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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 2021**

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 2021 (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 2021*

	<i>Notes</i>	<b>2021</b> <b>RMB'000</b>	2020 <i>RMB'000</i>
<b>Revenue</b>	4		
Interest revenue		41,829	53,576
Service revenue		<u>1,067</u>	<u>3,160</u>
Total revenue		42,896	56,736
Other income		3,019	5,819
Other gains and losses		3,245	7,306
Operating expenses		(2,540)	(3,344)
Net impairment losses (recognised)/reversed		(2,949)	998
Administrative expenses		(8,439)	(9,607)
Finance costs		<u>(182)</u>	<u>(215)</u>
Profit before tax	5	35,050	57,693
Income tax expenses	6	<u>(9,687)</u>	<u>(13,792)</u>
<b>Profit for the year attributable to owners of the Company</b>		<b>25,363</b>	43,901
<b>Other comprehensive (expense)/income</b> <i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>(77)</u>	<u>127</u>
<b>Total comprehensive income for the year attributable to owners of the Company</b>		<b><u>25,286</u></b>	<b><u>44,028</u></b>
<b>Earnings per share (RMB cents)</b>	8		
Basic		<u>1.51</u>	<u>2.62</u>
Diluted		<u>1.51</u>	<u>2.62</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2021*

	<i>Notes</i>	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>700</b>	763
Right-of-use assets		<b>778</b>	1,368
Deferred tax asset		<b>1,800</b>	1,063
Loan to a director	<i>10</i>	<b>2,113</b>	–
		<u><b>5,391</b></u>	<u>3,194</u>
<b>Current assets</b>			
Loan receivables	<i>9</i>	<b>370,538</b>	326,197
Other receivables		<b>82</b>	82
Bank balances and cash		<b>717,053</b>	827,661
		<u><b>1,087,673</b></u>	<u>1,153,940</u>
<b>Current liabilities</b>			
Accruals and other payables	<i>11</i>	<b>9,812</b>	4,391
Amount due to immediate holding company		–	94,693
Lease liabilities		<b>264</b>	524
Tax payable		<b>3,444</b>	2,980
		<u><b>13,520</b></u>	<u>102,588</u>
<b>Net current assets</b>		<u><b>1,074,153</b></u>	<u>1,051,352</u>
<b>Total assets less current liabilities</b>		<u><b>1,079,544</b></u>	<u>1,054,546</u>
<b>Non-current liabilities</b>			
Lease liabilities		<u><b>435</b></u>	<u>723</u>
<b>Net assets</b>		<u><b>1,079,109</b></u>	<u>1,053,823</u>
<b>Capital and reserves</b>			
Share capital		<b>14,679</b>	14,679
Reserves		<u><b>1,064,430</b></u>	<u>1,039,144</u>
<b>Total equity</b>		<u><b>1,079,109</b></u>	<u>1,053,823</u>

## NOTES:

### 1. GENERAL INFORMATION

China Art Financial Holdings Limited (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 the 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, 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 liability 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

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.

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. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs**

#### *Amendments to HKFRSs that are mandatorily effective for the current year*

In the current year, the Group has applied 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 2021 for the preparation of the consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

The application of 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 <sup>3</sup>
Amendments to HKFRS 3	Reference to the Conceptual Framework <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 <sup>1</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) <sup>3</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies <sup>3</sup>
Amendments to HKAS 8	Definition of Accounting Estimates <sup>3</sup>
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>3</sup>
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use <sup>2</sup>
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract <sup>2</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 April 2021.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2023.

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined.

The Directors anticipate that the application of all 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:

	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest revenue:		
Interest revenue from art and asset pawn business	<u>41,829</u>	<u>53,576</u>
Service revenue:		
Auction revenue from art and asset auction business	<b>1,067</b>	–
Agency service revenue from art and asset sales business	<u>–</u>	<u>3,160</u>
	<u>1,067</u>	<u>3,160</u>
Total	<u><u>42,896</u></u>	<u><u>56,736</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 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

	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>By types of asset</b>		
Residential properties and carpark	<b>999</b>	–
Commercial properties	<u>68</u>	–
Total	<u><u>1,067</u></u>	<u><u>–</u></u>
<b>By geographical location</b>		
The PRC, excluding Hong Kong	<u><u>1,067</u></u>	<u><u>–</u></u>

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

	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>By types of artwork</b>		
Zisha artwork	–	2,547
Calligraphies and paintings	–	613
	<hr/>	<hr/>
Total	–	3,160
	<hr/> <hr/>	<hr/> <hr/>
<b>By geographical location</b>		
The PRC, excluding Hong Kong	–	3,160
	<hr/> <hr/>	<hr/> <hr/>

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, loans from/ (to) directors, 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 <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>
<b>2021</b>				
Segment revenue	41,829	1,067	–	42,896
Segment costs	(2,571)	(1,764)	(314)	(4,649)
Net impairment losses recognised	(2,949)	–	–	(2,949)
Segment results	<u>36,309</u>	<u>(697)</u>	<u>(314)</u>	35,298
Other income				3,019
Other gains and losses				3,245
Central administrative expenses				(6,330)
Finance costs				<u>(182)</u>
Profit before tax				<u><u>35,050</u></u>
	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>
<b>2020</b>				
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	(3,076)	(637)	(2,038)	(5,751)
Net impairment losses (recognised)/reversed	(241)	1,239	–	998
Segment results	<u>50,259</u>	<u>3,586</u>	<u>1,122</u>	54,967
Other income				2,835
Other gains and losses				7,306
Central administrative expenses				(7,200)
Finance costs				<u>(215)</u>
Profit before tax				<u><u>57,693</u></u>

## Segment assets and liabilities

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

	<b>Art and asset pawn business RMB'000</b>	<b>Art and asset auction business RMB'000</b>	<b>Art and asset sales business RMB'000</b>	<b>Total RMB'000</b>
<b>2021</b>				
<b>Assets</b>				
Segment assets	<u>371,929</u>	<u>169</u>	<u>–</u>	372,098
Unallocated assets				
Deferred tax asset				1,800
Bank balances and cash				717,053
Loan to a director				<u>2,113</u>
Consolidated total assets				<u><u>1,093,064</u></u>
<b>Liabilities</b>				
Segment liabilities	<u>1,398</u>	<u>761</u>	<u>–</u>	2,159
Unallocated liabilities				
Tax payable				3,444
Loan from a director				6,427
Corporate liabilities				<u>1,925</u>
Consolidated total liabilities				<u><u>13,955</u></u>

	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>
<b>2020</b>				
<b>Assets</b>				
Segment assets	327,832	384	–	328,216
Unallocated assets				
Deferred tax asset				1,063
Bank balances and cash				827,661
Corporate assets				194
Consolidated total assets				<u>1,157,134</u>
<b>Liabilities</b>				
Segment liabilities	2,323	917	–	3,240
Unallocated liabilities				
Amount due to immediate holding company				94,693
Tax payable				2,980
Corporate liabilities				2,398
Consolidated total liabilities				<u>103,311</u>
<b>Other segment information</b>				
	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>
<b>2021</b>				
Segment information included in the measure of segment results or assets:				
Additions to property, plant and equipment	127	–	–	127
Depreciation of property, plant and equipment	158	23	–	181
Depreciation of right-of-use assets	204	188	–	392

	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>
<b>2020</b>				
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	409	–	307	716

### 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	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
The PRC, excluding Hong Kong (place of domicile)	42,896	56,736	1,411	1,655
Hong Kong	–	–	67	476
	<u>42,896</u>	<u>56,736</u>	<u>1,478</u>	<u>2,131</u>

### 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 2021 and 2020.

## 5. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Depreciation of property, plant and equipment	<b>201</b>	635
Depreciation of right-of-use assets	<b>452</b>	1,319
Interest expenses on loan from a director	<b>134</b>	–
Interest expenses on lease liabilities	<b>38</b>	215
	<u><b>          </b></u>	<u>          </u>

## 6. INCOME TAX EXPENSES

	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Current tax		
PRC Enterprise Income Tax (“EIT”)	<b>10,424</b>	13,596
Hong Kong Profits Tax	<u>          </u>	<u>          </u>
	<b>10,424</b>	13,596
Deferred tax (credit)/charge	<u>(737)</u>	<u>196</u>
	<u><b>9,687</b></u>	<u>13,792</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 2021 and 2020.

No provision for Hong Kong Profits Tax was made during the year ended 31 December 2021 as the Group did not have assessable profits arising in Hong Kong during the year.

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 that year was offset with the accumulated tax losses brought forward.

## 7. DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: Nil).

## 8. 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:

	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>Earnings</b>		
Profit for the year for the purpose of calculating basic and diluted earnings per share	<u><b>25,363</b></u>	<u>43,901</u>
	<b>2021</b> <i>'000</i>	2020 <i>'000</i>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<b>1,678,000</b>	1,678,000
Effect on dilutive potential ordinary shares from share options	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u><b>1,678,000</b></u>	<u>1,678,000</u>

No dilutive potential ordinary shares from share options was presented for the years ended 31 December 2021 and 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 both years.

## 9. LOAN RECEIVABLES

	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
Art and asset pawn loans to customers	<b>377,738</b>	330,448
Less: Impairment allowances	<u>(7,200)</u>	<u>(4,251)</u>
	<u><b>370,538</b></u>	<u>326,197</u>

The art and asset pawn loans to customers are arising from the Group's art and asset pawn business. The loan periods initially granted to customers are normally within three months and the maximum tenure of each loan is six months from the date of the loan initially granted. 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 effective interest rates ranging from 18% to 24% (2020: 12% to 37%) per annum during the year ended 31 December 2021. 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.

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:

	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Within 1 month	<b>98,714</b>	118,613
1–3 months	<b>193,023</b>	168,371
3–6 months	<b>78,801</b>	39,213
Total	<b><u>370,538</u></b>	<u>326,197</u>

As at 31 December 2021 and 2020, all loan receivables were not yet past due based on the contractual due dates as stipulated in pawn tickets.

## 10. LOAN TO A DIRECTOR

Loan to a director, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

Name of director			<b>Maximum amount outstanding during the year ended 31 December</b>	
	<b>2021</b>	2020	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Mr. Fan Zhijun	<b><u>2,113</u></b>	<u>–</u>	<b><u>2,113</u></b>	<u>–</u>

The loan to a director is unsecured, interest bearing at 5% per annum and repayable on or before 25 April 2023.

## 11. ACCRUALS AND OTHER PAYABLES

	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Accrued expenses	<b>2,811</b>	3,330
Loan from a director ( <i>Note</i> )	<b>6,427</b>	–
Payables for purchase of property, plant and equipment	–	520
Other tax payables	<b>549</b>	516
Others	<b>25</b>	25
	<u><b>9,812</b></u>	<u>4,391</u>

*Note:*

	<b>2021</b>	2020
<b>Name of director</b>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Ms. Lam Siu Miu	<u><b>6,427</b></u>	<u>–</u>

The loan from a director is unsecured and interest bearing at 4% per annum. The amount of RMB4,781,000 is repayable on or before 20 March 2022 and the remaining balance is repayable on or before 29 October 2022.



## **BUSINESS REVIEW**

In 2021, 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**

During the Reporting Year, revenue from the art and assets auction segment, amounted to approximately RMB1.1 million, representing an increase of 100% from that of the same period in 2020. Loss of the art and asset auction segment was approximately RMB0.7 million, a turnaround from the profits of approximately RMB3.6 million recorded in last year. The significant drop was mainly due to no interest income for artwork auction financing generated during the year, compared with approximately RMB3.0 million was recognised in last year.

### **Art and Asset Pawn Business**

During the Reporting Year, revenue from the art and asset pawn segment was approximately RMB41.8 million, representing a decrease of approximately 22% from approximately RMB53.6 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. Profits of the art and asset pawn segment was RMB36.3 million, representing a decrease of approximately 28% from approximately RMB50.3 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, no revenue was derived from the art and asset sales segment (2020: approximately RMB3.2 million). Losses of the art and asset sales segment was RMB0.3 million for the year ended 31 December 2021 (2020: profit of approximately RMB1.1 million).

## **FINANCIAL REVIEW**

### **Revenue**

Our revenue for the year ended 31 December 2021 amounted to approximately RMB42.9 million, representing a year-on-year decrease of 24%, from approximately RMB56.7 million for the year ended 31 December 2020, primarily due to (i) 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 (ii) absence of service revenue from art and asset sales business for the year.

### **Operating expenses**

Our operating expenses decreased by approximately RMB0.8 million, or approximately 24%, from approximately RMB3.3 million for the year ended 31 December 2020 to approximately RMB2.5 million for the year ended 31 December 2021, primarily due to the decrease of depreciation of right-of-use assets as a result of reduction in monthly lease payments after relocation of our offices in 2020.

### **Impairment losses, recognised/(reversed)**

For the year ended 31 December 2021, impairment losses amounted to approximately RMB2.9 million was recognised, while impairment losses amounted to approximately RMB1.0 million was reversed for the year ended 31 December 2020.

### **Administrative expenses**

Our administrative expenses decreased by approximately RMB1.2 million, or approximately 12%, from approximately RMB9.6 million for the year ended 31 December 2020 to approximately RMB8.4 million for the year ended 31 December 2021, primarily due to the reduced operation scale during the Reporting Year.

### **Other gains and losses**

Our other gains and losses recorded other gains of RMB3.2 million for the Reporting Year while other gains of RMB7.3 million was recorded for the year ended 31 December 2020. The decrease was preliminarily due to lesser net foreign exchange gain recorded during the Reporting Year.

### **Reportable segment profit**

As a result of the foregoing, reportable segment profit decreased by RMB19.7 million from RMB55.0 million for the year ended 31 December 2020 to RMB35.3 million for the year ended 31 December 2021.

### **Profit before tax**

As a result of the foregoing, our profit before tax decreased by approximately RMB22.6 million, or approximately 39%, from approximately RMB57.7 million for the year ended 31 December 2020 to approximately RMB35.1 million for the year ended 31 December 2021.

### **Income tax expense**

Our income tax expenses decreased by approximately RMB4.1 million, or approximately 30%, from approximately RMB13.8 million for the year ended 31 December 2020 to approximately RMB9.7 million for the year ended 31 December 2021, 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 RMB18.7 million, or approximately 43%, from approximately RMB44.0 million for the year ended 31 December 2020 to approximately RMB25.3 million for the year ended 31 December 2021, 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 2021, net working capital (calculated as current assets less current liabilities) was RMB1,074.2 million, representing an increase of RMB22.8 million as compared with RMB1,051.4 million as of 31 December 2020. The current ratios (calculated as current assets/current liabilities) are 80.4 times and 11.2 times as of 31 December 2021 and 2020 respectively.

The following table summarises the consolidated statement of cash flows for the years ended 31 December 2021 and 2020:

	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Net cash (used in)/from operating activities	<b>(25,468)</b>	232,373
Net cash from investing activities	<b>923</b>	3,349
Net cash (used in)/from financing activities	<b>(86,060)</b>	3,833

As of 31 December 2021, the Group's total bank balances and cash decreased by 13% to RMB717.1 million from RMB827.7 million as of 31 December 2020.

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 2021, despite the appreciation of RMB against 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**

The gearing ratio, calculated on the basis of total interest bearing borrowings (including loan from a director) to equity (including all capital and reserves), was 0.6% (2020: Nil).

### **Contingent Liabilities**

As of 31 December 2021 and 2020, 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, plant and equipment, which amounted to RMB0.1 million and RMB0.7 million for the years ended 31 December 2021 and 2020 respectively.

## **Capital Commitment**

As at 31 December 2021 and 31 December 2020, the Group did not have material capital commitments.

## **Events after the reporting period**

The Group did not have any significant event after the end of the Reporting Year.

## **Human Resources and Training**

As of 31 December 2021, the Group had a total of 31 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 year ended 31 December 2021.

## **OUTLOOK AND PROSPECTS**

The COVID-19 was basically controlled in the Mainland China during the Reporting Year. Our national GDP resumed its growth and recorded a 8.1% growth in 2021, 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 2022.

## **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 2022. However, the suitability of holding large scale auction is not certain at the moment.

## **Art and Asset Pawn Business**

In 2022, 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**

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 2021 (2020: 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.

Mr. Fan Zhijun (“**Mr. Fan**”), who acted as both the chairman and chief executive officer (“**CEO**”) of the Company, has stepped down from his role as the CEO with effect from 14 April 2021, and Mr. Tong Zaan San (“**Mr. Tong**”) has been appointed as the CEO with effect from 14 April 2021. Upon the step down and appointment, the Company has complied with Code Provision A.2.1 of the CG Code. Mr. Tong has resigned and Ms. Lam Siu Mui (“**Ms. Lam**”) has been appointed as the CEO with effect from 23 March 2022. Chairman provides leadership for the Board, encouraging all Directors to proactively contribute to the Company’s affairs and ensures that the Directors act in the best interests of the Company. CEO of the Company represents the management and operations of the Group, and overseeing the implementation of the Group’s strategies, business objectives and management policies.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as set out in Appendix 10 to the Listing Rules as 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 Reporting Year.

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 THE DIRECTORS AND CHIEF EXECUTIVES INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES**

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors and chief executives subsequent to the date of the annual report of the Company for the year ended 31 December 2020 are set out below:

Mr. Fan Zhijun has stepped down from his role as Chief Executive Officer and remained as an executive Director and Chairman of the Company with effect from 14 April 2021.

Mr. Tong Zaan San (“**Mr. Tong**”) was appointed as the Chief Executive Officer with effect from 14 April 2021.

Ms. Lam Siu Mui (“**Ms. Lam**”) was appointed as an executive Director with effect from 23 April 2021.

Mr. Wang Shoulei (“**Mr. Wang**”) and Mr. Chen Yunwei was appointed as a non-executive Director with effect from 23 April 2021.

Mr. Wang has resigned his position as the non-executive Director with effect from 26 October 2021.

Ms. Lam has resigned as an executive Director with effect from 21 March 2022.

Mr. Tong has resigned as the Chief Executive Officer and Ms. Lam has been appointed as the Chief Executive Officer with effect from 23 March 2022.

## **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 2021 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 2021 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 2021.

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

Hong Kong, 30 March 2022

*As at the date of this announcement, the Board comprises (1) Mr. Fan Zhijun and Mr. Li Cheng as the executive Directors, (2) Mr. Chen Yunwei as the non-executive Director and (3) Mr. Leung Shu Sun, Sunny, Mr. Liu Jian and Ms. Yin Xuhong as the independent non-executive Directors.*