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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the "**Board**") of directors (the "**Directors**") of China Art Financial Holdings Limited (the "**Company**") hereby announces the audited consolidated annual results of the Company and its subsidiaries (together, the "**Group**") for the year ended 31 December 2019 (the "**Reporting Year**") together with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	4		
Interest revenue		**90,487**	118,909
Service revenue		**73,482**	138,290
Total revenue		**163,969**	257,199
Other income		**8,293**	3,002
Other gains and losses		**(1,312)**	(1,944)
Operating expenses		**(5,070)**	(12,205)
Net impairment losses reversed/(recognised)		**2,424**	(3,685)
Administrative expenses		**(20,539)**	(47,444)
Finance costs		**(361)**	(32)
Profit before tax		**147,404**	194,891
Income tax expenses	5	**(39,877)**	(57,604)
Profit for the year attributable to owners of the Company		**107,527**	137,287
Other comprehensive income/(expense)			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**755**	(1,751)
Total comprehensive income for the year attributable to owners of the Company		**108,282**	135,536
Earnings per share (RMB cents)	7		
Basic		**6.52**	8.58
Diluted		**6.50**	8.56

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment		**2,025**	4,155
Right-of-use assets		**5,110**	–
Deferred tax asset		**1,262**	1,922
		8,397	6,077
Current assets			
Loan receivables	*8*	**533,832**	396,927
Trade and other receivables	*9*	**74,142**	211,018
Bank balances and cash		**588,113**	571,596
		1,196,087	1,179,541
Current liabilities			
Accruals and other payables	*10*	**86,524**	250,770
Amount due to immediate holding company		**95,238**	84,378
Lease liabilities		**1,150**	–
Obligations under finance leases		**–**	384
Tax payable		**7,743**	21,273
		190,655	356,805
Net current assets		**1,005,432**	822,736
Total assets less current liabilities		**1,013,829**	828,813
Non-current liabilities			
Lease liabilities		**4,034**	–
Obligations under finance leases		**–**	723
		4,034	723
Net assets		**1,009,795**	828,090
Capital and reserves			
Share capital	*11*	**14,679**	13,995
Reserves		**995,116**	814,095
Total equity		**1,009,795**	828,090

NOTES:

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Laws, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The addresses of the registered office, the principal place of business in Hong Kong and principal place of business in the People's Republic of China (the "**PRC**") of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands; Room 1907, 19/F, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong, and the Northern side of Jiefang East Road, Yicheng Street, Yixing City, Jiangsu Province, the PRC, respectively.

The Company's immediate holding company and ultimate holding company are Intelligenesis Investment Co. Ltd. and Mauve Jade Investment Limited, respectively, both of which are limited companies incorporated in the British Virgin Islands.

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Company's wholly-owned subsidiaries established in the PRC, 宜興市漢信信息技術服務有限公司 Yixing Hanxin Information Technology Service Co., Ltd. ("**WFOE-Pawn**") and 宜興市紫玉信息技術服務有限公司 Yixin Ziyu Information Technology Service Co., Ltd. ("**WFOE-Auction**"), entered into two series of agreements with 江蘇和信典當有限公司 Jiangsu Hexin Pawn Co., Ltd. ("**Hexin Pawn**") and 江蘇和信拍賣有限公司 Jiangsu Hexin Auction Co., Ltd. ("**Hexin Auction**"), respectively, which constitute the contractual arrangements (the "**Contractual Arrangements**") for the art and asset pawn business, and art and asset auction business respectively. The Contractual Arrangements effectively transfer the controls over economic benefits and pass the risks associated therewith of Hexin Pawn and Hexin Auction to WFOE-Pawn and WFOE-Auction respectively. The Contractual Arrangements with Hexin Pawn include: (i) Hexin Pawn composite services agreement, (ii) Hexin Pawn option agreement, (iii) Hexin Pawn proxy agreement, and (iv) Hexin Pawn equity pledge agreement; and the Contractual Arrangements with Hexin Auction include: (i) Hexin Auction composite services agreement, (ii) Hexin Auction option agreement, (iii) Hexin Auction proxy agreement, and (iv) Hexin Auction equity pledge agreement. Details of the Contractual Arrangements are set out in the section headed "Contractual Arrangements" of the prospectus of the Company dated 27 October 2016.

The Contractual Arrangements are irrevocable and enable the Group to:

- exercise effective financial and operational control over Hexin Pawn and Hexin Auction;
- exercise equity holders' voting rights of Hexin Pawn and Hexin Auction;
- receive all economic returns generated by Hexin Pawn and Hexin Auction in consideration for the exclusive technical services, management support services and consultancy services provided by the Group;
- obtain an irrevocable and exclusive right to purchase the entire equity interests in Hexin Pawn and Hexin Auction from all the equity holders of Hexin Pawn and Hexin Auction; and
- obtain a pledge over the entire equity interests of Hexin Pawn and Hexin Auction from all the equity holders of Hexin Pawn and Hexin Auction as collateral security under the Contractual Arrangements.

Pursuant to the Contractual Arrangements entered into between the Group and all the equity holders of Hexin Pawn and Hexin Auction, the Contractual Arrangements effectively transfer the controls over economic benefits and pass the risks associated therewith of Hexin Pawn and Hexin Auction to WFOE-Pawn and WFOE-Auction, respectively. Accordingly, Hexin Pawn and Hexin Auction are considered as indirect wholly-owned subsidiaries of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements 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.

3.2 Application of HKFRSs

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

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 year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 16 "Leases"

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

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 on 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. 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 rate for certain leases of properties in the PRC and certain leases of properties in Hong Kong were determined on a portfolio basis.

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 ranged from 2.38% to 5.39%.

		At 1 January 2019
	Note	*RMB'000*
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 as at 31 December 2018	(a)	1,107
Lease liabilities as at 1 January 2019		7,725
Analysed as:		
Current		2,125
Non-current		5,600
Total		7,725

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

	Notes	*RMB'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		6,618
Amounts included in property, plant and equipment under HKAS 17 as assets previously under finance leases	(a)	1,400
Adjustments on rental deposits as at 1 January 2019	(b)	18
Right-of-use assets as at 1 January 2019		8,036
By class:		
Leased properties		6,636
Motor vehicles		1,400
Total		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 RMB723,000 to lease liabilities as current and non-current liabilities respectively as 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, those 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, RMB18,000 was adjusted to refundable rental deposits paid and right-of-use assets.

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

	Notes	Carrying amounts previously reported as at 31 December 2018 *RMB'000*	Adjustments *RMB'000*	**Carrying amounts under HKFRS 16 as at 1 January 2019** ***RMB'000***
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 and other receivables				
– 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	**–**

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021.

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the Directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

4. REVENUE AND SEGMENT INFORMATION

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

	2019	2018
	RMB'000	*RMB'000*
Interest revenue:		
Interest revenue from art and asset pawn business	**90,487**	118,909
Service revenue:		
Auction revenue from art and asset auction business	**73,482**	138,290
Total	**163,969**	257,199

The segment information reported externally was analysed based on (i) art and asset pawn business, and (ii) art and asset auction business, which is consistent with the internal information that is regularly reviewed by the chief executive officer of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance. This is also the basis of organisation in the Group, whereby the management has chosen to organise the Group by these business activities.

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment result represents the profit earned by each segment without allocation of certain other income, other gains and losses, central administrative expenses and finance costs. Segment assets and liabilities are allocated to each segment excluding deferred tax asset, bank balances and cash, tax payable, unallocated corporate assets and liabilities, and amount due to immediate holding company. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment revenue and results

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

	Art and asset pawn business *RMB'000*	**Art and asset auction business** *RMB'000*	**Total** *RMB'000*
2019			
Segment revenue	**90,487**	**73,482**	**163,969**
Interest income for artwork auction financing from art and asset auction business	**–**	**5,693**	**5,693**
Segment costs	**(2,714)**	**(2,356)**	**(5,070)**
Net impairment losses reversed	**129**	**2,295**	**2,424**
Segment results	**87,902**	**79,114**	**167,016**
Other income			**2,600**
Other gains and losses			**(1,312)**
Central administrative expenses			**(20,539)**
Finance costs			**(361)**
Profit before tax			**147,404**

	Art and asset pawn business *RMB'000*	Art and asset auction business *RMB'000*	Total *RMB'000*
2018			
Segment revenue	118,909	138,290	257,199
Segment costs	(2,085)	(10,120)	(12,205)
Net impairment losses reversed/(recognised)	2,390	(6,075)	(3,685)
Segment results	119,214	122,095	241,309
Other income			3,002
Other gains and losses			(1,944)
Central administrative expenses			(47,444)
Finance costs			(32)
Profit before tax			194,891

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*
2019			
Assets			
Segment assets	**462,646**	**150,661**	**613,307**
Unallocated assets			
Deferred tax asset			**1,262**
Bank balances and cash			**588,113**
Corporate assets			**1,802**
Consolidated total assets			**1,204,484**
Liabilities			
Segment liabilities	**3,490**	**84,465**	**87,955**
Unallocated liabilities			
Amount due to immediate holding company			**95,238**
Tax payable			**7,743**
Corporate liabilities			**3,753**
Consolidated total liabilities			**194,689**

	Art and asset pawn business *RMB'000*	Art and asset auction business *RMB'000*	Total *RMB'000*
2018			
Assets			
Segment assets	398,636	210,543	609,179
Unallocated assets			
Deferred tax asset			1,922
Bank balances and cash			571,596
Corporate assets			2,921
Consolidated total assets			1,185,618
Liabilities			
Segment liabilities	1,458	246,633	248,091
Unallocated liabilities			
Amount due to immediate holding company			84,378
Tax payable			21,273
Corporate liabilities			3,786
Consolidated total liabilities			357,528

Other segment information

	Art and asset pawn business ***RMB'000***	**Art and asset auction business** ***RMB'000***	**Total** ***RMB'000***
2019			
Segment information included in the measure of segment results or assets:			
Depreciation of property, plant and equipment	**484**	**138**	**622**
Depreciation of right-of-use assets	**368**	**368**	**736**
Gain on disposal of property, plant and equipment	**–**	**57**	**57**

	Art and asset pawn business *RMB'000*	Art and asset auction business *RMB'000*	Total *RMB'000*
2018			
Segment information included in the measure of segment results or assets:			
Additions of property, plant and equipment	–	1,135	1,135
Depreciation of property, plant and equipment	830	121	951

Geographical information

The following table sets out information about the geographical locations of the Group's revenue from external customers and specified non-current assets. The geographical location of the Group's revenue from external customers is based on the location of the Group's operations for art and asset pawn business, and the location of services rendered for art and asset auction business. The Group's specified non-current assets comprise property, plant and equipment, and right-of-use assets, and the geographical location of these specified non-current assets is based on the physical location of these assets.

	Revenue from external customers		**Specified non-current assets**	
	2019	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
The PRC, excluding Hong Kong (place of domicile)	**163,969**	241,062	**5,687**	2,774
Hong Kong	**–**	16,137	**1,448**	1,381
	163,969	257,199	**7,135**	4,155

Information about major customers

All external customers individually accounted for less than 10% of the Group's total revenue for the years ended 31 December 2019 and 2018.

5. INCOME TAX EXPENSE

	2019	2018
	RMB'000	*RMB'000*
Current tax		
PRC Enterprise Income Tax ("EIT")	**39,217**	57,839
Hong Kong Profits Tax	**–**	–
	39,217	57,839
Deferred tax charge/(credit)	**660**	(235)
	39,877	57,604

Under the PRC EIT law, the tax rate of the Company's subsidiaries established in the PRC was 25% for the years ended 31 December 2019 and 2018.

No provision for Hong Kong Profits Tax was made during the years ended 31 December 2019 and 2018 as the Group did not have assessable profits arising in Hong Kong during both years.

6. DIVIDENDS

	2019	2018
	RMB'000	*RMB'000*
2018 final dividend of HK1.0 cent (2018: 2017 final dividend of HK2.0 cents) per ordinary share	**14,394**	25,799

During the year ended 31 December 2019, the Company declared and paid a dividend of HK1.0 cent per ordinary share in an aggregate amount of HK$16,780,000 (approximately RMB14,394,000).

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2019.

7. EARNINGS PER SHARE

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

	2019	2018
	RMB'000	*RMB'000*
Earnings		
Profit for the year for the purpose of calculating basic and diluted earnings per share	**107,527**	137,287

	2019	2018
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,648,937**	1,600,000
Effect on dilutive potential ordinary shares from share options	**5,993**	3,249
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,654,930**	1,603,249

8. LOAN RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Art and asset pawn loans to customers	**463,222**	401,066
Less: Impairment allowances	**(4,010)**	(4,139)
	459,212	396,927
Loans to customers for artwork auction financing	**75,262**	–
Less: Impairment allowances	**(642)**	–
	74,620	–
Total	**533,832**	396,927

(a) Art and asset pawn loans to customers

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 has the obligation to repay the principal amount of the loan or, alternatively, a borrower may make an application for a renewal of the loan prior to or within five days after, the maturity date of the loan period. The loans granted to customers carried fixed interest rates ranging from 25% to 45% (2018: 45% to 50%) per annum during the year ended 31 December 2019. Art and asset pawn loans to customers were all denominated in RMB.

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

Ageing analysis of art and asset pawn loans to customers

The ageing analysis of art and asset pawn loans to customers (net of impairment allowances) by issue date of initial pawn tickets upon granting of the pawn loans is set out below:

	2019	2018
	RMB'000	*RMB'000*
Within 1 month	**250,355**	38,763
1 – 3 months	**194,009**	315,835
3 – 6 months	**14,848**	42,329
Total	**459,212**	396,927

(b) Loans to customers for artwork auction financing

The loans to customers for artwork auction financing are arising from the Group's art and asset auction business. During the year ended 31 December 2019, the Group granted certain secured loans in an aggregate principal amount of HK$90,100,000 (equivalent to RMB79,528,000) to certain independent third parties, and the borrowers repaid part of the principal and interest in an aggregate amount of HK$12,500,000 (equivalent to RMB11,510,000) to the Group during the year.

The loans were carried at a fixed interest rate of 12% per annum and were due for repayment of twelve months from the first drawdown date. The Group has the overriding right to demand immediate repayment of all outstanding principal, interest and other amounts from the borrowers. The borrowers have undertaken not to create or permit to subsist any mortgage, pledge, lien, charge, assignment or other security interest over the collateral without the Group's prior written consent. The borrowers will also indemnify the Group against any cost, loss or liability incurred by the Group as a result of breach of the facility letters or occurrence of any event of defaults as stated in the facility letters.

Loans to customers for artwork auction financing were all denominated in Hong Kong dollars. These loans are backed by collateral as security and the major type of collateral is Zisha artwork. There have not been any significant changes in the quality of the collateral held.

Ageing analysis of loans to customers for artwork auction financing

The ageing analysis of loans to customers for artwork auction financing (net of impairment allowances) is prepared based on contractual due date and is set out below:

	2019	2018
	RMB'000	RMB'000
Not yet past due	**74,620**	–

9. TRADE AND OTHER RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables for art and asset auction business	**14,828**	42,593
Less: Impairment allowances	**(122)**	(710)
	14,706	41,883
Other receivables from customers in respect of art and asset auction business	**58,823**	167,535
Other receivables and deposits	**613**	1,600
	59,436	169,135
Total	**74,142**	211,018

As at 31 December 2019 and 2018, trade receivables for art and asset auction business arose from contracts with customers which amounted to RMB14,706,000 and RMB41,883,000, respectively.

Buyers of artwork are required to settle the entire purchase price of the artwork within 7 days after the date of auction. The 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 the ageing analysis of trade receivables for art and asset auction business (net of impairment allowances) presented based on the invoice dates.

	2019	2018
	RMB'000	*RMB'000*
Less than 60 days	**14,706**	41,883

10. ACCRUALS AND OTHER PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Payables on behalf of customers in respect of art and asset auction business	**72,512**	224,807
Other payables for art and asset auction business	**351**	377
Accrued expenses	**3,807**	3,391
Other tax payables	**4,138**	13,143
Security deposits received for auctions	**5,400**	8,800
Others	**316**	252
	86,524	250,770

For the payables of art and asset auction business, after the purchase cost and all outstanding commission receivable from the buyer are fully settled, net sale proceeds (being the hammer price after deducting the seller's commission and the personal income tax) will be paid to the seller within 60 days from date of auction or receipt of settlement from buyer, whichever is later. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

The Group's payables on behalf of customers in respect of art and asset auction business were aged within 60 days as at 31 December 2019 and 2018 based on the dates of relevant auction services rendered.

11. SHARE CAPITAL

	Number of shares	Amount	
			(Equivalent to
	'000	*HK$'000*	*RMB'000)*
Ordinary shares of HK$0.01 each			
Authorised			
At 1 January 2018, 31 December 2018 and 31 December 2019	5,000,000	50,000	43,420
Issued and fully paid			
At 1 January 2018, 31 December 2018 and 1 January 2019	1,600,000	16,000	13,995
Issue of shares on placing of shares (Note)	78,000	780	684
At 31 December 2019	1,678,000	16,780	14,679

Note: On 17 May 2019, the Company completed a placing of 78,000,000 new ordinary shares of the Company at HK$1.3 per share to certain independent third parties. The net proceeds (after deduction of transaction costs of RMB1,131,000) of approximately RMB87,817,000 are used for development of the artwork auction financing in Hong Kong and for general working capital purpose. These shares rank pari passu with the then existing shares of the Company in all respects.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

12. EVENTS AFTER THE REPORTING PERIOD

Following the outbreak of coronavirus disease in late 2019, the central government of the PRC has implemented a number of measurements for disease prevention and controls. The business environment in the Mainland China has been significantly affected. The World Health Organisation further declared the coronavirus pandemic in March 2020, a series of precautionary and control measures have been implemented across the globe. The future development of the coronavirus disease and its disruption to business and economic environment are highly uncertain. The Group has been assessing the operational and financial impact of the coronavirus disease on the Group. However, given the dynamic nature of the incident, it is not practicable to provide a reasonable estimate of its impacts on the Group's financial position, performance and cashflows when this announcement is published.

BUSINESS REVIEW

In 2019, the international and domestic market experienced a volatile year marked by heightened concerns about the trade war between China and the United States, Brexit and threats to worldwide economic growth. The Company and its subsidiaries (together, the "**Group**") adjusted the marketing strategy in response to the unstable environment.

For the Reporting Year, the Group's revenue was approximately RMB164.0 million, representing an decrease of 36% from RMB257.2 million for the same period in 2018. The profit for the year was approximately RMB107.5 million, representing an decrease of 22% from RMB137.3 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 Reporting Year was reduced to four from eight in the same period in 2018 in respond to the market demand.

During the Reporting Year, revenue from the art and asset auction segment of the Company was approximately RMB73.5 million, representing a decrease of 47% from RMB138.3 million for the same period last year. Profits of art and asset auction segment was RMB79.1 million, representing a decrease of 35% from RMB122.1 million for the same period last year.

During the Reporting Year, we held our spring and autumn auctions in Yixing and two pure online art and asset auctions. The aggregate transaction value (excluding buyer commission) amounted to RMB342 million, representing a decrease of approximately 46% from approximately RMB638 million for the same period last year as the number of auctions were reduced.

Art and Asset Pawn Business

During the Reporting Year, revenue from the art and asset pawn segment was approximately RMB90.5 million, representing a decrease of approximately 24% from approximately RMB118.9 million for the same period last year. The decrease is the result of the reduced monthly composite administrative fee charged on pawn loans and reduced average loan balance in the mainland China during the Reporting Year.

Profits of art and asset pawn segment was RMB87.9 million, representing a decrease of approximately 26% from approximately RMB119.2 million in 2018. During the Reporting Year, the total amount of new loans granted by the Group amounted to approximately RMB880.5 million.

FINANCIAL REVIEW

Revenue

Our revenue for the year ended 31 December 2019 amounted to approximately RMB164.0 million, representing a year-on-year decrease of 36%, from approximately RMB257.2 million for the year ended 31 December 2018, primarily due to (i) the outbreak of trade war between China and the United States adversely affecting the market sentiment during the year, (ii) the reduction of numbers of auctions from eight in 2018 to four in 2019 due to our adjustment on the market strategy and (iii) the reduction of monthly composite administrative fee charged on pawn loans.

Operating expenses

Our operating expenses significantly decreased by approximately RMB7.1 million, or approximately 58%, from approximately RMB12.2 million for the year ended 31 December 2018 to approximately RMB5.1 million for the year ended 31 December 2019, primarily due to the costs saved from the reduction in the number of auctions held.

Impairment losses, net of reversal

For the year ended 31 December 2019, we reversed impairment losses approximately RMB2.4 million.

Administrative expenses

Our administrative expenses decreased by approximately RMB26.9 million, or approximately 57%, from approximately RMB47.4 million for the year ended 31 December 2018 to approximately RMB20.5 million for the year ended 31 December 2019, primarily due to the reduced operation scale in Hong Kong and Shanghai during the Reporting Year.

Other gains and losses

Our other gains and losses decreased by approximately RMB0.6 million from the losses of approximately RMB1.9 million for the year ended 31 December 2018 to the losses of approximately RMB1.3 million for the year ended 31 December 2019, primarily due to the decreased exchange loss arisen from the depreciation of RMB.

Reportable segment profit

As a result of the foregoing, reportable segment profit decreased by RMB74.3 million from RMB241.3 million for the year ended 31 December 2018 to RMB167.0 million for the year ended 31 December 2019.

Profit before tax

As a result of the foregoing, our profit before tax decreased by approximately RMB47.5 million, or approximately 24%, from approximately RMB194.9 million for the year ended 31 December 2018 to approximately RMB147.4 million for the year ended 31 December 2019.

Income tax expense

Our income tax expenses decreased by approximately RMB17.7 million, or approximately 31%, from approximately RMB57.6 million for the year ended 31 December 2018 to approximately RMB39.9 million for the year ended 31 December 2019, primarily due to a decrease in our Group's taxable income.

Profit and total comprehensive income for the year

Profit and total comprehensive income for the year decreased by approximately RMB27.2 million, or approximately 20%, from approximately RMB135.5 million for the year ended 31 December 2018 to approximately RMB108.3 million for the year ended 31 December 2019, primarily due to a decrease in profit for the year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net Cash Flow

The Group maintains a strong and healthy financial position. The Group's principal sources of funds to finance the working capital, capital expenditure and other capital requirements were internally generated by cash flows. As of 31 December 2019, net working capital (calculated as current assets less current liabilities) was RMB1,005.4 million, representing an increase of RMB182.7 million as compared with RMB822.7 million as of 31 December 2018. The current ratios (calculated as current assets/current liabilities) are 6.3 times and 3.3 times as of 31 December 2019 and 31 December 2018 respectively.

The following table summarises the consolidated statement of cash flows for the two years ended 31 December 2019 and 2018:

	2019	2018
	RMB'000	*RMB'000*
Net cash (used in)/from operating activities	**(66,339)**	12,612
Net cash from investing activities	**3,470**	1,774
Net cash from financing activities	**79,371**	31,676

As of 31 December 2019, the Group's total bank balances and cash increased by 3% to RMB588.1 million from RMB571.6 million as of 31 December 2018.

During the year, the Group did not engage in any derivative activities or use any financial instruments to hedge its balance sheet exposures.

The Group principally focused on the operation in the PRC. The Group was not subject to any other material risk directly relating to the foreign exchange fluctuation. For the year ended 31 December 2019, 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.

OUTLOOK AND PROSPECTS

Following the outbreak of coronavirus disease in late 2019, our living and working environment in the mainland China has been significantly affected. Since late January 2020, the central government of the PRC has implemented a number of measurements for disease prevention and controls. The general public are advised to stay at home and avoid unnecessary travel while certain public transportation services and highways were discontinued, business operations are advised to suspend, Chinese New Year holiday has been prolonged by the central government, following by special working shift arrangement to avoid concentration of staff in office.

Without doubt, the incident led significant disruption to the PRC society and our business operations.

Auction Business

In the first quarter of 2020, the future development of the coronavirus disease is highly uncertain, market sentiment is highly affected. Collectors are on the sidelines and on hold their consignment plan. We have deferred certain customers' visit schedule and business plan in order to avoid social contact. Our first online auction in March 2020 has been cancelled for disease prevention and control. We are continuously communicating with the PRC local government for the suitability of holding large scale auction.

Following the coronavirus pandemic, the global and PRC art market is expected to be negatively affected in 2020. We adopt a relatively prudent strategy in business development while focusing on strengthening our network and relationship with the collectors.

Pawn Business

Following the outbreak of coronavirus disease, the PRC economy is largely affected in the first quarter of 2020. Credit risk is expected to rise. Our business adopts a more conservative attitude in granting pawn loans to new customers in 2020. Additional risk management measurements has been introduced for better credit risk control.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: HK1.0 cent per share).

CORPORATE GOVERNANCE

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

In the opinion of the Directors, the Company applied and complied with all the code provisions of the Code throughout the Reporting Year 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 considers 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 one executive Director 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.

AUDIT COMMITTEE

An audit committee of the Board ("**Audit Committee**") has been established with written terms of reference to, among other matters, review and supervise the financial reporting process and internal control system of the Group. The Audit Committee comprises all the independent non-executive Directors. The annual results of the Group for the year ended 31 December 2019 have been reviewed by the Audit Committee.

SCOPE OF WORK OF THE GROUP'S AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, Ascenda Cachet CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Ascenda Cachet CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ascenda Cachet CPA Limited on the preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2019.

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

Hong Kong, 27 March 2020

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