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)

2018 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 2018 together with the comparative figures in 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

		2018	2017
	NOTES	***HK$'000***	*HK$'000*
Turnover	*3*	**199,219**	185,442
Cost of sales		**(61,080)**	(59,671)
Gross profit		**138,139**	125,771
Other income	*4*	**13,481**	12,499
Administrative expenses		**(26,971)**	(26,755)
Share-based payment expenses		**(54,022)**	–
Other expenses		**(792)**	(444)
Change in fair values of investment properties		**107,143**	76,084
Gain on disposal of subsidiaries		**1,697**	–
Finance costs	*5*	**(32,693)**	(40,451)

	NOTES	2018 HK$'000	2017 HK$'000
Profit before tax		**145,982**	146,704
Income tax expense	*6*	**(33,787)**	(20,141)
Profit for the year	*7*	**112,195**	126,563
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation		**57,007**	(51,989)
Other comprehensive income/(loss) for the year (net of tax)		**57,007**	(51,989)
Total comprehensive income for the year		**169,202**	74,574
Profit for the year attributable to:			
Owners of the Company		**67,599**	91,094
Non-controlling interests		**44,596**	35,469
		112,195	126,563
Total comprehensive income for the year attributable to:			
Owners of the Company		**113,325**	49,119
Non-controlling interests		**55,877**	25,455
		169,202	74,574
EARNINGS PER SHARE	*9*		
Basic *(HK cents per share)*		**2.52**	3.40
Diluted *(HK cents per share)*		**2.51**	3.39

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2018

	NOTES	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**6,757**	7,478
Investment properties		**3,208,333**	2,994,253
Goodwill		**63,549**	63,549
		3,278,639	3,065,280
CURRENT ASSETS			
Trade and other receivables	*10*	**20,016**	25,892
Bank balances and cash		**18,121**	30,459
		38,137	56,351
CURRENT LIABILITIES			
Trade and other payables	*11*	**342,495**	358,177
Tax liabilities		**836**	8,281
Secured bank and other borrowings		**85,714**	70,115
		429,045	436,573
NET CURRENT LIABILITIES		**(390,908)**	(380,222)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,887,731**	2,685,058

	NOTES	2018 HK$'000	2017 HK$'000
CAPITAL AND RESERVES			
Share capital		**26,888**	26,850
Share premium and reserves		**1,465,873**	1,297,884
Equity attributable to owners of the Company		**1,492,761**	1,324,734
Non-controlling interests		**371,754**	315,877
Total equity		**1,864,515**	1,640,611
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**480,122**	436,497
Secured bank and other borrowings		**517,857**	582,759
Bonds		**25,237**	25,191
		1,023,216	1,044,447
		2,887,731	2,685,058

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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.

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 a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of the Hong Kong Accounting Standard ("HKAS") 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 "Impairment of Assets".

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 2018 while management assesses the performance from property operating for the years ended 30 June 2018 and 30 June 2017.

The accounting policies of the property operating segment are the same as the Group's accounting policies described in note 3. Segment result represents the profit or loss from the 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 2018 (2017: One). The total amount of turnover from this tenant was HK$31,851,000 (2017: HK$29,209,000).

Turnover from major business services:

	2018	2017
	HK$'000	*HK$'000*
Rental income from leasing of properties	**199,219**	185,442

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

	Property operating
	HK$'000
Year ended 30 June 2018	
Turnover	**199,219**
Segment results	**211,382**
Gain on disposal of subsidiaries	**1,697**
Income tax expense	**(33,787)**
Central administration costs	**(67,097)**
Profit for the year	**112,195**
Depreciation	**2,573**

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

No geographical market analysis is provided as the Group's turnover and contribution to segment results were substantially derived from the tenants in the PRC and the assets are substantially located in the PRC.

4. OTHER INCOME

	2018	2017
	HK$'000	*HK$'000*
Bank interest income	**57**	79
Car parking income	**6,219**	5,870
Service income	**7,192**	6,058
Exchange gain	**–**	487
Others	**13**	5
	13,481	12,499

5. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on		
– Bank and other borrowings wholly repayable within five years	**–**	4,980
– Bank and other borrowings wholly repayable over five years	**30,620**	33,402
– Bonds	**2,073**	2,069
	32,693	40,451

6. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Income tax recognised in profit and loss		
PRC Enterprise Income Tax ("EIT")		
– Current income tax	**14,165**	26
– Overprovision in previous years	**(8,414)**	–
Deferred tax	**28,036**	20,115
	33,787	20,141

Hong Kong Profits Tax was calculated at 16.5% (2017: 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%.

Deferred tax of HK$1,250,000 (2017: 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

	2018	2017
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging/(crediting):		
Staff costs		
– directors' emoluments	**4,016**	3,976
– other staff's salaries and other benefits	**14,057**	11,914
– other staff's retirement benefit scheme contributions	**2,008**	1,681
– share-based payment expenses	**54,022**	–
	74,103	17,571
Auditor's remuneration	**1,090**	990
Bad debts written off	**–**	444
Depreciation of property, plant and equipment	**2,581**	2,100
Exchange loss/(gain)	**705**	(487)

8. DIVIDEND PAID

No dividend was paid or proposed for the year ended 30 June 2018 nor has any dividend been proposed since the end of the reporting period (2017: Nil).

9. EARNINGS PER SHARE

	2018	2017
EARNINGS PER SHARE		
Basic *(HK cents per share)*	**2.52**	3.40
Diluted *(HK cents per share)*	**2.51**	3.39

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

	2018	2017
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to the owners of the Company and earnings for the purposes of basic and diluted earnings per share	**67,599**	91,094

	2018	2017
	'000	*'000*
		(Note)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,685,432**	2,681,682
Effect of dilutive potential ordinary shares in respect of share options issued by the Company	**4,508**	5,961
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,689,940**	2,687,643

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

10. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**3,716**	9,811
Prepayment and other receivables	**16,300**	16,081
	20,016	25,892

At 30 June 2018, 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 trade receivables are generally fully covered by the rental deposits from corresponding tenants. 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:

	2018	2017
	HK$'000	*HK$'000*
0 – 60 days	**3,516**	9,690
61 – 90 days	**26**	–
Over 90 days	**174**	121
Trade receivables	**3,716**	9,811

Before accepting any new tenants, the Group assesses the potential tenants' credit quality. 95% (2017: 99%) 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$200,000 (2017: HK$121,000) 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.

Ageing of trade receivables which are past due but not considered impaired is as follows:

	2018	2017
	HK$'000	*HK$'000*
1 – 60 days	**–**	–
61 – 90 days	**26**	–
Over 90 days	**174**	121
Total	**200**	121

No impairment loss was provided by the Group for the year ended 30 June 2018 (2017: Nil). The Group does not hold any collateral over these balances.

11. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Receipts in advance	**29,535**	26,293
Deposits received from tenants	**31,203**	25,151
Amount due to a substantial shareholder *(Note)*	**264,537**	293,852
Accrued charges and other payables	**17,220**	12,881
	342,495	358,177

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

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 income of rental, management and operating services payable by various tenants under the respective tenancy agreements with a term ranging from one year to 16 years. The Jiachao's Shopping Mall is a one-stop shopping paradise with over 150 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 2018.

Furthermore, the Group diversified its operations into different areas of the property operating segment in order to explore future prospects and develop relevant markets through holding 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. 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 2018, all of the Jiacong's Shops had been rented out for a term of nearly three 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 two years ending by the end of 2019. 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 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. As at 30 June 2018, 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 130 tenants including a cinema, an aquarium, jewelries, beauty shops, international labels for fashion, fitness, lifestyle, casual wear/sport, kid's paradise and restaurants.

On 31 May 2018, the Group entered into a sale and purchase agreement to dispose of its entire equity interest in its former subsidiaries, Worthmore Ventures Limited ("Worthmore"), Conquer Way Limited and 河南錦藝商業運營管理有限公司 (Henan Art Commercial Operation Management Co., Ltd.) (collectively referred to as the "Disposal Group") to an independent third party (the "Purchaser"). The intended principal activity of the Disposal Group was the provision of rental, management and operating services to a shopping mall located in the countryside of Zhengzhou City, Longwu Town (the "Longwu Shopping Mall"), for a term of 10 years commenced from the mid of 2018. Some preliminary promotional preparation work had been carried out by the Disposal Group since the lease signed in July 2017. However, during the current year, the real estate developer of the Longwu Shopping Mall decided to transfer its title and interests in the Longwu Shopping Mall to the Purchaser. As a result of the negotiations among the real estate developer, the Purchaser and the Group, it is agreed that the Purchaser acquired the entire issued share capital of Worthmore at a consideration of US$1.00 (equivalent to approximately HK$7.80). The consideration was determined after arm's length negotiations with reference to (i) the net liabilities value of the Disposal Group of approximately HK$1,697,000 as at 31 May 2018; and (ii) the Purchaser agreed to settle the outstanding liabilities owed by the Disposal Group to the Group in the aggregate amount of approximately HK$40,000 as at 31 May 2018 upon completion of the disposal. The disposal was completed on 31 May 2018.

Turnover

For the financial year ended 30 June 2018, the Group recorded a turnover of approximately HK$199,219,000 (2017: HK$185,442,000), approximately 7.4% more than that in 2017. Since the Group holds the Jiachao's Shopping Mall and the Jiacong's Shops as investment properties during the current year, turnover of the Group included the monthly incomes of rental, management and operating services received and receivable from the tenants. Turnover of the Group also included the incomes generated from renting out the Zone C Shopping Mall to tenants. Increase in turnover during the current year was due to the slight increase in rentals of the Jiachao's Shopping Mall, the Jiacong's Shops and the Zone C Shopping Mall.

Gross Profit

The gross profit margin was approximately 69.3% for the year ended 30 June 2018 (2017: 67.8%). High gross profit margin 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 increased during the current year because of the slight increase in rentals of the Jiachao's Shopping Mall, the Jiacong's Shops and the Zone C Shopping Mall and the decrease of costs of sales as a result of the implementation of some financial control policies.

Profit for the Year

The Group's profit generated for the year ended 30 June 2018 was approximately HK$112,195,000 (2017: HK$126,563,000). The profit margin was 56.3% for the current year (2017: 68.2%). Both reduced in certain extent because the Group incurred a share-based payment of HK$54,022,000 as a result of the grant of 268,500,000 share options on 15 January 2018.

Other Income

Other income for the year ended 30 June 2018 was approximately HK$13,481,000 (2017: HK$12,499,000), which was other kinds of incomes earned by Jiachao, such as car parking fees and other services provided to tenants which was maintained at the similar levels during the years ended 30 June 2017 and 2018.

Expenses

Administrative expenses amounted to approximately HK$26,971,000 (2017: HK$26,755,000), representing approximately 13.5% (2017: 14.4%) of turnover for the year ended 30 June 2018. Administrative expenses slightly increased by approximately 0.8% which were maintained at the similar level in both years.

Other expenses amounted to approximately HK$792,000 (2017: HK$444,000), representing approximately 0.4% (2017: 0.2%) of turnover for the year ended 30 June 2018. The increase was due to an exchange difference arisen as a result of the devaluation of RMB during the current year.

Finance costs amounted to approximately HK$32,693,000 (2017: HK$40,451,000), representing approximately 16.4% (2017: 21.8%) of turnover for the year ended 30 June 2018. The decrease was due to regular repayments of the principal of bank loans during the current year; hence, the interest expenses charged throughout the year continued to reduce.

The carrying value of the Group's investment properties as at 30 June 2018 of approximately HK$3,208,333,000 (2017: HK$2,994,253,000) was stated at fair value based on an independent valuation as at that date, which produced a revaluation gain of HK$107,143,000 (2017: HK$76,084,000). This revaluation gain mainly reflected the continuous rental growth of the investment properties. The attributable net revaluation gain of HK$60,268,000 (2017: HK$42,797,000), after deducting related deferred tax liabilities and non-controlling interest, 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 2018 (2017: Nil).

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 maximize the shareholders' return. By doing this, the Group is engaged in property operating business and owns two properties for rental purposes, namely the Jiachao's Shopping Mall and the Jiacong's Shops. Both properties are situated in Zhengzhou City, Henan Province, the PRC.

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 consistent 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. Though, during the current year, the Group disposed of the Disposal Group due to the change in the plan of the real estate developer of the Longwu Shopping Mall, this did not have material impact on the Group's development of its property operating business, i.e. the provision of rental, management and operating services to properties. The directors of the Company are of the view that the disposal will not have a material adverse impact on the Group's financial position because the Disposal Group had only done some preliminary promotional preparation work during the current year.

By leveraging on the Group's current strategic plan and established strengths, experience and foresight, the Group continues to seize opportunities to penetrate into different areas of 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 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 realize growth momentum from the development of property operating markets. The Jiachao's Shopping Mall and the Jiacong's Shops 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 along with continuing development of the Belt and Road Initiative that advocated by the PRC's government. By continually diversifying the Group's business, the market value of the Company and the return to its shareholders will be maximized in long-term.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group had net current liabilities and total assets less current liabilities of approximately HK$390,908,000 (2017: HK$380,222,000) and HK$2,887,731,000 (2017: HK$2,685,058,000), respectively. The Group had maintained its financial position by financing its operations with internally generated resources, bonds and bank loans. As at 30 June 2018, the Group had cash and bank deposits of approximately HK$18,121,000 (2017: HK$30,459,000). The current ratio of the Group was approximately 8.9% (2017: 12.9%).

Total equity of the Group as at 30 June 2018 was approximately HK$1,864,515,000 (2017: HK$1,640,611,000). As at 30 June 2018, the total borrowings of the Group, repayable from within 12 months to over six years from the end of the reporting period, denominated in RMB507,000,000 were equivalent to approximately HK$603,571,000 (2017: HK$652,874,000) and three bonds measured at amortised cost was HK$25,237,000 (2017: HK$25,191,000). As at 30 June 2018, the gross debt gearing ratio (i.e. total borrowings and bonds/shareholders' fund) was approximately 33.7% (2017: 41.3%).

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

FINANCING

As at 30 June 2018, the total borrowing facilities of the Group amounted to approximately HK$603,571,000 (2017: HK$652,874,000), of which, all facilities (2017: all facilities) was utilized. In addition, three bonds (2017: three bonds) amounted to approximately HK$25,237,000 in aggregate (2017: HK$25,191,000), measured at amortised cost, were 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 2018, 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 year ended 30 June 2017.

During the year ended 30 June 2017, the Company also 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 24 to the consolidated financial statements of the Group in the Company's 2018 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 2018, certain investment properties of the Group with aggregate carrying values of approximately HK$1,286,017,000 (2017: HK$1,196,738,000) were pledged to a bank to secure banking facilities granted to the Group.

CAPITAL EXPENDITURE

During the year ended 30 June 2018, the Group invested approximately HK$1,598,000 (2017: HK$2,486,000) in property, plant and equipment; all was used for purchase of furniture, fixtures, office equipment, motor vehicles and leasehold improvements.

As at 30 June 2018, the Group had no capital commitments (2017: HK$377,000) in property, plant and equipment. The capital commitments for the year ended 30 June 2017 were funded by internally generated resources.

STAFF POLICY

The Group had 170 employees altogether in the PRC and Hong Kong as at 30 June 2018. 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 of the Company are appointed by the Company for a term of one year commencing from 11 April, 19 September, 15 October and 1 December each year respectively.

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 2018, 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 for the year ended 30 June 2018.

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 2018.

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 2018.

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 2018 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, 28 September 2018

As at the date of this announcement, the executive directors of the Company are Mr. Chen Jinyan and Mr. Chen Jindong; 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.