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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 2024**

The board (the “**Board**”) of directors (the “**Directors**”) 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 2024, 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 2024

	<i>Note</i>	Six months ended 30 June	
		2024	2023
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3	36,778	6,307
Other income		697	1,436
Other net loss		(151)	(211)
Cost of inventories sold		(22,950)	–
Net impairment losses (recognised)/reversed		(99)	2,767
Staff costs		(2,240)	(1,174)
Depreciation of property, plant and equipment		(120)	(120)
Depreciation of right-of-use assets		(320)	(102)
Advertising and promotional expenses		(1,153)	–
Other expenses		(2,332)	(3,245)
Finance costs		(25)	(10)
Profit before tax		8,085	5,648
Income tax expenses	4	(2,669)	(2,213)
Profit for the period attributable to owners of the Company		5,416	3,435
Other comprehensive expense			
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(47)	(200)
Total comprehensive income for the period attributable to owners of the Company		5,369	3,235
Earnings per share (RMB cents)	6		
Basic and diluted		0.32	0.20

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2024

		As at 30 June 2024	As at 31 December 2023
	<i>Note</i>	RMB'000 (unaudited)	RMB'000 (audited)
Non-current assets			
Property, plant and equipment		226	344
Right-of-use assets		1,063	1,383
Deferred tax assets		1,213	1,230
		2,502	2,957
Current assets			
Inventories	7	12,300	10,600
Loan receivables	8	433,310	422,426
Tax recoverable		79	–
Bank balances and cash		684,226	695,818
		1,129,915	1,128,844
Current liabilities			
Accruals and other payables	9	18,473	23,065
Lease liabilities		476	630
Tax payable		1,465	2,700
		20,414	26,395
Net current assets		1,109,501	1,102,449
Total assets less current liabilities		1,112,003	1,105,406
Non-current liabilities			
Lease liabilities		454	465
Deferred tax liabilities		266	346
		720	811
Net assets		1,111,283	1,104,595
Capital and reserves			
Share capital	10	14,793	14,679
Reserves		1,096,490	1,089,916
Total equity		1,111,283	1,104,595

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

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 D2 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 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.

2. MATERIAL ACCOUNTING POLICY INFORMATION

The Group's condensed consolidated financial statements have been prepared on the historical cost basis.

Other than additional accounting policies resulting from application of the 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 2024 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2023.

Application of the amendments to HKFRSs

In the current interim period, the Group has applied the 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 2024 for the preparation of the Group's condensed consolidated financial statements.

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	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest revenue from art and asset pawn business	10,931	6,195
Sales of artwork from art and asset sales business	25,841	–
Auction revenue from art and asset auction business	6	112
	<hr/>	<hr/>
Total	36,778	6,307
	<hr/> <hr/>	<hr/> <hr/>

Interest revenue on loans to customers for art and asset pawn business is recognised using the effective interest method.

Sales of artwork from art and asset sales business constitute revenue from contracts with customers and are recognised at a point in time upon transferring control of artwork to customers, which generally coincides with the time when the artwork are delivered and titles have been passed to the customers. The customers are required to settle the entire purchase prices of the artwork within 3 days after signing the contracts with the Group.

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. The customers are required to settle the buyer's commission and the seller's commission to the Group within 15 days and 60 days, respectively, after the date of auction.

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

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
By types of asset		
Zisha artwork	14,115	–
Calligraphies and paintings	11,726	–
	<hr/>	<hr/>
Total	25,841	–
	<hr/> <hr/>	<hr/> <hr/>
By geographical location		
The PRC, excluding Hong Kong	25,841	–
	<hr/> <hr/>	<hr/> <hr/>

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

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
By types of asset		
Materials	–	81
Commercial properties	–	31
Others	6	–
	<u>6</u>	<u>–</u>
	<u>6</u>	<u>112</u>
By geographical location		
The PRC, excluding Hong Kong	6	112
	<u>6</u>	<u>112</u>

The Group has no unsatisfied performance obligations as at the end of each reporting period.

Segment information

The segment information reported externally was analysed based on (i) art and asset pawn business, (ii) art and asset auction business, and (iii) art and asset sales business, which is consistent with the internal information that is regularly reviewed by the chief executive officer of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance. This is also the basis of organisation in the Group, whereby the management has chosen to organise the Group by these business activities.

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment result represents the result from each segment without allocation of other income, other net loss, central administrative expenses and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

Segment revenue and results

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

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Art and asset sales business RMB'000	Total RMB'000
Six months ended 30 June 2024				
(unaudited)				
Segment revenue	10,931	6	25,841	36,778
Segment costs	(1,962)	(265)	(24,560)	(26,787)
Net impairment losses recognised	(99)	–	–	(99)
Segment results	<u>8,870</u>	<u>(259)</u>	<u>1,281</u>	<u>9,892</u>
Other income				697
Other net loss				(151)
Central administrative expenses				(2,328)
Finance costs				<u>(25)</u>
Profit before tax				<u><u>8,085</u></u>
	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 2023				
(unaudited)				
Segment revenue	6,195	112	–	6,307
Segment costs	(915)	(385)	(124)	(1,424)
Net impairment losses reversed	2,767	–	–	2,767
Segment results	<u>8,047</u>	<u>(273)</u>	<u>(124)</u>	<u>7,650</u>
Other income				1,436
Other net loss				(211)
Central administrative expenses				(3,217)
Finance costs				<u>(10)</u>
Profit before tax				<u><u>5,648</u></u>

Other segment information

	Art and asset pawn business <i>RMB'000</i>	Art and asset auction business <i>RMB'000</i>	Art and asset sales business <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2024				
(unaudited)				
Segment information included in the measure of segment results or assets:				
Additions to property, plant and equipment	2	–	–	2
Depreciation of property, plant and equipment	120	–	–	120
Depreciation of right-of-use assets	93	113	114	320
	<u> </u>	<u> </u>	<u> </u>	<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>

Six months ended 30 June 2023 (unaudited)

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

Depreciation of property, plant and equipment	120	–	–	120
Depreciation of right-of-use assets	102	–	–	102
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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 the location of the goods delivered for art and asset sales business. The Group's specified non-current assets comprise property, plant and equipment, and right-of-use assets, and the geographical location of these specified non-current assets is based on the physical location of these assets.

	Revenue from external customers		Specified non-current assets	
	Six months ended 30 June		As at 30 June	As at 31 December
	2024	2023	2024	2023
	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (audited)
The PRC, excluding Hong Kong (place of domicile)	36,778	6,307	1,289	1,727
Hong Kong	–	–	–	–
	<u>36,778</u>	<u>6,307</u>	<u>1,289</u>	<u>1,727</u>

Information about major customers

Revenue from external customers individually contributing 10% or more of the Group's total revenue is as follows:

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (unaudited)
Customer A	6,106 ¹	–
Customer B	4,752 ²	– ³
Customer C	4,425 ¹	– ³
Customer D	3,850 ¹	–
	<u>3,850</u>	<u>–</u>

¹ The revenue is derived from art and asset sales business.

² The revenue is derived from art and asset pawn business, and art and asset sales business.

³ The corresponding revenue did not contribute 10% or more of the Group's total revenue for the respective reporting period.

All external customers individually accounted for less than 10% of the Group's total revenue for the six months ended 30 June 2023.

4. INCOME TAX EXPENSES

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax		
PRC Enterprise Income Tax (“EIT”) for the period	2,732	1,671
Overprovision in respect of prior years	—	(150)
	<u>2,732</u>	<u>1,521</u>
Deferred tax (credit)/charge	(63)	692
	<u>2,669</u>	<u>2,213</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 2024 and 2023.

No provision for Hong Kong Profits Tax was made during the six months ended 30 June 2024 and 2023 as the Group did not have assessable profits arising in Hong Kong during both periods.

5. DIVIDEND

The Board of Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2024 (six months ended 30 June 2023: 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	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Profit for the period for the purpose of calculating basic and diluted earnings per share	<u>5,416</u>	<u>3,435</u>

Six months ended 30 June	
2024	2023
'000	'000
(unaudited)	(unaudited)

Number of shares

Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share	<u>1,682,533</u>	<u>1,678,000</u>
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Diluted earnings per share for the six months ended 30 June 2024 and 2023 are the same as the basic earnings per share as the Company has no potential dilutive ordinary shares outstanding during both periods.

7. INVENTORIES

	As at 30 June 2024 RMB'000 (unaudited)	As at 31 December 2023 RMB'000 (audited)
Zisha artwork	12,300	3,800
Calligraphies and paintings	<u>–</u>	<u>6,800</u>
	<u>12,300</u>	<u>10,600</u>

The cost of inventories recognised as expenses and included in “cost of inventories sold” amounted to RMB22,950,000 for the six months ended 30 June 2024 (six months ended 30 June 2023: Nil).

8. LOAN RECEIVABLES

	As at 30 June 2024 RMB'000 (unaudited)	As at 31 December 2023 RMB'000 (audited)
Art and asset pawn loans to customers	437,234	426,251
Less: Impairment allowances	<u>(3,924)</u>	<u>(3,825)</u>
	<u>433,310</u>	<u>422,426</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 rates ranging from approximately 7% to 12% (six months ended 30 June 2023: 6% to 18%) per annum during the six months ended 30 June 2024. 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:

	As at 30 June 2024 RMB'000 (unaudited)	As at 31 December 2023 RMB'000 (audited)
Within 1 month	61,712	102,007
1–3 months	217,558	188,659
3–6 months	<u>154,040</u>	<u>131,760</u>
Total	<u>433,310</u>	<u>422,426</u>

As at 30 June 2024 and 31 December 2023, all loan receivables were not yet past due based on the contractual due dates as stipulated in pawn tickets.

9. ACCRUALS AND OTHER PAYABLES

	As at 30 June 2024 <i>RMB'000</i> (unaudited)	As at 31 December 2023 <i>RMB'000</i> (audited)
Accrued expenses	2,581	4,585
Payables on behalf of customers in respect of art and asset auction business (<i>Note a</i>)	–	281
Loan from a former director (<i>Note b</i>)	7,283	7,154
Amount due to a director (<i>Note c</i>)	3,479	1,788
Amount due to a director of the Company's subsidiaries (<i>Note d</i>)	4,724	4,854
Contract liabilities	–	2,000
Other tax payables	255	2,373
Others	151	30
	<u>18,473</u>	<u>23,065</u>

Notes:

- (a) For the payables of art and asset auction business, after the purchase cost and all outstanding commission receivable from the buyer are fully settled, net sale proceeds (being the hammer price after deducting the seller's commission and the personal income tax) will be paid to the seller within 60 days from date of auction. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

The Group's payables on behalf of customers in respect of art and asset auction business were aged within 60 days as at 31 December 2023 based on the dates of relevant auction services rendered.

- (b)

Name of former director	As at 30 June 2024 <i>RMB'000</i> (unaudited)	As at 31 December 2023 <i>RMB'000</i> (audited)
Ms. Lam Siu Mui (" Ms. Lam ")	<u>7,283</u>	<u>7,154</u>

Ms. Lam 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 2023, the loan from a former director was unsecured, interest-free and repayable on or before 30 June 2024. During the six months ended 30 June 2024, Ms. Lam agreed to extend the repayment date of the loan to 30 September 2024.

- (c) The amount due to Mr. Fan Zhixin, the director of the Company, was non-trade nature, unsecured, interest-free and repayable on demand.
- (d) The amount due to Mr. Fan Zhijun, a director of the Company's subsidiaries, was non-trade nature, unsecured, interest-free and repayable on demand. Mr. Fan Zhijun resigned as the executive director of the Company on 15 September 2023 and remained as the director of the Company's subsidiaries.

10. SHARE CAPITAL

	Number of shares	Amount	
	'000	HK\$'000	<i>Equivalent to</i> RMB'000
<i>Ordinary shares of HK\$0.01 each</i>			
Authorised			
At 1 January 2023, 31 December 2023 and 30 June 2024	5,000,000	50,000	43,420
Issued and fully paid			
At 1 January 2023, 31 December 2023 and 1 January 2024 (audited)	1,678,000	16,780	14,679
Issue of new shares (<i>Note</i>)	12,500	125	114
At 30 June 2024 (unaudited)	1,690,500	16,905	14,793

Note: On 26 April 2024, the Company completed the issuance of 12,500,000 new ordinary shares of the Company at HK\$0.12 per share to an independent third party. The net proceeds (after deduction of transaction costs of approximately RMB45,000) of approximately RMB1,319,000 are used for the project of the potential incorporation of a joint venture company, which will provide software service of centralised settlement systems for various community retail scenarios. These shares rank pari passu with the then existing shares of the Company in all respects.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 June 2024 (the “**Period Under Review**”), the international and domestic markets continued to experience challenging situation. The Company and its subsidiaries (collectively referred to as, the “**Group**”) have adjusted their marketing strategies from time to time in response to the unstable environment.

Art and Asset Pawn Business

During the Period Under Review, the revenue derived from the art and asset pawn business was approximately RMB10.9 million, representing an increase of approximately 75.8% from approximately RMB6.2 million for the corresponding period in last year. The increase was due to the result of the volume and loan period of art and asset pawn loans increased.

The profit derived from the art and asset pawn business was approximately RMB8.9 million, representing an increase of approximately 11.3% from approximately RMB8.0 million for the corresponding period in last year.

The Group implemented a risk management system which we believe to be effective in reducing various risks involved in our art and asset pawn business. The Group established a multi-level internal approval system and an effective risk management system, and had a professional internal and external authentication team. The Group also hired third party authoritative authentication institutions as the Group’s independent advisor. The Group’s risk management achieved remarkable results, of which the art and asset pawn business did not experience any default in the first half of 2024.

Art and Asset Auction Business

With the nationwide loosening the restriction of COVID-19 control measures and the reopening all borders in the PRC in early January 2023, the Group organised several auction and related activities during the year 2023. The Group intends to organise more various scale auction and related activities, and the Group has been communicating with the PRC local government for the suitability of holding large scale auction and related activities. Meanwhile, the Group is actively looking for new auction formats.

During the Period Under Review, the revenue from the art and asset auction business was approximately RMB6,000, representing a decrease of approximately 94.6% from approximately RMB112,000 for the same period in 2023. The loss from the art and asset auction business was approximately RMB259,000 (2023: approximately RMB273,000). The decrease in loss was mainly due to the decrease in operating costs from this business during the current period.

Art and Asset Sales Business

In 2023, the Group diversified its existing businesses and engaged in artwork trading through the art and asset sales business. The Group's strategy is to identify and locate potential buyers for artwork from its customers accrued in the past ten-odd years. Through maintaining regular contact with such customers, engaging external professional experts to provide further art sales training to the existing staff, enlarging potential customer base by marketing and promotion, the Group laid a solid foundation for the development of the art and asset sales business. The Group has extensive business in the art industry, and has a wide customer base in the past ten-odd years. The Group has sourced and purchased purple clayware, calligraphies and painting artwork with good value for money in the market, while increasing the frequency of communication among potential customers at the same time to match interested buyers. Also, based on the enhanced communication with existing customers, the Group would also assist such customers to look for and purchase artwork which they are interested from renowned vendors or collectors in the market.

During the Period Under Review, the revenue from the art and asset sales business was approximately RMB25.8 million (2023: Nil). As the Group has diversified its existing businesses and has engaged in artwork trading during the Period Under Review, the revenue from the art and asset sales business were solely derived from the artwork trading and the profit derived from the art and asset sales business during the Period Under Review was approximately RMB1.3 million, while the Group recorded a loss of approximately RMB0.1 million from the art and asset sales business for the same period in 2023. The turnaround of segment results of the art and asset sales business was mainly due to the increase in revenue generated from artwork trading during the Period Under Review.

FINANCIAL REVIEW

Revenue

Our revenue increased by approximately 484.1% to approximately RMB36.8 million for the Period Under Review as compared to the corresponding period in last year, primarily due to an increase in revenue from sales of artwork through the art and asset sales business, as well as the increase in the average loan balance of art and asset pawn loans.

Other Income

Our other income decreased by approximately 50.0% to approximately RMB0.7 million for the Period Under Review as compared to the corresponding period in last year, primarily due to decrease in bank interest income during the Period Under Review.

Other Net Loss

Our other net loss amounted to approximately RMB0.2 million for the Period Under Review, which remained stable as compared to the corresponding period in last year.

Cost of Inventories Sold

Our cost of inventories sold amounted to approximately RMB23.0 million (2023: Nil) and the amounts represented the purchase costs of artwork which were sold to our customers through the art and asset sales business for the Period Under Review.

Net Impairment Losses (Recognised)/Reversed

During the Period Under Review, impairment losses on pawn loans amounting to approximately RMB0.1 million were recognised while the net impairment losses reversed was approximately RMB2.8 million for the corresponding period in last year.

Staff Costs

Our staff costs increased by approximately RMB1.0 million, or approximately 83.3%, from approximately RMB1.2 million for the same period in 2023 to approximately RMB2.2 million for the Period Under Review because our Group hired additional staffs to enhance our Group's business operations and development.

Depreciation of Property, Plant and Equipment

Depreciation of property, plant and equipment for the Period Under Review maintained steadily at approximately RMB120,000 as compared to the corresponding period in last year as our Group did not have material additions or disposals of property, plant and equipment during both periods.

Depreciation of Right-of-use Assets

Depreciation of right-of-use assets increased by approximately RMB0.2 million, or approximately 200.0%, from approximately RMB0.1 million for the same period in 2023 to approximately RMB0.3 million for the Period Under Review as our Group entered into a new lease of safe storehouse in the PRC in second half year of 2023.

Advertising and Promotional Expenses

Advertising and promotional expenses increased by approximately RMB1.2 million during the Period Under Review to enhance our brand value and to promote the related business activities of the Group in the PRC.

Other Expenses

Other expenses decreased by approximately 28.1%, to approximately RMB2.3 million for the Period Under Review as compared to the corresponding period in last year, primarily due to the decrease in legal and professional fees.

Profit before Tax

As a result of the foregoing, our profit before tax for the Period Under Review increased by approximately 44.6% as compared to the corresponding period in last year and amounted to approximately RMB8.1 million for the Period Under Review, primarily due to the increase in revenue from the art and asset sales business and the art and asset pawn business and decrease in central administrative expenses during the Period Under Review.

Income Tax Expenses

Our income tax expenses for the Period Under Review increased by approximately 22.7% as compared to the corresponding period in last year and amounted to approximately RMB2.7 million, primarily due to increase in the Group's taxable profits for the Period Under Review.

Profit for the Period

As a result of the foregoing, our profit for the Period Under Review increased by approximately 58.8% as compared to the corresponding period in last year and amounted to approximately RMB5.4 million for the six months ended 30 June 2024.

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 2024 and 2023:

	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Net cash (used in)/generated from operating activities	(14,927)	248,496
Net cash generated from investing activities	695	1,436
Net cash generated from financing activities	2,638	2,747

As at 30 June 2024, the Group's total bank balances and cash decreased by 1.7% to approximately RMB684.2 million from approximately RMB695.8 million as at 31 December 2023. As at 30 June 2024 and 31 December 2023, 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 operation in the PRC. The Group was not subject to any other material risk directly relating to the foreign exchange fluctuation. For the six months ended 30 June 2024, despite the depreciation 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 minimise 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, amount due to a director and amount due to a director of the Company's subsidiaries) to equity (including all capital and reserves) was 1.4% (31 December 2023: 1.2%).

Contingent Liabilities

As at 30 June 2024 and 31 December 2023, the Group did not have any material contingent liabilities nor any other off-balance sheet commitments and arrangements.

Capital Expenditures

During the six months ended 30 June 2024, the Group incurred capital expenditures on property, plant and equipment amounting to approximately RMB2,000 (six months ended 30 June 2023: Nil).

Capital Commitments

As at 30 June 2024 and 31 December 2023, the Group did not have any material capital commitments.

Event After the Reporting Period

There was no significant event taken place subsequent to 30 June 2024 and up to the date of this announcement.

Human Resources and Training

As at 30 June 2024, the Group had a total of 46 employees (as at 31 December 2023: 33 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 2024. The Group reviews its foreign exchange risks periodically and will consider using derivatives financial instruments to hedge against such risks if and when necessary.

OUTLOOK AND PROSPECTS

Looking ahead, the global economic environment is expected to remain challenging due to persistent inflation and ongoing geopolitical tensions. The domestic economy in China continues to face hurdles, particularly related to political tensions with the U.S. However, the economic landscape in Mainland China has shown significant improvement following the lifting of COVID-19 restrictions and the reopening of borders. This recovery is anticipated to have a positive impact on our business in the upcoming months. As always, we remain vigilant and adaptable in the face of these ongoing economic and geopolitical challenges. By adhering to our core values and mission as a company while staying focused on our long-term objectives, we are confident in our ability to position our business for continued success.

Art and Asset Auction Business

The Group is actively adjusting the auction strategies to intensify its market promotion efforts both regionally and across multiple channels. We will continue to maintain open communication with local governments in the PRC to ensure the safe and effective operation of our auction activities, and we plan to host more appealing auctions in the future to improve business performance.

Art and Asset Pawn Business

In the first half of 2024, the Group has maintained a conservative approach in granting pawn loans to new customers. While there has been a slight recovery in market conditions, credit risk remains a concern, and our priority continues to be minimising credit exposure and ensuring capital safety. We are enhancing our risk management strategies to navigate the evolving market landscape effectively.

Art and Asset Sales Business

Leveraging our established relationships with collectors and the expertise of our appraisal team, we have successfully identified suitable artworks for sale in 2024. Our strategy includes selling artworks acquired at past auctions and private sales, expecting to generate profit for the Group through (i) gains from the difference between acquisition and sale prices; (ii) agency service income from promoting and facilitating artwork sales; and (iii) auction commissions derived from selling artworks in our upcoming auctions. We believe that these efforts will significantly contribute to our overall financial performance.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Group nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period under Review.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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), Ms. Shao Qiongqiong and Ms. Yin Xuhong. The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2024 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 2024, 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 2024 (2023: Nil).

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in Appendix C3 of the Listing Rules 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 2024.

The Model 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.

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 C1 of the Listing Rules during the six months ended 30 June 2024.

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 Zhixin
Co-Chairman and Executive Director

Hong Kong, 30 August 2024

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