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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 2019

Financial Highlights for the Six Months Ended 30 June 2019:

	Six months ended 30 June		
	2019	2018	Change
	RMB'000	RMB'000	%
Operating Results			
Revenue	100,291	128,987	(22.2)
Profit for the period	66,524	75,175	(11.5)
Basic earnings per share (<i>RMB cents</i>)	4.11	4.70	(12.6)
	<u>As at</u>	<u>As at</u>	
	<u>30 June</u>	<u>31 December</u>	
	<u>2019</u>	<u>2018</u>	<u>Change</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>%</u>
Financial Position			
Total assets	1,284,106	1,185,618	8.3
Loans to customers	405,431	396,927	2.1
Net assets	967,339	828,090	16.8

BUSINESS REVIEW AND PLAN

1. Company Financial Performance

Our revenue decreased by approximately 22.2% to approximately RMB100.3 million for the six months ended 30 June 2019, primarily due to (i) the reduced number of auctions held, from five auctions held in the first half of 2018 to two auctions held in the first half of 2019 and (ii) the reduced average loan balance during the first half of 2019.

Profit for the period recorded a period-on-period decrease of 11.5%, mainly attributable to the decrease in revenue.

2. Company Business Highlights

Operating Information	Six months ended 30 June		Change %
	2019	2018	
Aggregate transaction value of art auction (RMB million)	227.8	301.9	(24.5)
Aggregate transaction value of auctions (RMB million)	195.9	287.8	(31.9)
Aggregate transaction value of pure online auction (RMB million)	31.9	14.1	126.2
Overall commission rate for art auction business (%)	21	22	(1)
Total new loan amount granted secured by artwork (RMB million)	352.8	220.5	60.0
Loan default rate (%)	0	0	0

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	Notes	RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3		
Interest revenue		51,359	62,811
Services revenue		48,932	66,176
Total revenue		100,291	128,987
Other income		1,315	2,072
Other gains and losses		217	(728)
Business tax and surcharges		(714)	(883)
Operating expenses		(1,289)	(7,462)
Impairment losses under expected credit loss model, net of reversal		3,070	2,570
Administrative expenses		(11,232)	(20,661)
Finance costs		(172)	(12)
Profit before tax		91,486	103,883
Income tax expense	4	(24,962)	(28,708)
Profit for the period		66,524	75,175
Other comprehensive (expense) income			
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(698)	362
Total comprehensive income for the period		65,826	75,537
Earnings per share (RMB cents)	6		
Basic		4.11	4.70
Diluted		4.08	4.69

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		As at 30 June 2019 RMB'000 (unaudited)	As at 31 December 2018 RMB'000 (audited)
	Notes		
Non-current assets			
Property, plant and equipment		2,522	4,155
Right-of-use assets		7,473	–
Deferred tax asset		952	1,922
		<u>10,947</u>	<u>6,077</u>
Current assets			
Loans to customers for art and asset pawn business	7	405,431	396,927
Trade receivables, other receivables and prepayments	8	184,809	211,018
Bank balances and cash		682,919	571,596
		<u>1,273,159</u>	<u>1,179,541</u>
Current liabilities			
Other payables and accruals		211,008	250,770
Amount due to immediate holding company		84,671	84,378
Lease liabilities/obligations under finance leases		2,232	384
Tax liabilities		14,295	21,273
		<u>312,206</u>	<u>356,805</u>
Net current assets		<u>960,953</u>	<u>822,736</u>
Total assets less current liabilities		971,900	828,813
Non-current liability			
Lease liabilities/obligations under finance leases		4,561	723
		<u>967,339</u>	<u>828,090</u>
Capital and reserves			
Share capital	9	14,679	13,995
Reserves		952,660	814,095
Total equity		<u>967,339</u>	<u>828,090</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. BASIS OF PREPARATION

The condensed consolidated financial statements of China Art Financial Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) 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.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

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

2.1 Impacts and changes in accounting policies on application of HKFRS 16 “Leases”

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 “Leases” (“**HKAS 17**”), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight line basis over the shorter of its estimated useful life and the lease term.

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

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 “Financial Instruments” (“**HKFRS 9**”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 “Income Taxes” requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- (i) relied on the assessment of whether leases are onerous by applying HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” as an alternative of impairment review;
- (ii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- (iii) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rates for certain leases of properties in the PRC and certain leases of properties in Hong Kong were determined on a portfolio basis.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities range from 2.38% to 5.39%.

		At 1 January 2019 RMB'000
	<i>Note</i>	
Operating lease commitments disclosed as at 31 December 2018		7,919
Lease liabilities discounted at relevant incremental borrowing rates		6,618
Add: Obligations under finance leases recognised at 31 December 2018	<i>(a)</i>	1,107
Lease liabilities as at 1 January 2019		7,725
Analysed as:		
Current		2,125
Non-current		5,600
		7,725

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	<i>Note</i>	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		6,618
Amount included in property, plant and equipment under HKAS 17 as assets previously under finance leases	(a)	1,400
Adjustments on rental deposits at 1 January 2019	(b)	18
		8,036
By class:		
Land and buildings		6,636
Motor vehicles		1,400
		8,036

Notes:

- (a) In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to RMB1,400,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of RMB384,000 and HK\$723,000 to lease liabilities as current and non-current liabilities respectively at 1 January 2019.
- (b) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK\$18,000 was adjusted to refundable rental deposits paid and right-of-use assets.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

		Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under HKFRS 16 at 1 January 2019 RMB'000
	Notes			
Non-current assets				
Property, plant and equipment	(a)	4,155	(1,400)	2,755
Right-of-use assets		–	8,036	8,036
Current assets				
Trade receivables, other receivables and prepayments-rental deposits	(b)	577	(18)	559
Current liabilities				
Lease liabilities	(a)	–	2,125	2,125
Obligations under finance leases	(a)	384	(384)	–
Non-current liabilities				
Lease liabilities	(a)	–	5,600	5,600
Obligations under finance leases	(a)	723	(723)	–

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening condensed consolidated statement of financial position as at 1 January 2019 as disclosed above.

3. REVENUE AND SEGMENT INFORMATION

Revenue

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest revenue:		
Pawn loan revenue from art and asset pawn business	51,359	62,811
Services revenue:		
Auction revenue from art and asset auction business	48,932	66,176
Total	100,291	128,987

Pawn loan revenue from art and asset pawn business represents interest revenue on loans to customers for art and asset pawn business recognised using the effective interest method.

Auction revenue from art and asset auction business represents primarily buyer's and seller's commission from provision of art and asset auction services which is calculated at a percentage of hammer prices of the auction sales. Such revenue constitutes revenue from contracts with customers and is recognised at a point in time upon the fall of hammer when the Group transfers the promised auction services to the customers.

Disaggregation of revenue from contracts from customers

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Types of auction products		
Zisha Artworks	21,887	22,366
Calligraphies and Paintings	22,977	30,668
Jewel Artworks	4,068	11,514
Others	—	1,628
Total	<u>48,932</u>	<u>66,176</u>
Geographical location		
The PRC, excluding Hong Kong	48,932	48,210
Hong Kong	—	17,966
Total	<u>48,932</u>	<u>66,176</u>

The Group has no unsatisfied performance obligations as at the end of the reporting period.

Segment information

The segment information reported externally was analysed based on the art and asset pawn business, and art and asset auction business, which is consistent with the internal information that is regularly reviewed by the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance. This is also the basis of organisation in the Group, whereby the management has chosen to organise the Group by these 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 other income, other gains and losses, central administrative costs and finance costs. Segment assets and liabilities are allocated to each segment excluding deferred tax asset, bank balances and cash, certain other payables and accruals and amount due to 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 <i>RMB'000</i>	Art and asset auction business <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2019 (unaudited)			
Segment revenue	51,359	48,932	100,291
Segment costs	(576)	(713)	(1,289)
Business tax and surcharges	(357)	(357)	(714)
Impairment losses under expected credit loss model, net of reversal	(90)	3,160	3,070
Segment results	50,336	51,022	101,358
Other income			1,315
Other gains and losses			217
Central administrative expenses			(11,232)
Finance costs			(172)
Profit before tax			91,486
	Art and asset pawn business <i>RMB'000</i>	Art and asset auction business <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2018 (unaudited)			
Segment revenue	62,811	66,176	128,987
Segment cost	(457)	(7,005)	(7,462)
Business tax and surcharges	(471)	(412)	(883)
Impairment losses under expected credit loss model, net of reversal	3,078	(508)	2,570
Segment results	64,961	58,251	123,212
Other income			2,072
Other gains and losses			(728)
Central administrative expenses			(20,661)
Finance costs			(12)
Profit before tax			103,883

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 2019 (unaudited)			
Assets			
Segment assets	<u>409,284</u>	<u>190,951</u>	600,235
Other unallocated assets			
Deferred tax asset			952
Bank balances and cash			<u>682,919</u>
Consolidated total assets			<u><u>1,284,106</u></u>
Liabilities			
Segment liabilities	<u>6,944</u>	<u>209,324</u>	216,268
Other unallocated liabilities			
Other payables and accruals			15,828
Amount due to immediate holding company			<u>84,671</u>
Consolidated total liabilities			<u><u>316,767</u></u>
	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Total RMB'000
As at 31 December 2018 (audited)			
Assets			
Segment assets	<u>398,636</u>	<u>213,464</u>	612,100
Other unallocated assets			
Deferred tax asset			1,922
Bank balances and cash			<u>571,596</u>
Consolidated total assets			<u><u>1,185,618</u></u>
Liabilities			
Segment liabilities	<u>7,157</u>	<u>263,354</u>	270,511
Other unallocated liabilities			
Other payables and accruals			2,639
Amount due to immediate holding company			<u>84,378</u>
Consolidated total liabilities			<u><u>357,528</u></u>

Other segment information

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Total RMB'000
Six months ended 30 June 2019 (unaudited)			
Segment information included in the measure of segment results or assets:			
Addition to right-of-use assets	–	677	677
Depreciation of property, plant and equipment	248	68	316
Depreciation of right-of-use assets	184	1,053	1,237

Six months ended 30 June 2018 (unaudited)

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

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		Non-current assets	
	Six months ended 30 June 2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)	As at 30 June 2019 RMB'000 (unaudited)	As at 31 December 2018 RMB'000 (audited)
PRC	100,291	111,021	7,851	2,774
Hong Kong	–	17,966	2,144	1,381
	100,291	128,987	9,995	4,155

Note: Non-current assets exclude deferred tax asset.

Information about major customers

There was no revenue from transactions with a single external customer that contributes over 10% or more of the Group's total revenue for the periods reported.

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Current tax		
PRC Enterprise Income Tax (“EIT”)	23,992	26,814
Hong Kong Profits Tax	—	1,223
	<u>23,992</u>	<u>28,037</u>
Deferred tax charge	970	671
	<u>24,962</u>	<u>28,708</u>

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2018. No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2019 as the Company and the relevant subsidiaries in Hong Kong had no assessable profits.

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 subsidiaries is 25% for both periods.

5. DIVIDENDS

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
2018 Final — HK1.0 cent (2018: 2017 Final — HK2.0 cents) per ordinary share	<u>14,394</u>	<u>25,799</u>

The Board of Directors do not declare the payment of an interim dividend for the six months ended 30 June 2019 (2018: Nil).

6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Earnings:		
Profit for the period for the purpose of calculating basic and diluted earnings per share	<u>66,524</u>	<u>75,175</u>

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,619,392,265	1,600,000,000
Effect of dilutive potential ordinary shares on share options	10,088,100	4,354,890
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,629,480,365	1,604,354,890

7. LOANS TO CUSTOMERS FOR ART AND ASSET PAWN BUSINESS

	As at 30 June 2019 RMB'000 (unaudited)	As at 31 December 2018 RMB'000 (audited)
Art and asset pawn loans to customers, gross	409,660	401,066
Less: Impairment allowances	(4,229)	(4,139)
Art and asset pawn loans to customers, net	405,431	396,927

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 or no more than one year. At the maturity of the loan period, a borrower has the obligation to repay the principal amount of the loan or, alternatively, a borrower may make an application for a renewal of the loan prior to or within five days after, the maturity date of the loan period. The loans provided to customers carry fixed interest rates ranging from 12% to 43.2% (2018: 32% to 48%) per annum during the six months ended 30 June 2019.

All art and asset pawn loans granted are backed by collateral as security. The principal collateral types for loans to customers are the artworks, mainly zisha artworks, paintings and calligraphies. The Group is not permitted to sell or repledge the pawn assets in the absence of default by the customers. There have not been any significant changes in the quality of the collateral held.

Aging analysis of loans to customers

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

	As at 30 June 2019 RMB'000 (unaudited)	As at 31 December 2018 RMB'000 (audited)
Within 1 month	184,878	38,763
2–3 months	170,263	315,835
3–6 months	50,290	42,329
Total	405,431	396,927

8. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	As at 30 June 2019 <i>RMB'000</i> (unaudited)	As at 31 December 2018 <i>RMB'000</i> (audited)
Trade receivables for art and asset auction business, gross	36,858	42,593
Less: Impairment allowances	(387)	(710)
Trade receivables for art and asset auction business, net	<u>36,471</u>	<u>41,883</u>
Other receivables and prepayments:		
Receivables from customers in respect of art and asset auction business	147,431	167,535
Other receivables and deposits	907	1,600
	<u>148,338</u>	<u>169,135</u>
Total	<u><u>184,809</u></u>	<u><u>211,018</u></u>

Buyers of artworks are required to settle the entire purchase price of the artworks within 7 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.

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

	2019 <i>RMB'000</i> (unaudited)	2018 <i>RMB'000</i> (audited)
Less than 60 days	<u><u>36,471</u></u>	<u><u>41,883</u></u>

9. SHARE CAPITAL

	Number of shares	Nominal value <i>HK\$'000</i> <i>RMB'000</i>	
Ordinary shares of HK\$0.01 each			
Authorised			
At 1 January 2018, 30 June 2018, 1 January 2019 and 30 June 2019	<u>5,000,000,000</u>	<u>50,000</u>	<u>43,420</u>
Issued and fully paid			
At 1 January 2018, 30 June 2018 and 1 January 2019	1,600,000,000	16,000	13,995
Issue of shares on placing of shares	<u>78,000,000</u>	<u>780</u>	<u>684</u>
At 30 June 2019	<u>1,678,000,000</u>	<u>16,780</u>	<u>14,679</u>

On 17 May 2019, the Company completed a placing of 78,000,000 new shares at HK\$1.3 per share to certain independent third parties. The net proceeds are intended to be used for the development of the pre-auction and post-auction financing of artworks in Hong Kong and for general working capital use of the Company. These shares rank pari passu with the then existing shares of the Company in all respects.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2019 (the “**Period Under Review**”), the international and domestic market experienced a volatile first half marked by heightened concerns about the trade war between China and the United States and threats to worldwide economic growth.

The Company and its subsidiaries (together, the “Group”) adjusted the marketing strategy in response to the unstable environment. During the Period Under Review, the Group’s revenue was approximately RMB100.3 million, representing a decrease of approximately 22.2% from RMB129.0 million for the same period in 2018. The profit attributable to owners of the Company was approximately RMB66.5 million, representing a decrease of approximately 11.6% from RMB75.2 million for the same period in 2018.

Art and Asset Auction Business

The Group’s art and asset auction business adapted a prudent strategy in business development. The number of auctions held in the Period Under Review was reduced to two from five in the same period in 2018 in respond to the market demand.

During the Period Under Review, revenue from the art and asset auction segment of the Company was approximately RMB48.9 million, representing a decrease of approximately 26.1% from RMB66.2 million for the same period in 2018, of which, revenue of art auction representing 100% of auction segment revenue. Profits of art and asset auction segment was RMB51.0 million, representing an decrease of approximately 12.4% as compared with that for the same period last year.

During the Period Under Review, the Group held one spring auction in Yixing City and one pure online art auction. The aggregate transaction value (excluding buyer commission) amounted to RMB227.8 million, representing a decrease of approximately 24.5% from approximately RMB301.9 million for the same period in 2018 as the number of auctions were reduced.

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 2019. The total hammer price for the auction lots (excluding buyer commission) recorded RMB31.9 million, increased from approximately RMB14.1 million for the one pure online art auction held in the same period of 2018.

Art and Asset Pawn Loan Business

During the Period Under Review, revenue from the pawn loan segment was approximately RMB51.4 million, representing a decrease of approximately 18.2% from approximately RMB62.8 million for the same period last year. The decrease is the result of the reduced monthly composite administrative fee charged on pawn loans since second half of 2018 and reduced average loan balance in the mainland China during the Period Under Review but offset by the revenue generated from the net proceeds from the issue of new shares in May 2019 used in the new pre-auction and post-auction financing business in Hong Kong.

Profits of pawn loan segment was RMB50.3 million, representing a decrease of approximately 22.6% from approximately RMB65.0 million for the same period last year. As of 30 June 2019, the total amount of new loans granted by the Group amounted to approximately RMB352.8 million.

The breakdown of art and asset pawn loan business of the Group in the first half of 2019 and 2018 was as follows:

	Six months ended 30 June				% of change
	2019		2018		
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	
Art pawn loan revenue	51,327	99.9	62,775	99.9	(18.2)
Asset pawn loan revenue	32	0.1	36	0.1	(11.1)
Total	51,359	100.0	62,811	100.0	(18.2)

Loans secured by artwork	Six months ended 30 June	
	2019	2018
Total new loan amount granted (<i>RMB'000</i>)	352,750	220,450
Total number of new loans granted	35	37
Number of new loans renewed	12	19
Renewal ratio of new loan (%)	34.3	51.4
Average initial loan term (<i>days</i>)	55	80

Loans secured by assets	Six months ended 30 June	
	2019	2018
Total new loan amount granted (<i>RMB'000</i>)	200	160
Total number of new loans granted	29	25
Number of new loans renewed	19	14
Renewal ratio of new loan (%)	65.5	56.0
Average initial loan term (<i>days</i>)	37	41

During the Period Under Review, approximately RMB352.8 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 2019, 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 3.6%, 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 2019.

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 2019, the Group's actual loan default rate was 0%.

FINANCIAL REVIEW

Revenue

Our revenue decreased by approximately 22.2% to approximately RMB100.3 million for the six months ended 30 June 2019, primarily due to (i) the reduced number of auctions held, from five auctions held in the first half of 2018 to two auctions held in the first half of 2019 and (ii) the reduced average loan balance during the first half of 2019.

The respective segment revenue of the Group in the first half of 2019 and 2018 was as follows:

	Six months ended 30 June		
	2019	2018	
	<i>RMB'000</i>	<i>RMB'000</i>	% of change
Art and asset auction business	48,932	66,176	(26.1)
Art and asset pawn business	51,359	62,811	(18.2)
Total	100,291	128,987	(22.2)

Other income

Our other income decreased by 36.5% to approximately RMB1.3 million for the six months ended 30 June 2019, primarily due to decrease in other income derived from auctions as the number of auctions was reduced from five in the first half of 2018 to two in the first half of 2019.

Business tax and surcharges

Our business tax and surcharges decreased by approximately 19.1% to approximately RMB0.7 million for the six months ended 30 June 2019.

Operating expenses

Our operating expenses decreased by approximately 82.7%, to approximately RMB1.3 million for the six months ended 30 June 2019, primarily due to the decrease in advertising expenses as a result of reduced promotion activities in Hong Kong for promotion of auction.

Impairment losses reversed under expected credit loss model

For the six months ended 30 June 2019, we reversed impairment losses under expected credit loss model of approximately RMB3.1 million, increased by approximately RMB0.5 million.

Administrative expenses

Our administrative expenses decreased by approximately 45.6% to approximately RMB11.2 million for the six months ended 30 June 2019, primarily due to the decrease in staff cost, operating and administrative expenses as a result of the reduced operations in Hong Kong.

Reportable segment profit

As a result of the foregoing, reportable segment profit decreased by approximately RMB21.8 million from approximately RMB123.2 million for the six months ended 30 June 2018 to approximately RMB101.4 million for the six months ended 30 June 2019.

The respective reportable segment profit of the Group in the first half of 2019 and 2018 is as follows:

	Six months ended 30 June		
	2019	2018	
	<i>RMB'000</i>	<i>RMB'000</i>	% of change
Art and asset auction business	51,022	58,251	(12.4)
Art and asset pawn business	50,336	64,961	(22.5)
Segment result	101,358	123,212	(17.7)

Profit before tax

As a result of the foregoing, our profit before tax decreased by approximately 11.9% to approximately RMB91.5 million for the six months ended 30 June 2019.

Income tax expense

Our income tax expenses decreased by approximately 13.0% to approximately RMB25.0 million for the six months ended 30 June 2019, primarily due to the decrease in our Group's taxable income.

Profit for the period

As a result of the foregoing, profit for the period decreased by approximately 11.5% to approximately RMB66.5 million for the six months ended 30 June 2019.

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 2019 and 2018:

	2019 RMB'000	2018 RMB'000
Net cash from operating activities	24,029	119,439
Net cash from investing activities	1,217	965
Net cash from financing activities	86,007	43,228

As of 30 June 2019, the Group's total bank balances and cash increased by 19.5% to approximately RMB682.9 million from approximately RMB571.6 million as of 31 December 2018 mainly due to the net proceeds of HK\$100.1 million from the issue of new shares in May 2019. As of 30 June 2019 and 31 December 2018, the Group did not have any bank borrowings and no significant 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, loans to customers, 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 2019, despite the exchange rates of RMB fluctuated 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 zero and RMB0.1 million, for the six months ended 30 June 2019 and 2018, respectively.

Capital Commitment

As at 30 June 2019, the Group did not have material capital commitments.

Subsequent Event

No significant event took place after 30 June 2019.

Human Resources and Training

As of 30 June 2019, the Group had a total of 40 employees (as at 31 December 2018: 45 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 2019.

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 2019, RMB89.4 million has been injected to PRC to increase the registered capital of Hexin Pawn. Approximately RMB37.2 million has been utilised in establishing branch in Hong Kong and Shanghai. RMB21.3 million has been utilised for general operation expenses. The remaining net proceeds of approximately RMB64.7 million were deposited with certain licensed financial institutions as of 30 June 2019.

On 17 May 2019, the Company issued 78,000,000 new shares of nominal value of HK\$0.01 each. The net proceeds after deducting the transaction expenses amounted to HK\$100.1 million (equivalent to RMB87.8 million).

Up to 30 June 2019, approximately RMB79.0 million and approximately RMB8.8 million have been used in the pre-auction and post-auction financing business in Hong Kong and general working capital use of the Company respectively.

OUTLOOK AND PROSPECTS

In second half of 2019, the trade dispute between China and the United States is expected to continue together with the concerns over the worldwide economic growth, the overall market is expected to be volatile. The factors weakened the general market sentiments and rendered the Group a more challenging business environment.

Auction Business

In the world of digitalization, the Group is considering to further explore the opportunities in the online auction market by enhancing the functionality of our online auction platform by development of artwork transaction database and artwork mall. Online auction platform provides an accessible market place for the collectors to review the collections available in the Group and draws the attention of potential buyers to our brand and auctions. The Group will continue to expand our auction lot composition to include more art categories with strong market demand. We intend to extend our business network and geographical presence in major cities in China. 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. The Company has planned to organize our autumn auction in Shanghai in December 2019. Meanwhile, we are actively exploring to host an extra autumn auction in a first tier city in China.

Pawn Loan Business

The Group will continue to focus on growing the loan portfolio. 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. 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 2019 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 2019, 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 2019.

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 2019.

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.

UPDATE ON DIRECTORS AND CHIEF EXECUTIVE OFFICE INFORMATION

The following is updated information of the director and the chief executive officer required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

1. Mr. Fan Zhijun, an executive director of the Company and the chairman of the board of directors of the Company, has been appointed as the chief executive officer of the Company with effect from 2 July 2019.

2. Ms. Li Si Mo (“**Ms. Li**”) has resigned as the chief executive officer of the Company with effect from 31 May 2019. Ms. Li has been appointed as the art director of the Company with effect from 1 June 2019.

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 2019 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. In view of Mr. Fan’s experiences in the art finance industry and his involvement in the management and operation of the Group since the establishment of the Group, the Board believes that he is the most suitable candidate to be the Chief Executive Officer and it is in the best interests of the Group for Mr. Fan to take up the dual roles of Chairman and Chief Executive Officer. As the Board is comprised of two executive Directors and three independent non-executive Directors, the Board is appropriately structured with balance of power to provide sufficient checks and balance to protect the interests of the Company and the Shareholders and the deviation from Code A.2.1 of the CG Code is appropriate in such circumstances.

CONTRACTUAL ARRANGEMENTS

Reasons for using and risks associated with the contractual arrangements

Reference is made to the prospectus dated 27 October 2016 and 2016 annual report of the Company dated 16 March 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 2019, 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, 23 August 2019

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.