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## **CHINA ART FINANCIAL HOLDINGS LIMITED**

**中國藝術金融控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1572)**

### **SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE USE OF PROCEEDS DISCLOSED IN THE ANNUAL REPORT AND CHANGE OF USE OF PROCEEDS**

Reference is made to the annual report of China Art Financial Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the financial year ended 31 December 2019 (the “**Annual Report**”).

#### **USE OF PROCEEDS DISCLOSED IN THE ANNUAL REPORT**

As disclosed in the Annual Report, the net proceeds after deducting the underwriting commission and issuing expenses arising from the listing of the shares of the Company on the main board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**IPO**”) amounted to HK\$237.7 million (equivalent to approximately RMB212.6 million). Up to 31 December 2019, (i) HK\$118.9 million (equivalent to approximately RMB106.3 million) has been used to increase the registered capital of Jiangsu Hexin Pawn Company Limited (“**Hexin Pawn**”), a non-wholly owned subsidiary of the Company (ii) HK\$47.5 million (equivalent to approximately RMB42.5 million) has been used in establishing branches of the Group in Hong Kong and Shanghai, (iii) HK\$1.7 million (equivalent to approximately RMB1.5 million) has been used in strengthening the Group’s online auction platform and developing online loan financing platform, and (iv) HK\$23.8 million (equivalent to approximately RMB21.3 million) has been used for general operation expenses. The remaining net proceeds of HK\$45.8 million (equivalent to approximately RMB41.0 million) (the “**Unutilised Net Proceeds**”) were deposited with certain licensed financial institutions as of 31 December 2019.

The board of directors of the Company (the “**Board**”) would like to provide additional information pursuant to paragraph 11(8) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange in relation to the use of net proceeds raised from the IPO as follows:

	<b>Planned use of proceeds as disclosed in the prospectus of the Company dated 27 October 2016 HK\$</b>	<b>Actual use of proceeds from the listing date to 31 December 2019 HK\$</b>	<b>Unutilised proceeds as at 31 December 2019 HK\$</b>
Increase the registered capital of Hexin Pawn	118.9 million	118.9 million	–
Strengthening online auction platform and developing online loan financing platform	47.5 million	1.7 million	45.8 million
Establishment of new loan offices in other part of China and new auction branches or subsidiaries in Beijing, Shanghai and Hong Kong	47.5 million	47.5 million	–
Funding of general operations	<u>23.8 million</u>	<u>23.8 million</u>	<u>–</u>
<b>Total</b>	<b><u>237.7 million</u></b>	<b><u>191.9 million</u></b>	<b><u>45.8 million</u></b>

## CHANGE OF USE OF PROCEEDS

For reasons set out in the paragraph headed “Reasons for and benefits of the change in use of proceeds” of this announcement, 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. The revised allocation of the net proceeds from the IPO (the “**Reallocation**”) is 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 this announcement	Remaining net proceeds as at the date of this announcement	Revised allocation of the net proceeds	
	HK\$	% of net proceeds			HK\$	% of revised allocation
			HK\$	HK\$	HK\$	
Increase the registered capital of Hexin Pawn	118.9 million	50	118.9 million	–	118.9 million	50
Strengthening online auction platform and developing online loan financing platform	47.5 million	20	2.0 million	45.5 million	2.0 million	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 million	20	47.5 million	–	47.5 million	20
Trading of artworks	–	–	–	–	45.5 million	19
Funding of general operations	23.8 million	10	23.8 million	–	23.8 million	10
Total	<u>237.7 million</u>	<u>100</u>	<u>192.2 million</u>	<u>45.5 million</u>	<u>237.7 million</u>	<u>100</u>

### Reasons for and benefits of the change of use of proceeds

The Group provides art finance services under two business segments, namely (i) art and asset pawn business, and (ii) art and asset auction 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. The Unutilised Net Proceeds is intended to be fully utilised for trading of artworks by June 2021. The Board is of the view that the Reallocation is in the best interests of the Company and its shareholders as a whole.

The above supplemental information does not affect other information contained in the Annual Report and save as disclosed above, all other information in the Annual Report remains unchanged.

Save as disclosed above, there is no material delay or change in the use of proceeds. Should there be any material delay or further change in the use of proceeds, further announcement(s) will be made by the Company as and when appropriate.

By order of the Board  
**China Art Financial Holdings Limited**  
**Fan Zhijun**  
*Chairman*

Hong Kong, 29 July 2020

*As at the date of this announcement, the Board comprises (1) Mr. Fan Zhijun and Mr. Li Cheng as the executive Directors and (2) Mr. Leung Shu Sun, Sunny, Mr. Liu Jian and Ms. Yin Xu Hong as the independent non-executive Directors.*