# 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)**

## ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

**Financial Highlights for the Six Months Ended 30 June 2017:**

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2017** | 2016 | Change |
| | ***RMB'000*** | *RMB'000* | *%* |
| **Operating Results** | | | |
| Revenue | **114,059** | 66,322 | 72 |
| Profit attributable to owners of the Company | **64,261** | 27,915 | 130 |
| Basic earnings per share *(RMB cents)* | **4.02** | 2.73 | 47 |

| | **As at 30 June 2017** | As at 31 December 2016 | Change |
|---|---|---|---|
| | ***RMB'000*** | *RMB'000* | *%* |
| **Financial Position** | | | |
| Total assets | **840,170** | 699,752 | 20 |
| Net assets | **620,401** | 618,856 | 0 |

## BUSINESS REVIEW AND PLAN

### 1. Company Financial Performance

Our revenue increased 72%, while two main business of the Company achieved a balanced and rapid growth. The revenue from art auction business and art pawn loan business have recorded increases of 64% and 81%, respectively.

Profit attributable to equity owners of the Company recorded a period-on-period increase of 130%, offsetting by charges of approximately RMB8.5 million arising from issuance of share options by the Company on 2 June 2017 (please refer to section "Share Option Scheme" for details).

### 2. Company Business Highlights

| Operating Information | Six months ended 30 June<br>**2017** | <br>2016 | Change<br>% |
|---|---|---|---|
| Aggregate transaction value of art auction (RMB million) | **270.0** | 182.9 | 48 |
| Aggregate transaction value of spring auction (RMB million) | **213.4** | 164.6 | 30 |
| Aggregate transaction value of pure online auction (RMB million) | **56.6** | 18.3 | 309 |
| Overall commission rate for art auction business (%) | **21** | 20 | 5 |
| Total new loan amount granted secured by artwork (RMB million) | **316.6** | 287.1 | 10 |
| Impaired loan rate (%) | **0** | 0 | – |

### 3. Plan for second half of the year

The Company has planned to organize our first autumn auction in Hong Kong in late November 2017. Meanwhile, we actively prepare for the autumn auction to be held in Yixing in late December 2017. In April 2017, the Company completed the capital injection of RMB70 million into its wholly-owned subsidiary Jiangsu Hexin Pawn Company Limited (the "Hexin Pawn"), with an aim to expand art pawn loan business in the second half of the year. The Company will seek for merger and acquisition co-operation with suitable companies in art pawn loan and auction industry which can create synergy effects with the Company as disclosed in the prospectus.

The board (the "Board") of directors (the "**Directors**") of China Art Financial Holdings Limited (the "**Company**") hereby announces the interim results of the Company and its subsidiaries (together, the "**Group**") for the six months ended 30 June 2017 (the "**Period Under Review**") together with comparative figures for the previous period as follows:

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2017*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2017** | 2016 |
| | *Notes* | ***RMB'000*** | *RMB'000* |
| | | **(Unaudited)** | (Audited) |
| Revenue | *3* | **114,059** | 66,322 |
| Other income | | **803** | 362 |
| Other gains and losses | | **(1,932)** | (131) |
| Business tax and surcharges | | **(854)** | (2,006) |
| Operating expenses | | **(4,726)** | (1,206) |
| Allowance recognised on loans to customers for art and asset pawn business, net | | **(353)** | (2,879) |
| Administrative expenses | | **(15,836)** | (3,854) |
| Listing expenses | | **–** | (10,872) |
| Profit before tax | | **91,161** | 45,736 |
| Income tax expense | *5* | **(26,900)** | (14,305) |
| Profit for the period | | **64,261** | 31,431 |
| Profit and total comprehensive income for the period attributable to: | | | |
| — Owners of the Company | | **64,261** | 27,915 |
| — Non-controlling interests | | **–** | 3,516 |
| | | **64,261** | 31,431 |
| Earnings per share for profit attributable to owners of the Company | *7* | | |
| Basic *(RMB cents)* | | **4.02** | 2.73 |
| Diluted *(RMB cents)* | | **4.02** | N/A |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2017*

| | Notes | As at 30 June 2017 RMB'000 (Unaudited) | As at 31 December 2016 RMB'000 (Audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **3,665** | 1,242 |
| Deferred tax asset | | **1,283** | 1,195 |
| | | **4,948** | 2,437 |
| **Current assets** | | | |
| Loans to customers for art and asset pawn business | *8* | **251,511** | 234,183 |
| Trade receivables, other receivables and prepayments | | **195,508** | 52 |
| Amount due from a director | | **80** | – |
| Bank balances and cash | | **388,123** | 463,080 |
| | | **835,222** | 697,315 |
| **Current liabilities** | | | |
| Other payables and accrual | | **202,015** | 64,573 |
| Amounts due to directors | | **64** | – |
| Amounts due to related parties | | **20** | – |
| Tax liabilities | | **17,670** | 16,323 |
| | | **219,769** | 80,896 |
| **Net current assets** | | **615,453** | 616,419 |
| **Net assets** | | **620,401** | 618,856 |
| **Capital and reserves** | | | |
| Share capital | *9* | **13,995** | 13,995 |
| Reserves | | **606,406** | 604,861 |
| Equity attributable to owners of the Company | | **620,401** | 618,856 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

**Share based payment arrangements**

*Share based payment transactions of the Company*

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.

The fair value determined at the grant date of the equity settled share based payment 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.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. 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 options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expected immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options 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 options reserve will be transferred to retained profits.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") that are relevant for the preparation of the Group's condensed consolidated financial statements:

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to HKFRSs | Amendments to HKFRS 12 included in Annual Improvements to HKFRSs 2014–2016 Cycle |

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

## 3. REVENUE

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

| | **Six months ended 30 June** | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Pawn loan revenue from art and asset pawn business | **57,069** | 31,610 |
| Auction revenue from art and asset auction business | **56,990** | 34,712 |
| Total | **114,059** | 66,322 |

## 4. SEGMENT INFORMATION

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

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies. Segment result represents the profit earned by each segment without allocation of central administration costs, other income, other gains and losses and listing expenses. Segment assets and liabilities are allocated to each segment excluding deferred tax asset, bank balances and cash and other payables and accrual. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

**Segment revenues and results**

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

| | **Art and asset pawn business** *RMB'000* | **Art and asset auction business** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|
| (Unaudited) | | | |
| **Six months ended 30 June 2017** | | | |
| Segment revenue | **57,069** | **56,990** | **114,059** |
| Segment cost | **(542)** | **(4,184)** | **(4,726)** |
| Business tax and surcharges | **(452)** | **(402)** | **(854)** |
| Allowance on loans to customers for art and asset pawn business | **(353)** | **–** | **(353)** |
| Segment result | **55,722** | **52,404** | **108,126** |
| Other income | | | **803** |
| Other gains and losses | | | **(1,932)** |
| Central administrative expenses | | | **(15,836)** |
| Profit before tax | | | **91,161** |

| | Art and asset pawn business *RMB'000* | Art and asset auction business *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| (Audited) | | | |
| **Six months ended 30 June 2016** | | | |
| Segment revenue | 31,610 | 34,712 | 66,322 |
| Segment cost | (422) | (784) | (1,206) |
| Business tax and surcharges | (1,578) | (428) | (2,006) |
| Allowance on loans to customers for art and asset pawn business | (2,879) | – | (2,879) |
| Segment result | 26,731 | 33,500 | 60,231 |
| Other income | | | 362 |
| Other gains and losses | | | (131) |
| Central administrative expenses | | | (3,854) |
| Listing expenses | | | (10,872) |
| Profit before tax | | | 45,736 |

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

| | **Art and asset pawn business** *RMB'000* | **Art and asset auction business** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|
| (Unaudited) | | | |
| **As at 30 June 2017** | | | |
| **Assets** | | | |
| Segment assets | **254,935** | **195,829** | **450,764** |
| Other unallocated assets | | | |
| Deferred tax asset | | | **1,283** |
| Bank balances and cash | | | **388,123** |
| Consolidated total assets | | | **840,170** |
| **Liabilities** | | | |
| Segment liabilities | **6,217** | **212,467** | **218,684** |
| Other unallocated liabilities | | | |
| Other payables and accrual | | | **1,085** |
| Consolidated total liabilities | | | **219,769** |

| | Art and asset pawn business *RMB'000* | Art and asset auction business *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| (Audited) | | | |
| **As at 31 December 2016** | | | |
| **Assets** | | | |
| Segment assets | 235,303 | 174 | 235,477 |
| Other unallocated assets | | | |
| Deferred tax asset | | | 1,195 |
| Bank balances and cash | | | 463,080 |
| Consolidated total assets | | | 699,752 |
| **Liabilities** | | | |
| Segment liabilities | 5,702 | 61,513 | 67,215 |
| Other unallocated liabilities | | | |
| Other payables and accrual | | | 13,681 |
| Consolidated total liabilities | | | 80,896 |

**Other segment information**

| | Art and asset pawn business *RMB'000* | Art and asset auction business *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| (Unaudited) | | | |
| **Six months ended 30 June 2017** | | | |
| Segment information included in the measure of segment results or assets: | | | |
| Addition to property, plant and equipment | **2,488** | **405** | **2,893** |
| Depreciation of property, plant and equipment | **413** | **57** | **470** |
| Allowance on loans to customers for art and asset pawn business, net | **353** | **–** | **353** |
| (Audited) | | | |
| **Six months ended 30 June 2016** | | | |
| Segment information included in the measure of segment results or assets: | | | |
| Depreciation of property, plant and equipment | 341 | 57 | 398 |
| Allowance on loans to customers for art and asset pawn business, net | 2,879 | – | 2,879 |

**Geographical information**

The Group's revenue from external customers is derived solely from its operations and services rendered in the PRC and non-current assets of the Group are located in the PRC.

**Information about major customers**

There was no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue for the period reported.

## 5. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Current tax | | |
| PRC Enterprise Income Tax ("**EIT**") | **26,988** | 15,025 |
| Deferred tax | **(88)** | (720) |
| | **26,900** | 14,305 |

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Laws of Cayman Islands, and accordingly, is exempted from payment of Cayman Islands income tax.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the income of the Group neither arises in nor is derived from Hong Kong during both periods.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25%.

## 6. DIVIDEND

During the current interim period, a final dividend of HK3.0 cents (equivalent to RMB2.7 cents) (six months ended 30 June 2016: nil) per share in respect of the year ended 31 December 2016 and a special dividend of HK2.0 cents (equivalent to RMB1.8 cents) (six months ended 30 June 2016: nil) per share in respect of the year ended 31 December 2016 was declared and paid to the owners of the Company. The aggregate amount of the final dividend and special dividend declared and paid in the interim period amounted to HK$80,000,000 (equivalent to RMB71,208,000) (six months ended 30 June 2016: nil).

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

## 7. EARNINGS PER SHARE

| | **Six months ended 30 June** | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Earnings: | | |
| Earnings for the purpose of calculating basic earning per share (profit for the period attributable to the owners of the Company) | **64,261** | 27,915 |

| | **Six months ended 30 June** | |
|---|---|---|
| | **2017** | 2016 |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share | **1,600,000,000** | 1,021,935,288 |

The calculation of the basic earnings per share for the six months ended 30 June 2016 is based on the assumption that the reorganisation and the capitalisation issue of 1,200,000,000 shares has been effective on 1 January 2016 and adjusted for the capital contribution of shareholders in previous years.

The calculation of diluted earnings per share for the six months ended 30 June 2017 did not assume the exercise of the Company's options as the exercise prices of the option were higher than the average market price of the Company's shares for the period.

No diluted earnings per share is presented for the six months ended 30 June 2016 as there was no potential dilutive ordinary shares in issue during that period.

## 8. LOANS TO CUSTOMERS FOR ART AND ASSET PAWN BUSINESS

| | **As at 30 June 2017** ***RMB'000*** **(Unaudited)** | As at 31 December 2016 *RMB'000* (Audited) |
|---|---|---|
| Art and asset pawn loans to customers, gross | **256,644** | 238,963 |
| Less: impairment allowances | | |
| — Individually assessed | **–** | – |
| — Collectively assessed | **5,133** | 4,780 |
| | **5,133** | 4,780 |
| Art and asset pawn loans to customers, net | **251,511** | 234,183 |

The art and asset pawn loans to customers are arising from the Group's art and asset pawn business. The loan periods granted to customers are normally within three months. At the maturity of the loan period, a borrower is under 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 or within five days after the maturity date of the loan period. The loans provided to customers bore fixed interest rates ranging from 32% to 48% (2016: 30% to 48%) per annum during the six months ended 30 June 2017. Loans to customers are all denominated in RMB.

### (a) Aging analysis of loans to customers

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

| | **As at 30 June 2017** ***RMB'000*** **(Unaudited)** | As at 31 December 2016 *RMB'000* (Audited) |
|---|---|---|
| Within 1 month | **94,775** | 83,892 |
| 2–3 months | **129,321** | 112,787 |
| 3–6 months | **27,406** | 37,504 |
| 6–12 months | **9** | – |
| Total | **251,511** | 234,183 |

**(b) Reconciliation of allowance account for losses on loans to customers**

| | As at 30 June 2017 RMB'000 (Unaudited) | As at 31 December 2016 RMB'000 (Audited) |
|---|---|---|
| Collectively assessed: | | |
| At beginning of period/year | **4,780** | 1,323 |
| Impairment losses recognised | **353** | 3,457 |
| At end of period/year | **5,133** | 4,780 |

**(c) Net charge of impairment allowance on loans to customers**

| | Six months ended 30 June 2017 RMB'000 (Unaudited) | Year ended 31 December 2016 RMB'000 (Audited) |
|---|---|---|
| Net charge of impairment allowance | | |
| Individually assessed | **–** | – |
| Collectively assessed | **353** | 3,457 |
| | **353** | 3,457 |

**9. SHARE CAPITAL**

| | Number of shares | Nominal value HK$'000 | Nominal value RMB'000 |
|---|---|---|---|
| Ordinary shares of HK$0.01 each | | | |
| **Authorised** | | | |
| At 31 December 2016 and 30 June 2017 | 5,000,000,000 | 50,000 | 43,420 |
| **Issued and fully paid** | | | |
| At 31 December 2016 and 30 June 2017 | 1,600,000,000 | 16,000 | 13,995 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

In response to the complicated international and domestic economic situation, the Group actively adapted to the new normal economic and industry development, grasped the new market trend and achieved satisfactory results in auction and pawn loan business segments. For the six months ended 30 June 2017, the Group's revenue was approximately RMB114.1 million, representing an increase of approximately 72% from RMB66.3 million for the same period in 2016. The profit attributable to owners of the Company was approximately RMB64.3 million, representing an increase of approximately 130% from RMB27.9 million for the same period in 2016.

### Art and Asset Auction Business

The Group's art and asset auction business continued to prosper. During the Period Under Review, revenue from the art and asset auction segment of the Company was approximately RMB57.0 million, representing an increase of approximately 64% from RMB34.7 million for the same period last year, of which, revenue of art auction representing 100% of auction segment revenue. No asset auction was held during the Period Under Review and for the same period last year. Profits of art and asset auction segment was RMB52.4 million, representing an increase of approximately 56% as compared with that for the same period last year.

During the Period Under Review, the Group held one spring auction and two pure online art auctions. The aggregate transaction value (excluding buyer commission) amounted to RMB270.0 million, representing an increase of approximately 48% from approximately RMB182.9 million for the same period in 2016.

On 25 June 2017, the Group successfully organized its first spring auction after listing, receiving an overwhelming market response. The total hammer price for the auction lots (excluding buyer commission) reached RMB213.4 million, representing an increase of approximately 30% from approximately RMB164.6 million of the 2016 spring auction, in which the total hammer price for the zisha artworks amounted to approximately RMB125.3million. During the spring auction, we moderately adjusted buyer commission from 12% to 15%. Total commission received increased from 20% to 23%.

To capture opportunities from the Chinese online auction market, one of the biggest markets worldwide, the Company held two pure online art auctions in the first half of 2017. The total hammer price for the auction lots (excluding buyer commission) reached RMB56.6 million, representing an increase of approximately 309% as compared with a total of approximately RMB18.3 million for the pure online art auctions held in the same period of 2016.

**Art and Asset Pawn Loan Business**

The Group steadily developed its art and asset pawn loan business with remarkable effective in risk management. During the Period Under Review, revenue from the pawn loan segment was approximately RMB57.1 million, representing an increase of approximately 81% from approximately RMB31.6 million for the same period last year. Profits of pawn loan segment was RMB55.7 million, representing an increase of approximately 109% from approximately RMB26.7 million for the same period last year. As of 30 June 2017, the total amount of new loans granted by the Group amounted to approximately RMB341.9 million.

The breakdown of art and asset pawn loan business of the Group in the first half of 2017 and 2016 was as follows:

| | **Six months ended 30 June** | | | | |
|---|---|---|---|---|---|
| | **2017** | | 2016 | | |
| | ***RMB'000*** | *%* | *RMB'000* | *%* | % of change |
| Art pawn loan revenue | **53,272** | **93** | 31,310 | 99 | 70 |
| Asset pawn loan revenue | **3,797** | **7** | 300 | 1 | 1,166 |
| Total | **57,069** | **100** | 31,610 | 100 | 81 |

| | **Six months ended 30 June** | |
|---|---|---|
| **Loans secured by artwork** | **2017** | 2016 |
| Total new loan amount granted (*RMB'000*) | **316,580** | 287,090 |
| Total number of new loans granted | **51** | 57 |
| Number of new loans renewed | **18** | 20 |
| Renewal ratio of new loan (%) | **35.3** | 35.1 |
| Average initial loan term (days) | **67** | 78 |

| | **Six months ended 30 June** | |
|---|---|---|
| **Loans secured by assets** | **2017** | 2016 |
| Total new loan amount granted (*RMB'000*) | **25,312** | 2,133 |
| Total number of new loans granted | **42** | 108 |
| Number of new loans renewed | **20** | 55 |
| Renewal ratio of new loan (%) | **47.6** | 50.9 |
| Average initial loan term (days) | **46** | 48 |

During the Period Under Review, approximately RMB316.6 million of new loan amount the Group granted were secured by artworks. Our artwork collateral portfolio mainly includes zisha artworks as well as paintings and calligraphies and jewel artworks. As at 30 June 2017, the Group charged fixed rates of monthly composite administrative fee for our pawn loan secured by artworks and personal property (both of which are classified as movable properties under the Pawning Measures), real estate and equity interest as collateral generally at the respective rate of 4.0%, 2.7% and 2.4% of the principal amount of the loan respectively.

The Group implemented a risk management system which we believe to be effective in reducing various risks involved in our art and asset pawn business. The Group established a multi-level internal approval system and an effective risk management system, and had a professional internal and external authentication team. The Group also hired third party authoritative authentication institutions as company's independent advisor. The Group's risk management achieved remarkable results, of which the art and asset pawn loan business did not experience any default in the first half of 2017.

The Group adopted the target appraised loan-to-value ratio of not exceeding 75% for artwork as collateral at the time of the collateral appraisal. For asset as collateral, the Group adopted the target appraised loan-to-value ratios of not exceeding 75%, 90% and 50% for real properties, personal properties and equity interest respectively. The Group's art and asset pawn business was funded by our registered capital and retained earnings. As of 30 June 2017, the Group's impaired loan ratio was 0%.

## FINANCIAL REVIEW

### Revenue

Our revenue increased by approximately 72% to approximately RMB114.1 million for the six months ended 30 June 2017, primarily due to (i) the significant increase in our art and asset auction revenue of approximately RMB22.3 million as a result of the increase in total hammer price in our spring auction and two online auctions and moderately adjust buyer commission from 12% to 15% (13% if settled before 30 June 2017) during the spring auction and (ii) the significant increase in our art and asset pawn revenue of approximately RMB25.5 million. Meanwhile, in April 2017, the registered capital in Hexin Pawn increased from RMB100 million to RMB170 million, which allowed our Group to lend larger loan amounts for each transaction and increased total funding available for lending.

The respective segment revenue of the Group in the first half of 2017 and 2016 was as follows:

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2017** | 2016 | |
| | ***RMB'000*** | *RMB'000* | % of change |
| Art and asset auction business | **56,990** | 34,712 | 64 |
| Art and asset pawn business | **57,069** | 31,610 | 81 |
| Total | **114,059** | 66,322 | 72 |

**Other income**

Our other income increased by 100% to approximately RMB0.8 million for the six months ended 30 June 2017, primarily due to increase in interest income from bank deposit.

**Business tax and surcharges**

Our business tax and surcharges decreased by approximately 55% to approximately RMB0.9 million for the six months ended 30 June 2017. This was primarily due to the implementation of the value-added tax in lieu of business tax commencing from 1 May 2016.

**Operating expenses**

Our operating expenses increased by approximately 292%, to approximately RMB4.7 million for the six months ended 30 June 2017, primarily due to (i) the increase in advertising expenses as a result of strengthening the promotion activities for our first spring auction after listing and (ii) the increase in service fees incurred by way of share options granted.

**Allowance recognised on loans to customers for art and asset pawn business**

During the six months ended 30 June 2016, we recognised impairment allowance of approximately RMB2.9 million primarily due to the substantial increase in the gross loan amount million as at 30 June 2016. All impairment allowance recognised were related to the loans granted to customers by our Group.

For the six months ended 30 June 2017, we recognised the collectively assessed impairment allowance of approximately RMB0.4 million, primarily due to the increase in the gross loan amount outstanding from approximately RMB239.0 million as at 31 December 2016 to approximately RMB256.7 million as at 30 June 2017.

**Administrative expenses**

Our administrative expenses increased by approximately 305% to approximately RMB15.8 million for the six months ended 30 June 2017, primarily due to (i) the increase of approximately RMB1.9 million mainly as a result of professional fee incurred after listing in 2017 and (ii) the increase in general staff cost of approximately RMB6.5 million that was mainly attributable to the salaries as a result of the expansion of operations after listing and the non-cash equity-settled share-based payment expenses of approximately RMB5.4 million relating to 79,000,000 options granted during the Period Under Review.

**Reportable segment profit**

As a result of the foregoing, reportable segment profit increased by approximately RMB47.9 million from approximately RMB60.2 million for the six months ended 30 June 2016 to approximately RMB108.1 million for the six months ended 30 June 2017.

The respective reportable segment profit of the Group in the first half of 2017 and 2016 is as follows:

| | **Six months ended 30 June** | | |
|---|---|---|---|
| | **2017** | 2016 | |
| | ***RMB'000*** | *RMB'000* | % of change |
| Art and asset auction business | **52,404** | 33,500 | 56 |
| Art and asset pawn business | **55,722** | 26,731 | 109 |
| Segment result | **108,126** | 60,231 | 80 |

**Listing expenses**

Our listing expenses for the six months ended 30 June 2016 amounted to approximately RMB10.9 million, which primarily consisted of the service fees we paid to auditors and other professional parties in connection with our preparation for the listing of our shares on the main board of the Stock Exchange of Hong Kong Limited.

**Profit before tax**

As a result of the foregoing, our profit before tax increased by approximately 100% to approximately RMB91.2 million for the six months ended 30 June 2017.

### Income tax expense

Our income tax expenses increased by approximately 88% to approximately RMB26.9 million for the six months ended 30 June 2017, primarily due to an increase in our Group's taxable income.

### Profit and total comprehensive income for the period attributable to owners of the Company and non-controlling interests

Primarily due to an increase in our profit for the period, (i) profit and total comprehensive income for the period attributable to owners of the Company increased by approximately 130% to approximately RMB64.3 million for the six months ended 30 June 2017, while (ii) profit and total comprehensive income for the period attributable to non-controlling interests became nil.

The changes in our profit and total comprehensive income attributable to owners of the Company were mainly caused by the increase in the profit generated from our PRC operating entities. On 15 April 2016, our Group entered into the two series of agreements (as amended and supplemented by supplemental agreements entered into on 24 October 2016) which constitute the contractual arrangements. These contractual arrangements effectively transfer the economic benefits and pass the risks associated therewith of our two operating subsidiaries in PRC to our Group. As a result, starting from 15 April 2016, the entirety of our profit and total comprehensive income has become attributable to owners of our Company. Accordingly, no profit and total comprehensive income attributable to non-controlling interests realised for the six months ended 30 June 2017.

## 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 30 June 2017, net working capital (calculated as current assets less current liabilities) was approximately RMB615.5 million, representing a decrease of approximately RMB0.9 million as compared with approximately RMB616.4 million as of 31 December 2016. As of 30 June 2017, net assets was approximately RMB620.4 million, representing an increase of approximately RMB1.5 million as compared with approximately RMB618.9 million as of 31 December 2016 as a result of payment of the final dividend and special dividend amounted to HK$80 million during the Period Under Review. The current ratios (calculated as current assets/current liabilities) are 3.8 times and 8.6 times as of 30 June 2017 and 31 December 2016 respectively.

The following table summarises the consolidated statement of cash flows for the six months ended 30 June 2017 and 2016:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Net cash used in operating activities | **(1,303)** | (175,961) |
| Net cash (used in) from investing activities | **(1,801)** | 436 |
| Net cash (used in) from financing activities | **(71,206)** | 10,257 |

As of 30 June 2017, the Group's total bank balances and cash decreased by 16% to RMB388.1 million from RMB463.1 million as of 31 December 2016. As of 30 June 2017 and 31 December 2016, the Group did not have any bank borrowings.

During the Period Under Review, 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. Except for the bank deposits denominated in foreign currencies, the Group was not subject to any other material risk directly relating to the foreign exchange fluctuation. For the six months ended 30 June 2017, despite the appreciation of RMB against USD and HKD, the Directors expected any fluctuation of the RMB exchange rate would not materially and adversely affect the operations of the Group. The management will continue to monitor foreign currency exchange exposure and will take prudent measures to minimize the currency translation risk.

**Gearing Ratio**

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

**Contingent Liabilities**

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

**Capital Expenditure**

Our capital expenditures primarily comprised expenditures on property and equipment, which amounted to RMB2.9 million and nil, respectively, for the six months ended 30 June 2017 and 2016.

**Capital Commitment**

As at 30 June 2017, the Group did not have material capital commitments.

**Subsequent Event**

Save as disclosed in this announcement, no significant event has happened after 30 June 2017.

**Human Resources and Training**

As of 30 June 2017, the Group had a total of 41 employees (as at 31 December 2016: 38 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 six months ended 30 June 2017.

## 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).

Up to 30 June 2017, HK$120.0 million has been injected to PRC to increase the registered capital of Hexin Pawn. The remaining net proceeds of RMB117.7 million were deposited with certain licensed financial institutions as of 30 June 2017.

## MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES OR ASSOCIATED COMPANIES

The Group had no material acquisition or disposal of subsidiaries or associated companies during the six months ended 30 June 2017. In addition, the Group had no significant investments held during the six months ended 30 June 2017.

## OUTLOOK

The economic stability of China is continuously enhanced based on the overall steady economy growth of China as well as on the fact that the adaptability of enterprises to market conditions has been constantly raising and the economic structure of China has been gradually enhancing in the second half of 2017, which supports a medium to high growth rate, and the stable and positive momentum will be continued. Looking forward, since the PRC government actively promotes close cooperation between the financial and cultural sectors, the Chinese art finance industry is expected to maintain a steady growth. Meanwhile, it is expected that significant financial innovations in artwork and collection assets will be emerged.

**Auction Business**

Firstly, the Group will set up new branches or subsidiaries. We intend to extend our business network and geographical presence in major cities in China such as Beijing, Shanghai and Hong Kong. Secondly, the Group continue to expand our auction lot composition to include more art categories with strong market demand. Thirdly, the Group will place more focus on online auction and other online operation, including optimizing and enhancing its service of synchronised online biddings at each year's Spring Auction and Autumn Auction, and improving the promotion and service of pure online auctions. The Group will also continue to enrich the functions of its official website so as to facilitate our clients with convenient access to our integrated services. Fourthly, the Group will proactively contact and pay visit to clients and strive to negotiate with more artwork artists to sign artwork production and consignment agreement with us at the same time so as to solidify the good business relationship between both parties and expand the source of artworks for our auctions.

**Pawn Loan Business**

The Group will increase the registered capital of Hexin Pawn so as to enlarge our funding available for lending. Secondly, the Group will focus on growing our loan portfolio. In addition to the continuous emphasis on zisha artworks as well as paintings and calligraphies, the Group plan to diversify strategically our collateral composition to include more art categories with strong market demand. Thirdly, the Group will expand loan offices network, setting up new loan offices in cities with relatively strong local economies so that we may extend client base and deepen market penetration. Lastly, the Group will develop and utilise online platform. We plan to set up an online loan financing platform so that more clients can know and enjoy the Group's pawn loan services.

In addition, the Group will continue to build the one-stop art finance service platform by integrating art pawn loan and art auction businesses, as well as further develop online auction platform and enhance trading function of the platform. The Group will also seek opportunities for mergers and acquisitions of enterprises and IT companies engaged in related businesses, or form an alliance with them to increase the Company's competitiveness.

## SHARE OPTION SCHEME

The share option scheme (the "**Share Option Scheme**") was adopted by ordinary resolution passed by the shareholders of the Company on 14 October 2016. Under the Share Option Scheme, the directors of the Company may grant options to subscribe for shares of the Company to eligible participants, including without limitation employees of the Group, directors of the Company and its subsidiaries.

On 2 June 2017, the Company granted an aggregate of 79,000,000 share options at an exercise price of HK$0.80 per share to eligible grantees (the "**Grantees**"), primarily to provide incentives or rewards to the Grantees. None of the Grantees of the share options is a director, chief executive or substantial shareholder of the Company, or any of their respective associates (as defined under the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")). Among the 79,000,000 share options granted, 28,000,000 Share Options has vested on the date of grant, 28,000,000 share options will vest on 2 December 2017 and the remaining 23,000,000 share options will vest on 2 June 2018. Such grant of share options enabled the Grantees to subscribe for an aggregate of 79,000,000 new ordinary shares of HK$0.01 each in the share capital of the Company. Subject to the terms of the Share Option Scheme, the share options granted are valid for a period of 5 years commencing from the date of grant. The fair value of options granted was determined using the binomial option pricing model which amounted to approximately RMB19.4 million and RMB8.5 million was charged to profit or loss account of the Group during the Period Under Review.

Save as disclosed above, no share option was granted, exercised, cancelled or had lapsed under the Share Option Scheme during the Period Under Review. As at 30 June 2017, an aggregate of 79,000,000 share options in the shares of the Company were outstanding.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period Under Review.

## AUDIT COMMITTEE

The Company has established an audit committee in compliance with Rule 3.21 and 3.22 of the Listing Rules for the purpose, among other duties and functions, of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The audit committee comprises three independent non-executive directors of the Company, namely Mr. Leung Shu Sun, Sunny (Chairman), Mr. Liu Jian and Mr. Chu Xiaoliang. The unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2017 has been reviewed by the audit committee and the Company's auditors, Deloitte Touche Tohmatsu.

## RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

Other than as disclosed above, during the six months ended 30 June 2017, 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.

## 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.

## DIVIDEND

The Board does not recommend an interim dividend for the six months ended 30 June 2017.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in Company's securities. Having made specific enquiry of all Directors, all the Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code during the six months ended 30 June 2017.

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.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE AND CORPORATE GOVERNANCE REPORT

The Company has complied with the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2017 except that:

### Code provision A.2.1

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

The Company consider that having Mr. Fan Zhijun acting as both the chairman and chief executive officer will provide a strong and consistent leadership to the Group and allow for more effective strategic planning and management of the Group. Further, in view of Mr. Fan's experience in the industry, personal profile and role in the Group and historical development of the Group, the Group considers it is to the benefit of the Group in the business prospects that Mr. Fan continues to act as both the chairman and chief executive officer after the Listing. Therefore, the Company currently has no intention to separate the functions of chairman and chief executive officer.

## PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cnartfin.com.hk). The interim report for the six months ended 30 June 2017 of the Company contains all the information required by the Listing Rules, which will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

## APPRECIATION

As a final note, I wish to take this opportunity to thank the Directors and staff for their contributions and good performance during the period.

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

Hong Kong, 22 August 2017

*As at the date of this announcement, the Board comprises (1) Mr. Fan Zhijun and Mr. Zhang Bin as the executive Directors and (2) Mr. Leung Shu Sun, Sunny, Mr. Liu Jian and Mr. Chu Xiaoliang as the independent non-executive Directors.*