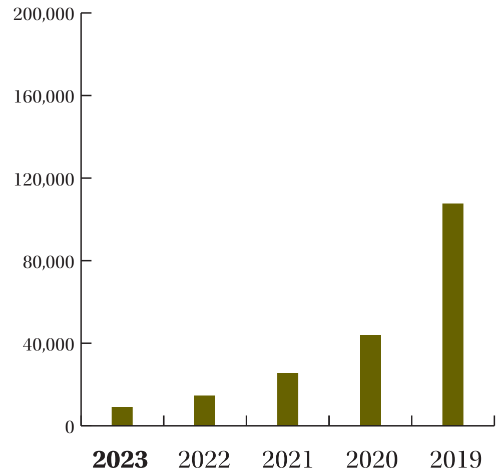
FINANCIAL SUMMARY

	For the year ended or as at 31 December				
	2023	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating Results					
Revenue	**59,742**	27,338	42,896	56,736	163,969
Profit for the year	**11,019**	14,596	25,363	43,901	107,527
Financial Position					
Total assets	**1,131,801**	1,108,546	1,093,064	1,157,134	1,204,484
Bank balances and cash	**695,818**	612,418	717,053	827,661	588,113
Loan receivables	**422,426**	493,489	370,538	326,197	533,832
Total liabilities	**27,206**	14,890	13,955	103,311	194,689
Net assets	**1,104,595**	1,093,656	1,079,109	1,053,823	1,009,795

Revenue (RMB'000)



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



CHAIRMEN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of China Art Financial Holdings Limited (the "Company"), we are pleased to present the annual report of the Company for the financial year ended 31 December 2023 (the "Reporting Year").

The year of 2023 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 have been largely reduced to avoid the risk of infection of coronavirus disease and 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.

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.

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 Zhixin
Co-chairman

Tian Rui
Co-chairman

Hong Kong, 28 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2023, the international and domestic markets continued to experience extreme challenging situation. The Company and its subsidiaries (collectively referred to as, the "Group") have adjusted their marketing strategies from time to time in response to the highly unstable environment.

Art and Asset Pawn Business

During the Reporting Year, the revenue from the art and asset pawn business was approximately RMB15.1 million, representing a decrease of approximately 44% from approximately RMB27.0 million in last year. The decrease was the result of the significant drop in the pawn loan interest rates during the Reporting Year. The PRC central bank had consistently lowered interest rates during the Reporting Year, which has resulted in a decline in the market advantage of pawn loan business. Therefore, the total amount of the art and asset pawn loans was reduced, and the monthly composite administrative fees charged for pawn loans were also reduced.

The profits derived from the art and asset pawn business during the Reporting Year was approximately RMB14.0 million, representing a decrease of approximately 46% from approximately RMB26.2 million for the corresponding last year.

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

	Year ended 31 December	
Loans secured by artwork	**2023**	2022
Total new loan amount granted (RMB'000)	**702,400**	775,700
Total number of new loans granted	**67**	85
Number of new loans renewed	**27**	47
Renewal ratio of new loan (%)	**40**	55
Average initial loan term (days)	**61**	46

	Year ended 31 December	
Loans secured by assets	**2023**	2022
Total new loan amount granted (RMB'000)	**278**	458
Total number of new loans granted	**29**	31
Number of new loans renewed	**21**	27
Renewal ratio of new loan (%)	**72**	87
Average initial loan term (days)	**58**	39

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 Auction Business

With the nationwide loosening the restriction of COVID-19 control measures and the reopening all borders in the PRC in early January 2023, the Group organised several auction and related activities during the Reporting Year especially the 2023 Autumn auction. The Group has been communicating with the PRC local government for the suitability of holding large scale auction and related activities. Meanwhile, the Group is actively looking for new auction formats.

During the Reporting Year, the revenue from the art and asset auction business was approximately RMB1.9 million, representing an increase of approximately 461% from approximately RMB0.3 million in last year. Profits derived from the art and asset auction business was approximately RMB1.2 million during the Reporting Period, while the Group recorded losses of approximately RMB1.1 million from the art and asset auction business in last year. The turnaround of segment results of the art and asset auction business was mainly due to the increase in auction revenue generated from this business during the Reporting Year and the Group proactively prepared for the auction and related activities, and performed well in the relevant preparatory work for the art and asset auction business.

Art and Asset Sales Business

During the Reporting Year, the Group has diversified its existing businesses and has engaged in artwork trading through the art and asset sales business. The Group's strategy is to identify and locate potential buyers for artwork from its customers accrued in the past ten-odd years. Through maintaining regular contact with such customers, engaging external professional experts to provide further art sales training to the existing staff, enlarging potential customer base by marketing and promotion, the Group laid a solid foundation for the development of the art and asset sales business. The Group has extensive business in the art industry, and has a wide customer base in the past ten-odd years. The Group has sourced and purchased purple clayware, calligraphies and painting artwork with good value for money in the market, while increasing the frequency of communication among potential customers at the same time to match interested buyers. Also, based on the enhanced communication with existing customers, the Group would also assist such customers to look for and purchase artworks which they are interested from renowned vendors or collectors in the market.

During the Reporting Year, the revenue from the art and asset sales business was approximately RMB42.7 million, representing an increase of 100% from the last year. As the Group has diversified its existing businesses and has engaged in artwork trading during the Reporting Year, the revenue from the art and asset sales business were solely derived from the artwork trading and the profits derived from the art and asset sales business during the Reporting Year was approximately RMB4.9 million, while the Group recorded losses of approximately RMB0.3 million from the art and asset sales business in last year. The turnaround of segment results of the art and asset sales business was mainly due to the increase in revenue generated from artwork trading during the Reporting Year.

FINANCIAL REVIEW

Revenue

Our revenue for the Reporting Year amounted to approximately RMB59.7 million, representing a year-on-year increase of 119%, from approximately RMB27.3 million in last year. It was primarily due to an increase in revenue from sales of artwork through the art and asset sales business, as well as increased auction revenue from the art and asset auction business.

Other income

Our other income decreased by approximately 26% to approximately RMB2.1 million for the Reporting Year as compared to the corresponding last year, primarily due to decrease in bank interest income during the Reporting Year.

Other net loss

Our other net loss decreased by approximately 92% to approximately RMB0.1 million for the Reporting Year as compared to the corresponding last year, primarily due to reduction in exchange losses arising from foreign currency translation.

Cost of inventories sold

Our cost of inventories sold for the Reporting Year amounted to approximately RMB35.4 million (2022: Nil) and the amounts represented the purchase costs of artwork which were sold to our customers through the art and asset sales business during the Reporting Year.

Net impairment losses reversed

During the Reporting Year, impairment losses on pawn loans amounting to approximately RMB1.7 million (2022: RMB1.7 million) were reversed.

Staff costs

Our staff costs increased by approximately RMB0.3 million, or approximately 8%, from approximately RMB3.2 million in last year to approximately RMB3.5 million during the Reporting Year because our Group hired additional staffs to enhance our Group's business operations and development.

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment for the Reporting Year maintained steadily at approximately RMB0.2 million as compared to the corresponding last year as our Group did not have material additions or disposals of property, plant and equipment during both years.

Depreciation of right-of-use assets

Depreciation of right-of-use assets increased by approximately RMB0.2 million, or approximately 56%, from approximately RMB0.3 million in last year to approximately RMB0.4 million for the Reporting Year as our Group entered into a new lease of safe storehouse in the PRC during the Reporting Period.

Advertising and promotional expenses

Advertising and promotional expenses increased by approximately RMB1.2 million during the Reporting Year as our Group increased the expenses in relation to advertising and promotional expenses to enhance our brand value and to promote the related business activities in the PRC during the Reporting Period.

Other expenses

Other expenses increased by approximately RMB0.9 million, or approximately 17%, from approximately RMB5.5 million in last year to approximately RMB6.4 million during the Reporting Year, primarily due to the increase in legal and professional fees, and tax surcharge for increase in business activities during the Reporting Year.

Profit before tax

As a result of the foregoing, our profit before tax decreased by approximately RMB5.5 million, or approximately 25%, from approximately RMB21.9 million in last year to approximately RMB16.5 million during the Reporting Year. The drop in profit before tax mainly resulted from decrease in interest revenue from art and asset pawn business, and increase in operating expenses of our Group.

Income tax expenses

Our income tax expenses decreased by approximately RMB1.9 million, or approximately 25%, from approximately RMB7.3 million in last year to approximately RMB5.5 million during the Reporting Year, primarily due to a decrease in our Group's taxable profits during the Reporting Year.

Total comprehensive income for the year

Total comprehensive income for the year decreased by approximately RMB3.6 million, or approximately 25%, from approximately RMB14.5 million in last year to approximately RMB10.9 million during the Reporting Year, primarily due to a decrease in profit for the Reporting Year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net Cash Flow

The Group maintains a strong and healthy financial position. The Group's principal sources of funds to finance the working capital, capital expenditure and other capital requirements were internally generated by cash flows. As of 31 December 2023, net working capital (calculated as current assets less current liabilities) was approximately RMB1,102.4 million, representing an increase of approximately RMB10.9 million as compared with approximately RMB1,091.5 million as of 31 December 2022. The current ratios (calculated as current assets/current liabilities) are 42.8 times and 75.4 times as of 31 December 2023 and 2022 respectively.

The following table summarises the consolidated statement of cash flows for the years ended 31 December 2023 and 2022:

	2023	2022
	RMB'000	RMB'000
Net cash generated from/(used in) operating activities	**75,612**	(109,722)
Net cash generated from investing activities	**2,103**	5,142
Net cash generated from/(used in) financing activities	**5,682**	(58)

As of 31 December 2023, the Group's total bank balances and cash increased by 14% to approximately RMB695.8 million from approximately RMB612.4 million as of 31 December 2022.

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. During the Reporting Year, despite the depreciation of RMB against 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

The gearing ratio, calculated on the basis of total interest bearing borrowings (including loan from a former director , amount due to a director and amount due to a director of the Company's subsidiaries) to equity (including all capital and reserves), was 1.2% (2022: 0.7%).

Contingent Liabilities

As of 31 December 2023 and 2022, the Group did not have any material contingent liabilities nor any other off-balance sheet commitments and arrangements.

Capital Expenditure

For the years ended 31 December 2023 and 2022, the Group did not incur any expenditures on property, plant and equipment.

Capital Commitment

As at 31 December 2023 and 2022, 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.

Human Resources and Training

As of 31 December 2023, the Group had a total of 33 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 2023.

SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was adopted by ordinary resolution passed by the then 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 to employees of the Group, directors of the Company and its subsidiaries.

During the Reporting Year, no share option was granted, exercised, cancelled or lapsed and outstanding under the Share Option Scheme.

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.

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 2023 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 2023
	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	–
Funding of general operations	23.8	10	23.8	–	23.8	10	–
Total	237.7	100	192.2	45.5	237.7	100	–

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 2023. In addition, the Group had no significant investments held during the year ended 31 December 2023.

OUTLOOK AND PROSPECTS

Looking ahead, it is expected that the global economic environment remains challenging and uncertain due to persistent inflation and ongoing geopolitical tensions. It is also expected that the domestic economy in China will continue to face challenges related to political tensions between China and the U.S. Nevertheless, the economic environment in Mainland China has shown signs of improvement following the nationwide loosening the restriction of COVID-19 control measures and the reopening of all borders in early January 2023. We anticipate that this will have a positive impact on our business for the coming year. As always, we remain vigilant and adaptable in the face of ongoing economic and geopolitical challenges. By staying true to our core values and mission as a company and remaining focused on our long-term goals, we are confident that we can position our business for success in the years to come.

Art and Asset Auction Business

With the nationwide loosening the restriction of COVID-19 control measures, 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 2024.

Art and Asset Pawn Business

In 2024, 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

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 one executive Director, two non-executive Directors and three independent non-executive Directors (the "INED").

Executive Director

Mr. Fan Zhixin (范志新先生), aged 54, is mainly responsible for participating in the daily management and operations of our Group. When Mr. Fan Zhixin joined our Group in May 2010, he served as the manager of the Nanjing branch office of Hexin Pawn, and was then in charge of overseeing the management and operations of the Nanjing branch office. Mr. Fan Zhixin assumed the office of deputy general manager of Hexin Auction in January 2014 and has since been responsible for assisting the general manager with the management and operations of Hexin Auction.

Mr. Fan Zhixin is a brother of Mr. Fan Zhijun. Mr. Fan Zhixin is also a member of our internal authentication team for authenticating and appraising Zisha Artwork and Paintings and Calligraphies for our pawn loan and auction operations.

Mr. Fan Zhixin completed his studies in economic management (經濟管理專業) from the Party School of Jiangsu Committee of Communist Party of China (中共江蘇省委黨校), PRC, in June 2000.

Prior to joining our Group, Mr. Fan Zhixin worked as a supervisor of the economic department of Yixing Dingshu Town Radio and Television Station (宜興市丁蜀鎮廣播電視站), a company engaging in cable television broadcasting from July 1991 to April 2010. Mr. Fan Zhixin was mainly responsible for overseeing the business plans and expansion of that company.

Non-executive Directors

Mr. Chen Yunwei (陳運偉先生) ("Mr. Chen"), aged 37, 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.

Mr. Tian Rui (田銳) ("Mr. Tian"), aged 49, graduated from Wuhan University of Hydraulic and Electrical Engineering with a major in power systems and automation. Mr. Tian served as the R&D Director of the Science and Technology Department at Sanmi Electronic Technology Co., Ltd.* (三密電子科技有限公司) of Central China Electric Power Administration Bureau* (華中電管局) from 1997 to 2000; Mr. Tian served as a senior executive of Wuhan Hongxin Communication Technology Co., Ltd.* (武漢虹信通信技術有限公司) of FiberHome Technologies Group* (烽火科技集團), responsible for digital computer room management and computer room service management of three major operators from 2000 to 2008; Mr. Tian established Wuhan Fengxin Yicheng Technology Co., Ltd.* (武漢烽信宜誠科技有限公司), and presided over the company's overall work and served as the technical person in charge from 2008 to 2013; Mr. Tian worked at Hubei Hengsheng Xunjie Technology Co., Ltd.* (湖北恒晟訊捷科技有限公司), responsible for the research and development work of the community's digital information integrated system for the company from 2013 to 2020; Mr. Tian established Shenzhen Xiandinghui Technology Co., Ltd.* (深圳鮮鼎慧科技有限公司) to upgrade the community's digital economy and provide a digital marketing service platform in 2022. Mr. Tian has extensive experience and marketing network in the fields of data economy and internet technology services. Mr. Tian is also a member of the editorial board of Wuhan Digital Home Standards Committee* (武漢市數字家庭標準委員會) and has participated in the standard formulation and standardization work for Wuhan's digital economy industry for several times.

INEDs

Mr. Leung Shu Sun Sunny (梁樹新先生) ("Mr. Leung"), aged 61, was appointed as our INED on 14 October 2016. He also serves as the chairman of Audit Committee, and a member of each of the Nomination Committee and Risk Management Committee.

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 27 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).

Ms. Shao Qiongqiong (邵琼琼女士) ("Ms. Shao"), aged 42, is a PRC practising lawyer and has over 7 years of experience in providing legal advice and services in respect of corporate matters. Ms. Shao worked in Jiang Su Jinyue Law Firm* (江蘇金樂律師事務所) between August 2015 and December 2022 as a PRC lawyer specialising in corporate law. She was also appointed as legal consultant in various established PRC companies from 2015 to 2022.

Ms. Shao graduated from Fuyang Normal University, China with a bachelor's degree in political science and law in 2005 and obtained a master's degree in law from Anhui University, China in 2014. Ms. Shao qualified as a PRC practising lawyer in 2017.

Ms. Yin Xu Hong (殷旭紅女士) ("Ms. Yin"), aged 58, was appointed as our INED on 22 July 2020. She also serves as the chairman of the Remuneration Committee and Risk Management Committee, and a member of each of the Audit Committee and Nomination Committee.

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 specializing in financial accounting and audit at Wuxi Public Accounting Firm.

SENIOR MANAGEMENT

Mr. Fan Zhijun (范志軍先生) (formerly known as Fan Zhijun (范志君)) ("Mr. Fan"), aged 57, is the general manager of the Company, the legal person of our PRC subsidiaries and the director of our subsidiaries of the Group. He is primarily responsible for planning our business and marketing strategies, supervising the overall operations of our PRC subsidiaries of the Company 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 redesignated as an executive director between 18 April 2016 and 15 September 2023. 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 ("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 ("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 (范保文) 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.

Ms. Lam Siu Mui (林小梅女士) ("Ms. Lam"), aged 49, appointed as the chief executive officer of the Company on 23 March 2022.

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 Chi Kee 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 invested in Yunchangtai Group in Mainland China 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 the honorary chairman of GBA Dongguan — Hong Kong Elite Association and the executive vice chairman of the Federation of Chinese Leaders and Presidents. Ms. Lam was an executive director of the Company from 23 April 2021 to 21 March 2022.

Mr. Zhang Bin (張斌先生) (formerly known as Zhang Qiqi (張琦琦) ("Mr. Zhang"), aged 48, 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 56, 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 47, 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. Liu Xudong (柳旭東先生) ("Mr. Liu"), aged 47, is the chief administrative officer of our Group and is responsible for the supervision of the human resources and administration of the Group. Mr. Liu joined the Group in March 2007 as the head of the General Administration Department of Hexin Pawn, and was then appointed as the secretary of the board of directors of Hexin Pawn in January 2009. In May 2007 and March 2011, Mr. Liu started his roles as the head of the General Administration Department and the assistant to the General Manager of Hexin Auction, respectively, and later served as the General Manager of Hexin Auction from 2019 to April 2022. Mr. Liu also served as the executive director of the Company from February 2023 to September 2023, and has been the director of the General Administration Department since April 2022.

Mr. Liu graduated from Nanjing University, China with a diploma majoring in law by means of examination for self-study in 2000 and obtained a bachelor's degree majoring in business administration from China University of Petroleum (Beijing), China in 2013 via long distance learning. In December 2009, Mr. Liu obtained a second level qualification certificate as a human resources professional (二級人力資源管理師) from the Occupational Skill Appraisal Center of the Ministry of Human Resources and Social Security, People's Republic of China ("PRC") (中華人民共和國人力資源和社會保障部職業技能鑒定中心).

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 2023.

CORPORATE GOVERNANCE PRACTICES

The Board hereby presents to the Shareholders the corporate governance report for the year ended 31 December 2023.

The Group is committed to promoting good corporate governance and has set up procedures on corporate governance that comply with the principles in the Corporate Governance Code (the "CG Code") as set out in Appendix C1 to the Listing Rules of the Stock Exchange. For the year ended 31 December 2023, the Board of the Company have performed the corporate governance duties which include the following: (i) to develop and review the Company's policies and practices on corporate governance; (ii) to review and monitor the training and continuous professional development of Directors and senior management; (iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (iv) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and (v) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

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 C3 to the Listing Rules as the code of conduct for Directors in their dealings in Company's securities. Having made specific enquiry of all Directors, all the Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code during the Reporting Year.

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

BOARD OF DIRECTORS

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

Board Composition

The Board is composed of the following Directors:

Executive Directors

Mr. Fan Zhijun *(Chairman)* (resigned on 15 September 2023)
Mr. Liu Xudong (resigned on 15 September 2023)
Mr. Fan Zhixin *(Co-Chairman)* (appointed on 15 September 2023)

Non-executive Directors

Mr. Chen Yunwei
Mr. Tian Rui *(Co-Chairman)* (appointed on 18 December 2023)

Independent Non-executive Directors

Mr. Leung Shu Sun Sunny
Mr. Liu Jian (resigned on 18 January 2023)
Ms. Shao Qiongqiong (appointed on 7 February 2023)
Ms. Yin Xuhong

Board Meetings and Attendance

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

Directors	Attendance
Mr. Fan Zhijun *(Chairman)* (resigned on 15 September 2023)	6/6
Mr. Liu Xudong (resigned on 15 September 2023)	4/4
Mr. Fan Zhixin *(Co-Chairman)* (appointed on 15 September 2023)	1/2
Mr. Chen Yunwei	3/9
Mr. Tian Rui *(Co-Chairman)* (appointed on 18 December 2023)	0/1
Mr. Leung Shu Sun Sunny	9/9
Mr. Liu Jian (resigned on 18 January 2023)	0/0
Ms. Shao Qiongqiong (appointed on 7 February 2023)	7/7
Ms. Yin Xuhong	9/9

The biographies of the Directors are set out on pages 12 to 13, which illustrate their diverse skills, expertise, experience and qualifications.

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

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

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

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

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

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

In accordance with Article 105(A) and (B) of the Articles of Association, one-third of the Directors of the Company for the time being (or, if their number is not a multiple of three, the number nearest to but no less than one-third) shall retire from office at each annual general meeting provided that every Director shall be subject to retirement by rotation at least once every three years. Any Directors so to retire shall be those subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected as Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. In accordance with Article 109 of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Accordingly, Mr. Fan Zhixin, Mr. Tian Rui and Ms. Yin Xuhong will retire and, being eligible, will offer himself or herself for re-election at the forthcoming 2024 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 Directors	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee
Executive Director				
Mr. Fan Zhixin	–	Member	Chairman	Member
Independent Non-executive Directors				
Mr. Leung Shu Sun Sunny	Chairman	–	Member	Member
Ms. Shao Qiongqiong	Member	Member	–	Chairlady
Ms. Yin Xu Hong	Member	Chairlady	Member	Member

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 C1 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 2023.

During the Reporting Year, the Audit Committee held two meetings for reviewing the final results for the year ended 31 December 2022 and the interim financial results for the six months ended 30 June 2023 as well as the significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function and appointment of external auditors and engagement of non-audit services and relevant scope of works.

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

Audit Committee Members	Attendance/ Number of Meeting
Mr. Leung Shu Sun Sunny *(Chairman)*	2/2
Mr. Liu Jian (resigned on 18 January 2023)	0/0
Ms. Yin Xu Hong	2/2
Ms. Shao Qiongqiong (appointed on 7 February 2023)	2/2

Remuneration Committee

Our Company has written terms of reference in compliance with Code B.1 of the Corporate Governance Code as set out in Appendix C1 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 2023, the Remuneration Committee held two meetings with attendance as shown below to review and make recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the executive Directors, senior management and other related matters.

Remuneration Committee Members	Attendance/ Number of Meeting
Ms. Yin Xu Hong *(Chairlady)*	2/2
Mr. Fan Zhixin (appointed on 15 September 2023)	0/0
Mr. Fan Zhijun (resigned on 15 September 2023)	2/2
Mr. Liu Jian (resigned on 18 January 2023)	0/0
Ms. Shao Qiongqiong (appointed on 7 February 2023)	2/2

Nomination Committee

Our Company has written terms of reference in compliance with Codes A.5 of the Corporate Governance Code as set out in Appendix C1 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 2023, 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 Zhixin *(Chairman)* (appointed on 15 September 2023)	0/0
Mr. Fan Zhijun (resigned on 15 September 2023)	2/2
Mr. Leung Shu Sun Sunny	2/2
Ms. Yin Xu Hong	2/2

Risk Management Committee

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

During the year, the Risk Management Committee did not held any meeting.

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' Continuous Professional Development	
Directors	**Attending training course(s)**	**Reading of relevant materials(s)**
Mr. Fan Zhixin (appointed on 15 September 2023)	✓	✓
Mr. Fan Zhijun (resigned on 15 September 2023)	✓	✓
Mr. Liu Xudong (resigned on 15 September 2023)	✓	✓
Mr. Chen Yunwei	✓	✓
Mr. Tian Rui (appointed on 18 December 2023)	✓	✓
Mr. Leung Shu Sun Sunny	✓	✓
Ms. Shao Qiongqiong (appointed on 7 February 2023)	✓	✓
Mr. Liu Jian (resigned on 18 January 2023)	✓	✓
Ms. Yin Xu Hong	✓	✓

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 2023.

INTERNAL CONTROL

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

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

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

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

ACCESS TO INFORMATION BY DIRECTORS

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

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

AUDITORS' REMUNERATION

The Company's external auditor is Ascenda Cachet CPA Limited. There has been no change in the Company's external auditor for the preceding three years.

For the year ended 31 December 2023, the total fees paid/payable in respect of audit and non-audit services provided to the Group by the Company's auditor are set out below:

	RMB'000
Audit service	1,709
Non-audit services	
Review of condensed consolidated financial statements for the six months ended 30 June 2023	360
Review of continuing connected transactions	45
Review of preliminary result announcements	90
	495
Total	2,204

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.

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

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

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

(b) not less than one hundred members.

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

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

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

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

CHANGE IN CONSTITUTIONAL DOCUMENTS

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

Market Risk

The Group's revenue is principally derived from PRC. The conditions of the economy as a whole and the arts pawn loan and the arts auction 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 2023.

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 32 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 2023.

An analysis of the Group's revenue and operating profit for the year ended 31 December 2023 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 2023 is set out in the section headed "Management Discussion and Analysis" from pages 5 to 11 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 30(b) to the consolidated financial statements.

EVENTS AFTER THE REPORTING PERIOD

No significant events occurred after 31 December 2023.

FUTURE BUSINESS DEVELOPMENT

A discussion of the Group's future business development is set out in the "Chairmen's Statement" on page 4 and "Management Discussion and Analysis" on page 11 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 C2 Environmental, Social and Governance Reporting Guide to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "HKEx") and will be published on the Company's and the HKEx's websites.

RELATIONSHIP WITH STAKEHOLDERS

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

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2023 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 52 to 112. The Board does not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: nil).

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The forthcoming AGM is scheduled to be held on 7 June 2024. To ascertain shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from 4 June 2024 to 7 June 2024, 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 3 June 2024.

RESERVES

Changes to the reserves of the Group during the year ended 31 December 2023 are set out in the consolidated statement of changes in equity. Changes to the reserves of the Company during the year ended 31 December 2023 are set out in note 33 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 25 to the consolidated financial statements.

DIRECTORS' REPORT

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2023 are set out in note 32 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 consolidated 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 2023.

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 26 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. Liu Jian has resigned his position as an independent non-executive Director with effect from 18 January 2023.

(2) Mr. Liu Xudong was appointed as an executive Director with effect from 7 February 2023.

(3) Ms. Shao Qiongqiong was appointed as an independent non-executive Director with effect from 7 February 2023.

(4) Mr. Fan Zhijun has resigned his position as a Chairman and an executive Director with effect from 15 September 2023.

(5) Mr. Liu Xudong has resigned his position as an executive Director with effect from 15 September 2023.

(6) Mr. Fan Zhixin was appointed as an executive Director and Co-Chairman with effect from 15 September 2023 and 2 February 2024 respectively.

(7) Mr. Tian Rui was appointed as a non-executive Director and Co-Chairman with effect from 18 December 2023 and 2 February 2024 respectively.

DIRECTORS' INTERESTS IN CONTRACTS

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

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors, namely, Mr. Leung Shu Sun Sunny, Ms. Shao Qiongqiong 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 2023 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'/Chief Executives' Interests in the Company

As at 31 December 2023, 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/ Chief Executive	Capacity	Number of Shares (Note 1)	Approximate Percentage of Shareholding
Mr. Fan Zhijun	Interest of controlled corporation	1,000,768,000 (L) (Note 2)	59.64%
		1,000,384,000 (S)	59.62%

Notes:

(1) The letter "L" denotes the Director's/Chief Executives' 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 Intelligenesis Investment Co., Ltd (the "Intelligenesis Inv"), which is owned as to 69.5% by Golden Sand Investment Company Limited (the "Golden Sand Inv"), which is in turn held as to 74.1% by Mauve Jade Investment Limited (the "Mauve Jade Inv"), which is in turn held as to 67.2% by Mr. Fan Zhijun and 32.8% by Ms. Fan Qinzhi. Ms. Fan Qinzhi is the daughter of Mr. Fan Zhijun.

2. Directors'/Chief Executives' Interests in Associated Corporations

Name of Director/ Chief Executive	Name of Associated Corporation	Capacity	Approximate Percentage of Shareholding
Mr. Fan Zhijun	Hexin Pawn (Note 1)	Beneficial owner; interest of controlled corporation	15%
Mr. Fan Zhijun	Hexin Auction (Note 2)	Beneficial owner	85%

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 26 to the consolidated financial statements, as at 31 December 2023, 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 2023, 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
Ms. Zhang Xiaoxing	Interest of spouse (Note 2)	1,000,768,000 (L)	59.64%
		1,000,384,000 (S)	59.62%
Intelligenesis 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%
Ms. 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%
Mr. 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%
Arab Osman Mohammed	Agent (Note 9)	1,000,384,000 (L)	59.62%
Lai Wing Lun	Agent (Note 9)	1,000,384,000 (L)	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) 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 Intelligenesis Inv. Intelligenesis Inv is held as to 69.5% by Golden Sand Inv. By virtue of the SFO, Golden Sand Inv is deemed to be interested in the same parcel of shares in which Intelligenesis Inv is interested.

(4) Intelligenesis Inv is held as to 69.5% by Golden Sand Inv, which is in turn held as to 74.1% by Mauve Jade Inv, which is in turn held as to 67.2% by Mr. Fan Zhijun and 32.8% by Ms. Fan Qinzhi. By virtue of the SFO, Mauve Jade Inv and Ms. Fan Qinzhi are deemed to be interested in the same parcel of shares in which Intelligenesis Inv is interested.

(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 Intelligenesis Inv. By virtue of the Act-in-Concert Confirmation, each of Mr. Fan Zhijun, Ms. Fan Qinzhi, Mr. Fan Yajun, Ms. Wu Jian and Ms. Xu Min are deemed to be interested in such 1,000,768,000 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) Messrs Osman Mohammed Arab and Lai Wing Lun of RSM Corporate Advisory (Hong Kong) Limited were appointed as joint and several receivers and managers on 1 August 2022 in respect of 1,000,384,000 ordinary shares of the Company pursuant to the relevant share charge.

Save as disclosed above, as at 31 December 2023, 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 26 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 2023, the Group's largest customer accounted for approximately 19.4% (2022: 5.9%) of the Group's revenue and the five largest customers accounted for approximately 65.1% (2022: 22.7%) of the Group's revenue.

For the year ended 31 December 2023, the Group's largest supplier accounted for approximately 37.1% (2022: 19.8%) of the Group's total purchases and the five largest suppliers accounted for approximately 96.3% (2022: 40.2%) 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 2023.

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 2023.

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 and chief executive for the year ended 31 December 2023 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 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2023, the Company's distributable reserves calculated under the Companies Act comprise the share premium and accumulated losses amounted to approximately RMB135.4 million (2022: RMB139.3 million).

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

Other than as disclosed above, during the year ended 31 December 2023, none of the Company, or any of its subsidiaries, was a party to any arrangement to enable the Directors to have any right to subscribe for securities of the Company or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DIRECTORS' SERVICE CONTRACTS

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

NON-COMPETITION UNDERTAKING

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

Each of the Covenantors has provided to the Company a written confirmation in respect of his/her compliance with the Deed of Non-Competition. The independent non-executive Directors have reviewed the compliance with the non-competition undertaking by the Covenantors under the Deed of Non-Competition and are of the view that such non-competition undertaking has been complied with during the year ended 31 December 2023.

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

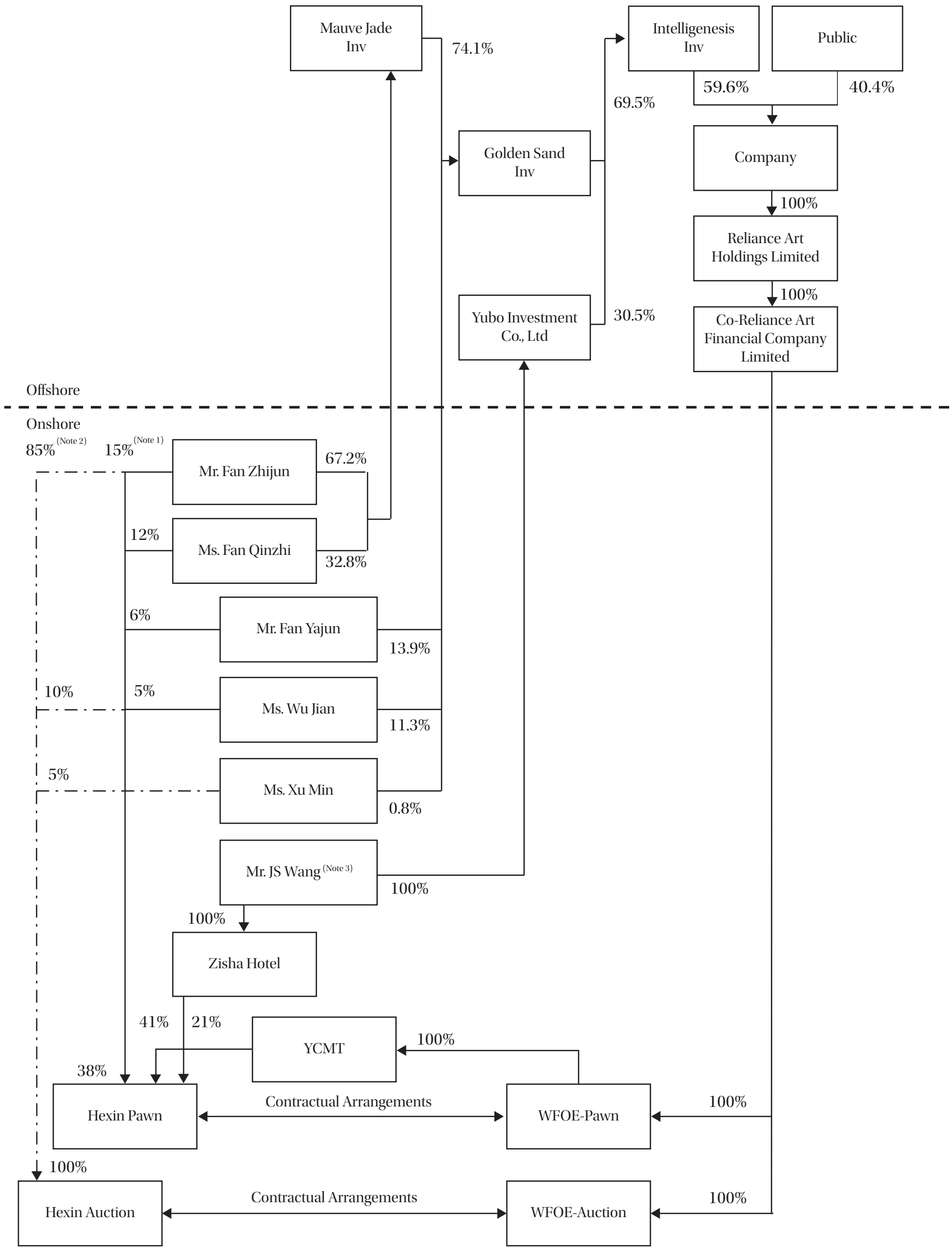
Reasons for using and risks associated with the Contractual Arrangements

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.

The following diagram sets out the simplified structure of the Group as at 31 December 2023 to illustrates 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.

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		Total assets	
	For the year ended 31 December		For the year ended 31 December		As at 31 December	
	2023 (RMB'000)	2022 (RMB'000)	**2023 (RMB'000)**	2022 (RMB'000)	**2023 (RMB'000)**	2022 (RMB'000)
Hexin Pawn	**15,136**	26,998	**11,367**	20,808	**699,806**	688,685
Hexin Auction	**44,606**	340	**5,340**	194	**535,406**	522,840

SUMMARY OF THE MATERIAL TERMS OF THE STRUCTURED CONTRACTS

Date of the Structured Contracts:

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

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

(A) HP Structured Contracts:

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

(B) HA Structured Contracts:

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

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

(A) HP Structured Contracts:

(A1) HP Exclusive Operation Services Agreement

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

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

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

(ii) an additional service fee to be agreed between WFOE-Pawn and Hexin Pawn for specific technical services, management support services and consultancy services to be provided by WFOE-Pawn upon Hexin Pawn's request from time to time.

Within 3 months after the end of each financial year, the financial statements of Hexin Pawn shall be drawn up for audit, and WFOE-Pawn is entitled to adjust the time of payment and/or the amount of the operation service fees within the Service Fee Discretion. WFOE-Pawn has the right to, at its own discretion without obtaining Hexin Pawn's consent, adjust and determine the amount of the operation service fees to ensure that its benefits are maximised. WFOE-Pawn shall exercise such right to adjust the amount of the operation service fees having regard to the funds available for Hexin Pawn to grant pawn loans and the level of net assets and net profit of Hexin Pawn, and the future business operation of Hexin Pawn. Hexin Pawn does not have any right to make any adjustment to the amount of operation service fees as determined by WFOE-Pawn. WFOE-Pawn also has the right to adjust the frequency and the time of the payment of the operation service fees.

No engagement of other parties to provide similar services: Hexin Pawn and the HP Equity-holders agreed, among other restrictions and obligations, not to engage (whether by way of oral or written agreement) any third party to provide services similar or identical to those provided by WFOE-Pawn under the HP Exclusive Operation Services Agreement, unless prior written consent will have been obtained from WFOE-Pawn.

Effect of the HP Exclusive Operation Services Agreement: By providing Hexin Pawn with the services concerned, WFOE-Pawn will become entitled to the operation service fee. Our Directors believe that such arrangements will ensure that the economic benefits generated from the operations of Hexin Pawn will flow to WFOE-Pawn and hence, to our Group as a whole.

(A2) HP Exclusive Call Option Agreement

Options granted by HP Equity-holders: the HP Equity-holders have jointly and severally granted on an irrevocable basis in favour of WFOE-Pawn an exclusive option to acquire, directly or through a nominee designated by WFOE-Pawn, the equity interest held by each HP Equity-holder in Hexin Pawn.

Option granted by Hexin Pawn: Hexin Pawn has irrevocably granted to WFOE-Pawn an exclusive option to acquire, directly or through a nominee designated by WFOE-Pawn, its assets (including all tangible and intangible assets, including but not limited to immovable property, movable property and intellectual property, owned or entitled to be disposed of by Hexin Pawn).

Purchase price payable upon exercise of option(s): the purchase price payable by WFOE-Pawn upon exercise of any option(s) shall be the minimum amount as may be permitted by the applicable PRC laws.

Refund of purchase price: Both the HP Equity-holders and Hexin Pawn agreed to refund all and any purchase price mentioned above to WFOE-Pawn without any further consideration.

Time of exercise of option(s): Under circumstances permitted by PRC law, WFOE-Pawn may at any time and from time to time exercise the options in respect of all or part of (as the case may be) the relevant equity interests and/or assets and in any manner at its sole discretion.

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

- *Negative covenants given by HP Equity-holders:* unless prior written consent of WFOE-Pawn will have been obtained, the HP Equity-holders shall not:

  (i) transfer or otherwise dispose of or create encumbrance or any other third party rights over the equity interest held by them in Hexin Pawn;

(ii) approve the increase or reduction of the registered capital in Hexin Pawn, or alter its equity structure;

(iii) approve Hexin Pawn to make any investment in any other entities, or engage in any merger or acquisition transactions;

(iv) approve the disposal (nor procure the management of Hexin Pawn to dispose) of any material assets of Hexin Pawn which include assets with a value that exceeds RMB100,000;

(v) approve the termination (nor procure the management of Hexin Pawn to terminate) any material contracts (which include any contract under which the amount involved exceeds RMB100,000, any contract which has material impact on the business or assets of Hexin Pawn, including the HP Exclusive Operation Services Agreement) entered into by Hexin Pawn, nor enter into any other contracts which are in conflict with any such material contracts;

(vi) approve or acquiesce to the declaration or distribution in substance by Hexin Pawn of any dividends or any other distributable profits;

(vii) alter the constitutional documents of Hexin Pawn;

(viii) approve or acquiesce to any lending or borrowings, or the provision of any guarantee or other forms of security, or the undertaking of any obligations in substance by Hexin Pawn, other than in its ordinary course of business;

(ix) approve or acquiesce to Hexin Pawn engaging in any transactions or actions which in substance may prejudice the assets, rights, obligations or operation of Hexin Pawn; and

- *Affirmative undertakings given by HP Equity-holders:* the HP Equity-holders have undertaken to the following:

(i) ensuring that Hexin Pawn will conduct all its operations in the normal course of business, and ensuring than Hexin Pawn validly exist and not be liquidated or dissolved in accordance with good financial and commercial standards and practices;

(ii) upon the request of WFOE-Pawn, ensuring that Hexin Pawn shall provide WFOE-Pawn with relevant information regarding the operation and financial status of Hexin Pawn;

(iii) informing WFOE-Pawn on a timely basis of any litigation, arbitration or administrative procedures which will occur or may occur, which concerns the assets, business or income of Hexin Pawn or the equity interest held by the HP Equity-holders in Hexin Pawn;

(iv) signing all necessary or appropriate documents and taking all necessary or appropriate actions (including those through legal proceedings), in order to secure the ownership of the equity interests held by them in Hexin Pawn;

(v) appointing or removing any Directors of Hexin Pawn as instructed by WFOE-Pawn and/or its nominee, and ensuring that Hexin Pawn has right to appoint or remove any member of senior management or core operating officer as instructed by WFOE-Pawn; and

(vi) using their respective best endeavours to develop the business of Hexin Pawn and ensuring compliance with the laws and regulations by Hexin Pawn.

Undertakings given by Hexin Pawn: Hexin Pawn has given undertakings to perform certain acts or to refrain from performing certain other acts, including but not limited to the following:

- Negative covenants given by Hexin Pawn: unless prior written consent of WFOE-Pawn will have been obtained, Hexin Pawn shall not:

  (i) assist or approve transfer or otherwise dispose of or create any encumbrance or any other third party rights over the equity interest held by any HP Equity-holder in Hexin Pawn; and

  (ii) transfer or otherwise dispose of or create any encumbrance or any other third party rights over its material assets which include assets with a value that exceeds RMB100,000, or engage in any transactions or actions which in substance may prejudice the assets, rights, obligations or operation of Hexin Pawn.

- Hexin Pawn shall not engage in (nor allow) any actions or behaviour which may have any negative influence on the interests of WFOE-Pawn under the HP Exclusive Call Option Agreement, including but not limited to certain actions and behaviour stated under the paragraphs headed "Negative covenants given by HP Equity-holders" and "Affirmative undertakings given by HP Equity-holders" above.

Effect of the HP Exclusive Call Option Agreement: By granting WFOE-Pawn (i) an option to acquire the equity interest in Hexin Pawn and (ii) an option to acquire the assets of Hexin Pawn, WFOE-Pawn is entitled to acquire the entire equity interest in Hexin Pawn, such that Hexin Pawn will (following completion of such acquisition upon exercise of the call option) become an equity-owned subsidiary of our Group, and/or all the assets of Hexin Pawn.

(A3) HP Equity Entrustment Agreement

Power of attorney granted by HP Equity-holders: the HP Equity-holders have jointly and severally authorised on an irrevocable basis, by way of the power of attorney, any of WFOE-Pawn's Directors, its members of senior management, successors or liquidators (to be nominated by WFOE-Pawn) to exercise all shareholders' rights of the HP Equity-holders under the prevailing effective articles of association or constitutional documents and the applicable PRC laws. To ensure that the power of attorney will not give rise to any potential conflict of interest, such power of attorney (in relation to the shareholders' rights of both the HP Equity-holders and the HA Equity-holders) was granted to Mr. Liu Xudong, a member of our senior management, who is unrelated to any of the HP Equity-holders and the HA Equity-holders.

Rights exercisable by WFOE-Pawn: the rights conferred by the HP Equity-holders to be exercised by WFOE-Pawn include but are not limited to the following: (i) calling and attending shareholders' meetings of Hexin Pawn as representative of each and every HP Equity-holder; (ii) exercising voting rights on all matters requiring shareholders' consideration and approval (including but not limited to the nomination and removal of Directors) as representative of the HP Equity-holders; (iii) exercising voting rights as shareholders of Hexin Pawn on any other matters in accordance with the articles of association of Hexin Pawn; (iv) approving (or disapproving) the transfer or otherwise disposal of the equity interest in Hexin Pawn held by any HP Equity-holder; (v) acknowledging receipt of notice of shareholders' meetings, signing minutes of shareholders' meetings and shareholders' resolutions, and filing documents with relevant governmental departments as required for relevant approvals, registrations and/or filings in relation to the operation of Hexin Pawn as representative of the HP Equity-holders, in accordance with the wishes and instructions of WFOE-Pawn; and (vi) receiving the residual assets of Hexin Pawn upon its liquidation.

Effect of the HP Equity Entrustment Agreement: Before our Group acquiring and holding (whether directly or indirectly) any entire equity interest in Hexin Pawn as contemplated under the HP Exclusive Call Option Agreement, our Group may (by virtue of the HP Equity Entrustment Agreement) exercise the voting rights attaching to the equity interests held by the HP Equity-holders as if WFOE-Pawn were the ultimate beneficial owner of Hexin Pawn.

(A4) HP Equity Pledge Agreement

Pledge of equity interests created: each of the HP Equity-holders has granted continuing first priority security interests over their respective equity interests in Hexin Pawn to and in favour of WFOE-Pawn as security for (i) performance of the HP Exclusive Operation Services Agreement, HP Exclusive Call Option Agreement and HP Equity Entrustment Agreement, (ii) all direct, indirect, consequential damages and foreseeable loss of interest incurred by WFOE-Pawn as a result of any event of default on the part of the HP Equity-holders and/or Hexin Pawn and (iii) all expenses incurred by WFOE-Pawn as a result of enforcement of its rights against the HP Equity-holders and/or Hexin Pawn under any of the HP Structured Contracts ("Secured Indebtedness").

Events of default: Events of default under the HP Equity Pledge Agreement include (but are not limited to) the following:

(a) any HP Equity-holder or Hexin Pawn commits any breach of any obligations under any of the HP Structured Contracts;

(b) any representation or warranty given by any of the HP Equity-holders and/or Hexin Pawn under any of the HP Structured Contracts is proved to be incorrect in any material respect or misleading;

(c) promulgation of any PRC law that results in any of the HP Equity-holders and/or Hexin Pawn becoming incapable of performing any of its obligations under any of the HP Structured Contracts; and

(d) revocation, termination, suspension or alteration in substance of any governmental consent, licence, approval or authorisation that is required for the performance or validity of the HP Structured Contracts.

Restrictions on transfer of equity interest in Hexin Pawn: Unless the prior written consent of WFOE-Pawn will have been obtained, none of the HP Equity-holders shall transfer the pledged equity interest or create further pledge or encumbrance over such pledged equity interest or any part thereof or any interest therein. Any unauthorised transfer shall be invalid, and the proceeds of any transfer of the pledged equity interest shall be first used in the payment of the Secured Indebtedness or deposited with such third party as agreed to by WFOE-Pawn.

Remedies: Upon the occurrence of an event of default, WFOE-Pawn may enforce the HP Equity Pledge Agreement by written notice to the HP Equity-holders and (to the extent permitted by PRC laws) WFOE-Pawn may exercise its remedies and powers under the HP Structured Contracts, including but not limited to, selling the pledged equity interest by way of auction, or otherwise disposing of such pledged equity interest.

Registration of the pledge with relevant AIC: The pledge created under the HP Equity Pledge Agreement was registered with the relevant AIC of PRC on 18 April 2016 and became effective on the same date.

Effect of the HP Equity Pledge Agreement: If any of the HP Equity-holders and/or Hexin Pawn breaches any of the HP Exclusive Operation Services Agreement, HP Exclusive Call Option Agreement and HP Equity Entrustment Agreement, WFOE-Pawn will be entitled to enforce the HP Equity Pledge Agreement by acquiring the equity interest in Hexin Pawn or selling or otherwise disposing of such equity interest.

(B) HA Structured Contracts:

The terms of each of the HA Structured Contracts are essentially the same as those stipulated in the respective HP Structured Contracts.

MATERIAL CHANGES

Save as disclosed above, there has not been any material change in the Contractual Arrangements and/or the circumstances under which they were adopted for the year ended 31 December 2023.

UNWINDING OF THE CONTRACTUAL ARRANGEMENTS

Up to 31 December 2023, there has not been any unwinding of any Contractual Arrangements, nor has there been any failure to unwind any Contractual Arrangements when the restrictions that led to the adoption of the Contractual Arrangements are removed.

RISK RELATING TO THE CONTRACTUAL ARRANGEMENTS

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

- ruling the Structured Contracts as unlawful, invalid or unenforceable;
- imposing economic penalties;
- restricting our right to collect revenues;
- discontinuing or restricting the operations of the PRC Operating Entities or our Group;
- imposing conditions or requirements with which we or the PRC Operating Entities may not be able to comply;
- requiring us or the PRC Operating Entities to restructure our ownership or operations; or
- taking other regulatory or enforcement actions, including levying fines, that may be prejudicial to our business.

MITIGATION ACTIONS TAKEN BY THE COMPANY

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

A waiver has been granted by the Stock Exchange regarding strict compliance with (i) the applicable disclosure and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in relation to the transactions contemplated under the Contractual Arrangements, (ii) the requirement of setting a maximum aggregate annual value (i.e. annual cap) for the fees payable 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. Fan Zhijun and the parties acting in concert with him (as a group of Controlling Shareholders) has given undertakings to the Company (the "Undertakings") committed, among others, not to dispose, directly or indirectly, and creation of charge over any of his/her interests in the Company. The Company has agreed with the Stock Exchange to enforce the Undertakings, which became effective from the date of the listing of the Shares on the Stock Exchange, being 8 November 2016, until compliance with the Draft Foreign Investment Law of China is not required and the Stock Exchange has consented to such termination.

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

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

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

As announced on 23 December 2022, the Undertakings were terminated. Despite the termination of the Undertakings, the contractual arrangements under which the Group operates will continue to be in place. As advised by the PRC legal adviser, the termination of the Undertakings will not cause material adverse impact on the Contractual Arrangements and the legality and validity of the Contractual Arrangements will not be affected.

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

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

Further, the Board has engaged the auditor of the Company to report on the Group's continuing connected 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 2023 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 2023 are set out in note 31 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 Zhixin
Co-Chairman and Executive Director

Hong Kong, 28 March 2024

INDEPENDENT AUDITOR'S REPORT

Ascenda CACHET
天健德揚

10/F Tien Chu Commercial Building
173 Gloucester Road
Wanchai Hong Kong
香港灣仔
告士打道173號
天廚商業大廈10樓

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

OPINION

We have audited the consolidated financial statements of China Art Financial Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 52 to 112, which comprise the consolidated statement of financial position as at 31 December 2023, 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 material accounting policy information.

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 2023, 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.

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 30(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 RMB422,426,000 (2022: RMB493,489,000) (net of impairment losses of approximately RMB3,825,000) (2022: RMB5,549,000) as at 31 December 2023. 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;

KEY AUDIT MATTERS (Continued)

Impairment of the Group's loan receivables (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Significant judgments and estimation were involved when performing valuation of the collateral. As at 31 December 2023, no significant increase in credit risk since initial recognition was identified and accordingly, no lifetime ECL was recognised. As disclosed in notes 5 and 30(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. 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. 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 RMB1,724,000 for the year ended 31 December 2023. The management concluded that the impairment losses on loan receivables of approximately RMB3,825,000 was adequate as at 31 December 2023.	• 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 2023.

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.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

- 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.

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, 28 March 2024

Sze Wing Chun
Practising Certificate Number P06035

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	**2023** **RMB'000**	2022 RMB'000
Revenue	6	**59,742**	27,338
Other income	7	**2,103**	2,831
Other net loss	8	**(51)**	(609)
Cost of inventories sold	20	**(35,353)**	–
Net impairment losses reversed	9	**1,724**	1,651
Staff costs	12	**(3,468)**	(3,198)
Depreciation of property, plant and equipment	17	**(156)**	(169)
Depreciation of right-of-use assets	18	**(419)**	(269)
Advertising and promotional expenses		**(1,165)**	(10)
Other expenses		**(6,428)**	(5,493)
Finance costs	10	**(36)**	(129)
Profit before tax		**16,493**	21,943
Income tax expenses	11	**(5,474)**	(7,347)
Profit for the year attributable to owners of the Company	12	**11,019**	14,596
Other comprehensive expense			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(80)**	(49)
Total comprehensive income for the year attributable to owners of the Company		**10,939**	14,547
Earnings per share (RMB cents)	16		
Basic		**0.66**	0.87
Diluted		**0.66**	0.87

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	**2023 RMB'000**	2022 RMB'000
Non-current assets			
Property, plant and equipment	17	**344**	500
Right-of-use assets	18	**1,383**	511
Deferred tax assets	19	**1,230**	1,387
		2,957	2,398
Current assets			
Inventories	20	**10,600**	–
Loan receivables	21	**422,426**	493,489
Other receivables		**–**	153
Tax recoverable		**–**	88
Bank balances and cash	22	**695,818**	612,418
		1,128,844	1,106,148
Current liabilities			
Accruals and other payables	23	**23,065**	13,147
Lease liabilities	24	**630**	212
Tax payable		**2,700**	1,308
		26,395	14,667
Net current assets		**1,102,449**	1,091,481
Total assets less current liabilities		**1,105,406**	1,093,879
Non-current liabilities			
Lease liabilities	24	**465**	223
Deferred tax liabilities	19	**346**	–
		811	223
Net assets		**1,104,595**	1,093,656
Capital and reserves			
Share capital	25	**14,679**	14,679
Reserves		**1,089,916**	1,078,977
Total equity		**1,104,595**	1,093,656

The consolidated financial statements on pages 52 to 112 were approved and authorised for issue by the Board of Directors on 28 March 2024 and are signed on its behalf by:

Fan Zhixin
DIRECTOR

Shao Qiongqiong
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	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 2022	14,679	198,794	78,615	172,301	5,560	(1,107)	610,267	1,079,109
Profit for the year	–	–	–	–	–	–	14,596	14,596
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(49)	–	(49)
Total comprehensive income for the year	–	–	–	–	–	(49)	14,596	14,547
Transfer to retained profits upon lapse of share options (note 26)	–	–	–	–	(5,560)	–	5,560	–
Appropriation to statutory reserve	–	–	2,081	–	–	–	(2,081)	–
At 31 December 2022 and 1 January 2023	14,679	198,794	80,696	172,301	–	(1,156)	628,342	1,093,656
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**11,019**	**11,019**
Exchange differences arising on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**(80)**	**–**	**(80)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(80)**	**11,019**	**10,939**
Appropriation to statutory reserve	**–**	**–**	**1,137**	**–**	**–**	**–**	**(1,137)**	**–**
At 31 December 2023	**14,679**	**198,794**	**81,833**	**172,301**	**–**	**(1,236)**	**638,224**	**1,104,595**

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 2023

	2023 RMB'000	2022 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**16,493**	21,943
Adjustments for:		
Depreciation of property, plant and equipment	**156**	169
Depreciation of right-of-use assets	**419**	269
Net impairment losses reversed	**(1,724)**	(1,651)
Bank interest income	**(2,103)**	(2,788)
Interest income on loan to a director of the Company's subsidiaries	**–**	(43)
Gain on disposal of property, plant and equipment	**–**	(69)
Finance costs	**36**	129
Unrealised exchange (gain)/loss	**(5)**	484
Operating cash flows before movements in working capital	**13,272**	18,443
Increase in inventories	**(10,600)**	–
Decrease/(increase) in loan receivables	**72,787**	(121,300)
Decrease/(increase) in other receivables	**153**	(63)
Increase in accruals and other payables	**3,491**	2,361
Cash generated from/(used in) operations	**79,103**	(100,559)
Income tax paid	**(3,491)**	(9,163)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	**75,612**	(109,722)
INVESTING ACTIVITIES		
Bank interest received	**2,103**	2,788
Repayment of loan to a director of the Company's subsidiaries	**–**	2,253
Proceeds from disposal of property, plant and equipment	**–**	101
NET CASH GENERATED FROM INVESTING ACTIVITIES	**2,103**	5,142
FINANCING ACTIVITIES		
Advance from a director	**1,775**	–
Advance from a director of the Company's subsidiaries	**4,574**	235
Settlement of lease liabilities	**(667)**	(293)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	**5,682**	(58)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Note	2023 RMB'000	2022 RMB'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**83,397**	(104,638)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**612,418**	717,053
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**3**	3
CASH AND CASH EQUIVALENTS AT END OF THE YEAR AND REPRESENTED BY BANK BALANCES AND CASH	22	**695,818**	612,418

1. GENERAL INFORMATION

China Art Financial Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands and its shares 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 32.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("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 are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise indicated.

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").

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**	
	2023	2022	**2023**	2022
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current assets	**1,588**	2,391	**1,369**	7
Current assets	**698,218**	686,294	**534,037**	522,833
Current liabilities	**(2,088)**	(2,173)	**(168,078)**	(161,601)
Non-current liabilities	**(62)**	(223)	**(749)**	–
Total equity	**697,656**	686,289	**366,579**	361,239
Revenue	**15,136**	26,998	**44,606**	340
Other income	**1,157**	1,505	**945**	1,282
Other net gain	**–**	66	**–**	40
Cost of inventories sold	**–**	–	**(35,353)**	–
Net impairment losses reversed	**1,724**	1,651	**–**	–
Expenses	**(2,828)**	(2,483)	**(3,065)**	(1,412)
Income tax expenses	**(3,822)**	(6,929)	**(1,793)**	(56)
Profit for the year	**11,367**	20,808	**5,340**	194

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

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

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform — Pillar Two Model Rules
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

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

Impact on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 "Disclosure of Accounting Policies"

The Group has adopted Amendments to HKAS 1 and HKFRS Practice Statement 2 "Disclosure of Accounting Policies" for the first time in the current year. HKAS 1 "Presentation of Financial Statements" is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 "Making Materiality Judgements" (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's material accounting policies set out in note 4.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (Continued)

Amendments to HKFRSs in issue but not yet effective

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

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[1]
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 1	Non-current Liabilities with Covenants[1]
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements[1]
Amendments to HKAS 21	Lack of Exchangeability[2]

1 Effective for annual periods beginning on or after 1 January 2024.
2 Effective for annual periods beginning on or after 1 January 2025.
3 Effective for annual periods beginning on or after a date to be determined.

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

4. MATERIAL ACCOUNTING POLICY INFORMATION

The consolidated financial statements have been prepared on the historical cost basis, unless mentioned otherwise in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The material accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured 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.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

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.

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.

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

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

Revenue from sales of artwork is recognised upon transferring control of artwork to customers, which generally coincides with the time when the artwork are delivered and titles have been passed to the customers.

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.

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Leases (Continued)

The Group as a lessee (Continued)

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.

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.

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Lease liabilities (Continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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.

4. MATERIAL ACCOUNTING POLICY INFORMATION (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.

Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

Borrowing costs

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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.

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

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 26.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

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

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

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).

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Taxation

Income tax expense represents the sum of current and deferred income tax expense.

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 and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

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.

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

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.

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.

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Impairment of assets (Continued)

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.

Cash and cash equivalents

Cash and cash equivalents present on the consolidated statement of financial position include:

(a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and

(b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Inventories

Inventories represent artwork purchased by the Group and are stated at the lower of cost and net realisable value. Costs of purchase of artwork are determined after deducting rebates and discounts (if any). Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

4. MATERIAL ACCOUNTING POLICY INFORMATION (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 and points paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest revenue on loans to customers for art and asset pawn business, which are derived from the Group's ordinary course of business, are presented as revenue. Bank interest income and interest income on loan to a director of the Company's subsidiaries are presented as other income.

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.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting 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.

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Amortised cost and interest income

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

Impairment of financial assets

The Group performs impairment assessment under expected credit losses ("ECL") model on financial assets (including loan receivables, trade and other receivables and bank balances) which are subject to impairment assessment under HKFRS 9 "Financial Instruments". 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.

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Despite the 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.

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of 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.

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data 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.

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.

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

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, amount due to a director, amount due to a director of the Company's subsidiaries, and loan from a former director are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGMENTS 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 any majority 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.

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

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.

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 30(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 30(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 2023, the carrying amount of loan receivables (net of impairment allowances) amounted to RMB422,426,000 (2022: RMB493,489,000). As no significant increase in credit risk since initial recognition was identified as at 31 December 2023 and 2022, no lifetime ECL was recognised. Impairment loss on loan receivables was measured at 12m ECL, and total impairment losses on loan receivables amounting to RMB3,825,000 and RMB5,549,000 were recognised as at 31 December 2023 and 2022, respectively.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. Write-downs of inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the period in which such estimate has been changed. The management reassesses these estimates at each reporting date.

6. REVENUE AND SEGMENT INFORMATION

Revenue

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

	2023 RMB'000	2022 RMB'000
Interest revenue from art and asset pawn business	15,136	26,998
Sales of artwork from art and asset sales business	42,699	–
Auction revenue from art and asset auction business	1,907	340
Total	59,742	27,338

Interest revenue on loans to customers for art and asset pawn business is recognised using the effective interest method.

Sales of artwork from art and asset sales business constitute revenue from contracts with customers and are recognised at a point in time upon transferring control of artwork to customers, which generally coincides with the time when the artwork are delivered and titles have been passed to the customers. The customers are required to settle the entire purchase prices of the artwork within 3 days after signing the contracts with the Group.

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. The customers are required to settle the buyer's commission and the seller's commission to the Group within 15 days and 60 days, respectively, after the date of auction.

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

	2023 RMB'000	2022 RMB'000
By types of asset		
Zisha artwork	30,841	–
Calligraphies and paintings	11,858	–
Total	42,699	–
By geographical location		
The PRC, excluding Hong Kong	42,699	–

6. REVENUE AND SEGMENT INFORMATION

Revenue (Continued)

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

	2023 RMB'000	2022 RMB'000
By types of asset		
Zisha artwork	**1,748**	–
Residential properties and carparks	**–**	288
Commercial properties	**78**	52
Others	**81**	–
Total	**1,907**	340
By geographical location		
The PRC, excluding Hong Kong	**1,907**	340

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 result earned by each segment without allocation of other income, other net loss, central administrative expenses and finance costs. Segment assets and liabilities are allocated to each segment excluding deferred tax assets, deferred tax liabilities, loan from a former director, amount due to a director, amount due to a director of the Company's subsidiaries, bank balances and cash, tax recoverable, tax payable, and unallocated corporate assets and liabilities. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

6. REVENUE AND SEGMENT INFORMATION (Continued)

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
2023				
Segment revenue	**15,136**	**1,907**	**42,699**	**59,742**
Segment costs	**(2,814)**	**(752)**	**(37,761)**	**(41,327)**
Net impairment losses reversed	**1,724**	**–**	**–**	**1,724**
Segment results	**14,046**	**1,155**	**4,938**	**20,139**
Other income				**2,103**
Other net loss				**(51)**
Central administrative expenses				**(5,662)**
Finance costs				**(36)**
Profit before tax				**16,493**

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Art and asset sales business RMB'000	Total RMB'000
2022				
Segment revenue	26,998	340	–	27,338
Segment costs	(2,457)	(1,424)	(311)	(4,192)
Net impairment losses reversed	1,651	–	–	1,651
Segment results	26,192	(1,084)	(311)	24,797
Other income				2,831
Other net loss				(609)
Central administrative expenses				(4,947)
Finance costs				(129)
Profit before tax				21,943

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Art and asset sales business RMB'000	Total RMB'000
2023				
Assets				
Segment assets	**423,011**	**574**	**11,168**	**434,753**
Unallocated assets				
Deferred tax assets				**1,230**
Bank balances and cash				**695,818**
Consolidated total assets				**1,131,801**
Liabilities				
Segment liabilities	**793**	**1,107**	**4,381**	**6,281**
Unallocated liabilities				
Tax payable				**2,700**
Loan from a former director				**7,154**
Deferred tax liabilities				**346**
Amount due to a director				**1,788**
Amount due to a director of the Company's subsidiaries				**4,854**
Corporate liabilities				**4,083**
Consolidated total liabilities				**27,206**

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	Art and asset sales business RMB'000	Total RMB'000
2022				
Assets				
Segment assets	494,493	160	–	494,653
Unallocated assets				
Deferred tax assets				1,387
Bank balances and cash				612,418
Tax recoverable				88
Consolidated total assets				1,108,546
Liabilities				
Segment liabilities	1,188	718	–	1,906
Unallocated liabilities				
Tax payable				1,308
Loan from a former director				7,128
Amount due to a director of the Company's subsidiaries				244
Corporate liabilities				4,304
Consolidated total liabilities				14,890

6. REVENUE AND SEGMENT INFORMATION (Continued)

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**
2023				
Segment information included in the measure of segment results or assets:				
Depreciation of property, plant and equipment	**156**	**–**	**–**	**156**
Depreciation of right-of-use assets	**192**	**113**	**114**	**419**
Additions to right-of-use assets	**–**	**867**	**867**	**1,734**

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Art and asset sales business RMB'000	Total RMB'000
2022				
Segment information included in the measure of segment results or assets:				
Depreciation of property, plant and equipment	163	6	–	169
Depreciation of right-of-use assets	204	65	–	269

6. REVENUE AND SEGMENT INFORMATION (Continued)

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, the location of services rendered for art and asset auction business, and the location of the goods delivered for 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**	
	2023	2022	**2023**	2022
	RMB'000	RMB'000	**RMB'000**	RMB'000
The PRC, excluding Hong Kong (place of domicile)	**59,742**	27,338	**1,727**	1,011
Hong Kong	**–**	–	**–**	–
	59,742	27,338	**1,727**	1,011

Information about major customers

Revenue from external customers individually contributing 10% or more of the Group's total revenue is as follows:

	2023	2022
	RMB'000	RMB'000
Customer A	**11,581**[1]	–
Customer B	**9,845**[2]	–[4]
Customer C	**7,920**[3]	–
Customer D	**6,851**[2]	–[4]

[1] The revenue is derived from art and asset auction business, and art and asset sales business.
[2] The revenue is derived from art and asset pawn business, and art and asset sales business.
[3] The revenue is derived from art and asset sales business.
[4] The corresponding revenue did not contribute 10% or more of the Group's total revenue for the respective reporting period.

All external customers individually accounted for less than 10% of the Group's total revenue for the year ended 31 December 2022.

7. OTHER INCOME

	2023	2022
	RMB'000	RMB'000
Bank interest income	**2,103**	2,788
Interest income on loan to a director of the Company's subsidiaries	**–**	43
	2,103	2,831

8. OTHER NET LOSS

	2023 RMB'000	2022 RMB'000
Net foreign exchange loss	**(128)**	(715)
Gain on disposal of property, plant and equipment	**–**	69
Others	**77**	37
	(51)	(609)

9. NET IMPAIRMENT LOSSES REVERSED

	2023 RMB'000	2022 RMB'000
Net impairment losses reversed on loans to customers for art and asset pawn business	**1,724**	1,651

Details of impairment assessment are set out in note 30(b).

10. FINANCE COSTS

	2023 RMB'000	2022 RMB'000
Interest expenses on lease liabilities	**(36)**	(27)
Interest expenses on loan from a former director	**–**	(102)
	(36)	(129)

11. INCOME TAX EXPENSES

	2023 RMB'000	2022 RMB'000
Current tax		
PRC Enterprise Income Tax ("EIT")	**5,119**	6,580
(Overprovision)/underprovision in respect of prior years	**(148)**	354
	4,971	6,934
Deferred tax charge (Note 19)	**503**	413
	5,474	7,347

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 2023 and 2022.

No provision for Hong Kong Profits Tax was made during the years ended 31 December 2023 and 2022 as the Group did not have assessable profits arising in Hong Kong during both years.

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

	2023 RMB'000	2022 RMB'000
Profit before tax	**16,493**	21,943
Tax at the PRC EIT rate of 25% (2022: 25%)	**4,123**	5,486
Effect of different tax rates of the group entities operating in other jurisdictions	**460**	470
Tax effect of non-deductible expenses	**246**	161
Tax effect of non-taxable income	**(182)**	(16)
Tax effect of tax losses not recognised	**966**	935
(Overprovision)/underprovision in respect of prior years	**(148)**	354
Others	**9**	(43)
Income tax expenses for the year	**5,474**	7,347

Details of deferred taxation are set out in note 19.

12. PROFIT FOR THE YEAR

	2023 RMB'000	2022 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration	**795**	787
Other staff salaries and allowances	**2,502**	2,289
Retirement benefit scheme contributions, excluding those of directors	**171**	122
Total staff costs	**3,468**	3,198
Auditors' remuneration		
— audit services	**1,709**	1,925
— other services	**495**	470
Depreciation of property, plant and equipment	**156**	169
Depreciation of right-of-use assets	**419**	269

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 2023				
Executive directors				
Mr. Fan Zhixin (Note a)	–	107	5	112
Mr. Fan Zhijun (Note b)	–	297	29	326
Mr. Liu Xudong (Note c)	–	111	7	118
Non-executive directors				
Mr. Chen Yunwei	16	–	–	16
Mr. Tian Rui (Note d)	2	–	–	2
Independent non-executive directors				
Mr. Leung Shu Sun Sunny	135	–	–	135
Ms. Yin Xuhong	42	–	–	42
Ms. Shao Qiongqiong (Note e)	38	–	–	38
Mr. Liu Jian (Note f)	6	–	–	6
	239	515	41	795
Chief Executive Officer				
Ms. Lam Siu Mui (Note g)	–	11	–	11

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 2022				
Executive directors				
Mr. Fan Zhijun (Note b)	–	386	43	429
Mr. Li Cheng (Note h)	–	46	–	46
Ms. Lam Siu Mui (Note g)	–	2	–	2
Non-executive director				
Mr. Chen Yunwei	–	–	–	–
Independent non-executive directors				
Mr. Leung Shu Sun Sunny	128	–	–	128
Mr. Liu Jian (Note f)	128	–	–	128
Ms. Yin Xuhong	54	–	–	54
	310	434	43	787
Chief Executive Officer				
Ms. Lam Siu Mui (Note g)	–	8	–	8
Mr. Tong Zaan San (Note i)	–	2	–	2
	–	10	–	10

Notes:

(a) Mr. Fan Zhixin was appointed as the executive director of the Company on 15 September 2023.

(b) Mr. Fan Zhijun resigned as the executive director of the Company on 15 September 2023.

(c) Mr. Liu Xudong was appointed as the executive director of the Company on 7 February 2023 and resigned as the executive director of the Company on 15 September 2023.

(d) Mr. Tian Rui was appointed as the non-executive director of the Company on 18 December 2023.

(e) Ms. Shao Qiongqiong was appointed as the independent non-executive director of the Company on 7 February 2023.

(f) Mr. Liu Jian resigned as the independent non-executive director of the Company on 18 January 2023.

(g) Ms. Lam Siu Mui resigned as the executive director of the Company on 21 March 2022. She was appointed as the Chief Executive Officer of the Company on 23 March 2022. During the year ended 31 December 2022, Ms. Lam Siu Mui agreed to waive part of her emoluments as the Chief Executive Officer amounting to RMB72,000 voluntarily.

(h) Mr. Li Cheng resigned as the executive director of the Company on 30 September 2022.

(i) Mr. Tong Zaan San resigned as the Chief Executive Officer of the Company on 23 March 2022. During the year ended 31 December 2022, Mr. Tong Zaan San agreed to waive part of his emoluments of RMB183,000 voluntarily.

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 2023 and 2022.

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 waived or agreed to waive any remuneration during the years ended 31 December 2023 and 2022.

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

(a) Five highest paid individuals

Of the five individuals with the highest emoluments, two (2022: one) are directors of the Company whose emoluments are disclosed in note 13. The aggregate of the emoluments in respect of the remaining three (2022: four) individuals are as follows:

	2023 **RMB'000**	2022 RMB'000
Salaries and other benefits	**562**	707
Retirement benefit scheme contributions	**31**	39
	593	746

The emoluments of the above three (2022: four) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2023	2022
Bands:		
Nil to HK$1,000,000	**3**	4

During the years ended 31 December 2023 and 2022, 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 26.

(b) Senior management's emoluments

The emoluments paid or payable to senior management (including two (2022: two) highest paid individuals as disclosed above) are within the following bands:

	Number of individuals	
	2023	2022
Bands:		
Nil to HK$1,000,000	**7**	7

15. DIVIDEND

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: Nil).

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:

	2023	2022
	RMB'000	RMB'000
Earnings		
Profit for the year for the purpose of calculating basic and diluted earnings per share	**11,019**	14,596

	2023	2022
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share	**1,678,000**	1,678,000

Diluted earnings per share for the year ended 31 December 2023 is the same as the basic earnings per share as the Company has no potential dilutive ordinary shares outstanding during the year.

Diluted earnings per share for the year ended 31 December 2022 was the same as the basic earnings per share 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 that year.

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 2022	669	429	745	1,843
Disposals	–	–	(635)	(635)
Exchange differences	3	2	–	5
At 31 December 2022, 1 January 2023 and 31 December 2023	672	431	110	1,213
Accumulated depreciation				
At 1 January 2022	154	374	615	1,143
Charge for the year	133	15	21	169
Eliminated on disposals	–	–	(603)	(603)
Exchange differences	2	2	–	4
At 31 December 2022 and 1 January 2023	289	391	33	713
Charge for the year	128	7	21	156
At 31 December 2023	417	398	54	869
Carrying amount				
At 31 December 2023	255	33	56	344
At 31 December 2022	383	40	77	500

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 leases, whichever is shorter
Furniture, fixtures and equipment	3–5 years
Motor vehicles	5 years

18. RIGHT-OF-USE ASSETS

	Leased properties RMB'000
At 1 January 2022	778
Depreciation charge for the year	(269)
Exchange differences	2
At 31 December 2022 and 1 January 2023	511
Additions	1,734
Depreciation charge for the year	(419)
Lease modification	(443)
At 31 December 2023	1,383

	2023 **RMB'000**	2022 RMB'000
Settlement for lease liabilities	**667**	293
Expense relating to short-term leases	**68**	142
Total cash outflows for leases	**735**	435

The Group leased various offices and warehouse for its operations. Lease contracts were entered into for fixed terms of three to five years (2022: two to five 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 analysis of the deferred tax balances for financial reporting purposes:

	2023 **RMB'000**	2022 RMB'000
Deferred tax assets	**1,230**	1,387
Deferred tax liabilities	**(346)**	–
	884	1,387

The following is the major deferred tax assets/(liabilities) recognised and movements thereon during the year:

	Impairment allowances RMB'000	**Right-of-use assets** RMB'000	**Lease liabilities** RMB'000	**Total** RMB'000
At 1 January 2022	1,800	–	–	1,800
Charged to profit or loss (Note 11)	(413)	–	–	(413)
At 31 December 2022 and 1 January 2023	1,387	–	–	1,387
(Charged)/credited to profit or loss (Note 11)	(431)	(346)	274	(503)
At 31 December 2023	956	(346)	274	884

As at 31 December 2023, the Group has unused tax losses of approximately RMB24,662,000 (2022: RMB21,213,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in the above are tax losses of approximately RMB3,567,000 (2022: RMB5,347,000) which can only be carried forward for a maximum period of five years. Other losses may be carried forward indefinitely.

As at 31 December 2023, temporary differences relating to the undistributed profits of subsidiaries established in the PRC since Year 2008 amounted to approximately RMB788,666,000 (2022: RMB770,413,000). Deferred tax liabilities of approximately RMB78,867,000 (2022: RMB77,041,000) have not been recognised in respect of these temporary differences as the Group is able to control the dividend policy of these subsidiaries and in turn to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

20. INVENTORIES

	2023 **RMB'000**	2022 RMB'000
Calligraphies and paintings	**6,800**	–
Zisha artwork	**3,800**	–
	10,600	–

The cost of inventories recognised as expenses and included in "cost of inventories sold" amounted to RMB35,353,000 for the year ended 31 December 2023 (2022: Nil).

21. LOAN RECEIVABLES

	2023 RMB'000	2022 RMB'000
Art and asset pawn loans to customers	**426,251**	499,038
Less: Impairment allowances	**(3,825)**	(5,549)
	422,426	493,489

Details of the impairment assessment of loan receivables are set out in note 30(b).

The art and asset pawn loans to customers are arising from the Group's art and asset pawn business. The loan periods initially granted to customers are normally within three months and the maximum tenure of each loan is six months from the date of the loan initially granted. 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 effective interest rates ranging from approximately 7% to 12% (2022: 6% to 18%) per annum during the year ended 31 December 2023. 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.

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:

	2023 RMB'000	2022 RMB'000
Within 1 month	**102,007**	249,634
1–3 months	**188,659**	243,834
3–6 months	**131,760**	21
Total	**422,426**	493,489

As at 31 December 2023 and 2022, all loan receivables were not yet past due based on the contractual due dates as stipulated in pawn tickets.

22. BANK BALANCES AND CASH

The Group's bank balances carried prevailing market interest rates ranging from 0% to 0.2% (2022: 0% to 0.3%) per annum.

As at 31 December 2023, 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 RMB695,089,000 (2022: RMB612,068,000).

23. ACCRUALS AND OTHER PAYABLES

	2023 RMB'000	2022 RMB'000
Accrued expenses	**4,585**	5,302
Payables on behalf of customers in respect of art and asset auction business (Note a)	**281**	–
Loan from a former director (Note b)	**7,154**	7,128
Amount due to a director (Note c)	**1,788**	–
Amount due to a director of the Company's subsidiaries (Note d)	**4,854**	244
Contract liabilities (Note e)	**2,000**	–
Other tax payables	**2,373**	412
Others	**30**	61
	23,065	13,147

Notes:

(a) 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. 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 2023 based on the dates of relevant auction services rendered.

(b)

Name of former director	2023 RMB'000	2022 RMB'000
Ms. Lam Siu Miu	**7,154**	7,128

Ms. Lam Siu Miu resigned as the executive director of the Company on 21 March 2022 and was appointed as the Chief Executive Officer of the Company on 23 March 2022.

The loan from a former director was unsecured and interest-free. As at 31 December 2022, the loan from a former director was repayable on or before 30 June 2023. During the year ended 31 December 2023, Ms. Lam agreed to extend the repayable date of the loan to 30 June 2024.

(c) The amount due to Mr. Fan Zhixin, the executive director of the Company, was non-trade nature, unsecured, interest-free, and repayable on demand.

(d) The amount due to Mr. Fan Zhijun, a director of the Company's subsidiaries, was non-trade nature, unsecured, interest-free and repayable on demand. Mr. Fan Zhijun resigned as the executive director of the Company on 15 September 2023 and remained as the director of the Company's subsidiaries.

(e) The contract liabilities are the advance payments from customers for the sales of artwork which have not yet been completed.

The movement of contract liabilities are as follows:

	2023 RMB'000	2022 RMB'000
At 1 January	**–**	–
Increase due to cash received, excluding amounts recognised as revenue	**2,000**	–
At 31 December	**2,000**	–

24. LEASE LIABILITIES

	2023 RMB'000	2022 RMB'000
Lease liabilities payable:		
Within one year	**630**	212
Within a period of more than one year but not more than two years	**465**	223
	1,095	435
Less: Amounts due for settlement within twelve months shown under current liabilities	**(630)**	(212)
Amounts due for settlement after twelve months shown under non-current liabilities	**465**	223

25. SHARE CAPITAL

	Number of shares	**Amount**	
	'000	HK$'000	(Equivalent to RMB'000)
Ordinary shares of HK$0.01 each			
Authorised			
At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	5,000,000	50,000	43,420
Issued and fully paid			
At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	1,678,000	16,780	14,679

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.

26. 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.

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.

26. SHARE-BASED PAYMENTS (Continued)

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

				Number of share options under the Scheme		
Date of grant	**Exercise price**	**Vesting date**	**Exercisable period**	**Outstanding as at 1 January 2022**	**Lapsed during the year**	**Outstanding as at 31 December 2022, 1 January 2023 and 31 December 2023**
2 June 2017	HK$0.8	2 June 2017	2 June 2017 to 1 June 2022	**8,000,000**	**(8,000,000)**	**–**
2 June 2017	HK$0.8	2 December 2017	2 December 2017 to 1 June 2022	**8,000,000**	**(8,000,000)**	**–**
2 June 2017	HK$0.8	2 June 2018	2 June 2018 to 1 June 2022	**7,000,000**	**(7,000,000)**	**–**
				23,000,000	**(23,000,000)**	**–**

During the year ended 31 December 2022, all of the share options were lapsed.

No equity-settled share option expense was recognised for the year ended 31 December 2022 as all share options were vested in previous years.

When the 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.

27. 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.

	Lease liabilities	**Loan from a former director**	**Amount due to a director**	**Amount due to a director of the Company's subsidiaries**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 24)	(Note 23)	(Note 23)	(Note 23)	
At 1 January 2022	699	6,427	–	–	7,126
Financing cash flows	(293)	–	–	235	(58)
Non-cash changes:					
Finance costs	27	102	–	–	129
Exchange differences	2	599	–	9	610
At 31 December 2022 and 1 January 2023	**435**	**7,128**	**–**	**244**	**7,807**
Financing cash flows	**(667)**	**–**	**1,775**	**4,574**	**5,682**
Non-cash changes:					
Addition of new lease	**1,734**	**–**	**–**	**–**	**1,734**
Finance costs	**36**	**–**	**–**	**–**	**36**
Lease modification	**(443)**	**–**	**–**	**–**	**(443)**
Exchange differences	**–**	**26**	**13**	**36**	**75**
At 31 December 2023	**1,095**	**7,154**	**1,788**	**4,854**	**14,891**

28. 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 RMB212,000 (2022: RMB165,000) for the year ended 31 December 2023.

During the years ended 31 December 2023 and 2022, the Group had no forfeited contributions under its retirement benefit scheme in the PRC and under the MPF Scheme in Hong Kong which may be used to reduce the existing level of contributions as described in paragraph 26(2) of Appendix D2 to the Rules Governing the Listing of Securities on the Stock Exchange.

29. 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 loan from a former director, amount due to a director, amount due to a director of the Company's subsidiaries and lease liabilities, net of bank balances and cash. There was no net debt for the Group as at 31 December 2023 and 2022.

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.

30. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2023 RMB'000	2022 RMB'000
Financial assets at amortised cost	**1,118,244**	1,106,060
Financial liabilities at amortised cost	**15,202**	7,868

(b) Financial risk management objectives and policies

The Group's major financial instruments include loan receivables, other receivables, bank balances and cash, loan from a former director, amount due to a director, amount due to a director of the Company's subsidiaries, other payables 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 Group is exposed to fair value interest rate risk in relation to fixed-rate loan receivables (see Note 21 for details) and fixed-rate lease liabilities (see Note 24 for details). The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook.

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate.

Total interest income from financial assets that are measured at amortised cost for the year ended 31 December 2023 amounted to RMB17,239,000 (2022: RMB29,829,000).

30. 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	2023 RMB'000	2022 RMB'000
Monetary assets	HKD	**237**	234
Monetary liabilities	HKD	**(17,021)**	(11,452)
Net exposure	HKD	**(16,784)**	(11,218)

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, loan to a director, amount due to a director, loan from a former director, and accruals and other payables which are denominated in HKD.

	2023 RMB'000	2022 RMB'000
Increase in profit for the year	**701**	468

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.

30. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment

As at 31 December 2023, the carrying amounts of financial assets represent the Group's maximum exposure to credit risk. Other than the entire balance of loan receivables from customers (net of impairment allowances) of RMB422,426,000 (2022: RMB493,489,000) which are backed by collateral as security as disclosed in note 21, 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

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.

As at 31 December 2023, the Group's concentration of credit risk on loans to customers included ten major customers in the PRC accounting for 58% (2022: 28%) 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.

30. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

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

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

- the 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.

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 customer is placed under legal proceedings and is deemed a defaulter under court orders.

30. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

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

The Group's internal credit grading assessment 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: • 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: • 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

30. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

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

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

		Gross carrying amount	
	12m or lifetime ECL	At 31 December 2023 RMB'000	At 31 December 2022 RMB'000
Lower risk	12m ECL	**426,251**	499,038
Medium risk	12m ECL	**–**	–
		426,251	499,038

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 2022	7,200
Impairment losses reversed during the year	(1,651)
At 31 December 2022 and 1 January 2023	5,549
Impairment losses reversed during the year	(1,724)
At 31 December 2023	3,825

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 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 (if any) is manageable.

30. 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 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.

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, the Group applies the simplified approach for impairment assessment and always recognises lifetime ECL. For other receivables, 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.

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.

30. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

Liquidity risk table

The following table details the Group's remaining contractual maturity for its financial liabilities (other payables, loan from a former director, amount due to a director, amount due to a director of the Company's subsidiaries and lease liabilities) based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	**Within 1 year or on demand RMB'000**	**More than 1 year but less than 2 years RMB'000**	**Total undiscounted cash flows RMB'000**	**Carrying amounts at 31 December 2023 RMB'000**
Other payables	**–**	**311**	**–**	**311**	**311**
Loan from a former director	**–**	**7,154**	**–**	**7,154**	**7,154**
Amount due to a director	**–**	**1,788**	**–**	**1,788**	**1,788**
Amount due to a director of the Company's subsidiaries	**–**	**4,854**	**–**	**4,854**	**4,854**
Lease liabilities	**4.94**	**667**	**476**	**1,143**	**1,095**
		14,774	**476**	**15,250**	**15,202**

	Weighted average effective interest rate %	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts at 31 December 2022 RMB'000
Other payables	–	61	–	61	61
Loan from a former director	–	7,128	–	7,128	7,128
Amount due to a director of the Company's subsidiaries	–	244	–	244	244
Lease liabilities	5.61	227	227	454	435
		7,660	227	7,887	7,868

(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.

31. RELATED PARTY DISCLOSURES

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

(a) During the year, the Group entered into the following significant transactions with Mr. Fan Zhijun, the former director of the Company and the director of the Company's subsidiaries:

	2023	2022
	RMB'000	RMB'000
Interest income on loan to a director of the Company's subsidiaries	**–**	43

(b) During the year, the Group entered into the following significant transactions with Ms. Lam Siu Mui, the former director of the Company and the Chief Executive Officer of the Company:

	2023	2022
	RMB'000	RMB'000
Interest on loan from a former director	**–**	102

(c) During the year ended 31 December 2022, the Group disposed of a motor vehicle to a close family member of Mr. Fan Zhijun, the director of the Company's subsidiaries, at a consideration of RMB49,000 (2023: Nil) and the Group recognised a gain on disposal of property, plant and equipment amounting to approximately RMB29,000 (2023: Nil).

(d) Compensation of key management personnel

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

	2023	2022
	RMB'000	RMB'000
Salaries and other benefits	**1,404**	1,248
Retirement benefit scheme contributions	**63**	65
	1,467	1,313

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

32. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2023 and 2022 are as follows:

Name of company	Place of incorporation/ establishment and operation	Equity interest attributable to the Group as at 31 December 2023 %	2022 %	Issued and fully paid share/ registered capital	Legal form	Principal activities
Directly held:						
Reliance Art Holdings Limited	BVI#	**100**	100	USD50,000	Limited liability company	Investment holding
Indirectly held:						
Artfund International (Hong Kong) Auction Company Limited	Hong Kong	**100**	100	HK$10,000,000	Limited liability company	Auction and related services
China Art Financial Investments Company Limited	Hong Kong	**100**	100	HK$1	Limited liability company	Inactive
China Art Financial Management Company Limited	Hong Kong	**100**	100	HK$1	Limited liability company	Inactive
Co-Reliance Art Financial Company Limited	Hong Kong	**100**	100	HK$1	Limited liability company	Investment holding
Hexin Consultancy Service Company Limited	Hong Kong	**100**	100	HK$1	Limited liability company	Inactive
Artfund International Culture and Art Company Limited	Hong Kong	**100**	100	HK$1	Limited liability 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 and artwork sales
Hexin Pawn (Note)	The PRC	**100**	100	RMB170,000,000	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	RMB10,000,000	Limited liability company	Inactive

\# This is an investment holding company which has no specific principal place of operation.

Note: As detailed in note 2, the Contractual Arrangements entered into between WOFE-Pawn and WOFE-Auction and all the equity holders of Hexin Pawn and Hexin Auction effectively transfer the controls over economic benefits and pass the risks associated therewith of Hexin Pawn and Hexin Auction to WFOE-Pawn and WFOE-Auction. Accordingly, Hexin Pawn and Hexin Auction are considered to be wholly-owned subsidiaries of WOFE-Pawn and WOFE-Auction respectively and are treated as indirect subsidiaries of the Company.

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

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2023 RMB'000	2022 RMB'000
Non-current assets			
Investments in subsidiaries	(a)	**176,022**	176,022
Current assets			
Amount due from a subsidiary	(b)	**87,527**	85,554
Bank balances and cash		**235**	233
		87,762	85,787
Current liabilities			
Accruals and other payables		**17,021**	11,452
Amounts due to subsidiaries	(b)	**96,673**	96,398
		113,694	107,850
Net current liabilities		**(25,932)**	(22,063)
Net assets		**150,090**	153,959
Capital and reserves			
Share capital		**14,679**	14,679
Reserves		**135,411**	139,280
Total equity		**150,090**	153,959

33. 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 2022	198,794	5,560	(67,514)	136,840
Profit and total comprehensive income for the year	–	–	2,440	2,440
Transfer to accumulated losses upon lapse of share options	–	(5,560)	5,560	–
At 31 December 2022 and 1 January 2023	198,794	–	(59,514)	139,280
Loss and total comprehensive expense for the year	–	–	(3,869)	(3,869)
At 31 December 2023	198,794	–	(63,383)	135,411

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 (2022: 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.

34. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform to the current year's presentation.