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CHINA ART FINANCIAL HOLDINGS LIMITED

中國藝術金融控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1572)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

Financial Highlights for the Year Ended 31 December 2017:			
	For the year ended 31 December		
	2017	2016	Change
	RMB'000	RMB'000	%
Operating Results			
Revenue	276,499	176,882	56
Profit attributable to owners of the company	160,475	89,916	78
Basic earnings per share (<i>RMB cents</i>)	10.04	7.67	31
Dividend			
— Final dividend per share (<i>HK\$ cents</i>)	2.0	3.0	(33)
— Special dividend per share (<i>HK\$ cents</i>)	–	2.0	(100)

BUSINESS REVIEW AND PLAN

Company Financial Performance

Our revenue increased by 56%, while two main businesses of China Art Financial Holdings Limited (the “**Company**”) achieved a balanced and rapid growth. The revenue from art auction business and art pawn loan business have recorded increases of 60% and 52%, respectively.

Profit attributable to equity owners of the Company recorded a year-on-year increase of 78%, offsetting by the amortization of charges of approximately RMB9.8 million for the year ended 31 December 2017 arising from the issuance of share options by the Company on 2 June 2017 (please refer to section “Share Option Scheme” for details).

Company Business Highlights

Operating Information	Year ended 31		Change %
	December 2017	2016	
Aggregate transaction value of art auction (RMB million)	764	490	56
Aggregate transaction value of spring auction (RMB million)	213	164	30
Aggregate transaction value of autumn auction (RMB million)	439	280	57
Aggregate transaction value of pure online auction (RMB million)	112	46	143
Overall commission rate for art auction business (%)	19	19	–
Total new loan amount granted secured by artwork (RMB million)	708	569	24
Impaired loan rate (%)	0	0	–

Business Plan For 2018

The Company has planned to organize our first spring auction and autumn auction in Hong Kong in late May and November 2018 respectively. Meanwhile, we actively prepare for the spring and autumn auction to be held in Yixing in late June and December 2018 respectively. We plan to expand our auction business in other major cities in China. In addition, we plan to organise four pure online auctions in 2018. The Company injected RMB70 million into its wholly-owned subsidiary Jiangsu Hexin Pawn Company Limited (the “**Hexin Pawn**”) as registered capital in 2017, with an aim to expand art pawn loan business in 2018. The Company will seek for merger and acquisition co-operation with suitable companies in art pawn loan and auction industry with synergy effects which can enhance overall strength in art finance services with the Company as disclosed in the prospectus of the Company dated 27 October 2016 (the “**Prospectus**”).

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 2017 (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 2017

		Year ended 31 December	
		2017	2016
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	4	276,499	176,882
Other income		1,463	1,494
Other gains and losses		(1,131)	5,499
Business tax and surcharges		(1,893)	(2,854)
Operating expenses		(18,710)	(3,135)
Allowance recognised on loans to customers for art and asset pawn business, net		(1,749)	(3,457)
Administrative expenses		(33,171)	(15,856)
Listing expenses	6	–	(24,946)
Finance costs		(22)	(30)
Profit before tax		221,286	133,597
Income tax expense	7	(60,650)	(40,165)
Profit for the year		160,636	93,432
Other comprehensive expense			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation		(161)	–
Profit and total comprehensive income for the year		160,475	93,432
Profit for the year attributable to:			
— Owners of the Company		160,636	89,916
— Non-controlling interests		–	3,516
		160,636	93,432
Profit and total comprehensive income for the year attributable to:			
— Owners of the Company		160,475	89,916
— Non-controlling interests		–	3,516
		160,475	93,432
Earnings per share for profit attributable to owners of the Company (<i>RMB cents</i>)			
Basic	9	10.04	7.67
Diluted		10.02	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

		As at 31 December	
		2017	2016
	Notes	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		4,416	1,242
Deferred tax asset		1,633	1,195
		<u>6,049</u>	<u>2,437</u>
Current assets			
Loans to customers for art and asset pawn business	10	319,912	234,183
Trade receivables, other receivables and prepayments	11	344,100	52
Amount due from a director		150	–
Bank balances and cash		527,265	463,080
		<u>1,191,427</u>	<u>697,315</u>
Current liabilities			
Other payables and accruals	12	433,539	64,573
Amounts due to directors		100	–
Amounts due to related parties		88	–
Amount due to immediate holding company		23,196	–
Obligations under finance lease		115	–
Tax liabilities		22,118	16,323
		<u>479,156</u>	<u>80,896</u>
Net current assets		<u>712,271</u>	<u>616,419</u>
Net assets		<u>718,320</u>	<u>618,856</u>
Capital and reserves			
Share capital	13	13,995	13,995
Reserves		703,925	604,861
		<u>717,920</u>	<u>618,856</u>
Total equity attributable to owners of the Company		717,920	618,856
Non-current liability			
Obligations under finance lease		400	–
		<u>718,320</u>	<u>618,856</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Laws, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 2 November 2015. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (“**HKSE**”) since 8 November 2016. The addresses of the registered office and principal place of business in Hong Kong and principal place of business in the People’s Republic of China (the “**PRC**”) are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands; Room 1907, 19/F, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong; Northern side of Jiefang East Road, Yicheng Street, Yixing City, Jiangsu Province, China.

The Company’s immediate holding company and ultimate holding company are Intelligensis Investment Co. Ltd. and Mauve Jade Investment Limited respectively, both are limited companies incorporated in the British Virgin Islands.

The principal activity of the Company is investment holding. It has two principal operating subsidiaries which are established in the PRC, namely, 江蘇和信典當有限公司 Jiangsu Hexin Pawn Company Limited (the “**Hexin Pawn**”) and 江蘇和信拍賣有限公司 Jiangsu Hexin Auction Company Limited (the “**Hexin Auction**”). Hexin Pawn was established in May 2004 and Hexin Auction was established in May 2007. Both of them were founded by Mr. Fan Zhijun, his family members and business partners. Hexin Pawn has been principally engaged in the art pawn loan business, while Hexin Auction has been principally engaged in the art auction business.

The consolidated financial statements are presented in Renminbi (“**RMB**”), same as the functional currency of the Company and the subsidiaries established in the PRC.

2. GROUP REORGANISATION AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the reorganisation, to rationale the structure of the Group to prepare for the listing of shares of the Company on the Main Board of HKSE (the “**Reorganisation**”) which was completed by incorporating/ establishing the Company, Reliance Art Holdings Limited (“**Reliance Art**”), Co-Reliance Art Financial Company Limited (“**Co-Reliance Art**”), 宜興市漢信信息技術服務有限公司 Yixing Hanxin Information Technology Service Company Limited (“**WFOE-Pawn**”) and 宜興市紫玉信息技術服務有限公司 Yixing Ziyu Information Technology Service Company Limited (“**WFOE-Auction**”) as the parents of Hexin Pawn and Hexin Auction respectively, the Company became the ultimate holding company of the companies now comprising the Group on 15 April 2016.

The Group entered into two series of agreements with Hexin Pawn and Hexin Auction which constitute the contractual arrangements (the “**Contractual Arrangements**”) for the art and asset pawn business and art and asset auction business respectively. These 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. 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 interest in Hexin Pawn and Hexin Auction from the shareholders of Hexin Pawn and Hexin Auction; and
- obtain a pledge over the entire equity interest of Hexin Pawn and Hexin Auction from the shareholders of the Hexin Pawn and Hexin Auction as collateral security under the Contractual Arrangements.

Pursuant to the above Contractual Arrangements entered into between the Group and all the equity holders of Hexin Pawn and Hexin Auction, these 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. In substance, the Group has effectively acquired additional equity interests in Hexin Pawn and Hexin Auction from the non-controlling interests subsequent to the effective date of the Contractual Arrangements. Accordingly, Hexin Pawn and Hexin Auction became wholly-owned subsidiaries of the Group subsequent to the Reorganisation. Details of the Corporate Reorganisation are set out in the Company's prospectus dated 27 October 2016 (the "**Prospectus**").

The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing equity.

The consolidated statement of profit and loss and comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement include the results, changes in equity and cash flows of the companies comprising the Group for both years and in accordance with the respective equity interests in the individual companies attributable to the controlling parties for both years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by 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.

3.2 Application of HKFRSs

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) for the first time in the current year.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As Part of the Annual Improvements to HKFRSs 2014–2016 Cycle

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
HKFRS 17	Insurance Contracts ⁴
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ²
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle ¹
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle ²

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2021

4. REVENUE

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

	2017 RMB'000	2016 <i>RMB'000</i>
Pawn loan revenue from art and asset pawn business	128,475	84,273
Auction revenue from art and asset auction business	148,024	92,609
Total	<u>276,499</u>	<u>176,882</u>

5. SEGMENT INFORMATION

The segment information reported externally was analysed on the basis of services rendered in the PRC and Hong Kong, art and asset pawn business and art and asset auction business which is consistent with the internal information that are regularly reviewed by the directors of the Company, the chief operating decision maker, for the purposes of resource allocation and assessment of performance. This is also the basis of organisation in the Group, whereby the management has chosen to organise the Group by these two services rendered.

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies. Segment result represents the profit earned by each segment without allocation of central administration costs, other income, other gains and losses, finance costs and listing expenses. Segment assets and liabilities are allocated to each segment excluding deferred tax asset, amount due from a director, bank balances and cash, other payables for listing expenses and other payables and accruals and amounts due to related parties, directors and immediate holding company. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

Segment revenues and results

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

	Art and asset pawn business RMB'000	Art and asset auction business RMB'000	Total RMB'000
2017			
Segment revenue	128,475	148,024	276,499
Segment cost	(2,982)	(15,728)	(18,710)
Business tax and surcharges	(990)	(903)	(1,893)
Allowance on loans to customers for art and asset pawn business	(1,749)	–	(1,749)
Segment result	<u>122,754</u>	<u>131,393</u>	254,147
Other income			1,463
Other gains and losses			(1,131)
Central administrative expenses			(33,171)
Finance costs			(22)
Profit before tax			<u>221,286</u>

	Art and asset pawn business <i>RMB'000</i>	Art and asset auction business <i>RMB'000</i>	Total <i>RMB'000</i>
2016			
Segment revenue	84,273	92,609	176,882
Segment cost	(1,097)	(2,038)	(3,135)
Business tax and surcharges	(2,020)	(834)	(2,854)
Allowance on loans to customers for art and asset pawn business	(3,457)	–	(3,457)
Segment result	<u>77,699</u>	<u>89,737</u>	167,436
Other income			1,494
Other gains and losses			5,499
Central administrative expenses			(15,856)
Listing expenses			(24,946)
Finance costs			(30)
Profit before tax			<u>133,597</u>

Segment assets and liabilities

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

	Art and asset pawn business <i>RMB'000</i>	Art and asset auction business <i>RMB'000</i>	Total <i>RMB'000</i>
2017			
Assets			
Segment assets	<u>322,451</u>	<u>346,127</u>	<u>668,428</u>
Other unallocated assets			
Deferred tax asset			1,633
Amount due from a director			150
Bank balances and cash			<u>527,265</u>
Consolidated total assets			<u>1,197,476</u>
Liabilities			
Segment liabilities	<u>7,490</u>	<u>444,327</u>	<u>451,817</u>
Other unallocated liabilities			
Other payables and accruals			4,355
Amounts due to related parties			88
Amounts due to directors			100
Amount due to immediate holding company			<u>23,196</u>
Consolidated total liabilities			<u>479,556</u>

	Art and asset pawn business <i>RMB'000</i>	Art and asset auction business <i>RMB'000</i>	Total <i>RMB'000</i>
2016			
Assets			
Segment assets	235,303	174	235,477
Other unallocated assets			
Deferred tax asset			1,195
Bank balances and cash			463,080
Consolidated total assets			699,752
Liabilities			
Segment liabilities	5,702	61,513	67,215
Other unallocated liabilities			
Other payable for listing expenses			8,147
Other payables and accruals			5,534
Consolidated total liabilities			80,896

Other segment information

	Art and asset pawn business <i>RMB'000</i>	Art and asset auction business <i>RMB'000</i>	Total <i>RMB'000</i>
2017			
Segment information included in the measure of segment results or assets:			
Addition of non-current assets	2,723	1,674	4,397
Depreciation of property, plant and equipment	995	226	1,221
Loss on disposal of property, plant and equipment	2	-	2
Allowance on loans to customers for art and asset pawn business, net	1,749	-	1,749
	Art and asset pawn business <i>RMB'000</i>	Art and asset auction business <i>RMB'000</i>	Total <i>RMB'000</i>
2016			
Segment information included in the measure of segment results or assets:			
Depreciation of property, plant and equipment	681	113	794
Allowance on loans to customers for art and asset pawn business, net	3,457	-	3,457

Geographical information

The Group's revenue from external customers is derived from its operations and services rendered in the PRC and Hong Kong, and non-current assets of the Group are located in the PRC and Hong Kong.

	Revenue from external customers		Non-current assets	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
PRC	255,903	176,882	2,780	1,242
Hong Kong	20,596	–	1,636	–
	<u>276,499</u>	<u>176,882</u>	<u>4,416</u>	<u>1,242</u>

Note: Non-current assets exclude deferred tax asset.

Information about major customers

There was no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue for the year reported.

6. LISTING EXPENSES

The amount represented professional fees incurred in relation to the global offering of the Company's shares which are not directly attributable to the issue of the new shares of the Company in 2016.

7. INCOME TAX EXPENSE

	2017 RMB'000	2016 RMB'000
Current tax		
PRC Enterprise Income Tax ("EIT")	60,969	41,029
Hong Kong Profits Tax	119	–
	<u>61,088</u>	<u>41,029</u>
Deferred tax	(438)	(864)
	<u>60,650</u>	<u>40,165</u>

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Laws of Cayman Islands, and accordingly, is exempted from payment of Cayman Islands income tax.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25%.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit that arises in or is derived from Hong Kong during the year. No provision for Hong Kong Profits Tax has been made in the previous year's consolidated financial statements as the income of the Group neither arose in nor was derived from Hong Kong in previous year.

8. DIVIDENDS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
2016 Final — HK\$3.0 cents per ordinary share	42,724	–
2016 Special — HK\$2.0 cents per ordinary share	28,484	–
	71,208	–

The Board recommends the payment of a final dividend for the year ended 31 December 2017 of HK\$2.0 cents (equivalent to RMB1.7 cents) (2016: HK\$3.0 cents, equivalent to RMB2.7 cents) per share (the “**Proposed Final Dividend**”) amounting to HK\$32,000,000 and no special dividend for the year ended 31 December 2017 (2016: HK\$2.0 cents, equivalent to RMB1.8 cents). The Proposed Final Dividend will be payable in cash. The aggregate amount of the final dividend and special dividend declared and paid in the year ended 31 December 2017 amounted to HK\$80,000,000 (equivalent to RMB71,208,000) (2016: nil).

The Proposed Final Dividend for the year ended 31 December 2017 is subject to the approval of the Company’s shareholders at the forthcoming annual general meeting. The final dividend proposed after the end of the reporting period have not been recognised as liabilities at the end of reporting period.

9. EARNINGS PER SHARE

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share (profit for the year attributable to the owners of the Company)	160,636	89,916
	2017	2016
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,600,000,000	1,171,563,449
Effect of dilutive potential ordinary shares on share options	3,361,653	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,603,361,653	1,171,563,449

No diluted earnings per share for the year ended 31 December 2016 is presented as there was no potential dilutive ordinary share in issue in 2016.

10. LOANS TO CUSTOMERS FOR ART AND ASSET PAWN BUSINESS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Art and asset pawn loans to customers, gross	<u>326,441</u>	<u>238,963</u>
Less: impairment allowances		
— Individually assessed	—	—
— Collectively assessed	<u>6,529</u>	<u>4,780</u>
	<u>6,529</u>	<u>4,780</u>
Art and asset pawn loans to customers, net	<u><u>319,912</u></u>	<u><u>234,183</u></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. At the maturity of the loan period, a borrower is under 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 provided to customers carry fixed interest rates ranging from 32.4% to 48% (2016: 30% to 48%) per annum during the year ended 31 December 2017. Loans to customers are all denominated in RMB.

(a) Aging analysis of loans to customers

The aging analysis of loans to customers net of impairment allowances by issue date of initial pawn tickets are set out below:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Within 1 month	88,800	83,892
2–3 months	172,690	112,787
3–6 months	<u>58,422</u>	<u>37,504</u>
Total	<u><u>319,912</u></u>	<u><u>234,183</u></u>

(b) Reconciliation of allowance account for losses on loans to customers

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Individually assessed:		
At beginning of year	—	—
Reversal of impairment loss	—	—
Loans written off as uncollectible	<u>—</u>	<u>—</u>
At end of year	<u><u>—</u></u>	<u><u>—</u></u>
Collectively assessed:		
At beginning of year	4,780	1,323
Impairment losses recognised	<u>1,749</u>	<u>3,457</u>
At end of year	<u><u>6,529</u></u>	<u><u>4,780</u></u>

11. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Trade receivables for art and asset auction business	<u>53,961</u>	–
Other receivables and prepayments:		
Receivables from customers in respect of art and asset auction business	289,389	–
Other receivables and deposit	734	–
Prepayments	<u>16</u>	<u>52</u>
	<u>290,139</u>	<u>52</u>
Total	<u><u>344,100</u></u>	<u><u>52</u></u>

Buyers of artworks are required to settle the entire purchase price of the artworks within seven days after the date of auction. An artwork will only be delivered to its buyer after full payment is 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 subsequently. The commission income from buyer is recognised as trade receivables for art and asset auction business and the unsettled hammer price is recognised as other receivables from customers in respect of art and asset auction business. In determining the recoverability of a trade receivable for art and asset auction business and other receivables from customers in respect of art and asset auction business, the Group considers any change in the credit quality of the trade receivables and other receivables from the date credit was initially granted up to the reporting date and no impairment is necessary for those balances which are not past due. An aggregate amount of trade receivables and other receivables of RMB37,402,000 and RMB152,191,000 were subsequently settled up to the date of the approval of consolidated financial statements, respectively.

The following is an aged analysis of trade receivables for art and asset auction business presented based on the invoice dates.

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Less than 60 days	<u><u>53,961</u></u>	<u><u>–</u></u>

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB53,961,000 (2016: nil) which are past due as at the reporting date for which the Group has not provided for impairment loss as at the end of the reporting period. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired.

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
0 to 30 days	<u><u>53,961</u></u>	<u><u>–</u></u>

12. OTHER PAYABLES AND ACCRUALS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Payables on behalf of customers in respect of art and asset auction business	405,835	35,924
Other payables for art and asset auction business	3,441	365
Accrued staff costs	1,675	3,558
Other tax payables	13,940	12,563
Other payable for listing expenses	–	8,147
Deposit received from customers	4,293	–
Others	4,355	4,016
	<u>433,539</u>	<u>64,573</u>

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. 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 are aged within 60 days after the date of auction services.

13. SHARE CAPITAL

	<i>Notes</i>	Number of shares	Nominal value	
			<i>HK\$'000</i>	<i>RMB'000</i>
Ordinary shares of HK\$0.01 each				
Authorised				
At 1 January 2016		38,000,000	380	332
Increase on 14 October 2016	(a)	<u>4,962,000,000</u>	<u>49,620</u>	<u>43,088</u>
At 31 December 2016 and 2017		<u>5,000,000,000</u>	<u>50,000</u>	<u>43,420</u>
Issued and fully paid				
At 1 January 2016		10,000	–	–
Issue of new shares pursuant to the global offering	(b)	400,000,000	4,000	3,499
Capitalisation issue of shares	(c)	<u>1,199,990,000</u>	<u>12,000</u>	<u>10,496</u>
At 31 December 2016 and 2017		<u>1,600,000,000</u>	<u>16,000</u>	<u>13,995</u>

Notes:

- (a) On 14 October 2016, the authorised share capital of the Company was increased from HK\$380,000 to HK\$50,000,000 by the creation of 4,962,000,000 new shares of HK\$0.01 each.
- (b) On 8 November 2016, 400,000,000 shares of HK\$0.01 each of the Company were issued at a price of HK\$0.75 each by way of global offering. On the same date, the shares of the Company were listed on the Main Board of the HKSE. The proceeds of HK\$4,000,000 (equivalent to RMB3,499,000 representing the par value of the new shares were credited to the Company's share capital. The remaining proceeds of HK\$296,000,000 (equivalent to RMB258,911,000), before the issuing expenses, were credited to the share premium of the Company.
- (c) Pursuant to the written resolutions passed by all shareholders of the Company on 14 October 2016, the directors of the Company were authorised to capitalise HK\$12,000,000 (equivalent to RMB10,496,000) standing to credit of the share premium amount of the Company by applying such sum in paying up in full at par of 1,199,990,000 ordinary shares of HK\$0.01 each of the Company for allotment and issue to the shareholders of the Company on the register of members of the Company on the date before listing of the shares of the Company in proportion to their then existing respective shareholding in the Company, conditional on the share premium account of the Company being credited as a result of the issue of shares by the Company pursuant to the global offering. The global offering of the Company was completed on 8 November 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2017, the Group actively responded to the changes of the economic environment and took initiative to seek for new opportunity for market development. The Group's auction and pawn loan business segments achieved remarkable results. For the year ended 31 December 2017, the Group's revenue was approximately RMB276.5 million, representing an increase of 56% from RMB176.9 million for the same period in 2016. The profit attributable to owners of the Company was approximately RMB160.5 million, representing an increase of 78% from RMB89.9 million for the same period in 2016.

Art Auction Business

The Group's art auction business continued to grow soundly. During the Reporting Year, revenue from the art and asset auction segment of the Company was approximately RMB148.0 million, representing an increase of 60% from RMB92.6 million for the same period last year, of which, revenue of art auction representing 100% (2016: 100%) of auction segment revenue. Profits of art and asset auction segment was RMB131.4 million, representing an increase of 46% from RMB89.7 million for the same period last year.

During the Reporting Year, the Group held spring auction in Yixing, autumn auctions in both Hong Kong and Yixing and four pure online art auctions. The aggregate transaction value (excluding buyer commission) amounted to RMB764 million, representing an increase of approximately 56% from approximately RMB490 million for the same period last year.

On 25 June 2017, the Group successfully organized its first spring auction after listing. The total hammer price for the auction lots (excluding buyer commission) reached RMB213 million, representing an increase of approximately 30% from approximately RMB164 million of the 2016 spring auction.

On 24 to 25 November 2017, the Group successfully held its first autumn auction in Hong Kong, stepping into the Hong Kong art market for the first time and paving the way for its expansion of international business in the future. The total hammer price for the autumn auction (excluding buyer commission) reached approximately RMB160 million (equivalent to approximately HK\$189.7 million).

Since the launch of pure online art auctions in 2016, the Group has achieved remarkable results. During the Reporting Year, the Company held four pure online art auctions (2016: three). The total hammer price for the auction lots (excluding buyer commission) reached RMB112 million, representing an increase of approximately 149% from approximately RMB45 million for the same period last year.

Art and Asset Pawn Loan Business

The Group steadily developed its art and asset pawn loan business with an outstanding effectiveness in risk management. During the Reporting Year, revenue from the pawn loan segment was approximately RMB128.5 million, representing an increase of 52% from RMB84.3 million for the same period last year. Profits of pawn loan segment was RMB122.8 million, representing an increase of 58% from RMB77.7 million for the same period last year. As of 31 December 2017, the total amount of new loans granted by the Group amounted to approximately RMB708.3 million

The breakdown of art and asset pawn loan business of the Group in 2017 and 2016 was as follows:

	Year ended 31 December				
	2017		2016		% of change
	RMB'000	%	RMB'000	%	
Art pawn loan revenue	122,763	96	83,539	99	47
Asset pawn loan revenue	5,712	4	734	1	678
Total	<u>128,475</u>	<u>100</u>	<u>84,273</u>	<u>100</u>	<u>52</u>

In 2017, approximately RMB708.3 million of new loan amount the Group granted were secured by artworks. Our artwork collateral portfolio mainly includes zisha artworks as well as paintings and calligraphies and jewel artworks. As at 31 December 2017, the Group charged fixed rates of monthly composite administrative fee for our pawn loan secured by artworks and personal property (both of which are classified as movable properties under the Pawning Measures), real estate and equity interest as collateral generally at the respective rate of 4.0%, 2.7% and 2.4% of the principal amount of the loan respectively.

Loans secured by artwork	Year ended 31 December	
	2017	2016
Total new loan amount granted (RMB'000)	708,270	569,260
Total number of new loans granted	109	105
Number of new loans renewed	65	63
Renewal ratio of new loan (%)	59.6	60.0
Average initial loan term (days)	<u>69</u>	<u>69</u>

Loans secured by assets	Year ended 31 December	
	2017	2016
Total new loan amount granted (RMB'000)	25,607	27,513
Total number of new loans granted	73	167
Number of new loans renewed	50	91
Renewal ratio of new loan (%)	68.5	54.5
Average initial loan term (days)	<u>41</u>	<u>48</u>

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

The Group adopted the target appraised loan-to-value ratio of not exceeding 75% for artwork as collateral at the time of the collateral appraisal. For asset as collateral, the Group adopted the target appraised loan-to-value ratios of not exceeding 75%, 90% and 50% for real properties, personal properties and equity interest respectively. The Group's art and asset pawn business was funded by our registered capital and retained earnings. As of 31 December 2017, the Group's impaired loan ratio was 0%.

FINANCIAL REVIEW

Revenue

Our revenue increased by approximately RMB99.6 million, or approximately 56%, from approximately RMB176.9 million for the year ended 31 December 2016 to approximately RMB276.5 million for the year ended 31 December 2017, primarily due to (i) the significant increase in our art and asset auction revenue of approximately RMB55.4 million as a result of our successful holding of the first autumn auction in Hong Kong and four online auctions during the year and (ii) the steady increase in our art and asset pawn revenue of approximately RMB44.2 million. Meanwhile, in April 2017, the registered capital in Hexin Pawn increased from RMB100 million to RMB170 million, which allowed our Group to lend larger loan amounts for each transaction and increased the total funding available for lending.

The respective segment revenue of the Group in 2017 and 2016 was as follows:

	Year ended 31 December		% of change
	2017 RMB'000	2016 RMB'000	
Art and asset auction business	148,024	92,609	60
Art and asset pawn business	128,475	84,273	52
Total	276,499	176,882	56

Business tax and surcharges

Our business tax and surcharges decreased by approximately RMB1.0 million, or approximately 34%, from approximately RMB2.9 million for the year ended 31 December 2016 to approximately RMB1.9 million for the year ended 31 December 2017. This was primarily due to the implementation of the value-added tax in lieu of business tax commencing from 1 May 2016.

Operating expenses

Our operating expenses increased by approximately RMB15.6 million, or approximately 503%, from approximately RMB3.1 million for the year ended 31 December 2016 to approximately RMB18.7 million for the year ended 31 December 2017, primarily due to the holding of the first autumn auction in Hong Kong.

Allowance recognised on loans to customers for art and asset pawn business

For the year ended 31 December 2017, we recognised the collectively assessed impairment allowance of approximately RMB1.7 million as a result of the increase in the gross loan amount outstanding from approximately RMB239.0 million as of 31 December 2016 to RMB326.4 million as of 31 December 2017.

For the year ended 31 December 2016, we recognised the collectively assessed impairment allowance of approximately RMB3.5 million, primarily due to the substantial increase in the gross loan amount outstanding from approximately RMB66.1 million as at 31 December 2015 to approximately RMB239.0 million as at 31 December 2016.

Administrative expenses

Our administrative expenses increased by approximately RMB17.3 million, or approximately 109%, from approximately RMB15.9 million for the year ended 31 December 2016 to approximately RMB33.2 million for the year ended 31 December 2017, primarily due to (i) the increase of approximately RMB2.7 million mainly as a result of professional fee incurred after listing in 2017 and (ii) the increase in general staff cost of approximately RMB11.1 million that was mainly attributable to the salaries as a result of the expansion of operations after listing and the non-cash equity-settled share-based payment expenses of approximately RMB5.0 million relating to share options granted during the Reporting Year.

Other gains and losses

Our other gains and losses decreased by approximately RMB6.6 million from the gains of approximately RMB5.5 million for the year ended 31 December 2016 to the losses of approximately RMB1.1 million for the year ended 31 December 2017, primarily due to the exchange loss arisen from the appreciation of RMB.

Reportable segment profit

As a result of the foregoing, reportable segment profit increased by RMB86.7 million from RMB167.4 million for the year ended 31 December 2016 to RMB254.1 million for the year ended 31 December 2017.

The respective reportable segment profit of the Group in 2017 and 2016 is as follows:

	Year ended 31 December		% of change
	2017 RMB'000	2016 RMB'000	
Art and asset auction business	131,393	89,737	46
Art and asset pawn business	122,754	77,699	58
Segment result	<u>254,147</u>	<u>167,436</u>	<u>52</u>

Listing expenses

Our listing expenses for the year ended 31 December 2016 amounted to RMB24.9 million, which primarily consisted of the service fees we paid to auditors and other professional parties in connection with our preparation for the listing of our shares on the Main Board of the Stock Exchange of Hong Kong Limited.

Profit before tax

As a result of the foregoing, our profit before tax increased by approximately RMB87.7 million, or approximately 66%, from approximately RMB133.6 million for the year ended 31 December 2016 to approximately RMB221.3 million for the year ended 31 December 2017.

Income tax expense

Our income tax expenses increased by approximately RMB20.5 million, or approximately 51%, from approximately RMB40.2 million for the year ended 31 December 2016 to approximately RMB60.7 million for the year ended 31 December 2017, primarily due to an increase in our Group's taxable income.

Profit and total comprehensive income for the year attributable to owners of the Company and non-controlling interests

Primarily due to an increase in our profit for the year, (i) profit and total comprehensive income for the year attributable to owners of the Company increased by approximately RMB70.6 million, or approximately 78%, from approximately RMB89.9 million for the year ended 31 December 2016 to approximately RMB160.5 million for the year ended 31 December 2017, while (ii) no profit and total comprehensive income for the year attributable to non-controlling interests realised.

The changes in our profit and total comprehensive income attributable to non-controlling interests were mainly caused by the increase in the profit generated from our PRC Operating Entities. On 15 April 2016, our Group entered into the two series of agreements (as amended and supplemented by supplemental agreements entered into on 24 October 2016) which constitute the Contractual Arrangements. These Contractual Arrangements effectively transfer the economic benefits and pass the risks associated therewith of our two operating subsidiaries in PRC to our Group. As a result, starting from 15 April 2016, the entirety of our profit and total comprehensive income has become attributable to owners of our Company. Accordingly, no profit and total comprehensive income attributable to non-controlling interests realised for the year ended 31 December 2017.

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 2017, net working capital (calculated as current assets less current liabilities) was RMB712.3 million, representing an increase of RMB95.9 million as compared with RMB616.4 million as of 31 December 2016. The current ratios (calculated as current assets/current liabilities) are 2.5 times and 8.6 times as of 31 December 2017 and 31 December 2016 respectively.

The following table summarises the consolidated statement of cash flows for the two years ended 31 December 2017 and 2016:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Net cash from (used in) operating activities	116,274	(65,873)
Net cash (used in) from investing activities	(2,422)	775
Net cash (used in) from financing activities	(48,022)	230,501

As of 31 December 2017, the Group's total bank balances and cash increased by 14% to RMB527.3 million from RMB463.1 million as of 31 December 2016. As of 31 December 2017, the Group had obligations under finance leases amounting to approximately RMB0.5 million (2016: nil).

During the 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. Except for the bank deposits denominated in foreign currencies, the Group was not subject to any other material risk directly relating to the foreign exchange fluctuation. For the year ended 31 December 2017, despite the appreciation of RMB against USD and HKD, the Directors expected any fluctuation of the RMB exchange rate would not materially and adversely affect the operations of the Group. The management will continue to monitor foreign currency exchange exposure and will take prudent measures to minimize the currency translation risk.

Gearing Ratio

Since our Group did not have any interest-bearing borrowings, gearing ratio was not applicable.

Contingent Liabilities

As of the date of this announcement, 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 and equipment, which amounted to approximately RMB4.4 million and RMBnil for the years ended 31 December 2017 and 2016 respectively.

Capital Commitment

As at 31 December 2017, the Group did not have material capital commitments.

Subsequent Event

No significant events took place subsequent to 31 December 2017.

Human Resources and Training

As of 31 December 2017, the Group had a total of 72 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 2017.

SHARE OPTION SCHEME

The share option scheme (the “**Share Option Scheme**”) was adopted by ordinary resolution passed by the 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 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 at an exercise price of HK\$0.80 per share to eligible grantees (the “**Grantees**”), primarily to provide incentives or rewards to the Grantees. None of the Grantees of the share options is a director, chief executive or substantial shareholder of the Company, or any of their respective associates (as defined under the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). Among the 79,000,000 share options granted, 28,000,000 Share Options has vested on the date of grant, 28,000,000 share options has vested on 2 December 2017 and the remaining 23,000,000 share options will vest on 2 June 2018. Such grant of share options enabled 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. Subject to the terms of the Share Option Scheme, the share options granted are valid for a period of 5 years commencing from the date of grant. 56,000,000 share options were forfeited during the Reporting Year. The fair value of options granted was determined using the binomial option pricing model which amounted to approximately RMB19.4 million and RMB9.8 million was charged to profit or loss account of the Group during the Reporting Year.

Save as disclosed above, no share option was granted, exercised, cancelled or had lapsed under the Share Option Scheme during the Reporting Year. As at 31 December 2017, an aggregate of 23,000,000 share options in the shares of the Company were outstanding.

OUTLOOK AND PROSPECTS

In 2018, China’s economy is expected to remain its stability, while the government will gradually reduce its target total outputs and lay more emphasis on its economic structural adjustment. Under the reform of the supply-side and with the acceleration in bringing down overcapacity, as well as the change of growth momentum, the economy is shifting to domestic growth. Thus, sectors such as high-end manufacturing and consumption upgrade may become the new growth factors in the transforming stage of the Chinese economy. Leveraging on the strong and growing demands for mental consumption resulting from the expansion of the middle class in the Mainland, China’s economy will be further driven to shift from investment-based to consumption-based, and the artwork market will therefore continue to be prosperous. In the future the development of, domestic art financial industry will remain steadily to grow and will keep optimizing its services to satisfy the growing materialized cultural needs of the public.

Auction Business

Firstly, the Group will continue to expand our auction lot composition to include more art categories with strong market demand. Secondly, the Group will establish new branches or subsidiaries. We intend to extend our business network and geographical presence in major cities in China such as Beijing and Shanghai, and to solidify our business in Hong Kong region. Thirdly, the Group will focus more on online auction and other online operations, including optimizing and enhancing the arrangement of synchronised online and offline biddings at each year's Spring Auction and Autumn Auction, and improving the promotion and service of pure online auctions. The Group will also continue to enrich the functions of our official website so as to facilitate our clients with convenient access to our integrated services. Fourthly, the Group will proactively contact and pay visit to clients and strive to negotiate with additional artwork artists to sign artwork production and consignment agreements with us at the same time so as to enhance our strong business relationship and expand the source of artworks for our auctions.

Pawn Loan Business

The Group will increase the registered capital of Hexin Pawn when opportunities arrive so as to enlarge our funding available for lending. Secondly, the Group will focus on growing the loan portfolio. In addition to the continuous emphasis on zisha artworks as well as paintings and calligraphies, the Group plans to diversify strategically the collateral composition to include more art categories with strong market demand. Thirdly, the Group will expand loan offices network, setting up new loan offices in cities with relatively strong local economies so that we may extend client base and deepen market penetration. Lastly, the Group will proactively develop and utilise online platform. We plan to set up an online loan financing platform so that more clients can be aware of and enjoy the Group's pawn loan services.

In addition, the Group will continue to build the one-stop art finance service platform by integrating art pawn loan and art auction businesses, and to further develop our online auction platform and enhance its trading function. The Group will also seek opportunities for mergers and acquisitions of enterprises and IT companies engaged in related businesses, or form an alliance with them to increase the competitiveness of the Company.

CORPORATE REORGANISATION AND LISTING OF SHARES

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 2 November 2015 and became the holding company of the Group on 15 April 2016. Details of the corporate reorganisation are set out in the section headed "History, Reorganization and Corporate Structure" in the Prospectus. The Company's shares (the "Shares") were successfully listed on Main Board of the Stock Exchange on 8 November 2016 (the "Listing Date").

USE OF NET PROCEEDS

On 8 November 2016, 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).

Up to 31 December 2017, RMB70 million has been injected to PRC to increase the registered capital of Hexin Pawn. Approximately RMB3.6 million has been utilised in establishing branch in Hong Kong. Approximately RMB20.6 million has been utilised for general operation expenses. The remaining net proceeds of approximately RMB118.4 million were deposited with certain licensed financial institutions as of 31 December 2017.

FINAL DIVIDEND

Considering the rapid growth of business and the needs for capital together with profitability, the Board has resolved to recommend the payment of a final dividend of HK2.0 cents per share for the year ended 31 December 2017 (2016: HK\$3.0 cents) and no special dividend for the year ended 31 December 2017 (2016: HK\$2.0 cents) to the shareholders whose names appear on the register of members of the Company on 29 May 2018. Subject to the approval by the shareholders of the Company at the forthcoming annual general meeting of the Company (the “**AGM**”), the final dividend is expected to be payable on or about 29 June 2018. The aggregate amount shall be paid out of the Company’s share premium account if the payment of the dividends is approved by the shareholders at the AGM.

CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming AGM is scheduled to be held on 18 May 2018. To ascertain shareholders’ entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 15 May 2018 to Friday, 18 May 2018, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to attend and vote at the AGM, all transfer of shares accompanied by the relevant shares certificates must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong by 4:30 p.m. on Monday, 14 May 2018.

To ascertain the shareholders’ entitlement to the proposed final dividend for the year ended 31 December 2017, the register of members of the Company will be closed from Friday, 25 May 2018 to Tuesday, 29 May 2018, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to the proposed final dividend for the year ended 31 December 2017, all transfer of shares accompanied by the relevant shares certificates must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong by 4:30 p.m. on Thursday, 24 May 2018.

CORPORATE GOVERNANCE

The Board and the management of the Group are committed to the maintenance of good corporate governance practices and procedures. Since the listing of the Company's shares on the Main Board of the Stock Exchange on 8 November 2016, the Company has continued to apply the principles set out in the Corporate Governance Code ("**CG Code**") as set out in Appendix 14 to the Listing Rules. For the year ended 31 December 2017, the Board is of the view that the Company has complied with all code provisions set out in the CG Code.

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 2017 have been reviewed by the Audit Committee.

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

Save for the 400,000,000 Shares issued pursuant to the offering under the IPO, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2017.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles or the laws in Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

COMPLIANCE WITH THE QUALIFICATION REQUIREMENT

With the aim of fulfilling the qualification requirement as mentioned in our Prospectus (the "**Qualification Requirement**"), we have taken steps to implement our plan (the "**QR Plan**") as follows: we are currently operating an overseas website targeting clients and other users from Hong Kong, Taiwan and other countries. In the year of 2018, we plan to enhance the functions of our overseas website as a trading and promotional platform for Chinese artists especially for zisha artists. In the long run, our overseas website will be developed as an internet platform to support the future art auctions held in Hong Kong. Details of the Qualification Requirement are set out in the section headed "Contractual Arrangements" of the Prospectus.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its code of conduct for Directors in their dealings in the Company’s securities. Having made specific enquiry to all the Directors, all the Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code for the year ended 31 December 2017.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

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 2017 as set out in the preliminary announcement have been agreed by the Group’s auditor, Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Deloitte Touche Tohmatsu 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 Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

DISCLOSURE UNDER SECTION 436 OF THE COMPANIES ORDINANCE

The financial information relating to the two years ended 31 December 2017 and 2016 included in this preliminary announcement of the annual results for the year ended 31 December 2017 do not constitute the Company’s statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company will deliver the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance in due course.

The Company’s auditor has reported on the financial statements of the Group for both years. The auditor’s reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Companies Ordinance.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cnartfin.com.hk). The annual report for the year ended 31 December 2017 of the Company contains all the information required by the Listing Rules, which will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

APPRECIATION

On behalf of the Board, I would like to extend my sincere thanks to every shareholder and business partner for their constant support and trust of the Group, and also to every employee for their hard work and contribution to the Group over last year. I look forward to achieving greater success hand in hand with the Group in the coming year.

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

Hong Kong, 22 March 2018

As at the date of this announcement, the Board comprises (1) Mr. Fan Zhijun and Mr. Zhang Bin as the executive Directors and (2) Mr. Leung Shu Sun, Sunny, Mr. Liu Jian and Mr. Chu Xiaoliang as the independent non-executive Directors.