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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 2022

The board of directors (the “**Board**”) of China Art Financial Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2022, together with the comparative figures for the previous corresponding period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

		Six months ended 30 June	
		2022	2021
	Notes	RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3		
Interest revenue		19,892	20,746
Service revenue		61	172
		<hr/>	<hr/>
Total revenue		19,953	20,918
Other income		1,392	1,501
Other gains and losses		(332)	1,302
Operating expenses		(824)	(895)
Net impairment losses reversed		2,276	369
Administrative expenses		(2,407)	(3,992)
Finance costs		(90)	(52)
		<hr/>	<hr/>

		Six months ended 30 June	
		2022	2021
	<i>Notes</i>	RMB'000	RMB'000
		(unaudited)	(unaudited)
Profit before tax		19,968	19,151
Income tax expenses	4	<u>(5,918)</u>	<u>(5,369)</u>
Profit for the period attributable to owners of the Company		14,050	13,782
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>60</u>	<u>(23)</u>
Total comprehensive income for the period attributable to owners of the Company		<u>14,110</u>	<u>13,759</u>
Earnings per share (RMB cents)			
Basic	6	<u>0.84</u>	<u>0.82</u>
Diluted		<u>0.84</u>	<u>0.82</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	<i>Notes</i>	As at 30 June 2022 <i>RMB'000</i> (unaudited)	As at 31 December 2021 <i>RMB'000</i> (audited)
Non-current assets			
Property, plant and equipment		569	700
Right-of-use assets		614	778
Deferred tax asset		1,231	1,800
Loan to a director	7	–	2,113
		2,414	5,391
Current assets			
Loan receivables	8	243,870	370,538
Loan to a director	7	428	–
Other receivables and deposits		111	82
Bank balances and cash		859,078	717,053
		1,103,487	1,087,673
Current liabilities			
Accruals and other payables	9	8,933	9,812
Lease liabilities		206	264
Tax payable		3,326	3,444
		12,465	13,520
Net current assets		1,091,022	1,074,153
Total assets less current liabilities		1,093,436	1,079,544
Non-current liabilities			
Lease liabilities		217	435
Net assets		1,093,219	1,079,109
Capital and reserves			
Share capital		14,679	14,679
Reserves		1,078,540	1,064,430
Total equity		1,093,219	1,079,109

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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 People’s Republic of China (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 2022 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2021.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2022 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendment to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

The application of the amendments to HKFRSs in the current interim period has 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.

3. REVENUE AND SEGMENT INFORMATION

Revenue

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest revenue:		
Interest revenue from art and asset pawn business	19,892	20,746
Service revenue:		
Auction revenue from art and asset auction business	61	172
Total	19,953	20,918

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.

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
By type of asset		
Residential properties and car parks	61	172
By geographical location		
The PRC, excluding Hong Kong	61	172

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 result from 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, loan to a director, loan from a former director, bank balances and cash, tax payable and unallocated corporate assets and liabilities. 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 2022				
(unaudited)				
Segment revenue	19,892	61	–	19,953
Segment costs	(956)	(453)	(126)	(1,535)
Net impairment losses reversed	2,276	–	–	2,276
Segment results	21,212	(392)	(126)	20,694
Other income				1,392
Other gains and losses				(332)
Central administrative expenses				(1,696)
Finance costs				(90)
Profit before tax				19,968

	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>
Six months ended 30 June 2021				
(unaudited)				
Segment revenue	20,746	172	–	20,918
Segment costs	(731)	(164)	–	(895)
Net impairment losses reversed	369	–	–	369
	<u>20,384</u>	<u>8</u>	<u>–</u>	<u>20,392</u>
Other income				1,501
Other gains and losses				1,302
Central administrative expenses				(3,992)
Finance costs				(52)
Profit before tax				<u>19,151</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>
Six months ended 30 June 2022				
(unaudited)				
Segment information included in the measure of segment results or assets:				
Depreciation of property, plant and equipment	126	5	–	131
Depreciation of right-of-use assets	102	63	–	165

Six months ended 30 June 2021
(unaudited)

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

Additions to property, plant and equipment	110	–	–	110
Depreciation of property, plant and equipment	73	27	–	100
Depreciation of right-of-use assets	102	95	–	197

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 2022	2021	As at 30 June 2022	As at 31 December 2021
	<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)	19,953	20,918	1,183	1,411
Hong Kong	—	—	—	67
	<u>19,953</u>	<u>20,918</u>	<u>1,183</u>	<u>1,478</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 2022 and 2021.

4. INCOME TAX EXPENSES

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Current tax		
PRC Enterprise Income Tax ("EIT") for the period	4,993	5,277
Underprovision in respect of prior years	356	—
	5,349	5,277
Deferred tax charge	569	92
	<u>5,918</u>	<u>5,369</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 2022 and 2021.

No provision for Hong Kong Profits Tax was made during the six months ended 30 June 2022 and 2021 as the Group did not have assessable profits arising in Hong Kong during both periods.

5. DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: 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	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings:		
Profit for the period for the purpose of calculating basic and diluted earnings per share	<u>14,050</u>	<u>13,782</u>
	Six months ended 30 June	
	2022	2021
	'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	1,678,000
Effect of 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>1,678,000</u>	<u>1,678,000</u>

No dilutive potential ordinary shares from share options was presented for the six months ended 30 June 2022 and 2021 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 periods.

7. 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	As at	As at	Maximum amount outstanding during the six months ended	
	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)	30 June 2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Mr. Fan Zhijun	<u>428</u>	<u>2,113</u>	<u>2,113</u>	<u>2,099</u>
<i>Analysed as:</i>				
Receivable within one year and classified as current assets	428	–		
Receivable after one year and classified as non-current assets	<u>–</u>	<u>2,113</u>		
	<u>428</u>	<u>2,113</u>		

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

8. LOAN RECEIVABLES

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)
Art and asset pawn loans to customers	248,794	377,738
Less: Impairment allowances	<u>(4,924)</u>	<u>(7,200)</u>
	<u>243,870</u>	<u>370,538</u>

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 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 rate of 18% (For the year ended 31 December 2021: effective interest rates ranging from 18% to 24%) per annum during the six months ended 30 June 2022. 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.

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:

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)
Within 1 month	78,871	98,714
1–3 months	126,520	193,023
3–6 months	38,479	78,801
Total	<u>243,870</u>	<u>370,538</u>

9. ACCRUALS AND OTHER PAYABLES

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)
Accrued expenses	1,507	2,811
Loan from a former director (<i>note</i>)	6,799	6,427
Other tax payables	601	549
Others	26	25
	<u>8,933</u>	<u>9,812</u>

Note:

Name of former director	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (audited)
Ms. Lam Siu Mui	<u>6,799</u>	<u>6,427</u>

Ms. Lam Siu Mui resigned as the executive director of the Company on 21 March 2022 and was appointed as the Chief Executive Officer of the Company on 23 March 2022.

The loan from a former director is unsecured. As at 30 June 2022, the amount of RMB1,756,000 was interest bearing at 4% per annum and repayable on or before 29 October 2022, and the remaining balance of RMB5,043,000 was interest free and repayable on or before 20 March 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2022 (the “**Period Under Review**”), the international and domestic markets continued to experience extreme challenging situation. Governments around the world had been continuously implementing measures to fight against the coronavirus disease 2019 (the “**COVID-19**”) pandemic, restricting the mobility and implementing various social distancing measures. As such, business activities have been inevitably affected. The Company and its subsidiaries (collectively referred to as, the “**Group**”) have adjusted their marketing strategies from time to time in response to the highly unstable environment.

Art and Asset Pawn Loan Business

During the Period Under Review, the revenue derived from the pawn loan segment was approximately RMB19.9 million, representing a decrease of approximately 4.1% from approximately RMB20.7 million for the corresponding period last year. The decrease was the result of the reduction in the amount of art and asset pawn loans as the management continued to adopt a prudent and conservative approach in granting loans amid the COVID-19 pandemic and adverse global financial market and reduced monthly composite administrative fees charged for pawn loans. The profits derived from pawn loan segment was approximately RMB21.2 million, representing an increase of approximately 4.1% from approximately RMB20.4 million for the corresponding period last year.

The Group has implemented a risk management system which the Group believes to be effective in reducing various risks involved in our art and asset pawn loan 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 external authoritative authentication institutions as the 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 2022.

Art and Asset Auction Business

Due to the outbreak of COVID-19 pandemic, art museums, galleries and other art institutions were required to close for a long period of time and the public is required to maintain social distance. Business travels and physical meetings have been mostly suspended. We experienced difficulties in soliciting artworks and meetings with the collectors as those activities will expose our staff to health risk. After taking into account the risks and benefits associated with auctions related activities, we decided to cancel most of the auctions so as to protect our staff and business partners and fight against the pandemic.

During the Period Under Review, the revenue from the art auction segment of the Group was approximately RMB61,000, representing a decrease of approximately 64.5% from approximately RMB172,000 for the same period in 2021. Loss of art auction segment was approximately RMB392,000 (2021: profit of approximately RMB8,000). The decrease was mainly due to the decrease in revenue generated from this segment during the period.

Art and Asset Sales Business

There was no revenue and profits derived from the art and asset sales segment for the Period Under Review due to the continuing implementation of social distancing measures in the PRC.

FINANCIAL REVIEW

Revenue

Our revenue decreased by approximately 4.6% to approximately RMB20.0 million for the Period Under Review as compared to the corresponding period last year, primarily due to (i) the reduction in the average loan balance of art and asset pawn loans; and (ii) the decrease in auction service revenue for the first half of 2022.

Other income

Our other income decreased by approximately 7.3% to approximately RMB1.4 million for the Period Under Review as compared to the corresponding period last year, primarily due to decrease in bank interest income during the Period Under Review.

Other gains and losses

Our other losses amounted to approximately RMB0.3 million for the Period Under Review as compared to other gains of approximately RMB1.3 million for the corresponding period last year, primarily due to the exchange losses arising from the depreciation of RMB during the Period Under Review.

Operating expenses

Our operating expenses decreased by approximately 7.9%, to approximately RMB0.8 million for the Period Under Review as compared to the corresponding period last year, primarily due to the decrease in staff cost for operating businesses.

Net impairment losses reversed

For the Period Under Review, the net impairment losses reversed was approximately RMB2.3 million, representing an increase by approximately RMB1.9 million as compared to the corresponding period last year.

Administrative expenses

Our administrative expenses decreased by approximately 39.7% as compared to the corresponding period last year and was approximately RMB2.4 million for the Period Under Review, primarily due to the decrease in staff cost and professional fees incurred for administrative purpose.

Reportable segment profit

As a result of the foregoing, the reportable segment profit increased by approximately RMB0.3 million from approximately RMB20.4 million for the six months ended 30 June 2021 to approximately RMB20.7 million for the six months ended 30 June 2022.

Profit before tax

As a result of the foregoing, our profit before tax for the Period Under Review increased by approximately 4.3% as compared to the corresponding period last year and amounted to approximately RMB20.0 million for the Period Under Review, primarily due to the increase in net impairment losses reversed and decrease in administrative expenses during the Period Under Review.

Income tax expenses

Our income tax expenses for the Period Under Review increased by approximately 10.2% as compared to the corresponding period last year and amounted to approximately RMB5.9 million, primarily due to the underprovision of income tax amounting to RMB356,000 in prior years.

Profit for the period

As a result of the foregoing, our profit for the Period Under Review increased by approximately 1.9% as compared to the corresponding period last year and amounted to approximately RMB14.1 million for the six months ended 30 June 2022.

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 condensed consolidated statement of cash flows of the Group for the six months ended 30 June 2022 and 2021:

	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Net cash generated from operating activities	139,178	80,227
Net cash generated from/(used in) investing activities	3,135	(700)
Net cash (used in)/generated from financing activities	(292)	6,080

As at 30 June 2022, the Group's total bank balances and cash increased by 19.8% to approximately RMB859.1 million from approximately RMB717.1 million as at 31 December 2021, which was mainly due to the reduction in loan receivables. As at 30 June 2022 and 31 December 2021, 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 operations in the PRC. Except for certain monetary assets and liabilities which were 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 2022, 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 if and when necessary.

Gearing Ratio

The gearing ratio, calculated on the basis of total interest bearing borrowings (including loan from a former director) to equity (including all capital and reserves), was 0.2% (31 December 2021: 0.6%).

Contingent Liabilities

As at 30 June 2022 and 31 December 2021, the Group did not have any material contingent liabilities nor any other off-balance sheet commitments and arrangements.

Capital Expenditures

Our capital expenditures primarily comprised expenditures on property, plant and equipment, which amounted to RMB110,000, for the six months ended 30 June 2021 (six months ended 30 June 2022: Nil).

Capital Commitments

As at 30 June 2022 and 31 December 2021, the Group did not have material capital commitments.

Subsequent Event

Except as disclosed elsewhere in this announcement, there was no significant event taken place subsequent to 30 June 2022 and up to the date of this announcement.

Human Resources and Training

As at 30 June 2022, the Group had a total of 27 employees (as at 31 December 2021: 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 arrangements during the six months ended 30 June 2022. The Group reviews its foreign exchange risks periodically and will consider using derivatives financial instruments to hedge against such risks if and when necessary.

USE OF 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 recently provides art finance services under three business segments, namely (i) art and asset pawn loan business; (ii) art and asset auction business and (iii) art and asset sales 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 pandemic and the adverse market conditions, some of the Artwork Sellers have not been able to sell their artworks and were 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. 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 profits 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 observed 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 instead of 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 enable the Group to make a breakthrough in its 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 business development of 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 2022 and revised allocation of the net proceeds from the IPO on the Date of Reallocation and the unutilised net proceeds as at 30 June 2022 are set out as follows:

	Planned use of proceeds as disclosed in the prospectus of the Company dated 27 October 2016		Utilisation as at the Date of Reallocation	Unutilised net proceeds as at the Date of Reallocation	Revised allocation of the net proceeds		Unutilised net proceeds as at 30 June 2021
	<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>	<i>HK\$ million</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	45.5
Funding of general operations	23.8	10	23.8	–	23.8	10	–
Total	237.7	100	192.2	45.5	237.7	100	45.5

The unutilised net proceeds is intended to be fully utilised for trading of artworks by December 2022.

OUTLOOK AND PROSPECTS

As a result of the outbreak of COVID-19 in early 2022 in major cities of the PRC, the Chinese economy will inevitably face more challenges and further slow down. In addition, due to the Sino-American tension and the Russo-Ukrainian War, the Group expects that the business environment would remain challenging in the year of 2022. Meanwhile, the Group will cautiously monitor market change and risk management in order to provide a sustainable growth in the future.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference 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 condensed consolidated interim financial statements of the Group for the six months ended 30 June 2022 has been reviewed by the audit committee. 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 2022, 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 2022 (2021: Nil).

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 2022.

The Code sets out two levels of recommendations, namely, (a) code provisions that a listed company must either comply with or explain its non-compliance, and (b) recommended best practices that listed companies are encouraged to comply with but need not disclose in the case of non-compliance.

UPDATE ON DIRECTORS AND CHIEF EXECUTIVE OFFICER INFORMATION

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

1. Ms. Lam has resigned as an executive Director with effect from 21 March 2022.
2. 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.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE AND CORPORATE GOVERNANCE REPORT

The Company has complied with the applicable code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2022.

CONTRACTUAL ARRANGEMENTS

Reasons for using and risks associated with the Contractual Arrangements

Reference is made to the prospectus of the Company dated 27 October 2016. We conduct our art and asset pawn business and art and asset auction business through our PRC Operating Entities (as defined below): (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 certain extent, subject to foreign investment prohibition or restriction in the 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 the 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 subsidiaries established in the 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 of agreement 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 of agreement 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 the 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 Entities 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 Entities. Further, pursuant to the Contractual Arrangements, all economic benefits derived from the operation of the PRC Operating Entities are enjoyed by the Group and the financial results of the PRC Operating Entities are consolidated into the Group as if it was a wholly-owned subsidiary.

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

APPRECIATION

Finally, I wish to take this opportunity to express my sincere gratitude to the Directors, management and staff for their contributions and good performance during the Period Under Review.

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

Hong Kong, 26 August 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.