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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 ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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 2020 (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 2020

	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue	4		
Interest revenue		53,576	90,487
Service revenue		3,160	73,482
		<hr/>	<hr/>
Total revenue		56,736	163,969
Other income		5,819	8,293
Other gains and losses		7,306	(1,312)
Operating expenses		(3,344)	(5,070)
Net impairment losses reversed		998	2,424
Administrative expenses		(9,607)	(20,539)
Finance costs		(215)	(361)
		<hr/>	<hr/>
Profit before tax		57,693	147,404
Income tax expenses	5	(13,792)	(39,877)
		<hr/>	<hr/>
Profit for the year attributable to owners of the Company		43,901	107,527
Other comprehensive income			
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		127	755
		<hr/>	<hr/>
Total comprehensive income for the year attributable to owners of the Company		44,028	108,282
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share (<i>RMB cents</i>)	7		
Basic		2.62	6.52
		<hr/> <hr/>	<hr/> <hr/>
Diluted		2.62	6.50
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	<i>Notes</i>	2020 RMB'000	2019 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		763	2,025
Right-of-use assets		1,368	5,110
Deferred tax asset		<u>1,063</u>	<u>1,262</u>
		<u>3,194</u>	<u>8,397</u>
Current assets			
Loan receivables	8	326,197	533,832
Trade and other receivables	9	82	74,142
Bank balances and cash		<u>827,661</u>	<u>588,113</u>
		<u>1,153,940</u>	<u>1,196,087</u>
Current liabilities			
Accruals and other payables	10	4,391	86,524
Amount due to immediate holding company		94,693	95,238
Lease liabilities		524	1,150
Tax payable		<u>2,980</u>	<u>7,743</u>
		<u>102,588</u>	<u>190,655</u>
Net current assets		<u>1,051,352</u>	<u>1,005,432</u>
Total assets less current liabilities		<u>1,054,546</u>	<u>1,013,829</u>
Non-current liabilities			
Lease liabilities		<u>723</u>	<u>4,034</u>
Net assets		<u><u>1,053,823</u></u>	<u><u>1,009,795</u></u>
Capital and reserves			
Share capital	11	14,679	14,679
Reserves		<u>1,039,144</u>	<u>995,116</u>
Total equity		<u><u>1,053,823</u></u>	<u><u>1,009,795</u></u>

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 A, 16/F, Yue On Commercial Building, 385-387 Lockhart Road, Wan Chai, Hong Kong, and 63 Jingyi South Road, Yicheng Street, Yixing City, Jiangsu Province, China, respectively.

The Company’s immediate holding company and ultimate holding company are Intelligensis 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 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 the 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.

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 amendments to HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, 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 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

The application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year 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.

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 and the related Amendments ¹
Amendment to HKFRS 16	Covid-19-Related Rent Concessions ⁴
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 ⁵
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	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ²

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after 1 January 2022.

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

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

⁵ Effective for annual periods beginning on or after 1 January 2021.

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.

4. REVENUE AND SEGMENT INFORMATION

Revenue

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest revenue:		
Interest revenue from art and asset pawn business	<u>53,576</u>	<u>90,487</u>
Service revenue:		
Agency service revenue from art and asset sales business	3,160	–
Auction revenue from art and asset auction business	<u>–</u>	<u>73,482</u>
	<u>3,160</u>	<u>73,482</u>
Total	<u>56,736</u>	<u>163,969</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 a point in time when the services are rendered which is the time when the Group concludes the contracts with the relevant buyers and sellers.

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

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
By types of artwork		
Zisha artwork	–	34,893
Calligraphies and paintings	–	32,498
Jewel artwork	–	6,091
	<u>–</u>	<u>73,482</u>
Total	<u>–</u>	<u>73,482</u>
By geographical location		
The PRC, excluding Hong Kong	<u>–</u>	<u>73,482</u>

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

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
By types of artwork		
Zisha artwork	2,547	–
Calligraphies and paintings	613	–
	<u>3,160</u>	<u>–</u>
Total	<u>3,160</u>	<u>–</u>
By geographical location		
The PRC, excluding Hong Kong	<u>3,160</u>	<u>–</u>

The Group has no unsatisfied performance obligations as at the end of each 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 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	Art and asset sales business RMB'000	Total RMB'000
2020				
Segment revenue	53,576	–	3,160	56,736
Interest income for artwork auction financing from art and asset auction business	–	2,984	–	2,984
Segment costs	(2,078)	(42)	(1,224)	(3,344)
Net impairment losses (recognised)/reversed	(241)	1,239	–	998
Segment results	<u>51,257</u>	<u>4,181</u>	<u>1,936</u>	57,374
Other income				2,835
Other gains and losses				7,306
Central administrative expenses				(9,607)
Finance costs				<u>(215)</u>
Profit before tax				<u><u>57,693</u></u>

	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	<u>87,902</u>	<u>79,114</u>	167,016
Other income			2,600
Other gains and losses			(1,312)
Central administrative expenses			(20,539)
Finance costs			<u>(361)</u>
Profit before tax			<u><u>147,404</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
2020				
Assets				
Segment assets	<u>327,832</u>	<u>384</u>	<u>–</u>	328,216
Unallocated assets				
Deferred tax asset				1,063
Bank balances and cash				827,661
Corporate assets				<u>194</u>
Consolidated total assets				<u><u>1,157,134</u></u>
Liabilities				
Segment liabilities	<u>2,323</u>	<u>917</u>	<u>–</u>	3,240
Unallocated liabilities				
Amount due to immediate holding company				94,693
Tax payable				2,980
Corporate liabilities				<u>2,398</u>
Consolidated total liabilities				<u><u>103,311</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>
2019			
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 <i>RMB'000</i>	Art and asset auction business <i>RMB'000</i>	Art and asset sales business <i>RMB'000</i>	Total <i>RMB'000</i>
2020				
Segment information included in the measure of segment results or assets:				
Additions to property, plant and equipment	659	–	–	659
Additions to right-of-use assets	1,023	–	–	1,023
Depreciation of property, plant and equipment	126	42	25	193
Depreciation of right-of-use assets	<u>409</u>	<u>131</u>	<u>307</u>	<u>847</u>

	Art and asset pawn business <i>RMB'000</i>	Art and asset auction business <i>RMB'000</i>	Total <i>RMB'000</i>
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

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		Specified non-current assets	
	2020 <i>RMB'000</i>	2019 RMB'000	2020 <i>RMB'000</i>	2019 RMB'000
The PRC, excluding Hong Kong (place of domicile)	56,736	163,969	1,655	5,687
Hong Kong	–	–	476	1,448
	56,736	163,969	2,131	7,135

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 2020 and 2019.

5. INCOME TAX EXPENSES

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax		
PRC Enterprise Income Tax (“EIT”)	13,596	39,217
Hong Kong Profits Tax	<u>–</u>	<u>–</u>
	13,596	39,217
Deferred tax charge	<u>196</u>	<u>660</u>
	<u>13,792</u>	<u>39,877</u>

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 2020 and 2019.

No provision for Hong Kong Profits Tax was provided for the year ended 31 December 2020 as the Group’s estimated assessable profits arising in Hong Kong for the year was offset with the accumulated tax losses brought forward.

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

6. DIVIDENDS

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
2018 final dividend of HK1.0 cent per ordinary share (2020: Nil)	<u>–</u>	<u>14,394</u>

During the year ended 31 December 2019, the Company declared and paid a final dividend of HK1.0 cent per ordinary share in an aggregate amount of HK\$16,780,000 (equivalent to RMB14,394,000) in respect of the year ended 31 December 2018.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Earnings		
Profit for the year for the purpose of calculating basic and diluted earnings per share	<u>43,901</u>	<u>107,527</u>
	2020 <i>'000</i>	2019 <i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,678,000	1,648,937
Effect on dilutive potential ordinary shares from share options	<u>—</u>	<u>5,993</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,678,000</u>	<u>1,654,930</u>

No dilutive potential ordinary shares from share options was presented for the year ended 31 December 2020 as the exercise prices of the Company's outstanding share options were higher than the average market prices of the Company's ordinary shares during the year.

8. LOAN RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Art and asset pawn loans to customers	330,448	463,222
Less: Impairment allowances	<u>(4,251)</u>	<u>(4,010)</u>
	<u>326,197</u>	<u>459,212</u>
Loans to customers for artwork auction financing	—	75,262
Less: Impairment allowances	<u>—</u>	<u>(642)</u>
	<u>—</u>	<u>74,620</u>
Total	<u>326,197</u>	<u>533,832</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% (2019: 25% to 45%) per annum during the year ended 31 December 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 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:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 month	118,613	250,355
1 – 3 months	168,371	194,009
3 – 6 months	39,213	14,848
Total	326,197	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 year ended 31 December 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 has 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:

	2020 RMB'000	2019 RMB'000
Not yet past due	–	74,620

9. TRADE AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
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	82	613
	82	59,436
Total	82	74,142

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

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.

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Less than 60 days	–	14,706

10. ACCRUALS AND OTHER PAYABLES

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Accrued expenses	3,850	3,807
Payables on behalf of customers in respect of art and asset auction business	–	72,512
Other payables for art and asset auction business	–	351
Other tax payables	516	4,138
Security deposits received for auctions	–	5,400
Others	25	316
	4,391	86,524

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 based on the dates of relevant auction services rendered.

11. SHARE CAPITAL

	Number of shares	Amount	
	'000	HK\$'000	(Equivalent to RMB'000)
<i>Ordinary shares of HK\$0.01 each</i>			
Authorised			
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	5,000,000	50,000	43,420
	<u>5,000,000</u>	<u>50,000</u>	<u>43,420</u>
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
	<u>1,678,000</u>	<u>16,780</u>	<u>14,679</u>
At 31 December 2019, 1 January 2020 and 31 December 2020	1,678,000	16,780	14,679
	<u>1,678,000</u>	<u>16,780</u>	<u>14,679</u>

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.

BUSINESS REVIEW

In 2020, 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 during the year to protect our staff and business partners and fight with the pandemic.

During the Reporting Year, there was no revenue from the art and asset auction segment, representing a decrease of 100% from RMB73.5 million for the same period in 2019. Profits of the art and asset auction segment was RMB4.2 million, representing a decrease of approximately 95% as compared with last year. The significant drop was mainly due to the cancellation of all auctions during the Reporting Year.

Art and Asset Pawn Business

During the Reporting Year, revenue from the art and asset pawn segment was approximately RMB53.6 million, representing a decrease of approximately 41% from approximately RMB90.5 million in last year. The decrease was the result of the volume and loan period 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 loans. Profits of the art and asset pawn segment was RMB51.3 million, representing a decrease of approximately 42% from approximately RMB87.9 million in 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.

Art and Asset Sales Business

During the Reporting Year, 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 is engaged in the business of solicitation and promotion of artwork for sales. Revenue from the art and asset sales segment was approximately RMB3.2 million. Profits of the art and asset sales segment was RMB1.9 million.

FINANCIAL REVIEW

Revenue

Our revenue for the year ended 31 December 2020 amounted to approximately RMB56.7 million, representing a year-on-year decrease of 65%, from approximately RMB164.0 million for the year ended 31 December 2019, primarily due to (i) the cancellation of all auctions during the Reporting Year, (ii) the decrease in volume and loan period of art and asset pawn loans as the management adopted a prudent and conservative approach in granting loans amid the coronavirus pandemic and adverse global financial market; and (iii) the reduction in the monthly composite administrative fee charged for pawn loans.

Operating expenses

Our operating expenses significantly decreased by approximately RMB1.7 million, or approximately 34%, from approximately RMB5.1 million for the year ended 31 December 2019 to approximately RMB3.4 million for the year ended 31 December 2020, 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 2020, we reversed impairment losses approximately RMB1.0 million.

Administrative expenses

Our administrative expenses decreased by approximately RMB10.9 million, or approximately 53%, from approximately RMB20.5 million for the year ended 31 December 2019 to approximately RMB9.6 million for the year ended 31 December 2020, primarily due to the reduced operation scale during the Reporting Year.

Other gains and losses

Our other gains and losses recorded other gains of RMB7.3 million for the Reporting Year while other losses of RMB1.3 million was recorded for the year ended 31 December 2019, primarily due to the net foreign exchange gain recorded during the Reporting Year.

Reportable segment profit

As a result of the foregoing, reportable segment profit decreased by RMB109.7 million from RMB167.0 million for the year ended 31 December 2019 to RMB57.3 million for the year ended 31 December 2020.

Profit before tax

As a result of the foregoing, our profit before tax decreased by approximately RMB89.7 million, or approximately 60.9%, from approximately RMB147.4 million for the year ended 31 December 2019 to approximately RMB57.7 million for the year ended 31 December 2020.

Income tax expenses

Our income tax expenses decreased by approximately RMB26.1 million, or approximately 65%, from approximately RMB39.9 million for the year ended 31 December 2019 to approximately RMB13.8 million for the year ended 31 December 2020, primarily due to a decrease in our Group's taxable income.

Total comprehensive income for the year

Total comprehensive income for the year decreased by approximately RMB64.3 million, or approximately 59%, from approximately RMB108.3 million for the year ended 31 December 2019 to approximately RMB44.0 million for the year ended 31 December 2020, primarily due to a decrease in profit for the year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net Cash Flows

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 2020, net working capital (calculated as current assets less current liabilities) was RMB1,051.3 million, representing an increase of RMB45.9 million as compared with RMB1,005.4 million as of 31 December 2019. The current ratios (calculated as current assets/current liabilities) are 11.2 times and 6.3 times as of 31 December 2020 and 31 December 2019 respectively.

The following table summarises the consolidated statement of cash flows for the two years ended 31 December 2020 and 2019:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash from/(used in) operating activities	232,893	(66,339)
Net cash from investing activities	2,829	3,470
Net cash from financing activities	3,833	79,371
	<u> </u>	<u> </u>

As of 31 December 2020, the Group's total bank balances and cash increased by 41% to RMB827.7 million from RMB588.1 million as of 31 December 2019.

During the Reporting 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 2020, despite the appreciation of RMB against USD and HKD, the Directors expected any fluctuation of the RMB exchange rate would not materially and adversely affect the operations of the Group. The management will continue to monitor foreign currency exchange exposure and will take prudent measures to minimize the currency translation risk.

OUTLOOK AND PROSPECTS

We began our 2021 with the COVID-19 basically controlled in the Mainland China. Our national GDP resumed its growth and recorded a 2.3% growth in 2020, being the only major economy in the world to achieve positive economic growth. 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 for 2021.

Art and Asset 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 art auctions in 2021. However, the suitability of holding large scale auction is not certain at the moment.

Art and Asset Pawn Business

In 2021, 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 and Asset 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 service income for solicitation and promotion of artwork for sales and (iii) auction commissions when selling the artworks through our future auctions.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

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 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.

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 2020 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 2020 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 2020.

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

Hong Kong, 31 March 2021

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 Mr. Yin Xuhong as the independent non-executive Directors.