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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)

VOLUNTARY ANNOUNCEMENT TERMINATION OF UNDERTAKINGS

BACKGROUND OF ENTERING INTO THE UNDERTAKINGS

Each of Mr. ZJ Fan and parties acting in concert with him (as a group of controlling shareholders of the Company) has given the Undertakings to the Company in anticipation of the implementation of the Draft Foreign Investment Law.

In January 2015, MOFCOM published the Draft Foreign Investment Law aiming to, upon its enactment (if enacted at all), replace the major existing laws and regulations governing foreign investment in the PRC. According to the Draft Foreign Investment Law, foreign investors are not allowed to invest in any sector set out in the Catalogue of Prohibitions. Foreign investors are allowed to invest in sectors set out in the Catalogue of Restrictions, provided that the foreign investors are required to fulfill certain conditions and apply for permission before making such investment.

The Draft Foreign Investment Law, among other things, purports to introduce the principle of “actual control” in determining whether a company is considered as a foreign invested enterprise or entity. The Draft Foreign Investment Law specifically provides that entities established in the PRC but “controlled” by foreign investors will be treated as foreign invested entities, where as an entity organised in a foreign jurisdiction but cleared by the authority in charge of foreign investment as “controlled” by PRC entities and/or citizens would nonetheless be treated as a PRC domestic entity for investment purposes. In respect of “actual control”, the Draft Foreign Investment Law looks at the identity of the ultimate natural person or enterprise that controls the foreign-invested enterprise. “Actual control” refers to the power or position to control an enterprise through investment arrangements, contractual arrangements or other rights and decision-making arrangements.

If the Draft Foreign Investment Law was enacted in the then draft form without any amendment, as a measure to secure the passing of the “actual control” test in order for the Contractual Arrangements to remain a domestic investment under the interpretation of the Draft Foreign Investment Law so that the Group may maintain control over the PRC Operating Entities and receive all economic benefits derived from them, each of Mr. ZJ Fan and parties acting in concert with him (as a group of controlling shareholders of the Company) has given the Undertakings to the Company, and the Company has agreed with the Stock Exchange to enforce the Undertakings, which shall become effective from the Listing Date until compliance with the Draft Foreign Investment Law (as it then was) is not required and the Stock Exchange has consented to such termination: (i) he/she will continue to maintain his/her Chinese nationality and citizenship so as to be qualified as a “PRC investor or citizen” as defined under the Draft Foreign Investment Law; (ii) Mr. ZJ Fan together with each party acting in concert with him (as a group of controlling shareholders of the Company), will not dispose, directly or indirectly, any of his/her interests in the Company, such that they together would cease to control the Company (for the purpose of the undertaking, controlling the Company shall mean holding not less than 51% of the issued share capital of the Company or having control under the definition of the Draft Foreign Investment Law); and disposal of interest in the Company shall include (a) procuring the Company to issue or allot any Shares; (b) selling, transferring, assigning or giving Shares in the Company or any interest in the Shares; or (c) creating any mortgage, charge, pledge, lien or other security interests over the Shares; and (iii) before entering into any transaction which may result in Mr. ZJ Fan together with each party acting in concert with him (as a group of controlling shareholders of the Company), ceasing to have control of the Company, he/she shall (1) demonstrate to the Company’s and the Stock Exchange’s satisfaction that the Contractual Arrangements will remain as a domestic investment for the purpose of the Draft Foreign Investment Law; (2) obtain prior written consent of the Company as to the identity of the transferee(s); and (3) procure the transferee(s) who will become the new controlling shareholder of the Company to provide an undertaking in the same terms and conditions as the one offered by him/her.

TERMINATION OF THE UNDERTAKINGS

On 15 March 2019, the NPC adopted the Foreign Investment Law which became effective on 1 January 2020. In this regard, the PRC legal adviser is of the view that (i) the Foreign Investment Law did not adopt the notion of “variable interest entity” under the Draft Foreign Investment Law; (ii) the Foreign Investment Law has not clearly defined the control or ownership of domestic enterprise by way of contractual arrangements as a form of foreign investment; and (iii) the Foreign Investment Law does not provide a solution to retain the variable interest entity structure by being “actually controlled by PRC investors”.

As the version and content of Draft Foreign Investment Law published by MOFCOM in January 2015 was not enacted, the relevant provisions under the Draft Foreign Investment Law will not affect the validity of the Contractual Arrangements, resulting in the Undertakings no longer serve their original purposes. Therefore, as advised by the PRC legal adviser, the termination of the Undertakings will not cause material adverse impact on the Contractual Arrangements and the legality and validity of the Contractual Arrangements will not be affected, and except for the Foreign Investment Law which became effective on

1 January 2020, there is no other major changes to any laws and regulations of the PRC in respect of restrictions on foreign investment that would affect the operation of the Group since the issue of Prospectus.

The Undertakings provide that, among other things, it will cease to have effect if the compliance with the Draft Foreign Investment Law (as it then was) is not required and the Stock Exchange has consented to such termination. The Company has sought consent from the Stock Exchange that the Undertakings to be terminated and such consent has been granted by the Stock Exchange on 22 December 2022. Accordingly, the Undertakings were terminated with immediate effect.

Despite the termination of the Undertakings, the contractual arrangements under which the Group operates will continue to be in place. As advised by the PRC legal adviser, the termination of the Undertakings will not cause material adverse impact on the Contractual Arrangements and the legality and validity of the Contractual Arrangements will not be affected.

Therefore, the Board is of the view that the termination of the Undertakings will not have any material adverse impact on the Group's operations.

DEFINITIONS

In this announcement, the following expressions shall have the meanings ascribed to them below, unless the context requires otherwise:

“Board”	the board of Directors
“Company”	China Art Financial Holdings Limited (中國藝術金融控股有限公司), a company incorporate din the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Contractual Arrangements”	the arrangements and transactions entered into by the Group, details of which are described in the section headed “Contractual Arrangements” in the Prospectus
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Draft Foreign Investment Law”	the Draft Foreign Investment Law (《中華人民共和國外國投資法(草案徵求意見稿)》) published by MOFCOM on in January 2015
“Foreign Investment Law”	the Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法》) adopted by the NPC on 15 March 2019 which became effective on 1 January 2020
“Group”	the Company and its subsidiaries

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Date”	8 November 2016, on which the shares of the Company were listed on the Stock Exchange for trading
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MOFCOM”	Ministry of Commerce of the PRC
“Mr. ZJ Fan”	Mr. Fan Zhijun (范志軍), one of our controlling shareholders, an executive Director and the chairman of the Board
“NPC”	the National People’s Congress of the PRC
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“PRC Operating Entities”	Jiangsu Hexin Pawn Company Limited (江蘇和信典當有限公司) and Jiangsu Hexin Auction Company Limited (江蘇和信拍賣有限公司)
“Prospectus”	the prospectus of the Company issued on 27 October 2016
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Undertakings”	the undertakings given by Mr. ZJ Fan together with each party acting in concert with him (as a group of controlling shareholders of the Company), details of which are set out in the section headed “Contractual Arrangements” in the Prospectus

By order of the Board
CHINA ART FINANCIAL HOLDINGS LIMITED
Fan Zhijun
Chairman

Hong Kong, 23 December 2022

As at the date of this announcement, the Board comprises (1) Mr. Fan Zhijun as the executive Director, (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.