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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)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

Reference is made to the announcement (the “**Announcement**”) of China Art Financial Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) published on 31 August 2023 in relation to the interim results of the Group for the six months ended 30 June 2023. Unless otherwise stated, terms used in this announcement shall have the same meanings as those defined in the Announcement.

This announcement is made to provide supplementary information to the Announcement under the section headed “Management Discussion and Analysis — Business Review” and “Outlook and Prospects” in relation to the business plans and strategies for the Group’s art and asset auction business (the “**Auction Business**”), art and asset pawn business (the “**Pawn Business**”) and art and asset sales business (the “**Art Sales Business**”).

AUCTION BUSINESS

Since the outbreak of the COVID-19 pandemic in 2019, offline auctions have faced restrictions due to government policies, leading to a significant decline in transaction volumes and scale, especially in mainland China. In contrast, online auction turnover has seen a rapid increase. Since 2020, the company has achieved favorable results in expanding its asset auction business.

To align with the prevailing trends in the auction market, the Company is intensifying its market promotion efforts both regionally and across multiple channels. There is a plan to organize an online auction in November in 2023, and the Company is currently in the process of collecting artworks for the event.

The Group intends to hold at least 1 auction in 2024, and the total estimated value of the artwork for sale at the auction is approximately RMB20 million. Based on historical record and considering the recent market condition, it is expected that the sales amount will be not less than RMB10 million, and the commission to be received by the Group will be calculated based on 15% of the sales amount in general. After deducting the fees for the online auction platform, promotion fees, art and asset storage fees, operating and administrative expenses, finance costs, etc., the profit from Auction Business (before tax) will be approximately RMB1.15 million for the year of 2024.

PAWN BUSINESS

Between 2022 and 2023, interest rates in the U.S. and European capital markets are on an upward path. The current US dollar federal funds rate has risen from 0.08% in 2022 to 5.5%. On the contrary, the capital market interest rates in mainland China are on a downward path. The current LPR one-year loan market interest rate has dropped from 3.7% in 2022 to 3.45%.

As to the current status of the Pawn Business, the pawnshop interest rates have consistently remained between 12% to 18%, with durations of less than 6 months. Comprehensive charges are collected upfront. This standardized approach has been a subject of discussion in the market since the beginning of 2022. The Group's client managers have faced increasing difficulties in acquiring new customers through marketing efforts as time has passed. After entering 2023, this situation has become even more critical. Alongside the challenges in expanding the Group's customer base, the Group is also facing unprecedented difficulties in retaining existing customers, with an accelerating rate of customer attrition.

In response to the current situation, the Company's management proposed adjustments to the business strategy. These adjustments include reducing the loan interest rates to 7% to 10%, extending the lending period to a maximum of 12 months, and changing from upfront charges to charges collected afterward. Simultaneously, there will be an increase in the intensity and scope of market promotion, with the expectation that the marketing strategy will align better with the market and be more in tune with current trends. The management's proposal received support and approval from the board of the Company. Regarding the application to open branches in other locations, the Group shall continue to push forward as usual. However, if the Group's marketing strategy shows significant results but the pre-approval for opening branches in other locations is delayed, the Group may consider abandoning the opening branches in those areas.

It is expected that the Group will generate interest revenue of approximately RMB16 million from the Pawn Business in 2023. The assumptions and inputs used by the management in preparing the profit forecast as at 31 December 2023 in relation to the Pawn Business are as follows:

- (i) As at the end of September 2023, the Group recorded pawn loans to customers in the amount of approximately RMB138.5 million (unaudited), and the interest revenue accrued amounted to approximately RMB9.9 million (unaudited).

- (ii) The Group has regular contact with existing customers to communicate the arrangement after their pawn loans are due. It also receives enquiries from existing customers from time to time regarding intended pawn loans further required by such customers. As per such communication record, around 16 customers already showed their intention to use the Group's pawn loan service in the fourth quarter of 2023 or 2024. It is expected that the pawn loans to customers will increase by approximately RMB70 million, RMB80 million and RMB90 million in October, November and December 2023, respectively, and hence it is expected that interest revenue in the amount of approximately RMB1.415 million, RMB2.018 million and RMB3.018 million will be accrued in October, November and December 2023, respectively. The aggregate interest revenue for the year of 2023 will then be approximately RMB16.35 million.
- (iii) Such forecast is made based on the assumptions that (i) there will be no early termination to the existing pawn loans, (ii) there will be no default on the repayment of the pawn loans which are due in the fourth quarter of 2023, (iii) the customers who communicated to the Group as to their potential demand for pawn loan service will use the Group's pawn service as per such communication, and (iv) there will be no material adverse change to the financial condition of the Group.

After taking into account the estimated increase of pawn loans to customers as per the aforesaid communication record and deducting the matured pawn loans, the total pawn loan amount as at the end of 2023 and 2024 is expected to be approximately RMB357.50 million and RMB445 million, respectively. After deducting promotion fees, art and asset storage fees, operating and administrative expenses, finance costs, etc., it is expected that the profit from the Pawn Business (before tax) will be approximately RMB15 million for the year of 2024.

ART SALES BUSINESS

Relying on the resources of Jiangsu Hexin Auction Co., Ltd. (the “**Auction Company**”), the Group will increase the Art Sales Business and change the single business structure of the Auction Company. The funds will come from its internal funds. It is expected to complete sales of approximately RMB50 million throughout the year of 2023 and increase operating profits by approximately RMB8 million. In August 2023, over HKD6 million of art have been sold. Further details of the art sales business are as follows:

Business objective, strategy and plan

Pursuant to the Group's business plan, it is intended that art sales business shall be developed in 2023, with a target sales revenue of RMB50 million and target profit of RMB8 million for the year of 2023. The Group's strategy is to identify and locate potential buyers for artwork from the customers of its Pawn Business and Auction Business 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 sales business.

Business model

The Group has extensive business in the art industry, and has a wide customer base from the Pawn Business and Auction Business in the past ten-odd years. At present, the Group intends to source and purchase purple clayware and calligraphy and painting artworks 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 assist such customers to look for and purchase artworks which they are interested from renowned vendors or collectors in the market.

Management expertise and scale of staff or manpower

Since the existing staff has solid experience in art auction and pawn business already, the Group expects that it would not be necessary to recruit substantial amount of employees for the art sales business. Having said that, the Group intends to engage external professional expert to provide art sales training to its existing staff and to enhance its art authentication standard.

Size and diversity of customer base and source of supply

From the customers of the Pawn Business and Auction Business accrued in the past ten-odd years, as well as collectors with whom the Group has close communication in the course of the Pawn Business and Auction Business, the Group has identified approximately 100 potential customers. The Group would continue to enhance its marketing and promotion to expand both its customer and supplier base.

Role of and relationship with key business stakeholders

Customers of the art sales business are all independent customers in the markets, and no connected transaction is identified with any key business stakeholders at the present stage.

Infrastructure and other functions in support of the operations

The Group intends to provide additional warehouses and security service incidental to the art sales business. The Group will also provide one-stop service to the art sales customers, including custodian services, priority authentication services, and art financing services. It is intended that the Group would inject approximately RMB1 million from its idle cash for these infrastructure and services.

It is expected that the Group will generate sales revenue of approximately RMB47 million from the Art Sales Business in 2023. The assumptions and inputs used by the management in preparing the profit forecast as at 31 December 2023 in relation to the Art Sales Business are as follows:

- (i) As at the end of September 2023, the Group recorded revenue from the Art Sales Business in the amount of approximately RMB8.85 million (unaudited).

- (ii) The Group have already entered into 6 separate sale and purchase contracts with individual customers. The aggregate sales amount will be RMB105 million, and the contracts shall be effective up to various dates in 2024, with the earliest expiry date falling on 30 June 2024. Based on the performance progress of such contracts, it is expected that sales revenue in the amount of approximately RMB10.60 million, RMB12.80 million and RMB15.50 million will be accrued in October, November and December 2023, respectively. The aggregate sales revenue for the year of 2023 will then be approximately RMB47.75 million.
- (iii) Such forecast is made based on the assumptions that (i) there will be no early termination to the said sales and purchase contracts, and (ii) the parties will fully perform such sales and purchase contracts without any modification.

Save as disclosed above, all information and content contained in the Announcement remain unchanged.

By Order of the Board
CHINA ART FINANCIAL HOLDINGS LIMITED
Fan ZhiXin
Executive Director

Hong Kong, 16 October 2023

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