ART GROUP HOLDINGS LIMITED
錦 藝 集 團 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 565)

2017 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the "Board") of Art Group Holdings Limited (the "Company") is pleased to announce the audited consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 30 June 2017 together with the comparative figures in 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

		2017	2016
	NOTES	***HK$'000***	*HK$'000*
Continuing operations			
Turnover	*3*	**185,442**	140,033
Cost of sales		**(59,671)**	(48,881)
Gross profit		**125,771**	91,152
Other income	*4*	**12,499**	14,307
Administrative expense		**(26,755)**	(19,970)
Other expenses		**(444)**	(878)
Change in fair values of investment properties		**76,084**	268,095
Finance costs	*5*	**(40,451)**	(57,876)

	NOTES	2017 HK$'000	2016 HK$'000
Profit before tax		**146,704**	294,830
Income tax expense	*6*	**(20,141)**	(79,112)
Profit for the year from continuing operations	*7*	**126,563**	215,718
Discontinued operations			
Profit for the year from discontinued operations (net of tax)		**–**	284,769
Profit for the year	*7*	**126,563**	500,487
Other comprehensive loss:			
Reclassification adjustments relating to exchange difference upon disposal of interests in subsidiaries		**–**	(174,666)
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation		**(51,989)**	(98,140)
Other comprehensive loss for the year (net of tax)		**(51,989)**	(272,806)
Total comprehensive income for the year		**74,574**	227,681
Profit for the year attributable to:			
Owners of the Company			
– continuing operations		**91,094**	156,506
– discontinued operations		**–**	284,769
		91,094	441,275
Non-controlling interests			
– continuing operations		**35,469**	59,212
– discontinued operations		**–**	–
		126,563	500,487
Total comprehensive income for the year attributable to:			
Owners of the Company		**49,119**	183,103
Non-controlling interests		**25,455**	44,578
		74,574	227,681

	NOTES	2017 HK$'000	2016 HK$'000
EARNINGS PER SHARE			*(Note)*
From continuing and discontinued operations			
Basic *(HK cents per share)*	*9*	**3.40**	16.60
Diluted *(HK cents per share)*	*9*	**3.39**	16.54
From continuing operations			
Basic *(HK cents per share)*	*9*	**3.40**	5.89
Diluted *(HK cents per share)*	*9*	**3.39**	5.87

Note: Adjusted for the effect of the bonus issue on 28 November 2016.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2017

	NOTES	**2017** **HK$'000**	2016 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**7,478**	7,345
Investment properties		**2,994,253**	3,016,666
Goodwill		**63,549**	63,549
		3,065,280	3,087,560
CURRENT ASSETS			
Trade and other receivables	*10*	**25,892**	27,169
Bank balances and cash		**30,459**	62,338
		56,351	89,507
CURRENT LIABILITIES			
Trade and other payables	*11*	**358,177**	107,049
Tax liabilities		**8,281**	7,568
Secured bank and other borrowings		**70,115**	367,262
		436,573	481,879
NET CURRENT LIABILITIES		**(380,222)**	(392,372)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,685,058**	2,695,188

	NOTES	2017 HK$'000	2016 HK$'000
CAPITAL AND RESERVES			
Share capital		**26,850**	13,321
Share premium and reserves		**1,297,884**	1,258,852
Equity attributable to owners of the Company		**1,324,734**	1,272,173
Non-controlling interests		**315,877**	290,422
Total equity		**1,640,611**	1,562,595
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**436,497**	431,253
Secured bank and other borrowings		**582,759**	676,191
Bonds		**25,191**	25,149
		1,044,447	1,132,593
		2,685,058	2,695,188

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate and ultimate holding company is Fully Chain Limited, a private company incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Chen Jinyan. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HKD") and the functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in HKD for the convenience of the shareholders because the Company's shares are listed in Hong Kong.

The Company is an investment holding company. Its subsidiaries are principally engaged in property operating business.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS(s)") issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain investment properties that are measured at fair values at the end of each reporting period as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of the Hong Kong Accounting Standard ("HKAS") 17, and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

– Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

– Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

– Level 3 inputs are unobservable inputs for the asset or liability.

3. TURNOVER AND SEGMENT INFORMATION

Turnover represents the lease payments received and receivable in the normal course of business, net of related taxes for the year. The Group is engaged in the property operating during the year.

Information reported to the Board of the Company, being the chief operating decision maker, for the purpose of resources allocation and assessment of segment performance focuses on types of goods or services delivered or provided. Therefore, the chief operating decision maker only considers the Group's business from a product perspective, rather than from a geographic perspective. From a product perspective, management assesses the performance from property operating for the year ended 30 June 2017 while management assesses the performance from textile products which includes dyeing process of grey fabrics, and from property operating for the year ended 30 June 2016.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 2. Segment result represents the profit or loss from each segment without allocation of income tax expense and central administration costs.

One single tenant contributed to 10 per cent or more of the Group's turnover for the year ended 30 June 2017. The total amount of turnover from this tenant was HK$29,209,000 (2016: HK$25,719,000).

Turnover from major business services:

	2017	2016
	HK$'000	*HK$'000*
Continuing operations:		
Rental income from leasing of properties	**185,442**	140,033
Discontinued operations		
Subcontracting income	**–**	24,127
	185,442	164,160

The chief operating decision maker assesses the performance of the operating segments based on sales and net profit.

	Continuing operations Property operating	**Discontinued operations Textile products**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Year ended 30 June 2017			
Turnover	**185,442**	**–**	**185,442**
Segment results	**160,644**	**–**	**160,644**
Income tax expense			**(20,141)**
Central administration costs			**(13,940)**
Profit for the year			**126,563**
Depreciation	**2,091**	**–**	**2,091**

	Continuing operations Property operating *HK$'000*	Discontinued operations Textile products *HK$'000*	Total *HK$'000*
Year ended 30 June 2016			
Turnover	140,033	24,127	164,160
Segment results	343,373	(19,225)	324,148
Gain on disposal of subsidiaries			319,277
Income tax expense			(79,112)
Central administration costs			(63,826)
Profit for the year			500,487
Depreciation	1,321	7,501	8,822

No geographical market analysis is provided as the Group's turnover and contribution to segment results were substantially derived from the tenants and customers in the People's Republic of China (the "PRC") and the assets are substantially located in the PRC.

4. OTHER INCOME

	2017	2016
	HK$'000	*HK$'000*
Continuing operations:		
Bank interest income	**79**	109
Car parking income	**5,870**	4,448
Service income	**6,058**	4,557
Reversal of overprovision of other payables	**–**	1,806
Exchange gain	**487**	88
Others	**5**	3,299
	12,499	14,307
Discontinued operations		
Bank interest income	**–**	152
Others	**–**	122
	–	274
	12,499	14,581

5. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Continuing operations:		
Interest on		
– Bank and other borrowings wholly repayable within five years	**4,980**	15,766
– Bank and other borrowings wholly repayable over five years	**33,402**	40,044
– Bonds	**2,069**	2,066
	40,451	57,876
Discontinued operations		
Interest on		
– Bank and other borrowings wholly repayable within five years	**–**	1,540
	40,451	59,416

6. INCOME TAX EXPENSE

	2017	2016
	HK$'000	*HK$'000*
Continuing operations		
Income tax recognised in profit and loss		
PRC Enterprise Income Tax ("EIT")		
– Current income tax	**26**	8,577
Deferred tax	**20,115**	70,535
	20,141	79,112
Discontinued operations		
Income tax recognised in profit and loss		
PRC EIT		
– Current income tax	**–**	–

Hong Kong Profits Tax was calculated at 16.5% (2016: 16.5%) of the estimated assessable profit for the financial year. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group did not generate any assessable profits arising in Hong Kong for both years.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries was 25%.

No deferred tax (2016: Nil) has been provided for in the consolidated financial statements in respect of the undistributed profits earned by the Company's PRC subsidiaries attributable to the Group under the EIT Law that are subject to withholding tax upon the distribution of such profits to the shareholders outside the PRC.

7. PROFIT FOR THE YEAR

	2017	2016
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging/(crediting):		
Continuing operations		
Staff costs		
– directors' emoluments	**3,976**	3,848
– other staff's salaries and other benefits	**11,914**	8,156
– other staff's retirement benefit scheme contributions	**1,681**	1,420
	17,571	13,424
Auditor's remuneration	**990**	900
Bad debt written off	**444**	–
Depreciation of property, plant and equipment	**2,100**	1,324
Exchange (gain)/loss, net	**(487)**	562

	2017	2016
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Discontinued operations		
Staff costs		
– other staff's salaries and other benefits	**–**	7,411
– other staff's retirement benefit scheme contributions	**–**	1,280
	–	8,691
Depreciation of property, plant and equipment	**–**	7,501
Exchange loss, net	**–**	14,551
Release of prepaid lease payments	**–**	234
Research and development costs	**–**	127

8. DIVIDENDS PAID

No dividend was paid or proposed for the year ended 30 June 2017 nor has any dividend been proposed since the end of the reporting period (2016: Nil).

9. EARNINGS PER SHARE

	2017	2016
	HK$'000	*HK$'000*
EARNINGS PER SHARE		
Basic *(HK cents per share)*		
– continuing operations	**3.40**	5.89
– discontinued operations	**–**	10.71
	3.40	16.60
Diluted *(HK cents per share)*		
– continuing operations	**3.39**	5.87
– discontinued operations	**–**	10.67
	3.39	16.54

The calculation of the basic and diluted earnings per share attributable to the owners of the Company was based on the following data:

	2017	2016
	HK$'000	*HK$'000*
Earnings		
Profit for the year used in calculation of basic and diluted earnings per share from discontinued operations	**–**	284,769
Profit for the year used in the calculation of basic and diluted earnings per share from continuing operations	**91,094**	156,506
Profit for the year attributable to the owners of the Company and earnings for the purposes of basic and diluted earnings per share	**91,094**	441,275

	2017	2016
	'000	*'000*
		(Note)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,681,682**	2,657,682
Effect of dilutive potential ordinary shares in respect of share options issued by the Company	**5,961**	10,158
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,687,643**	2,667,840

Note: Adjusted for the effect of the bonus issue on 28 November 2016.

10. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**9,811**	10,303
Prepayment and other receivables	**16,081**	16,866
	25,892	27,169

At 30 June 2017, all trade receivables of the Group were in the functional currency of the relevant group entities.

There are no specific credit terms given to the tenants. Monthly rentals in respect of retail properties are payable in advance by tenants in accordance with the leases. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented at the end of the reporting period, which approximated the respective revenue recognition dates:

	2017	2016
	HK$'000	*HK$'000*
0 – 90 days	**9,690**	9,350
Over 90 days	**121**	953
Trade receivables	**9,811**	10,303

Before accepting any new tenants, the Group assesses the potential tenants' credit quality. 99% (2016: 91%) of the trade receivables that are neither past due nor impaired have good credit rating under internal credit assessment adopted by the Group.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of HK$121,000 (2016: HK$953,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables was between 0 to 90 days (2016: 0 to 90 days) for the year ended 30 June 2017.

Ageing of trade receivables which are past due but not impaired

	2017	2016
	HK$'000	*HK$'000*
1 – 60 days	**–**	–
61 – 90 days	**–**	–
Over 90 days	**121**	953
Total	**121**	953

No impairment loss was provided by the Group for the year ended 30 June 2017 (2016: Nil). The Group does not hold any collateral over these balances.

Movement in the allowance for doubtful debts:

	2017	2016
	HK$'000	*HK$'000*
Balance at beginning of the year	**–**	884
Disposal of subsidiaries	**–**	(53)
Bad debts written off	**–**	(782)
Exchange realignment	**–**	(49)
Balance at end of the year	**–**	–

11. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Receipts in advance	**26,293**	20,462
Deposits received from tenants	**25,151**	21,832
Amount due to substantial shareholder *(Note)*	**293,852**	52,365
Accrued charges and other payables	**12,881**	12,390
	358,177	107,049

Note: The amount is a loan provided by a substantial shareholder to repay part of other borrowings at a high interest rate. The amount is unsecured, interest free and has no fixed term of repayment.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL AND FINANCIAL REVIEW

Continuing Operations

The Group was engaged in the property operating segment during the current year through holding 75% equity interests in 鄭州佳潮物業服務有限公司 (Zhengzhou Jiachao Property Services Company Limited) ("Jiachao") by the Company's indirect wholly-owned subsidiary registered in the PRC. The major asset of Jiachao is a shopping mall situated in Zhengzhou City, Henan Province, the PRC (the "Jiachao's Shopping Mall"). The Group owns the Jiachao's Shopping Mall and generates revenue from the monthly incomes of rental, management and operating services payable by various tenants under the respective tenancy agreements with a term ranging from one year to 17 years. The Jiachao's Shopping Mall is a one-stop shopping paradise with approximately 160 tenants that offer a wide range of services and goods including shopping, dining and entertainment, such as a renowned department store, a cinema, KTV, jewelries, beauty shops, electrical appliances shops, international labels for fashion, lifestyle, casual wear/sport, kid's paradise and restaurants. All shop units in the Jiachao's Shopping Mall were rented out as at 30 June 2017.

Furthermore, the Group aimed to diversify its operations into different areas of the property operating segment in order to explore future prospects and develop relevant markets. Therefore, the Board acquired the entire equity interests in 鄭州佳聰物業服務有限公司 (Zhengzhou Jiacong Property Services Company Limited) ("Jiacong") by an indirect wholly-owned PRC subsidiary of the Company in October 2015. The major asset held by Jiacong is 164 shops in a giant theme shopping mall (the "Jiacong's Shops") situated in Zhengzhou City, Henan Province, the PRC. As at 30 June 2017, all of the Jiacong's Shops had been rented out for a term of more than four years.

In addition, Jiachao leased from a real estate developer shop units in a shopping mall (the "Zone C Shopping Mall") for a term of more than two years. The Zone C Shopping Mall is a shopping mall located adjacent to the Jiachao's Shopping Mall. Jiachao promoted and further rented out the Zone C Shopping Mall to independent tenants. Jiachao has an advantage of having an existing team of caliber and experienced management and staff to run the Zone C Shopping Mall. As such, the extra costs for running the Zone C Shopping Mall is minimal to Jiachao while it is earning considerable amount of rental income from renting out the Zone C Shopping Mall to target tenants. The Board believes that the larger the area for shopping, the more the number of similar types of shops opened, which may in turn attract more customers by offering them a large diversity of and well-known brand choices. The management of both the Jiachao's Shopping Mall and the Zone C Shopping Mall by Jiachao will bring positive benefits and synergy effects on the customer flow and the tenant grade to the Group, which eventually contributes to turnover and profit margin of the property operating business of the Group. All the commercial space of the Zone C Shopping Mall had been leased out as retail shops, restaurants and/or for entertainment and leisure use which offers a wide range of services and goods with over 140 tenants including a cinema, an aquarium, beauty shops, international labels for fashion, fitness, lifestyle, casual wear/sport, kid's paradise and restaurants.

Turnover

For the financial year ended 30 June 2017, the Group recorded a turnover of approximately HK$185,442,000 (2016: HK$140,033,000), approximately 32.4% more than that in 2016. Since the Group holds the Jiachao's Shopping Mall and the Jiacong's Shops as investment properties during the current year, turnover of the property operating segment included the monthly incomes of rental, management and operating services received and receivable from the tenants. Turnover of the property operating segment also included the incomes generated from renting out the Zone C Shopping Mall to target tenants. Increase in turnover during the current year was due to the increase in number of tenants in the Zone C Shopping Mall, as well as the receipt of incomes of the Jiacong's Shops after the end of rent-free period offered to tenants at the beginning of 2016.

Gross Profit

The gross profit margin was approximately 67.8% for the year ended 30 June 2017 (2016: 65.1%). High gross profit margin of the property operating segment was due to its simple costs of sales based on the business nature, such as electricity and heat supply charges, public security and hygiene expenses, repair and maintenance fees etc. Gross profit margin of both years was maintained at similar level.

Profit for the Year

The Group's profit generated from the property operating segment for the year ended 30 June 2017 was approximately HK$126,563,000 (2016: HK$215,718,000). The profit margin was 68.3% for the current year (2016: 154.0%). Notwithstanding (1) an increase in number of tenants in the Zone C Shopping Mall, (2) the receipt of incomes of the Jiacong's Shops after the end of rent-free period offered to tenants at the beginning of 2016 and (3) a decrease in finance costs as a consequence of the repayment of a borrowing with high interest rate, a decrease in the profit for the current year was due to a decrease in revaluation gain arisen from the valuation of two investment properties, the Jiachao's Shopping Mall and the Jiacong's Shops, which both maintained at stable fair values as at 30 June 2017 when compared with that as at 30 June 2016. As such, the profit margin was also decreased.

Other Income

Other income for the year ended 30 June 2017 was approximately HK$12,499,000 (2016: HK$14,307,000), which was other kinds of incomes earned by Jiachao, such as car parking fees and other services provided to tenants. Decrease in other income was due to no reversal of overprovision of other payables as last year noted in the current year.

Expenses

Administrative expenses amounted to approximately HK$26,755,000 (2016: HK$19,970,000), representing approximately 14.4% (2016: 14.3%) of turnover for the year ended 30 June 2017. Administrative expenses increased by approximately 34.0% when compared with that of 2016 because of the increase in number of tenants in the Zone C Shopping Mall and full-period operation of the Jiacong's Shops, as well as professional fees incurred for bonus issue and change of the Company's name during the current year.

Other expenses amounted to approximately HK$444,000 (2016: HK$878,000), representing approximately 0.2% (2016: 0.6%) of turnover for the year ended 30 June 2017. The decrease was due to material devaluation of RMB implemented by the PRC government during the six months ended 31 December 2015 while there was no significant devaluation happened during the current year.

Finance costs amounted to approximately HK$40,451,000 (2016: HK$57,876,000), representing approximately 21.8% (2016: 41.3%) of turnover for the year ended 30 June 2017. The decrease was due to the repayment of a borrowing with high interest rate during the current year.

The carrying value of the Group's investment properties as at 30 June 2017 of approximately HK$2,994,253,000 (2016: HK$3,016,666,000) was stated at fair value based on an independent valuation as at that date. The devaluation of RMB during the current year caused a decrease to the carrying value of the Group's investment properties, but this was offset by a revaluation gain of HK$76,084,000 (2016: HK$268,095,000). This revaluation gain mainly reflected the continuous rental growth of the investment properties. The attributable net revaluation gain of HK$42,797,000 (2016: HK$150,803,000), after deducting related deferred tax and non-controlling interests, was credited to the consolidated income statement.

Dividend

The Board does not recommend the payment of a final dividend for the year ended 30 June 2017 (2016: Nil).

Discontinued Operations

The Group was engaged in the dyeing process of grey fabrics provided by its long-term relationship customers and new customers in the PRC during the period from July 2015 to December 2015 with an aim to reduce production cost and strike for better financial performance. The Board decided to dispose of a number of subsidiaries that principally engaged in the dyeing process of grey fabrics (the "Disposal Group"), i.e. the textile products segment, and entered into a sale and purchase agreement on 28 August 2015 with an independent third party so as to mitigate its financial burden and negative impact and allocate its resources on the property operating segment for its long-term advantage. The completion of this disposal took place on 31 December 2015. For further details of the disposal, please refer to the announcement of the Company dated 28 October 2015 and the circular of the Company dated 8 December 2015.

There was neither turnover nor gross profit from the Disposal Group during the current year (2016: turnover of HK$24,127,000 and a profit for the year of HK$284,769,000) and no expense was incurred during the current year as the disposal of the Disposal Group was completed on 31 December 2015. For further information, please refer to note 32 to the consolidated financial statements of the Group in the Company's 2017 annual report.

FUTURE PLANS AND PROSPECTS

In view of achieving the best interests of the Company and its shareholders as a whole, the Group has been putting effort in enlarging its operations of property operating business. Substantial resources have been placed into property operating business to explore future prospects and develop the relevant markets, with a view to enhance the Company's development and to maximise the shareholders' return. By doing this, the Group is principally engaged in property operating business and owns two properties, namely the Jiachao's Shopping Mall and the Jiacong's Shops. Both properties are situated in Zhengzhou City, Henan Province, the PRC and were acquired in 2015 for rental purpose.

The Group's long-term plans are to upgrade its tenants of the Jiachao's Shopping Mall by offering tenancies to more popular brands and will continue to diversify the types of tenants to meet the needs and interests of customers from different ages and backgrounds. To achieve these aims, the Group conducts large scale marketing and promotion activities so that a stable and constant stream of rental income and fairly rigid cash flow can be continuously generated to the Group. The Jiacong's Shops are in the giant theme shopping mall selling textile materials, accessories and products. The extensive knowledge, experience and network of the directors of the Company in the textile business enables the Group to grasp decisive opportunities in the promotion of renting these shops; hence, more suitable and profitable textile business operators are identified as target tenants of the Jiacong's Shops.

Apart from investing into the Jiachao's Shopping Mall and the Jiacong's Shops, the Group provides rental, management and operating services by leasing the Zone C Shopping Mall from its real estate developer in order to expand the source of income. Subsequent to the end of the reporting period, an indirect wholly-owned PRC subsidiary of the Company leased a shopping mall ("Longwu Shopping Mall") located in the countryside of Zhengzhou City, Longwu Town, for a term of 10 years. Longwu Shopping Mall is still under construction and expected to be completed in the mid of 2018, which is the commencement date of the lease. Longwu Shopping Mall is targeted to lease out as retail shops, restaurants and/or for entertainment and leisure use which offers a wide range of services and goods including an aquarium, fashion, lifestyle, premium supermarket and food and beverages restaurants. More caliber and experienced management and staff will be recruited to operate Longwu Shopping Mall. Since Longwu Shopping Mall will be the largest commercial complex in that area after its erection with comprehensive and coherent facilities, such as government bodies, educational institutions and hospitals, the population is expected to surge as a result of the development of residencies nearby in next few years. Besides, the travelling time from Longwu Shopping Mall to either Zhengzhou City or Xinzheng International Airport is approximately 30 minutes, which accelerates the growth of the whole district.

By leveraging on the Group's current strategic plan and established strengths, experience and foresight, the Group continues to seize opportunities to penetrate into property operating markets, explore other new market potential and increase profit margin. Moreover, the Group intends to manage and operate the property operating segment by the current caliber management and competent employees of its subsidiaries. Simultaneously, the Group continues to implement conservative and stringent cost control policies in order to maintain sufficient working capital by imposing control over operating costs and capital expenditures and strengthening accounts receivable management.

Looking forward, the Group continues to place additional resources to realise growth momentum from the development of property operating markets. The Jiachao's Shopping Mall and the Jiacong's Shops acquired by the Group are situated in Zhengzhou City, the centre and one of the Regional Central Cities of the PRC, and with good economic and demographic fundamentals, which enables the Group to diversify its business operations into property operating market in depth. The business growth of the Group is expected to accelerate and accordingly, the positive outcome will be gradually reflected in the future with full recovery of the worldwide economy. By continually diversifying the Group's business, the market value of the Company and the return to its shareholders will be maximised in long-term.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, the Group had net current liabilities and total assets less current liabilities of approximately HK$380,222,000 (2016: HK$392,372,000) and HK$2,685,058,000 (2016: HK$2,695,188,000), respectively. The Group had maintained its financial position by financing its operations with internally generated resources, bonds and loans. As at 30 June 2017, the Group had cash and bank deposits of approximately HK$30,459,000 (2016: HK$62,338,000). The current ratio of the Group was approximately 12.9% (2016: 18.6%).

Total equity of the Group as at 30 June 2017 was approximately HK$1,640,611,000 (2016: HK$1,562,595,000). As at 30 June 2017, the total borrowings of the Group, repayable from within 12 months to eight years from the end of the reporting period, denominated in RMB568,000,000 were equivalent to approximately HK$652,874,000 (2016: HK$1,043,453,000) and three bonds measured at amortised cost was HK$25,191,000 (2016: HK$25,149,000). As at 30 June 2017, the gross debt gearing ratio (i.e. total borrowings and bonds/shareholders' fund) was approximately 41.3% (2016: 68.4%).

The Group has maintained and will continue to maintain a reasonable amount of working capital on hand in order to meet its financial position, and sufficient resources are expected to be generated from its business operations and the financial support from a substantial shareholder of the Company in meeting its short-term and long-term obligations.

FINANCING

As at 30 June 2017, the total borrowing facilities of the Group amounted to approximately HK$652,874,000 (2016: HK$1,043,453,000), of which, all facilities (2016: all facilities) was utilised. In addition, three bonds (2016: three bonds) amounted to approximately HK$25,191,000 in aggregate (2016: HK$25,149,000), measured at amortised cost, was arranged with three independent third parties.

The Board believes that the existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable term.

CAPITAL STRUCTURE

As at 30 June 2017, the share capital of the Company comprises ordinary shares only.

On the capital structure of the Company, the authorised share capital of the Company was increased from HK$20,000,000 divided into 2,000,000,000 shares to HK$50,000,000 divided into 5,000,000,000 shares by creation of an addition of 3,000,000,000 shares of HK$0.01 par value each in the capital of the Company during the current year.

During the current year, the Company completed a bonus issue. As a result, a total number of 1,342,502,580 new shares were issued and allotted. Details of which are set out in note 25 to the consolidated financial statements of the Group in the Company's 2017 annual report, the circular of the Company dated 1 November 2016, and the announcements of the Company dated 16 November 2016 and 28 November 2016, respectively.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

During the current year, the Group was not subject to any significant exposure to foreign exchange rates risk as the majority of its transactions were denominated in RMB. Hence, no financial instrument for hedging was employed.

The Board monitors interest rate change exposure and may consider a hedging policy should the need arise.

CHARGE ON GROUP'S ASSETS

As at 30 June 2017, certain investment properties of the Group with aggregate carrying values of approximately HK$1,196,738,000 (2016: HK$1,203,282,000) were pledged to a bank to secure banking facilities granted to the Group.

CAPITAL EXPENDITURE

During the year ended 30 June 2017, the Group invested approximately HK$2,486,000 (2016: HK$11,663,000) in property, plant and equipment; all was used for purchase of furniture, fixtures, office equipment, motor vehicles and leasehold improvements.

As at 30 June 2017, the Group had capital commitments of approximately HK$377,000 (2016: Nil) in property, plant and equipment.

STAFF POLICY

The Group had 161 employees altogether in the PRC and Hong Kong as at 30 June 2017. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. Moreover, the Group and its employees in the PRC are required to make respective contribution to fund the endowment insurance, unemployment insurance, medical insurance, employees' compensation insurance and birth insurance (for employers only) at the rates specified in the relevant PRC laws and regulations. The Group has adopted a provident fund scheme as required under the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong) for its employees in Hong Kong.

The Group also provides periodic internal training to its employees.

Four independent non-executive directors are appointed by the Company for a term of one year commencing from 11 April, 19 September, 15 October and 1 December respectively each year.

CONTINGENT LIABILITIES

At the end of the reporting period, the Group and the Company did not have any significant contingent liabilities.

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

During the year ended 30 June 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The audit committee of the Company comprises four independent non-executive directors of the Company. The principal duties of the audit committee include the review of the Group's financial reporting procedures, risk management and internal control and financial results. The audit committee has reviewed with the management and the external auditor the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters including the review of the consolidated financial statements and annual results of the Group for the year ended 30 June 2017.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the year ended 30 June 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS (THE "MODEL CODE")

The Group has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. All directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 30 June 2017.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at http://artgroup.etnet.com.hk. An annual report for the year ended 30 June 2017 will be dispatched to the shareholders of the Company and available on the above websites in due course.

By order of the board
Art Group Holdings Limited
Chen Jinyan
Chairman

Hong Kong, 29 September 2017

As at the date of this announcement, the executive directors of the Company are Mr. Chen Jinyan, Mr. Chen Jindong and Mr. Chen Jinqing; and the independent non-executive directors of the Company are Mr. Kwan Chi Fai, Mr. Lin Ye, Mr. Yang Zeqiang and Ms. Chong Sze Pui Joanne.