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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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

Financial Highlights for the Six Months Ended 30 June 2018:

	Six months ended 30 June		
	2018	2017	Change
	RMB'000	*RMB'000*	*%*
Operating Results			
Revenue	**128,987**	114,059	13
Profit for the period	**75,175**	64,261	17
Basic earnings per share *(RMB cents)*	**4.70**	4.02	17

	As at 30 June 2018	As at 31 December 2017	Change
	RMB'000	*RMB'000*	*%*
Financial Position			
Total assets	**1,286,061**	1,197,476	7
Loans to customers	**169,078**	319,912	(47)
Net assets	**768,091**	717,920	7

BUSINESS REVIEW AND PLAN

1. Company Financial Performance

Our revenue increased by 13%, while two main business of China Art Financial Holdings Limited (the "**Company**") achieved a balanced and steady growth. The revenue from art auction business and art pawn loan business have recorded increases of 16% and 10%, respectively.

Profit attributable to equity owners of the Company recorded a period-on-period increase of 17%, main attributable to the steady increase in revenue.

2. Company Business Highlights

Operating Information	**Six months ended 30 June** **2018**	2017	Change %
Aggregate transaction value of art auction *(RMB million)*	**301.9**	270.0	11.8
Aggregate transaction value of auctions *(RMB million)*	**287.8**	213.4	34.9
Aggregate transaction value of pure online auction *(RMB million)*	**14.1**	56.6	(75.1)
Overall commission rate for art auction business *(%)*	**23**	21	9.5
Total new loan amount granted secured by artwork *(RMB million)*	**220.5**	316.6	(30.4)
Impaired loan rate *(%)*	**0**	0	0

3. Business Plan for second half of the year

The Company has planned to organize our autumn auction in the PRC in the fourth quarter of 2018. We are actively planning to expand our auction business in other major cities in China. In addition, we plan to organise two pure online auctions in second half of 2018. The Company will seek for merger and acquisition co-operation with suitable companies in art pawn loan and auction industry with synergy effects which can enhance overall strength in art finance services with the Company as disclosed in the prospectus of the Company dated 27 October 2016 (the "**Prospectus**").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*3*	**128,987**	114,059
Other income		**2,072**	803
Other gains and losses		**(728)**	(1,932)
Business tax and surcharges		**(883)**	(854)
Operating expenses		**(7,462)**	(4,726)
Reversal of allowance (Allowance) on loans to customers for art and asset pawn business, net		**3,078**	(353)
Allowance on trade receivables		**(508)**	–
Administrative expenses		**(19,463)**	(15,836)
Finance costs		**(1,210)**	–
Profit before tax		**103,883**	91,161
Income tax expense	*5*	**(28,708)**	(26,900)
Profit for the period		**75,175**	64,261
Other comprehensive income			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operation		**362**	–
Total comprehensive income for the period		**75,537**	64,261
Earnings per share *(RMB cents)*	*7*		
Basic		**4.70**	4.02
Diluted		**4.69**	4.02

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Notes	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
Non-current assets			
Property, plant and equipment		**3,820**	4,416
Deferred tax asset		**1,016**	1,633
		4,836	6,049
Current assets			
Loans to customers for art and asset pawn business	*8*	**169,078**	319,912
Trade receivables, other receivables and prepayments	*9*	**421,508**	344,100
Amount due from a director		**–**	150
Bank balances and cash		**690,639**	527,265
		1,281,225	1,191,427
Current liabilities			
Other payables and accruals		**434,371**	433,539
Amounts due to directors		**62**	100
Amounts due to related parties		**20**	88
Amount due to immediate holding company		**66,605**	23,196
Obligations under finance lease		**119**	115
Tax liabilities		**16,460**	22,118
		517,637	479,156
Net current assets		**763,588**	712,271
Total assets less current liabilities		**768,424**	718,320
Capital and reserves			
Share capital	*10*	**13,995**	13,995
Reserves		**754,096**	703,925
Equity attributable to owners of the Company		**768,091**	717,920
Non-current liability			
Obligations under finance lease		**333**	400
		768,424	718,320

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") 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 "**Stock Exchange**").

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 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

In the current interim period, the Group has applied, for the first time, the following new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated profits, or other components of equity, as appropriate and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

Taking into account the changes in accounting policy arising from initial application of HKFRS 15, the directors of the Company considered that the initial application of HKFRS 15 has no material effect on the interim condensed consolidated financial statements of the Group.

Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments and the related amendments"

In the current period, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("**ECL**") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Trade receivables *RMB'000*	**Deferred tax assets** *RMB'000*
Closing balance at 31 December 2017 — HKAS 39	53,961	1,633
Effect arising from initial application of HKFRS 9		
Remeasurement		
Impairment under ECL model	(329)	54
Opening balance at 1 January 2018	53,632	1,687

As at 1 January 2018, the additional credit loss allowance of RMB329,000 has been recognised against retained profits. The additional loss allowance is charged against the respective asset.

Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards , amendments and interpretation

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item.

	31 December 2017	HKFRS 9	1 January 2018
	RMB'000	*RMB'000*	*RMB'000*
	(audited)		(Restated)
Non-current Assets			
Property, plant and equipment	4,416	–	4,416
Deferred tax asset	1,633	54	1,687
	6,049	54	6,103
Current Assets			
Loans to customers for art and asset pawn business	319,912	–	319,912
Trade receivables, other receivables and prepayments	344,100	(329)	343,771
Amounts due from directors	150	–	150
Bank balances and cash	527,265	–	527,265
	1,191,427	(329)	1,191,098
Current liabilities			
Other payables and accruals	433,539	–	433,539
Amounts due to directors	100	–	100
Amounts due to related parties	88	–	88
Amount due to immediate holding company	23,196	–	23,196
Obligations under finance lease	115	–	115
Tax liabilities	22,118	–	22,118
	479,156	–	479,156
Net current assets	712,271	(329)	711,942
Total assets less current liabilities	718,320	(275)	718,045
Capital and reserves			
Share capital	13,995	–	13,995
Reserves	703,925	(275)	703,650
	717,920	(275)	717,645
Non-current liability			
Obligations under finance lease	400	–	400
	718,320	(275)	718,045

3. REVENUE

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

	For the six months ended 30 June 2018		
	Art and asset pawn business	**Art and asset auction business**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited)	(unaudited)	(unaudited)
Types of good or services			
Pawn business			
— Art pawn loan	62,775	–	62,775
— Asset pawn loan	36	–	36
	62,811	–	62,811
Auction business			
— Zisha Artworks	–	22,366	22,366
— Calligraphies and Paintings	–	30,668	30,668
— Jewel Artworks	–	11,514	11,514
— Others	–	1,628	1,628
	–	66,176	66,176
Total	62,811	66,176	128,987
Timing of revenue recognition			
Over time	62,811	–	62,811
A point in time	–	66,176	66,176
Total	62,811	66,176	128,987

4. SEGMENT INFORMATION

The segment information reported externally was analysed on the basis of services rendered in the PRC and Hong Kong, art and asset pawn business and art and asset auction business which is consistent with the internal information that are regularly reviewed by the executive 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 and other gains and losses. Segment assets and liabilities are allocated to each segment excluding deferred tax asset, bank balances and cash, other payables and accruals, amounts due to related parties, directors and immediate holding company. 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*
Six months ended 30 June 2018			
Segment revenue	**62,811**	**66,176**	**128,987**
Segment cost	**(457)**	**(7,005)**	**(7,462)**
Business tax and surcharges	**(471)**	**(412)**	**(883)**
Reversal of allowance on loans to customers for art and asset pawn business	**3,078**	**–**	**3,078**
Allowance on trade receivables	**–**	**(508)**	**(508)**
Segment result	**64,961**	**58,251**	**123,212**
Other income			**2,072**
Other gains and losses			**(728)**
Central administrative expenses			**(19,463)**
Financial costs			**(1,210)**
Profit before tax			**103,883**

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

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*	**Total** *RMB'000*
As at 30 June 2018			
Assets			
Segment assets	**171,387**	**423,019**	**594,406**
Other unallocated assets			
Deferred tax asset			**1,016**
Bank balances and cash			**690,639**
Consolidated total assets			**1,286,061**
Liabilities			
Segment liabilities	**5,077**	**418,185**	**423,262**
Other unallocated liabilities			
Other payables and accrual			**28,021**
Amounts due to related parties			**20**
Amounts due to directors			**62**
Amount due to immediate holding company			**66,605**
Consolidated total liabilities			**517,970**

	Art and asset pawn business *RMB'000*	Art and asset auction business *RMB'000*	Total *RMB'000*
As at 31 December 2017			
Assets			
Segment assets	322,451	345,977	668,428
Other unallocated assets			
Deferred tax asset			1,633
Amount due from a director			150
Bank balances and cash			527,265
Consolidated total assets			1,197,476
Liabilities			
Segment liabilities	7,490	444,327	451,817
Other unallocated liabilities			
Other payables and accruals			4,355
Amounts due to related parties			88
Amounts due to directors			100
Amount due to immediate holding company			23,196
Consolidated total liabilities			479,556

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 2018			
Segment information included in the measure of segment results or assets:			
Addition to property, plant and equipment	**–**	**114**	**114**
Depreciation of property, plant and equipment	**455**	**256**	**711**
Reversal of allowance on loans to customers for art and asset pawn business, net	**(3,078)**	**–**	**(3,078)**
Allowance on trade receivables	**–**	**508**	**508**
(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

Geographical information

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

	Revenue from external customers Six months ended 30 June		Non-current assets	
	2018 *RMB'000*	2017 *RMB'000*	**2018** *RMB'000*	2017 *RMB'000*
PRC	**111,021**	114,059	**2,246**	2,780
Hong Kong	**17,966**	–	**1,574**	1,636
	128,987	114,059	**3,820**	4,416

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	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax		
PRC Enterprise Income Tax ("**EIT**")	**28,354**	26,988
Hong Kong Profit Tax	**1,223**	–
	29,577	26,988
Deferred tax	**(869)**	(88)
	28,708	26,900

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.

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%.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit that arises in or is derived from Hong Kong during the period. No provision for Hong Kong Profits Tax has been made in the previous period's consolidated financial statements as the income of the Group neither arose in nor was derived from Hong Kong in the previous year.

6. DIVIDENDS

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
2017 Final — HK2.0 (2017: 2016 Final — HK3.0) cents per ordinary share	**25,799**	42,724
2017 Special — Nil (2017: 2016 Special — HK2.0) cents per ordinary share	**–**	28,484
	25,799	71,208

The Board do not declare the payment of an interim dividend for the six months ended 30 June 2018.

7. EARNINGS PER SHARE

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share (profit for the period attributable to the owners of the Company)	**75,175**	64,261

	Six months ended 30 June	
	2018	2017
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,600,000,000**	1,600,000,000
Effect of dilutive potential ordinary shares on share options	**4,354,890**	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,604,354,890**	1,600,000,000

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.

8. LOANS TO CUSTOMERS FOR ART AND ASSET PAWN BUSINESS

	As at 30 June 2018	As at 31 December 2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Art and asset pawn loans to customers, gross	**172,529**	326,441
Less: impairment allowances	**(3,451)**	(6,529)
Art and asset pawn loans to customers, net	**169,078**	319,912

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% (2017: 32% to 48%) per annum during the six months ended 30 June 2018. 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 initial pawn tickets are set out below:

	As at 30 June 2018 ***RMB'000*** **(unaudited)**	As at 31 December 2017 *RMB'000* (audited)
Within 1 month	**27,593**	88,800
2–3 months	**101,653**	172,690
3–6 months	**39,832**	58,422
Total	**169,078**	319,912

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

	As at 30 June 2018 ***RMB'000*** **(unaudited)**	As at 31 December 2017 *RMB'000* (audited)
Impairment allowances:		
At beginning of period/year	**6,529**	4,780
Impairment losses recognised	**–**	1,749
Reversal of impairment loss	**(3,078)**	–
At end of period/year	**3,451**	6,529

9. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	As at 30 June 2018 ***RMB'000*** **(unaudited)**	As at 31 December 2017 *RMB'000* (audited)
Trade receivables for art and asset auction business, gross	**69,251**	53,961
Less: impairment allowances	**(837)**	–
Trade receivables for art and asset auction business, net	**68,414**	53,961
Other receivables and prepayments:		
Receivables from customers in respect of art and asset auction business	**349,783**	289,389
Other receivables and deposit	**1,568**	734
Prepayments	**1,743**	16
Total	**421,508**	344,100
Movement in the impairment allowance for trade receivables		
At beginning of period/year	**329**	–
Impairment losses recognised	**508**	–
At end of period/year	**837**	–

Buyers of artworks are required to settle the entire purchase price of the artworks within seven days after the date of auction. An artwork will only be delivered to its buyer after full payment is settled. Net sale proceeds (being the hammer price after deducting the seller's commission and the personal income tax) will be paid to the seller subsequently. The commission income from buyer is recognised as trade receivables for art and asset auction business and the unsettled hammer price is recognised as other receivables from customers in respect of art and asset auction business. In determining the recoverability of a trade receivable for art and asset auction business and other receivables from customers in respect of art and asset auction business, the Group considers any change in the credit quality of the trade receivables and other receivables from the date credit was initially granted up to the reporting date and no impairment is necessary for those balances which are not past due. An aggregate amount of trade receivables and other receivables of RMB27,381,000 and RMB125,643,000 were subsequently settled up to the date of the approval of consolidated financial statements, respectively.

The following is an aged analysis of trade receivables for art and asset auction business presented based on the invoice dates, net of allowance for doubtful debts.

	2018	2017
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Less than 60 days	**52,656**	53,961
180–365 days	**15,758**	–
Total	**68,414**	53,961

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB33,284,000 (2017: RMB 53,961,000) which are past due as at the reporting date. The Group does not hold any collateral over these balances. The directors of the Company assessed impairment based on the ECL model upon the application of HKFRS 9 as at 1 January 2018 and 30 June 2018.

10. SHARE CAPITAL

	Number of shares	**Nominal value**	
		HK$'000	*RMB'000*
Ordinary shares of HK$0.01 each			
Authorised			
At 1 January 2018 and 30 June 2018	5,000,000,000	50,000	43,420
Issued and fully paid			
At 1 January 2018 and 30 June 2018	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 Company and its subsidiaries (together, the "**Group**") actively adapted to the new normal economic and industry development, grasped the new market trend and achieved satisfactory results in art auction and pawn loan business segments. For the six months ended 30 June 2018, the Group's revenue was approximately RMB129.0 million, representing an increase of approximately 13% from RMB114.1 million for the same period in 2017. The profit attributable to owners of the Company was approximately RMB75.2 million, representing an increase of approximately 17% from RMB64.3 million for the same period in 2017.

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 RMB66.2 million, representing an increase of approximately 16% from RMB57.0 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 RMB58.3 million, representing an increase of approximately 11.3% as compared with that for the same period last year.

During the Period Under Review, the Group held two spring auctions in Yixing City and Hong Kong, two special collection auctions and one pure online art auction. The aggregate transaction value (excluding buyer commission) amounted to RMB301.9 million, representing an increase of approximately 12% from approximately RMB270.0 million for the same period in 2017.

To capture opportunities from the Chinese online auction market, one of the biggest markets worldwide, the Company held one pure online art auctions in the first half of 2018. The total hammer price for the auction lots (excluding buyer commission) recorded RMB14.1 million, decreased from approximately RMB56.6 million for the two pure online art auctions held in the same period of 2017 as resources of pure online art auction were redeployed to our spring auctions.

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 RMB62.8 million, representing an increase of approximately 10.0% from approximately RMB57.1 million for the same period last year. Profits of pawn loan segment was RMB65.0 million, representing an increase of approximately 16.7% from approximately RMB55.7 million for the same period last year. As of 30 June 2018, the total amount of new loans granted by the Group amounted to approximately RMB220.6 million.

The breakdown of art and asset pawn loan business of the Group in the first half of 2018 and 2017 was as follows:

	Six months ended 30 June				
	2018		2017		%
	RMB'000	*%*	*RMB'000*	%	of change
Art pawn loan revenue	**62,775**	**99.9**	53,272	93.3	17.8
Asset pawn loan revenue	**36**	**0.1**	3,797	6.7	(99.1)
Total	**62,811**	**100.0**	57,069	100.0	10.1

	Six months ended 30 June	
Loans secured by artwork	**2018**	2017
Total new loan amount granted *(RMB'000)*	**220,450**	316,580
Total number of new loans granted	**37**	51
Number of new loans renewed	**19**	18
Renewal ratio of new loan *(%)*	**51.4**	35.3
Average initial loan term *(days)*	**80**	67

	Six months ended 30 June	
Loans secured by assets	**2018**	2017
Total new loan amount granted *(RMB'000)*	**160**	25,312
Total number of new loans granted	**25**	42
Number of new loans renewed	**14**	20
Renewal ratio of new loan *(%)*	**56.0**	47.6
Average initial loan term *(days)*	**41**	46

During the Period Under Review, approximately RMB220.5 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 2018, 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 2018.

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 2018, the Group's actual impaired loan ratio was 0%.

FINANCIAL REVIEW

Revenue

Our revenue increased by approximately 13% to approximately RMB129.0 million for the six months ended 30 June 2018, primarily due to (i) the steady increase in our art and asset auction revenue of approximately RMB9.2 million as a result of the first spring auction organized in Hong Kong and (ii) the steady increase in our art and asset pawn revenue of approximately RMB5.7 million.

The respective segment revenue of the Group in the first half of 2018 and 2017 was as follows:

	Six months ended 30 June		
	2018	2017	
	RMB'000	*RMB'000*	% of change
Art and asset auction business	**66,176**	56,990	16
Art and asset pawn business	**62,811**	57,069	10
Total	**128,987**	114,059	13

Other income

Our other income increased by 158% to approximately RMB2.1 million for the six months ended 30 June 2018, primarily due to increase in other income derived from the first spring auction organised in Hong Kong.

Business tax and surcharges

Our business tax and surcharges increased by approximately 3% to approximately RMB0.9 million for the six months ended 30 June 2018.

Operating expenses

Our operating expenses increased by approximately 58%, to approximately RMB7.5 million for the six months ended 30 June 2018, primarily due to the increase in advertising expenses as a result of strengthening the promotion activities for our first spring auction in Hong Kong.

Reversal of allowance (allowance) on loans to customers for art and asset pawn business, net

For the six months ended 30 June 2018, we recognised an reversal of impairment allowance of approximately RMB3.1 million, primarily due to the decrease in the gross loan amount outstanding from approximately RMB319.9 million as at 31 December 2017 to approximately RMB169.1 million as at 30 June 2018.

Administrative expenses

Our administrative expenses increased by approximately 23% to approximately RMB19.5 million for the six months ended 30 June 2018, primarily due to the increase in staff cost and office expenses as a result of the expansion of operations in Hong Kong.

Reportable segment profit

As a result of the foregoing, reportable segment profit increased by approximately RMB15.1 million from approximately RMB108.1 million for the six months ended 30 June 2017 to approximately RMB123.2 million for the six months ended 30 June 2018.

The respective reportable segment profit of the Group in the first half of 2018 and 2017 is as follows:

	Six months ended 30 June		
	2018	2017	
	RMB'000	*RMB'000*	% of change
Art and asset auction business	**58,251**	52,404	11
Art and asset pawn business	**64,961**	55,722	17
Segment result	**123,212**	108,126	14

Profit before tax

As a result of the foregoing, our profit before tax increased by approximately 14% to approximately RMB103.9 million for the six months ended 30 June 2018.

Income tax expense

Our income tax expenses increased by approximately 7% to approximately RMB28.7 million for the six months ended 30 June 2018, primarily due to an increase in our Group's taxable income.

Profit for the period

As a result of the foregoing, profit for the period increased by approximately 17% to approximately RMB75.2 million for the six months ended 30 June 2018.

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.

The following table summarises the consolidated statement of cash flows for the six months ended 30 June 2018 and 2017:

	2018	2017
	RMB'000	*RMB'000*
Net cash from (used in) operating activities	**119,735**	(1,303)
Net cash from (used in) investing activities	**965**	(1,801)
Net cash from (used in) financing activities	**42,030**	(71,206)

As of 30 June 2018, the Group's total bank balances and cash increased by 31% to approximately RMB690.6 million from approximately RMB527.3 million as of 31 December 2017 mainly due to the decrease in loans to customers from approximately RMB319.9 million as of 31 December 2017 to approximately RMB169.1 million as of 30 June 2018. As of 30 June 2018 and 31 December 2017, the Group did not have any bank borrowings and none of the Group's assets were charged.

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 certain trade receivables, bank deposits and amount due to immediate holding company 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 2018, despite the depreciation of RMB against USD and HKD, the Directors expected any fluctuation of the RMB exchange rate would not materially and adversely affect the operations of the Group. The management will continue to monitor foreign currency exchange exposure and will take prudent measures to minimize the currency translation risk.

Gearing Ratio

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

Contingent Liabilities

As of the date of this 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 RMB0.1 million and RMB2.9 million, for the six months ended 30 June 2018 and 2017, respectively.

Capital Commitment

As at 30 June 2018, the Group did not have material capital commitments.

Subsequent Event

No significant event took place after 30 June 2018.

Human Resources and Training

As of 30 June 2018, the Group had a total of 69 employees (as at 31 December 2017: 72 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 2018.

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 2018, RMB88.7 million has been injected to PRC to increase the registered capital of Hexin Pawn. Approximately RMB7.3 million has been utilised in establishing branch in Hong Kong. RMB21.3 million has been utilised for general operation expenses. The remaining net proceeds of approximately RMB95.4 million were deposited with certain licensed financial institutions as of 30 June 2018.

OUTLOOK AND PROSPECTS

In 2018, China's economy is expected to remain its stability, while the government will gradually reduce its target total outputs and lay more emphasis on its economic structural adjustment. Under the reform of the supply-side and with the acceleration in bringing down overcapacity, as well as the change of growth momentum, the economy is shifting to domestic growth. Thus, sectors such as high-end manufacturing and consumption upgrade may become the new growth factors in the transforming stage of the Chinese economy. Leveraging on the strong and growing demands for mental consumption resulting from the expansion of the middle class in the Mainland, China's economy will be further driven to shift from investment-based to consumption-based, and the artwork market will therefore continue to be prosperous. In the future the development of, domestic art financial industry will remain steadily to grow and will keep optimizing its services to satisfy the growing materialized cultural needs of the public.

Auction Business

Firstly, the Group will continue to expand our auction lot composition to include more art categories with strong market demand. Secondly, the Group is planning to establish new branches or subsidiaries. We intend to extend our business network and geographical presence in major cities in China such as Beijing and Shanghai, and to redeploy our resources from Hong Kong to China. Thirdly, the Group will focus more on online auction and other online operations, including optimizing and enhancing the arrangement of synchronised online and offline biddings at the Autumn Auction, and improving the promotion and service of pure online auctions. The Group will also continue to enrich the functions of our 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 additional artwork artists to sign artwork production and consignment agreements with us at the same time so as to enhance our strong business relationship and expand the source of artworks for our auctions.

Pawn Loan Business

In addition to the continuous emphasis on zisha artworks as well as paintings and calligraphies, the Group plans to diversify strategically the collateral composition to include more art categories with strong market demand. 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. Furthermore, the Group will proactively develop and utilise online platform. We plan to set up an online loan financing platform so that more clients can be aware of 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, and to further develop our online auction platform and enhance its trading function. 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 competitiveness of the Company.

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 2018 has been reviewed by the audit committee and the Company's auditors, Deloitte Touche Tohmatsu. The audit committee has no disagreement with the accounting treatment adopted by the Company.

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

Other than as disclosed above, during the six months ended 30 June 2018, 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.

DIVIDEND

The Board does not recommend an interim dividend for the six months ended 30 June 2018.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code in 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 2018.

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 2018.

CONTRACTUAL ARRANGEMENTS

Reasons for using and risks associated with the contractual arrangements

Reference is made to the Prospectus and 2016 annual report of the Company dated 7 April 2017. We conduct our art and asset pawn business and art and asset auction business through Hexin Pawn and Hexin Auction (collectively the "**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 any equity interest in the PRC operating entities, and our Company through our two wholly foreign-owned enterprises established in PRC, namely Yixing Han Xin Information technology service Co., Ltd (the "**WFoe-Pawn**") and Yixing Zi Yu Information technology service Co., Ltd (the "**WFoe-Auction**"), control the PRC operating entities through two sets of agreements. 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.

With the aim of fulfilling the Qualification Requirements, we have taken steps to implement our plan (the "**QR Plan**") as follows: we are currently operating an overseas website targeting clients and other users from Hong Kong, Taiwan and other countries. In the year of 2018, we plan to further develop our overseas website to become a trading and promotional platform for Chinese artists especially for zisha artists. In the long run, our overseas website will be developed into an internet platform to support the future art auctions to be held in Hong Kong. Details of the Qualification Requirement are set out in the section headed "Contractual Arrangements" of the Prospectus. Based on our previous telephone interview with an officer of the Communication Development Division (通信發展司) of the Ministry of Industry and Information Technology of PRC ("**MIIT**") in March 2016, MIIT, having preliminarily our plan to construct an overseas website, confirmed that there is currently no clear guidance as to what would constitute "a good track record" and "operating experience", i.e. the Qualification Requirements and so long as the foreign investor conducts value-added telecommunications business outside PRC, subject to the submission of the application (together with the prescribed documents) under the prescribed procedure for our Group to engage in the provision of value-added telecommunication services in PRC as a foreign investor, the MIIT would consider our application after it has been submitted and may approve such application. Based on our recent inquiry with MIIT, there has been no change to its view as stated above.

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, 28 August 2018

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.