

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**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 2022**

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 2022 (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 2022*

	<i>Notes</i>	<b>2022</b> <b>RMB'000</b>	2021 <i>RMB'000</i>
<b>Revenue</b>	<b>4</b>		
Interest revenue		<b>26,998</b>	41,829
Service revenue		<b>340</b>	1,067
		<hr/>	<hr/>
Total revenue		<b>27,338</b>	42,896
Other income		<b>2,831</b>	3,019
Other net (loss)/gain		<b>(609)</b>	3,245
Operating expenses		<b>(2,265)</b>	(2,540)
Net impairment losses reversed/(recognised)		<b>1,651</b>	(2,949)
Administrative expenses		<b>(6,874)</b>	(8,439)
Finance costs		<b>(129)</b>	(182)
		<hr/>	<hr/>
Profit before tax	<b>5</b>	<b>21,943</b>	35,050
Income tax expenses	<b>6</b>	<b>(7,347)</b>	(9,687)
		<hr/>	<hr/>
<b>Profit for the year attributable to owners of the Company</b>		<b>14,596</b>	25,363
<b>Other comprehensive expense</b>			
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<b>(49)</b>	(77)
		<hr/>	<hr/>
<b>Total comprehensive income for the year attributable to owners of the Company</b>		<b>14,547</b>	25,286
		<hr/> <hr/>	<hr/> <hr/>
<b>Earnings per share (RMB cents)</b>	<b>8</b>		
Basic		<b>0.87</b>	1.51
		<hr/> <hr/>	<hr/> <hr/>
Diluted		<b>0.87</b>	1.51
		<hr/> <hr/>	<hr/> <hr/>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2022*

	<i>Notes</i>	2022 <b>RMB'000</b>	2021 <b>RMB'000</b>
<b>Non-current assets</b>			
Property, plant and equipment		500	700
Right-of-use assets		511	778
Deferred tax asset		1,387	1,800
Loan to a director	<i>10</i>	–	2,113
		<u>2,398</u>	<u>5,391</u>
<b>Current assets</b>			
Loan receivables	<i>9</i>	493,489	370,538
Other receivables		153	82
Tax recoverable		88	–
Bank balances and cash		612,418	717,053
		<u>1,106,148</u>	<u>1,087,673</u>
<b>Current liabilities</b>			
Accruals and other payables	<i>11</i>	13,147	9,812
Lease liabilities		212	264
Tax payable		1,308	3,444
		<u>14,667</u>	<u>13,520</u>
<b>Net current assets</b>		<u>1,091,481</u>	<u>1,074,153</u>
<b>Total assets less current liabilities</b>		<u>1,093,879</u>	<u>1,079,544</u>
<b>Non-current liabilities</b>			
Lease liabilities		223	435
<b>Net assets</b>		<u>1,093,656</u>	<u>1,079,109</u>
<b>Capital and reserves</b>			
Share capital		14,679	14,679
Reserves		1,078,977	1,064,430
<b>Total equity</b>		<u>1,093,656</u>	<u>1,079,109</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 and its shares 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 Intelligensis 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 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.

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 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 HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the 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
Amendments 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 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 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback <sup>2</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) <sup>1</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies <sup>1</sup>
Amendments to HKAS 8	Definition of Accounting Estimates <sup>1</sup>
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>1</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2024.

<sup>3</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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interest revenue:		
Interest revenue from art and asset pawn business	26,998	41,829
Service revenue:		
Auction revenue from art and asset auction business	340	1,067
Total	<u>27,338</u>	<u>42,896</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.

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

	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>By types of asset</b>		
Residential properties and carparks	<b>288</b>	999
Commercial properties	<b>52</b>	68
	<hr/>	<hr/>
Total	<b>340</b>	1,067
	<hr/> <hr/>	<hr/> <hr/>
<b>By geographical location</b>		
The PRC, excluding Hong Kong	<b>340</b>	1,067
	<hr/> <hr/>	<hr/> <hr/>

**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 earned by each segment without allocation of other income, other net (loss)/gain, 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, amount due to a director, bank balances and cash, tax recoverable, tax payable, and unallocated corporate assets and liabilities. 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>2022</b>				
Segment revenue	26,998	340	–	27,338
Segment costs	(2,457)	(1,424)	(311)	(4,192)
Net impairment losses reversed	1,651	–	–	1,651
Segment results	<u>26,192</u>	<u>(1,084)</u>	<u>(311)</u>	24,797
Other income				2,831
Other net loss				(609)
Central administrative expenses				(4,947)
Finance costs				(129)
Profit before tax				<u><u>21,943</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>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 net gain				3,245
Central administrative expenses				(6,330)
Finance costs				(182)
Profit before tax				<u><u>35,050</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>2022</b>				
<b>Assets</b>				
Segment assets	<u>494,493</u>	<u>160</u>	<u>–</u>	494,653
Unallocated assets				
Deferred tax asset				1,387
Bank balances and cash				612,418
Tax recoverable				<u>88</u>
Consolidated total assets				<u><u>1,108,546</u></u>
<b>Liabilities</b>				
Segment liabilities	<u>1,188</u>	<u>718</u>	<u>–</u>	1,906
Unallocated liabilities				
Tax payable				1,308
Loan from a former director				7,128
Amount due to a director				244
Corporate liabilities				<u>4,304</u>
Consolidated total liabilities				<u><u>14,890</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>2021</b>				
<b>Assets</b>				
Segment assets	371,929	169	–	372,098
Unallocated assets				
Deferred tax asset				1,800
Loan to a director				2,113
Bank balances and cash				717,053
Consolidated total assets				<u>1,093,064</u>
<b>Liabilities</b>				
Segment liabilities	1,398	761	–	2,159
Unallocated liabilities				
Tax payable				3,444
Loan from a former director				6,427
Corporate liabilities				1,925
Consolidated total liabilities				<u>13,955</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>2022</b>				
Segment information included in the measure of segment results or assets:				
Depreciation of property, plant and equipment	163	6	–	169
Depreciation of right-of-use assets	204	65	–	269

	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

### 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. 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	
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
The PRC, excluding Hong Kong (place of domicile)	27,338	42,896	1,011	1,411
Hong Kong	–	–	–	67
	<u>27,338</u>	<u>42,896</u>	<u>1,011</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 years ended 31 December 2022 and 2021.

## 5. PROFIT BEFORE TAX

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Profit for the year has been arrived at after charging:		
Depreciation of property, plant and equipment	169	201
Depreciation of right-of-use assets	269	452
Interest expenses on lease liabilities	27	48
Interest expenses on loan from a former director	102	134
	<u>102</u>	<u>134</u>

## 6. INCOME TAX EXPENSES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current tax		
PRC Enterprise Income Tax (“EIT”)	6,580	10,424
Underprovision in respect of prior years	354	–
	<u>6,934</u>	<u>10,424</u>
Deferred tax charge/(credit)	413	(737)
	<u>7,347</u>	<u>9,687</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 2022 and 2021.

No provision for Hong Kong Profits Tax was made during the years ended 31 December 2022 and 2021 as the Group did not have assessable profits arising in Hong Kong during both years.

## 7. DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: 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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>Earnings</b>		
Profit for the year for the purpose of calculating basic and diluted earnings per share	<u>14,596</u>	<u>25,363</u>
	<b>2022 '000</b>	<b>2021 '000</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,678,000	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>1,678,000</u>	<u>1,678,000</u>

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

## 9. LOAN RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Art and asset pawn loans to customers	499,038	377,738
Less: Impairment allowances	<u>(5,549)</u>	<u>(7,200)</u>
	<u><b>493,489</b></u>	<u><b>370,538</b></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 approximately 6% to 18% (2021: 18% to 24%) per annum during the year ended 31 December 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 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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 1 month	249,634	98,714
1–3 months	243,834	193,023
3–6 months	<u>21</u>	<u>78,801</u>
Total	<u><b>493,489</b></u>	<u><b>370,538</b></u>

As at 31 December 2022 and 2021, 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, were as follows:

Name of director	Maximum amount outstanding during the year ended 31 December			
	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
Mr. Fan Zhijun	<u>–</u>	<u>2,113</u>	<u>2,113</u>	<u>2,113</u>

The loan to a director was unsecured, interest bearing at 5% per annum and repayable on or before 25 April 2023. During the year ended 31 December 2022, the loan to a director was early settled in full by Mr. Fan Zhijun, the director of the Company.

## 11. ACCRUALS AND OTHER PAYABLES

	2022 RMB'000	2021 RMB'000
Accrued expenses	5,302	2,811
Loan from a former director ( <i>Note a</i> )	7,128	6,427
Amount due to a director ( <i>Note b</i> )	244	–
Other tax payables	412	549
Others	61	25
	<u>13,147</u>	<u>9,812</u>

*Notes:*

(a) Name of former director	2022 RMB'000	2021 RMB'000
Ms. Lam Siu Mui	<u>7,128</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.

As at 31 December 2021, the loan from a former director was unsecured, interest bearing at 4% per annum, and repayable within one year. During the year ended 31 December 2022, Ms. Lam Siu Mui agreed to extend the repayable date of the loan to 30 June 2023 and agreed not to charge any interest on the loan since then. As at 31 December 2022, the loan from a former director was unsecured, interest free and repayable on or before 30 June 2023.

(b) The amount due to Mr. Fan Zhijun, the director of the Company, is non-trade nature, unsecured, interest free and repayable on demand.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

In 2022, 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 Pawn Business**

During the Reporting Year, revenue from the art and asset pawn segment was approximately RMB27.0 million, representing a decrease of approximately 35% from approximately RMB41.8 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. Profit of the art and asset pawn segment was RMB26.2 million, representing a decrease of approximately 28% from approximately RMB36.3 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 a third party authoritative authentication institution as the Group’s independent advisor.

#### **Art and Asset Auction Business**

During the Reporting Year, revenue from the art and assets auction segment, amounted to approximately RMB0.3 million, representing a reduction of 73% from approximately RMB1.1 million in last year. Loss of the art and asset auction segment was approximately RMB1.1 million, an increase of loss amounting to RMB0.4 million from the loss of approximately RMB0.7 million recorded in last year. The drop was mainly due to decrease in revenue.

#### **Art and Asset Sales Business**

No revenue was derived from the art and asset sales segment for the years ended 31 December 2022 and 2021. Loss of the art and asset sales segment was RMB0.3 million for the year ended 31 December 2022 (2021: RMB0.3 million).



## **FINANCIAL REVIEW**

### **Revenue**

Our revenue for the year ended 31 December 2022 amounted to approximately RMB27.3 million, representing a year-on-year decrease of 36%, from approximately RMB42.9 million for the year ended 31 December 2021, 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) decrease service revenue from art and asset auction business for the year.

### **Operating expenses**

Our operating expenses decreased by approximately RMB0.2 million, or approximately 8%, from approximately RMB2.5 million for the year ended 31 December 2021 to approximately RMB2.3 million for the year ended 31 December 2022, primarily due to implementation of cost control.

### **Net impairment losses reversed/recognised**

For the year ended 31 December 2022, impairment losses amounted to approximately RMB1.7 million was reversed, while impairment losses amounted to approximately RMB2.9 million was recognised for the year ended 31 December 2021.

### **Administrative expenses**

Our administrative expenses decreased by approximately RMB1.5 million, or approximately 18%, from approximately RMB8.4 million for the year ended 31 December 2021 to approximately RMB6.9 million for the year ended 31 December 2022, primarily due to reduction in staff costs and professional fees during the Reporting Year.

### **Other net loss/gain**

Our other net loss/gain recorded other net loss of approximately RMB0.6 million for the year ended 31 December 2022 while other net gain of approximately RMB3.2 million was recorded for the year ended 31 December 2021. The decrease was preliminarily due to net foreign exchange loss of approximately RMB0.7 million recorded during the year ended 31 December 2022, whereas net foreign exchange gain of approximately RMB3.0 million recorded in previous year.

### **Reportable segment profit**

As a result of the foregoing, reportable segment profit decreased by approximately RMB10.5 million from approximately RMB35.3 million for the year ended 31 December 2021 to approximately RMB24.8 million for the year ended 31 December 2022.

## Profit before tax

As a result of the foregoing, our profit before tax decreased by approximately RMB13.2 million, or approximately 38%, from approximately RMB35.1 million for the year ended 31 December 2021 to approximately RMB21.9 million for the year ended 31 December 2022.

## Income tax expenses

Our income tax expenses decreased by approximately RMB2.4 million, or approximately 25%, from approximately RMB9.7 million for the year ended 31 December 2021 to approximately RMB7.3 million for the year ended 31 December 2022, 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 RMB10.8 million, or approximately 43%, from approximately RMB25.3 million for the year ended 31 December 2021 to approximately RMB14.5 million for the year ended 31 December 2022, 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 2022, net working capital (calculated as current assets less current liabilities) was approximately RMB1,091.5 million, representing an increase of approximately RMB17.3 million as compared with approximately RMB1,074.2 million as of 31 December 2021. The current ratios (calculated as current assets/current liabilities) are 75.4 times and 80.4 times as of 31 December 2022 and 2021 respectively.

The following table summarises the consolidated statement of cash flows for the years ended 31 December 2022 and 2021:

	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Net cash used in operating activities	<b>(109,722)</b>	(25,468)
Net cash from investing activities	<b>5,142</b>	923
Net cash used in financing activities	<b>(58)</b>	(86,060)

As of 31 December 2022, the Group's total bank balances and cash decreased by 15% to approximately RMB612.4 million from approximately RMB717.1 million as of 31 December 2021.

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 2022, 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 former director and amount due to a director) to equity (including all capital and reserves), was 0.7% (2021: 0.6%).

### **Contingent Liabilities**

As of 31 December 2022 and 2021, 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 for the year ended 31 December 2021 (2022: Nil).

### **Capital Commitment**

As at 31 December 2022 and 2021, 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 2022, the Group had a total of 28 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 2022.

## SHARE OPTION SCHEME

A share option scheme (the “**Share Option Scheme**”) was adopted by ordinary resolution passed by the then shareholders of the Company on 14 October 2016. Under the Share Option Scheme, the directors of the Company may grant options to subscribe for shares of the Company to eligible participants, including without limitation to employees of the Group, directors of the Company and its subsidiaries.

On 2 June 2017, the Company granted an aggregate of 79,000,000 share options to eligible grantees (the “**Grantees**”), primarily to provide incentives or rewards to the Grantees, enabling the Grantees to subscribe for an aggregate of 79,000,000 new ordinary shares of HK\$0.01 each in the share capital of the Company. The details of the outstanding share options granted are as follows:

Name of Grantee	Date of grant	Closing price immediately preceding the date of grant (i.e. 1/6/2017)	Exercise price	Weighted average closing price of shares immediately before exercise date	Exercise period	Number of Options			
						As at 1 January 2022	Granted during the year ended 31 December 2022	Lapsed during the year ended 31 December 2022	As at 31 December 2022
Other participants	2/6/2017	0.76	0.80	N/A	2/6/2017 to 1/6/2022	8,000,000	-	(8,000,000)	-
	2/6/2017	0.76	0.80	N/A	2/12/2017 to 1/6/2022	8,000,000	-	(8,000,000)	-
	2/6/2017	0.76	0.80	N/A	2/6/2018 to 1/6/2022	7,000,000	-	(7,000,000)	-
Exercisable at the end of the period						23,000,000	-	(23,000,000)	-

During the Period Under Review, all of the share options were lapsed.

Save as disclosed above, no other share option was granted, exercised, cancelled or lapsed under the Share Option Scheme during the Period Under Review.

## **USE OF NET PROCEEDS**

On 8 November 2016 (the “**Listing Date**”), the Company issued 400,000,000 new shares of nominal value of HK\$0.01 each in connection with the listing of its shares on the Stock Exchange (the “**IPO**”). The net proceeds after deducting the underwriting commission and issuing expenses arising from the IPO amounted to HK\$237.7 million (equivalent to RMB212.6 million).

### **Change of use of proceeds**

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

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

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

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

Revised allocation of the net proceeds from the IPO on the Date of Reallocation and the unutilised net proceeds as at 31 December 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 31 December 2022
	<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	-
<b>Total</b>	<b>237.7</b>	<b>100</b>	<b>192.2</b>	<b>45.5</b>	<b>237.7</b>	<b>100</b>	<b>45.5</b>

The unutilised net proceeds is intended to be fully utilised for trading of artworks by December 2023.

## **MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES OR ASSOCIATED COMPANIES**

The Group had no material acquisition or disposal of subsidiaries or associated companies during the year ended 31 December 2022. In addition, the Group had no significant investments held during the year ended 31 December 2022.

## **OUTLOOK AND PROSPECTS**

Looking ahead, it is expected that the global economic environment remains challenging and uncertain due to persistent inflation and ongoing geopolitical tensions. It is also expected that the domestic economy in China will continue to face challenges related to political tensions between China and the U.S. Nevertheless, the economic environment in Mainland China has shown signs of improvement following the nationwide loosening the restriction of COVID-19 control measures and the reopening of all borders in early January 2023. We anticipate that this will have a positive impact on our business for the coming year. As always, we remain vigilant and adaptable in the face of ongoing economic and geopolitical challenges. By staying true to our core values and mission as a company and remaining focused on our long-term goals, we are confident that we can position our business for success in the years to come.

### **Art and Asset Auction Business**

With the nationwide loosening the restriction of COVID-19 control measures, 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 2023.

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

In 2023, 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 2022 (2021: 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.

## **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 2021 are set out below:

1. Ms. Lam Siu Mui has resigned as an executive director of the Company with effect from 21 March 2022.
2. Mr. Tong Zaan San has resigned as a chief executive officer of the Company and Ms. Lam Siu Mui has been appointed as a chief executive officer of the Company with effect from 23 March 2022.
3. Mr. Li Cheng has resigned as an executive director of the Company with effect from 30 September 2022.
4. Mr. Liu Jian has resigned as an independent non-executive director of the Company with effect from 18 January 2023.
5. Mr. Liu Xudong has been appointed as an executive director of the Company with effect from 7 February 2023.
6. Ms. Shao Qiongqiong has been appointed as an independent non-executive director of the Company with effect from 7 February 2023.



## **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 2022 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 2022 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 2022.

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

Hong Kong, 31 March 2023

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