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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 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3		
Interest revenue		24,672	51,359
Service revenue		1,274	48,932
Total revenue		25,946	100,291
Other income		4,375	1,315
Other gains and losses		(2,351)	217
Operating expenses		(1,276)	(2,003)
Net impairment losses reversed		1,934	3,070
Administrative expenses		(4,644)	(11,232)
Finance costs		(107)	(172)
Profit before tax		23,877	91,486
Income tax expenses	4	(6,950)	(24,962)

		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(unaudited)
Profit for the period attributable to owners of the Company		16,927	66,524
Other comprehensive income/(expense)			
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>1,608</u>	<u>(698)</u>
Total comprehensive income for the period attributable to owners of the Company		<u>18,535</u>	<u>65,826</u>
Earnings per share (RMB cents)	6		
Basic		<u>1.01</u>	<u>4.11</u>
Diluted		<u>1.01</u>	<u>4.08</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		As at 30 June 2020 RMB'000 (unaudited)	As at 31 December 2019 RMB'000 (audited)
	Notes		
Non-current assets			
Property, plant and equipment		106	2,025
Right-of-use assets		4,705	5,110
Deferred tax asset		835	1,262
		<u>5,646</u>	<u>8,397</u>
Current assets			
Loan receivables	7	367,711	533,832
Trade and other receivables	8	6,729	74,142
Bank balances and cash		759,272	588,113
		<u>1,133,712</u>	<u>1,196,087</u>
Current liabilities			
Accruals and other payables		2,338	86,524
Amount due to immediate holding company		100,817	95,238
Lease liabilities		1,022	1,150
Tax payable		3,486	7,743
		<u>107,663</u>	<u>190,655</u>
Net current assets		<u>1,026,049</u>	<u>1,005,432</u>
Total assets less current liabilities		<u>1,031,695</u>	<u>1,013,829</u>
Non-current liabilities			
Lease liabilities		3,365	4,034
Net assets		<u>1,028,330</u>	<u>1,009,795</u>
Capital and reserves			
Share capital	9	14,679	14,679
Reserves		1,013,651	995,116
Total equity		<u>1,028,330</u>	<u>1,009,795</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. GENERAL AND BASIS OF PREPARATION

(a) General

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.

The Group’s condensed consolidated financial statements are presented in Renminbi (“**RMB**”), which is the same as the functional currency of the Company.

(b) Basis of preparation

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 Yixing 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 art and asset pawn business, art and asset auction business, and art and asset sales business. 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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of 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 2020 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendments to HKFRS 16	COVID-19 – Related Rent Concessions

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards 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.

Impacts of application on Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other confirmation, in the context of the financial statements taken as a whole.

The application of the amendments in the current interim period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the Group's consolidated financial statements for the year ending 31 December 2020.

3. REVENUE AND SEGMENT INFORMATION

Revenue

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

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Interest revenue:		
Interest revenue from art and asset pawn business	<u>24,672</u>	<u>51,359</u>
Service revenue:		
Auction revenue from art and asset auction business	–	48,932
Agency service revenue from art and asset sales business	<u>1,274</u>	<u>–</u>
	<u>1,274</u>	<u>48,932</u>
Total	<u><u>25,946</u></u>	<u><u>100,291</u></u>

Interest revenue on loans to customers for art and asset pawn business is 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.

Agency service revenue from art and asset sales business is recognised at the fees agreed in the contracts with the customers. Such revenue constitutes revenue from contracts with customers and is recognised when the Group transfers the promised agency services to the customers.

Disaggregation of revenue from contracts with customers for auction revenue from art and asset auction business

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
By types of artwork		
Zisha artwork	–	21,887
Calligraphies and paintings	–	22,977
Jewel artwork	–	4,068
Total	–	48,932

By geographical location

The PRC, excluding Hong Kong	–	48,932

Disaggregation of revenue from contracts with customers for agency service revenue from art and asset sales business

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
By types of artwork		
Zisha artwork	1,274	–
By geographical location		
The PRC, excluding Hong Kong	1,274	–

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 (i) art and asset pawn business, (ii) art and asset auction business, and (iii) art and asset sales 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 costs 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 resources allocation and assessment of segment performance.

Segment revenues and results

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

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Art and asset sales business RMB'000	Total RMB'000
Six months ended 30 June 2020 (unaudited)				
Segment revenue	24,672	–	1,274	25,946
Interest income for artwork auction financing from art and asset auction business	–	3,107	–	3,107
Segment costs	(967)	(32)	(277)	(1,276)
Net impairment losses reversed	669	1,265	–	1,934
Segment results	24,374	4,340	997	29,711
Other income				1,268
Other gains and losses				(2,351)
Central administrative expenses				(4,644)
Finance costs				(107)
Profit before tax				23,877

	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	(933)	(1,070)	(2,003)
Net impairment losses (recognised)/reversed	<u>(90)</u>	<u>3,160</u>	<u>3,070</u>
Segment results	<u>50,336</u>	<u>51,022</u>	101,358
Other income			1,315
Other gains and losses			217
Central administrative expenses			(11,232)
Finance costs			<u>(172)</u>
Profit before tax			<u><u>91,486</u></u>

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	Art and asset sales business RMB'000	Total RMB'000
As at 30 June 2020 (unaudited)				
Assets				
Segment assets	<u>369,813</u>	<u>2,524</u>	<u>6,000</u>	378,337
Unallocated assets				
Deferred tax asset				835
Bank balances and cash				759,272
Corporate assets				<u>914</u>
Consolidated total assets				<u><u>1,139,358</u></u>
Liabilities				
Segment liabilities	<u>2,864</u>	<u>2,828</u>	<u>–</u>	5,692
Unallocated liabilities				
Amount due to immediate holding company				100,817
Tax payable				3,486
Corporate liabilities				<u>1,033</u>
Consolidated total liabilities				<u><u>111,028</u></u>

	Art and asset pawn business <i>RMB'000</i>	Art and asset auction business <i>RMB'000</i>	Total <i>RMB'000</i>
As at 31 December 2019 (audited)			
Assets			
Segment assets	<u>462,646</u>	<u>150,661</u>	613,307
Unallocated assets			
Deferred tax asset			1,262
Bank balances and cash			588,113
Corporate assets			<u>1,802</u>
Consolidated total assets			<u><u>1,204,484</u></u>
Liabilities			
Segment liabilities	<u>3,490</u>	<u>84,465</u>	87,955
Unallocated liabilities			
Amount due to immediate holding company			95,238
Tax payable			7,743
Corporate liabilities			<u>3,753</u>
Consolidated total liabilities			<u><u>194,689</u></u>

Other segment information

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Art and asset sales business RMB'000	Total RMB'000
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Six months ended 30 June 2020

(unaudited)

Segment information included in the
measure of segment results or assets:

Additions to right-of-use assets	–	410	–	410
Additions to property, plant and equipment	13	–	–	13
Loss on disposal of property, plant and equipment	157	–	–	157
Loss on write-off of property, plant and equipment	–	222	–	222
Depreciation of property, plant and equipment	118	55	–	173
Depreciation of right-of-use assets	184	218	–	402

Six months ended 30 June 2019

(unaudited)

Segment information included in the
measure of segment results or assets:

Depreciation of property, plant and equipment	248	68	–	316
Depreciation of right-of-use assets	184	1,053	–	1,237

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, and art and asset sales 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		Non-current assets	
	Six months ended 30 June 2020	2019	As at 30 June 2020	As at 31 December 2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)	(audited)
The PRC, excluding Hong Kong (place of domicile)	25,946	100,291	4,147	5,687
Hong Kong	<u>—</u>	<u>—</u>	<u>664</u>	<u>1,448</u>
	<u>25,946</u>	<u>100,291</u>	<u>4,811</u>	<u>7,135</u>

Information about major customers

All external customers individually accounted for less than 10% of the Group's total revenue for the six months ended 30 June 2020 and 2019.

4. INCOME TAX EXPENSES

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (unaudited)
Current tax		
PRC Enterprise Income Tax ("EIT")	6,523	23,992
Hong Kong Profits Tax	—	—
	<u>6,523</u>	<u>23,992</u>
Deferred tax charge	427	970
	<u>6,950</u>	<u>24,962</u>

Under the PRC EIT Law, the tax rate of the Company's subsidiaries established in the PRC was 25% for the six months ended 30 June 2020 and 2019.

No provision for Hong Kong Profits Tax was made during the six months ended 30 June 2020 and 2019 as the Group did not have assessable profits arising in Hong Kong during both periods.

5. DIVIDEND

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (unaudited)
2018 final dividend of HK1.0 cent per ordinary share (six months ended 30 June 2020: Nil)	—	14,394

The Board of Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

6. 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:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings:		
Profit for the period for the purpose of calculating basic and diluted earnings per share	16,927	66,524
	Six months ended 30 June	
	2020	2019
	'000	'000
	(unaudited)	(unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,678,000	1,619,392
Effect of dilutive potential ordinary shares from share options	–	10,088
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,678,000	1,629,480

No dilutive potential ordinary shares from share options was presented for the six months ended 30 June 2020 as the exercise prices of the Company's outstanding share options were higher than the average market price of the Company's ordinary shares during the period.

7. LOAN RECEIVABLES

	As at 30 June 2020 RMB'000 (unaudited)	As at 31 December 2019 RMB'000 (audited)
Art and asset pawn loans to customers	371,051	463,222
Less: Impairment allowances	(3,340)	(4,010)
	<u>367,711</u>	<u>459,212</u>
Loans to customers for artwork auction financing	–	75,262
Less: Impairment allowances	–	(642)
	<u>–</u>	<u>74,620</u>
Total	<u><u>367,711</u></u>	<u><u>533,832</u></u>

(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 12% to 37% (For the year ended 31 December 2019: 25% to 45%) per annum during the six months ended 30 June 2020. 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 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 art and asset pawn loans to customers

The aging analysis of art and assets 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:

	As at 30 June 2020 RMB'000 (unaudited)	As at 31 December 2019 RMB'000 (audited)
Within 1 month	161,493	250,355
1–3 months	190,066	194,009
3–6 months	16,152	14,848
Total	367,711	459,212

(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 RMB79,885,000) 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 RMB11,019,000) to the Group during the same year. During the six months ended 30 June 2020, the Group received all outstanding principal and interests for the loans to customers for artwork auction financing.

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 had the overriding right to demand immediate repayment of all outstanding principal, interest and other amounts from the borrowers. The borrowers had 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 were backed by collateral as security and the major type of collateral was Zisha artwork. There had 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:

	As at 30 June 2020 RMB'000 (unaudited)	As at 31 December 2019 RMB'000 (audited)
Not yet past due	–	74,620

8. TRADE AND OTHER RECEIVABLES

	As at 30 June 2020 RMB'000 (unaudited)	As at 31 December 2019 RMB'000 (audited)
Trade receivables for art and asset auction business	–	14,828
Less: Impairment allowances	–	(122)
	–	14,706
Other receivables from customers in respect of art and asset auction business	–	58,823
Other receivables and deposits	6,729	613
	6,729	59,436
Total	6,729	74,142

As at 30 June 2020, trade receivables for art and asset auction business arose from contracts with customers which amounted to zero (31 December 2019: RMB14,706,000).

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

	2020	2019
	RMB'000	RMB'000
	(unaudited)	(audited)
Less than 60 days	–	14,706

9. SHARE CAPITAL

	Number of shares	Nominal value	Equivalent to
	'000	HK\$'000	RMB'000
<i>Ordinary shares of HK\$0.01 each</i>			
Authorised			
At 1 January 2019, 30 June 2019, 31 December 2019 and 30 June 2020	5,000,000	50,000	43,420
Issued and fully paid			
At 1 January 2019	1,600,000	16,000	13,995
Issue of shares on placing of shares (<i>Note</i>)	78,000	780	684
At 30 June 2019, 31 December 2019 and 30 June 2020	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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2020 (the “**Period Under Review**”), the international and domestic markets experienced extreme challenging situation. Governments over the world had been implementing measurements to fight with the coronavirus disease 2019 (the “**COVID-19**”) pandemic, restricting the mobility and enhancing the social distance of the public. Business activities have been inevitably affected. The Company and its subsidiaries (together, the “**Group**”) adjusted the marketing strategy in response to the highly unstable environment.

Art and Asset Auction Business

Due to the COVID-19 pandemic, art museums, galleries and other art institutions closed for a long period of time, the public is restricted to maintain prolonged social distance. Business travels and meetings have been mostly suspended. We experienced difficulty in the soliciting artwork and meeting with the collectors as such activities will expose our staff in the medical risk. After taking into account the risks and benefits associated with auctions related activities, we decided to cancel all the auctions to protect our staff and business partners and fight with the pandemic.

During the Period Under Review, there was no revenue from the art auction segment of the Company, representing a decrease of 100% from RMB48.9 million for the same period in 2019. Profits of art auction segment was RMB4.3 million, representing a decrease of approximately 91% as compared with that for the same period last year. The significant drop was mainly due to the cancellation of all auctions during the Period Under Review.

Art and Asset Pawn Loan Business

During the Period Under Review, revenue from the pawn loan segment was approximately RMB24.7 million, representing a decrease of approximately 52% from approximately RMB51.4 million for the same period last year. The decrease is the result of the volume of art and asset pawn loans significantly reduced as the management adopted a prudent and conservative approach in granting loans amid the COVID-19 pandemic and adverse global financial market and reduced monthly composite administrative fee charged for pawn loan. Profits of pawn loan segment was RMB24.4 million, representing a decrease of approximately 51% from approximately RMB50.3 million for the same period last year.

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 2020.

Art and Asset Sales Business

During the Period Under Review, the Group launched a new line of service, namely art and asset sales business. Due to the outbreak of COVID-19 and the adverse market conditions, some of the collectors have not been able to sell their artworks through art auctions. The Group engaged in the business of solicitation and promotion of artwork for sales. The business is expected to generate additional trading and agency incomes to the Group.

Revenue from the art and asset sales segment of the Company was approximately RMB1.3 million. Profits of art and asset sales segment was RMB1.0 million.

FINANCIAL REVIEW

Revenue

Our revenue decreased by approximately 74% to approximately RMB25.9 million for the six months ended 30 June 2020, primarily due to (i) the cancellation of all art auctions in the first half of 2020, (ii) the reduced average loan balance during the first half of 2020 and (iii) the reduced monthly composite administrative fee charged for pawn loan.

Other income

Our other income increased by 233% to approximately RMB4.4 million for the six months ended 30 June 2020, primarily due to the interest income for artwork auction financing.

Other gains and losses

Our other gains and losses amounted to approximately RMB2.4 million for the six months ended 30 June 2020, primarily due to the exchange loss arisen from the depreciation of RMB.

Operating expenses

Our operating expenses decreased by approximately 36%, to approximately RMB1.3 million for the six months ended 30 June 2020, primarily due to the decrease in advertising expenses as a result of reduced promotion activities in the PRC for promotion of auction.

Net impairment losses reversed

For the six months ended 30 June 2020, the net impairment losses reversed was approximately RMB1.9 million, decreased by approximately RMB1.1 million.

Administrative expenses

Our administrative expenses decreased by approximately 60% to approximately RMB4.6 million for the six months ended 30 June 2020, primarily due to the decrease in staff cost, operating and administrative expenses as a result of the reduced operations of the Group.

Reportable segment profit

As a result of the foregoing, reportable segment profit decreased by approximately RMB71.7 million from approximately RMB101.4 million for the six months ended 30 June 2019 to approximately RMB29.7 million for the six months ended 30 June 2020.

Profit before tax

As a result of the foregoing, our profit before tax decreased by approximately 74% to approximately RMB23.9 million for the six months ended 30 June 2020, mainly due to the significant decrease in revenue.

Income tax expense

Our income tax expenses decreased by approximately 72% to approximately RMB7.0 million for the six months ended 30 June 2020, 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 75% to approximately RMB16.9 million for the six months ended 30 June 2020.

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 2020 and 2019:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash from operating activities	166,674	23,940
Net cash from investing activities	2,140	1,306
Net cash from financing activities	2,340	86,007

As of 30 June 2020, the Group's total bank balances and cash increased by 29% to approximately RMB759.3 million from approximately RMB588.1 million as of 31 December 2019 mainly due to the reduction in loan receivables. As of 30 June 2020 and 31 December 2019, 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 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 2020, 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 report, 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 RMB13,000 and nil, for the six months ended 30 June 2020 and 2019, respectively.

Capital Commitment

As at 30 June 2020, the Group did not have material capital commitments.

Subsequent Event

No significant event took place after 30 June 2020.

Human Resources and Training

As of 30 June 2020, the Group had a total of 27 employees (as at 31 December 2019: 32 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 2020.

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).

Change of use of proceeds

The Group provides art finance services under two business segments, namely (i) art and asset pawn business, and (ii) art and asset auction business. The Group has established good and stable relationship with artwork artists, agents, merchants, collectors and art galleries (collectively, the “**Artwork Sellers**”) which enables the Group to source high-value artworks. The Group also has a professional authentication and appraisal team (the “**Appraisal Team**”) to check the authenticity and assess the value of the artworks.

Due to the outbreak of COVID-19 and the adverse market conditions, some of the Artwork Sellers have not been able to sell their artworks and are willing to sell them at a significant discount. Leveraging on the Group’s relationships with the Artwork Sellers and the expertise of the Appraisal Team, the Group believes that it will be able to identify suitable artworks for trading for the Group. The Group intends to sell the artworks acquired at its future auctions and/or private sales and expects that it will be able to generate profit for the Group through (i) gain on the difference between their acquisition price and sale price; and (ii) auction commissions when selling the artworks through its future auctions.

The Company noted that the outcomes of investment made in strengthening of online platform is below expectation and the high net worth buyers prefer viewing and inspecting the artworks in person to viewing the photos of the artworks online. The Board therefore considers that further investment in strengthening online auction platform and developing online loan financing platform may not be able to make a breakthrough in the Group’s business and generate satisfactory financial results and return for the Group.

Having considered the above, the Board is of the view that the unutilised net proceeds originally allocated for strengthening online auction platform and developing online loan financing platform can be better utilised for generating profit for the Group by reallocating to trading of artworks.

On 29 July 2020 (the “**Date of Reallocation**”), the Board has resolved to reallocate the unutilised net proceeds, which were originally allocated for strengthening online auction platform and developing online loan financing platform, for trading of artworks.

The unutilised net proceeds as at 30 June 2020 and revised allocation of the net proceeds from the IPO on the Date of Reallocation are set out as follows:

	Planned use of proceeds as disclosed in the prospectus of the Company dated 27 October 2016		Utilisation as at 30 June 2020 and the Date of Reallocation	Unutilised net proceeds as at 30 June 2020 and the Date of Reallocation	Revised allocation of the net proceeds	
	<i>HK\$ million</i>	<i>% of net proceeds</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>% of revised allocation</i>
Increase the registered capital of Hexin Pawn	118.9	50	118.9	–	118.9	50
Strengthening online auction platform and developing online loan financing platform	47.5	20	2.0	45.5	2.0	1
Establishment of new loan offices in other part of China and new auction branches or subsidiaries in Beijing, Shanghai and Hong Kong	47.5	20	47.5	–	47.5	20
Trading of artworks	–	–	–	–	45.5	19
Funding of general operations	23.8	10	23.8	–	23.8	10
Total	<u>237.7</u>	<u>100</u>	<u>192.2</u>	<u>45.5</u>	<u>237.7</u>	<u>100</u>

The unutilised net proceeds is intended to be fully utilised for trading of artworks by June 2021.

OUTLOOK AND PROSPECTS

We began our second half of 2020 with the COVID-19 basically controlled in mainland China. Our national GDP resumed its growth and recorded a 3.2% growth in second quarter of 2020. Our business activities are resuming to normal gradually. The Sino-American tension and COVID-19 pandemic around the globe continued to be the concerns of the market. Though the market is recovering, it is expected to be very volatile and tough.

Auction Business

With the gradually relaxing disease control measurements, we are continuously communicating with the PRC local government for the suitability of holding large scale auction and related activities. We are working to secure a safe environment to resume our art auction activities and host the autumn auction the fourth quarter 2020. However, the suitability of holding large scale auction is not certain at the moment.

Pawn Business

In the rest of 2020, the Group would continue to adopt a conservative attitude in granting pawn loans to new customers. Credit risk is expected to rise and the Group's priority target is to minimize our credit exposure and secure our capital safety in the volatile market condition.

Art Sales Business

Since the second quarter of 2020, we launched the new line of service for artwork sales. Leveraging on the Group's relationships with the collectors and the expertise of the appraisal team, we believe that we will be able to identify suitable artworks for sales. We plan to sell the artworks acquired at future auctions and/or private sales and expects that it will be able to generate profit for the Group through (i) gain on the difference between their acquisition price and sale price; (ii) agency income for solicitation and promotion of artwork for sales and (iii) auction commissions when selling the artworks through our future auctions.

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 Ms. Yin Xuhong. The unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2020 has been reviewed by the audit committee with the assistance of the Company's auditors, Ascenda Cachet CPA Limited. 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 2020, 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 did not recommend an interim dividend for the six months ended 30 June 2020.

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 2020.

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' 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. On 22 July 2020, Mr. Chu Xiaoliang has resigned as an independent non-executive Director, a member of the audit committee of the Company (the “**Audit Committee**”) and the nomination committee of the Company (the “**Nomination Committee**”), and the chairman of the remuneration committee of the Company (the “**Remuneration Committee**”) and the risk management committee of the Company (the “**Risk Management Committee**”).
2. Ms. Yin Xu Hong (“**Ms. Yin**”) has been appointed as an independent non-executive Director of the Company with effect from 22 July 2020. Ms. Yin has also been appointed as a member of the Audit Committee and the Nomination Committee, and the chairman of the Remuneration Committee and the Risk Management Committee on the same date.
3. Mr. Li Cheng has been appointed as an executive Director with effect from 22 July 2020.

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 2020 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 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. We conduct our art and asset pawn business and art and asset auction business through our 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 controlling equity interest in Hexin Pawn and Hexin Auction (collectively the “**PRC Operating Entities**”), and our Company through our three wholly owned enterprises established in PRC, namely Yixing Han Xin Information Technology Service Co., Ltd (the “**WFOE-Pawn**”), Yixing Zi Yu Information Technology Service Co., Ltd (the “**WFOE-Auction**”) and Yixing Changxiang Materials Trading Company Limited (“**YCMT**”), control the PRC Operating Entities through two sets of agreements and direct shareholding. 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.

The Company engaged our PRC legal counsel to review the Contractual Arrangements. Based on our PRC legal opinion, the Contractual Arrangements are valid, legal binding and enforceable under the current PRC laws.

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, 27 August 2020

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