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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)

2019 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the “Board”) of Art Group Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (together, the “Group”) for the six months ended 31 December 2019 (the “Period”), which were reviewed by the auditor and the audit committee of the Company, together with the comparative figures for the corresponding period in 2018 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2019

		Six months ended	
		31 December	
		2019	2018
		(unaudited)	(unaudited)
	NOTES	HK\$'000	HK\$'000
Revenue	3	88,939	91,381
Cost of sales		(33,954)	(30,140)
Gross profit		54,985	61,241
Other income		8,209	7,996
Administrative expenses		(19,898)	(12,973)
Selling and distribution expenses		(43)	—
Other expenses		(56)	—
Finance costs	4	(27,012)	(15,083)

		Six months ended 31 December	
		2019	2018
		(unaudited)	(unaudited)
	NOTES	HK\$'000	HK\$'000
Profit before taxation		16,185	41,181
Income tax expense	5	<u>(1,292)</u>	<u>(8,235)</u>
Profit for the period	6	14,893	32,946
Other comprehensive loss:			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Exchange differences arising on translation		<u>(21,974)</u>	<u>(83,350)</u>
Other comprehensive loss for the period (net of tax)		<u>(21,974)</u>	<u>(83,350)</u>
Total comprehensive loss for the period		<u><u>(7,081)</u></u>	<u><u>(50,404)</u></u>
Profit for the period attributable to:			
Owners of the Company		9,352	23,452
Non-controlling interests		<u>5,541</u>	<u>9,494</u>
		<u><u>14,893</u></u>	<u><u>32,946</u></u>
Total comprehensive loss for the period attributable to:			
Owners of the Company		(8,469)	(43,000)
Non-controlling interests		<u>1,388</u>	<u>(7,404)</u>
		<u><u>(7,081)</u></u>	<u><u>(50,404)</u></u>
EARNINGS PER SHARE			
	8		
Basic (HK cents per share)		<u><u>0.35</u></u>	<u><u>0.87</u></u>
Diluted (HK cents per share)		<u><u>0.35</u></u>	<u><u>0.87</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

		31 December 2019 (unaudited) NOTES HK\$'000	30 June 2019 (audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		3,193	4,482
Investment properties		2,775,281	2,806,818
Right-of-use assets		2,013	–
Goodwill		34,764	34,764
		<u>2,815,251</u>	<u>2,846,064</u>
CURRENT ASSETS			
Trade and other receivables	9	36,851	278,114
Amount due from a substantial shareholder		31,271	–
Bank balances and cash		423,418	32,377
		<u>491,540</u>	<u>310,491</u>
CURRENT LIABILITIES			
Trade and other payables	10	54,502	65,309
Contract liabilities		42,162	31,814
Lease liabilities		1,229	–
Amount due to a substantial shareholder		–	239,497
Secured bank borrowings		78,652	89,773
Tax liabilities		6,862	9,046
		<u>183,407</u>	<u>435,439</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>308,133</u>	<u>(124,948)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u><u>3,123,384</u></u>	<u><u>2,721,116</u></u>

	31 December	30 June
	2019	2019
	(unaudited)	(audited)
<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CAPITAL AND RESERVES		
Share capital	26,888	26,888
Share premium and reserves	1,434,755	1,454,600
Equity attributable to owners of the Company	1,461,643	1,481,488
Non-controlling interests	376,526	375,138
Total equity	1,838,169	1,856,626
NON-CURRENT LIABILITIES		
Lease liabilities	789	–
Deferred tax liabilities	419,900	424,658
Secured bank borrowings	820,225	404,545
Bonds	44,301	35,287
	1,285,215	864,490
	3,123,384	2,721,116

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties that are measured at fair values at the end of the reporting period.

Other than changes in accounting policies resulting from application of new Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2019 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 30 June 2019.

Application of new and revised HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants which are mandatorily effective for the annual period beginning on or after 1 July 2019 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Impacts and changes in accounting policies of application of HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current period. HKFRS 16 superseded HKAS 17 Leases (“HKAS 17”), and the related interpretations.

Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date.

Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of office premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment properties as a separate line item on the condensed consolidated statement of financial position.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/ expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 July 2019, the Group applies HKFRS 15 Revenue from Contracts with Customers (“HKFRS 15”) to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

There was no material impact of transition to HKFRS 16 on retained profits as at 1 July 2019.

3. REVENUE AND SEGMENT INFORMATION

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

Information reported to the Board of the Company, being the chief operating decision maker (“CODM”), for the purpose of resources allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

For the reporting period, management of the Company has determined that the Group has two operating segments (six months ended 31 December 2018: One) as the Group is engaged in the property operating and biotechnology, which is the basis used by the CODM to allocate resources and assess performance. From a product perspective, management assesses the performance from property operating and biotechnology for the six months ended 31 December 2019 and 31 December 2018.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3 to the consolidated financial statements of the Company's 2019 annual report. Segment results represent the profit or loss from the segments without allocation of income tax expense and central administration costs.

One single tenant from property operating segment contributed to 10 per cent or more of the Group's revenue for the period ended 31 December 2019 (six months ended 31 December 2018: One). The total amount of revenue from this tenant was HK\$14,058,000 (six months ended 31 December 2018: HK\$14,393,000).

	Six months ended	
	31 December	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Revenue from major business services:		
<i>Revenue within the scope of HKFRS 16/HKAS 17</i>		
Rental income from leasing of properties	<u>35,555</u>	<u>36,294</u>
<i>Revenue from contracts with customers</i>		
<i>within the scope of HKFRS 15</i>		
Property management fee income	51,847	53,813
Property management – other related services	<u>1,537</u>	<u>1,274</u>
	<u>53,384</u>	<u>55,087</u>
	<u>88,939</u>	<u>91,381</u>
Disaggregated by timing of revenue recognition:		
<i>Over time:</i>		
Property management fee income	51,847	53,813
Property management – other related services	<u>1,537</u>	<u>1,274</u>
	<u>53,384</u>	<u>55,087</u>
	<u>53,384</u>	<u>55,087</u>

Performance obligations for revenue from contract with customers

(i) *Property management fee*

Property management fee is recognised over the service period. The Group receives monthly property management fee payments from customers one to three months in advance under the contracts.

(ii) *Biotechnology*

There was no revenue generated in biotechnology segment during the reporting period.

Segment information

The CODM assesses the performance of the property operating segment based on sales and net profit.

Six months ended 31 December 2019	Property operating HK\$'000	Biotechnology HK\$'000	Consolidated HK\$'000
Revenue	<u>88,939</u>	<u>–</u>	<u>88,939</u>
Segment result	<u>23,825</u>	<u>(360)</u>	23,465
Income tax expense	<u>(1,292)</u>	<u>–</u>	(1,292)
Central administration costs			<u>(7,280)</u>
Profit for the period			<u>14,893</u>
Amounts included in the measure of segment profit			
Depreciation of property, plant and equipment	<u>1,360</u>	<u>3</u>	

Six months ended 31 December 2018	Property operating HK\$'000	Consolidated HK\$'000
Revenue	<u>91,381</u>	<u>91,381</u>
Segment result	<u>47,662</u>	47,662
Income tax expense	<u>(8,235)</u>	(8,235)
Central administration costs		<u>(6,481)</u>
Profit for the period		<u>32,946</u>
Amounts included in the measure of segment profit		
Depreciation of property, plant and equipment	<u>1,525</u>	

4. FINANCE COSTS

	Six months ended 31 December	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Interest on		
– Secured bank borrowings wholly repayable over five years	25,252	13,755
– Bonds	1,735	1,328
– Lease liabilities	<u>25</u>	<u>–</u>
	<u>27,012</u>	<u>15,083</u>

5. INCOME TAX EXPENSE

	Six months ended	
	31 December	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
<i>Income tax recognised in profit and loss</i>		
PRC Enterprise Income Tax ("EIT")		
– Current income tax	1,292	7,397
Deferred tax	–	838
	<u>1,292</u>	<u>8,235</u>

Hong Kong Profits Tax was calculated at 16.5% (six months ended 31 December 2018: 16.5%) of the estimated assessable profit for the period. No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group did not generate any assessable profits arising in Hong Kong for both periods.

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%.

As at 31 December 2019, no deferred tax liabilities (30 June 2019: Nil) were recognised in respect of the undistributed retained profits of the 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.

6. PROFIT FOR THE PERIOD

	Six months ended	
	31 December	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	1,368	1,525
Depreciation of right-of-use assets	288	–
Exchange gain	<u>(270)</u>	<u>(607)</u>

7. DIVIDEND PAID

No dividend was paid or proposed during the period nor has any dividend been proposed since the end of the reporting period (2018: Nil).

8. EARNINGS PER SHARE

	Six months ended 31 December	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to the owners of the Company and earnings for the purposes of basic and diluted earnings per share	<u><u>9,352</u></u>	<u><u>23,452</u></u>
	Six months ended 31 December	
	2019	2018
	<i>'000</i>	<i>'000</i>
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,688,805	2,688,805
Effect of dilutive potential ordinary shares in respect of share options issued by the Company	<u>1,954</u>	<u>1,736</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>2,690,759</u></u>	<u><u>2,690,541</u></u>

9. TRADE AND OTHER RECEIVABLES

	31 December 2019 <i>HK\$'000</i> (unaudited)	30 June 2019 <i>HK\$'000</i> (audited)
Trade receivables	2,592	31,409
Prepayment and other receivables	34,259	16,888
Consideration receivable (<i>Note</i>)	–	229,817
	<u>36,851</u>	<u>278,114</u>

Note: The consideration receivable represents the consideration of the disposal of Zhengzhou Jiacong Property Services Company Limited on 28 June 2019. The consideration receivable was fully received on 6 September 2019.

As at 31 December 2019, 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:

	31 December 2019 <i>HK\$'000</i> (unaudited)	30 June 2019 <i>HK\$'000</i> (audited)
0 – 60 days	2,508	29,489
61 – 90 days	16	1,053
Over 90 days	68	867
	<u>2,592</u>	<u>31,409</u>
Trade receivables	<u>2,592</u>	<u>31,409</u>

The Group measures loss allowances for trade receivables at an amount equal to lifetime expected credit losses (“ECL”), which is calculated using a provision matrix. Given the Group has not experienced any significant credit losses in the past and holds sufficient rental deposits from tenants to cover potential exposure to credit risk, the allowance for ECL is insignificant.

Before accepting any new tenants, the Group assesses the potential tenants’ credit quality. 97% (30 June 2019: 94%) of the trade receivables that are neither past due nor impaired have good credit rating under internal credit assessment adopted by the Group.

10. TRADE AND OTHER PAYABLES

	31 December	30 June
	2019	2019
	<i>HK\$’000</i>	<i>HK\$’000</i>
	(unaudited)	(audited)
Receipts in advance	9,969	20,944
Deposits received from tenants	33,113	32,496
Accrued charges and other payables	11,420	11,869
	54,502	65,309

MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Review

The Group is principally engaged in property operating and biotechnology, which is a newly-introduced segment under further development.

The Group was engaged in the property operating segment during the Period 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 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 14 years. The Jiachao’s Shopping Mall is a one-stop shopping paradise with over 140 tenants that offer a wide range of services and goods including shopping, dining, entertainment and education, 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, restaurants and children education institutions. Nearly all shop units in the Jiachao’s Shopping Mall were rented out as at 31 December 2019.

In addition, Jiachao leased shop units in a shopping mall (the “Zone C Shopping Mall”) from a real estate developer to the end of 2020. 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 revenue and profit margin of the property operating business of the Group. As at 31 December 2019, 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 approximately 130 tenants including a cinema, an aquarium, jewelries, beauty shops, international labels for fashion, fitness, lifestyle, casual wear/sport, kid’s paradise, restaurants, bookshop and children education institutions.

On 27 June 2019, the Group entered into a sale and purchase agreement to dispose of its entire equity interests in its subsidiary, 鄭州佳聰物業服務有限公司 (Zhengzhou Jiacong Property Services Company Limited) (“Jiacong”), to an independent third party (the “Jiacong Purchaser”). The principal activity of Jiacong was the holding of 164 shops in a giant theme shopping mall (the “Jiacong’s Shops”) situated in Zhengzhou City, Henan Province, the PRC. However, as a consequence of China-US trade dispute and its ongoing impacts, the management of the Group was not optimistic about the future of the wholesale market of the textile industry in the PRC; hence, the management of the Group decided to dispose of Jiacong to realise the Group’s investment. As a result of the negotiations between the Group and the Jiacong Purchaser, it was agreed that the Jiacong Purchaser acquired the entire equity interests in Jiacong at a consideration of RMB212,239,000 (equivalent to approximately HK\$241,180,000). The consideration was determined after arm’s length negotiations with reference to normal commercial terms after taking into account of the value of the Jiacong’s Shops owned by Jiacong. The disposal was completed on 28 June 2019 and the consideration was fully received on 6 September 2019. For details, please refer to the Company’s announcements dated 27 June 2019 and 18 July 2019.

The Group has started to engage in biotechnology segment during the year ended 30 June 2019. The Group has further development in this segment by holding 60% equity interests in 紅河乾林生物科技有限公司 (Honghe Ganlin Biotechnology Company Limited) (“Ganlin”) by the Company’s indirect wholly-owned subsidiary registered in the PRC during the Period. A factory located in Honghezhou, Yunnan Province, the PRC, with area of approximately 3,300 square meters will be under construction in the first half year of 2020. When the factory is built up in the second half year of 2020, relevant machinery and equipment for the production process, such as process of distillation, purification and extraction etc., will also be installed and trial run will be commenced simultaneously. The finished goods of the factory will be cannabidiol (“CBD”) processed for industrial use with its market mainly in the North America. The target production quantity is expected to be approximately 2,000 kilograms per year.

Revenue

For the Period, the Group recorded a revenue of HK\$88,939,000 (2018: HK\$91,381,000), approximately 2.7% less than that in 2018. Since the Group holds the Jiachao's Shopping Mall as investment properties during the Period, revenue of the Group included the monthly incomes of rental, management and operating services received and receivable from the tenants. Revenue of the Group also included the incomes generated from renting out the Zone C Shopping Mall to tenants. Decrease in revenue during the Period was due to the disposal of Jiacong in June 2019. There was no revenue generated in biotechnology segment for the Period (2018: Nil) because it was still at the preliminary stage at the end of the Period.

Gross Profit

The gross profit margin was approximately 61.8% for the Period (2018: approximately 67.0%). Relatively high gross profit margin was due to its simple costs of sales based on the business nature, such as water, electricity and heat supply charges, public security and hygiene expenses, repair and maintenance fees etc. in the property operating segment. Decrease in gross profit margin was due to a decrease in revenue due to the disposal of Jiacong and an increase in repair and maintenance fees and salary of staff directly related to property operations during the Period.

Profit for the Period

The Group's profit generated for the Period was HK\$14,893,000 (2018: HK\$32,946,000). The profit margin was approximately 16.7% for the Period (2018: approximately 36.1%). Both reduced significantly for the Period mainly because of (1) the disposal of Jiacong which brought a slight drop to revenue; (2) an increase in cost of sales as a result of more repair and maintenance work done at the shopping malls and a salary increment; (3) an increase in administrative expenses attributable to the handling charges paid for two new bank borrowings with aggregated principal amount of RMB800 million; and (4) an increase in finance costs due to larger principal amount of two new bank borrowings and higher interest rate charged by the bank throughout the Period.

Other Income

Other income for the Period was HK\$8,209,000 (2018: HK\$7,996,000), which was mainly other kinds of incomes earned by Jiachao, such as car parking fees and other services provided to tenants. Other income was maintained at the similar level in both periods.

Expenses

Administrative expenses amounted to HK\$19,898,000 (2018: HK\$12,973,000), representing approximately 22.4% (2018: approximately 14.2%) of revenue for the Period. Administrative expenses increased significantly by approximately 53.4% mainly attributable to the handling charges paid for two new bank borrowings with aggregated principal amount of RMB800 million obtained during the Period.

Selling and distribution expenses amounted to HK\$43,000 (2018: Nil) representing approximately 0.1% (2018: Nil) of revenue for the Period. These costs incurred during the Period as a result of the preliminary operation of biotechnology subsidiaries by visiting potential customers.

Other expenses amounted to HK\$56,000 (2018: Nil), representing approximately 0.1% (2018: Nil) of revenue for the Period. The insignificant increase was due to a donation to a charity during the Period.

Finance costs amounted to HK\$27,012,000 (2018: HK\$15,083,000), representing approximately 30.4% (2018: approximately 16.5%) of revenue for the Period. The material increase was because the Group obtained two new bank borrowings with aggregated principal amount of RMB800 million during the Period as well as their higher interest rate charged by the bank throughout the Period.

Dividend

The Board does not recommend the payment of an interim dividend for the Period (2018: 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 maximise the shareholders' return. By doing this, the Group is engaged in property operating business and owns the Jiachao's Shopping Mall for rental purpose, which is 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. Apart from investing into the Jiachao's Shopping Mall, 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.

In June 2019, although the Group disposed of Jiacong due to a less optimistic outlook about the future of the wholesale market of the textile industry in the PRC by the management of the Group, the disposal did not have a material impact on the Group's development of its property operating business, i.e. the provision of rental, management and operating services to a property. The directors are of the view that the disposal will not have a material adverse impact on the Group's financial position because Jiacong did not comprise a very significant part of the Group's results during the year ended 30 June 2019.

By aiming to diversify the types of business and increase the shareholders' return, the Group explored biotechnology segment during the year ended 30 June 2019. A number of subsidiaries to produce CBD in Honghezhou, Yunnan Province, the PRC, were incorporated during the Period and the production process will be set up and commenced in phases during the year of 2020. In order to stabilise the supply and ensure the quality of CBD, a wholly-owned subsidiary of Ganlin, responsible for the provision of the raw materials, was incorporated in the PRC after the Period. With constant supply of high quality of raw material, the finished goods of Ganlin, CBD, is expected to be saleable to the target customers in the future; consequently, affirmative results are presumed.

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 and biotechnology 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 and build up biotechnology segment step by step with present and new resources. 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. The Group strives to use all of its resources on hand elastically to cope with the difficulties happened in the PRC after the end of the Period.

Looking forward, the Group continues to place additional resources to realise growth momentum from the development of property operating and biotechnology markets. The Jiachao's Shopping Mall is 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. As regulators in Australia, Europe and the North America had passed rules and regulations to recognise the legal status of cannabis being widely used in food and beverages apart from medical and industrial use, the Group believes the future prospects of CBD to be increasingly optimistic. 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 maximised in long-term.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group had net current assets and total assets less current liabilities of HK\$308,133,000 (net current liabilities as at 30 June 2019: HK\$124,948,000) and HK\$3,123,384,000 (30 June 2019: HK\$2,721,116,000), respectively. The Group had maintained its financial position by financing its operations with internally generated resources, bonds and bank borrowings. As at 31 December 2019, the Group had cash and bank deposits of HK\$423,418,000 (30 June 2019: HK\$32,377,000). The current ratio of the Group was approximately 268.0% (30 June 2019: approximately 71.3%).

Total equity of the Group as at 31 December 2019 was HK\$1,838,169,000 (30 June 2019: HK\$1,856,626,000). As at 31 December 2019, the total borrowings of the Group, repayable from within 12 months to over 10 years from the end of the Period, denominated in RMB800,000,000 were equivalent to approximately HK\$898,877,000 (30 June 2019: HK\$494,318,000) and six bonds measured at amortised cost was HK\$44,301,000 (30 June 2019: HK\$35,287,000). As at 31 December 2019, the gross debt gearing ratio (i.e. total borrowings and bonds/shareholders' fund) was approximately 51.3% (30 June 2019: approximately 28.5%).

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 31 December 2019, the total borrowing facilities of the Group amounted to approximately HK\$898,877,000 (30 June 2019: HK\$494,318,000), of which, all facilities (30 June 2019: all facilities) was utilised. In addition, six bonds (30 June 2019: five bonds) amounted to approximately HK\$44,301,000 in aggregate (30 June 2019: HK\$35,287,000), measured at amortised cost, were arranged with five 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 31 December 2019, the share capital of the Company comprises ordinary shares only.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

During the Period, 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 31 December 2019, certain investment properties of the Group with aggregate carrying values of HK\$1,205,472,000 (30 June 2019: HK\$1,219,171,000) were pledged to a bank to secure banking facilities granted to the Group.

STAFF POLICY

The Group had 154 employees altogether in the PRC and Hong Kong as at 31 December 2019. 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 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 Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE

The Company is committed to achieve the best corporate governance practices as a listed company. The Board believes that high standards and rigorous corporate governance practices can improve the accountability and transparency of the Company. Consequently, during the Period, the Company complied with the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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 Period.

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 unaudited condensed consolidated interim financial statements of the Group for the Period.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM 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 interim report for the six months ended 31 December 2019 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 February 2020

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.