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)

2020 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 2020 together with the comparative figures in 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2020

		2020	2019
	NOTES	***HK$'000***	*HK$'000*
Revenue	*4*	**159,547**	211,818
Cost of sales		**(63,598)**	(63,683)
Gross profit		**95,949**	148,135
Other income	*5*	**14,764**	16,066
Administrative expenses		**(29,946)**	(26,722)
Loss on fair value change on investment properties		**(77,778)**	(19,541)
Gain on fair value change on biological assets		**744**	–
Gain on disposal of a subsidiary		**–**	4,400
Finance costs	*6*	**(61,942)**	(29,416)

	NOTES	2020 HK$'000	2019 HK$'000
(Loss)/profit before taxation		**(58,209)**	92,922
Income tax credit/(expense)	*7*	**22,496**	(16,483)
(Loss)/profit for the year	*8*	**(35,713)**	76,439
Other comprehensive expense:			
Item that will not be reclassified to profit or loss			
Exchange differences on translation from functional currency to presentation currency		**(61,261)**	(84,328)
Other comprehensive expense for the year (net of income tax)		**(61,261)**	(84,328)
Total comprehensive expense for the year		**(96,974)**	(7,889)
(Loss)/profit for the year attributable to:			
Owners of the Company		**(30,658)**	55,925
Non-controlling interests		**(5,055)**	20,514
		(35,713)	76,439
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		**(79,731)**	(11,273)
Non-controlling interests		**(17,243)**	3,384
		(96,974)	(7,889)
(LOSS)/EARNINGS PER SHARE	*10*		
Basic *(HK cents)*		**(1.14)**	2.08
Diluted *(HK cents)*		**(1.14)**	2.08

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	NOTES	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**8,609**	4,482
Right-of-use assets		**7,595**	–
Investment properties		**2,637,363**	2,806,818
Goodwill		**34,764**	34,764
		2,688,331	2,846,064
CURRENT ASSETS			
Biological assets		**1,418**	–
Trade and other receivables	*11*	**37,031**	278,114
Bank balances and cash		**419,095**	32,377
		457,544	310,491
CURRENT LIABILITIES			
Other payables	*12*	**57,012**	65,309
Contract liabilities		**23,876**	31,814
Lease liabilities		**1,315**	–
Amount due to a substantial shareholder		**–**	239,497
Secured bank borrowings		**74,713**	89,773
Bond		**9,999**	–
Tax liabilities		**–**	9,046
		166,915	435,439
NET CURRENT ASSETS/(LIABILITIES)		**290,629**	(124,948)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,978,960**	2,721,116

	NOTES	2020 HK$'000	2019 HK$'000
CAPITAL AND RESERVES			
Share capital		**26,888**	26,888
Reserves		**1,374,869**	1,454,600
Equity attributable to owners of the Company		**1,401,757**	1,481,488
Non-controlling interests		**346,645**	375,138
TOTAL EQUITY		**1,748,402**	1,856,626
NON-CURRENT LIABILITIES			
Lease liabilities		**4,935**	–
Deferred tax liabilities		**391,469**	424,658
Secured bank borrowings		**799,810**	404,545
Bonds		**34,344**	35,287
		1,230,558	864,490
		2,978,960	2,721,116

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2020

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, who is also the director of the Company. 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 ("HK$") and the functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in HK$ 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 engaged in property operating and biotechnology businesses.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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 for the amendments to HKFRS 9, HKAS 19 and HKAS 28, and Annual Improvements to HKFRSs 2015-2017 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 Leases

HKFRS 16 *Leases* ("HKFRS 16") replaces HKAS 17 *Leases* ("HKAS 17"), HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC) – Int 15 *Operating Leases – Incentives* and HK(SIC) – Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. HKFRS 16 did not have significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 July 2019. Under this method, the comparative information for 2019 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC) – Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 July 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of properties. As a lessee, the Group previously classified leases as operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 July 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities as at 1 July 2019 were quantified and assessed by management based on the present value of the remaining lease payments, discounted using the incremental borrowing rate as at 1 July 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 July 2019.

All the right-of-use assets were assessed for any impairment based on HKAS 36 on that date.

The Group has used the following elective practical expedients when applying HKFRS 16 as at 1 July 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application;

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease; and

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics when measuring the lease liabilities as at 1 July 2019.

Financial impact as at 1 July 2019

The application of HKFRS 16 on 1 July 2019 by the Group did not give rise to any additional lease liabilities as at 1 July 2019, as the Group considered that the financial impact of the initial adoption of HKFRS 16 to be immaterial to the Group on 1 July 2019. The adoption has had no impact on the Group's equity as at 1 July 2019.

There is no significant difference between the amount of operating lease commitments as at 30 June 2019 disclosed applying the previous standards, discounted using the incremental borrowing rate as at 1 July 2019 and the amount of lease liabilities as at 1 July 2019 as quantified and assessed by management.

(b) HK(IFRIC) – Int 23 Uncertainty over Income Tax Treatments

HK(IFRIC) – Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The Group considered that the interpretation did not have any impact on the financial position or performance of the Group.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 16	Covid-19 – Related Rent Concession[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[5]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[6]
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use[6]
Amendments to HKFRS Standards	Annual Improvements to HKFRS Standards 2018-2020[6]
Amendments to HKFRS 3	Reference to the Conceptual Framework[6]

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

2 Effective for business combinations and assets acquisitions for which the acquisition date is on or after the first period beginning on or after 1 January 2020.

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

4 Effective for annual periods beginning on or after 1 June 2020.

5 Effective for annual periods beginning on or after 1 January 2020.

6 Effective for annual periods beginning on or after 1 January 2022.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the HKFRSs issued by the HKICPA, which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standard ("HKASs") and Interpretations issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and biological assets that are measured at fair values at the end of each reporting period. 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 a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 *Leases* (since 1 July 2019) or HKAS 17 (before application of HKFRS 16), 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*.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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.

4. REVENUE AND SEGMENT INFORMATION

Revenue 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 ("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 (2019: Two) as the Group is engaged in the property operating and biotechnology businesses, which is the basis used by the CODM. From a product perspective, management assesses the performance from property operating and biotechnology segments for the years ended 30 June 2020 and 30 June 2019.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the profit or loss from the segments without allocation of income tax (credit)/ 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 year ended 30 June 2020 (2019: One). The total amount of revenue from this tenant was HK$28,260,000 (2019: HK$29,118,000).

	2020	2019
	HK$'000	*HK$'000*
Revenue from major business services:		
Revenue within the scope of HKFRS 16/HKAS 17		
Rental income from leasing of properties	**65,826**	74,570
Revenue from contracts with customers within the scope of HKFRS 15		
Property management fee income	**91,269**	111,520
Property management – other related services	**2,452**	25,728
	93,721	137,248
	159,547	211,818
Disaggregated by timing of revenue recognition:		
Over time:		
Property management fee income	**91,269**	111,520
Property management – other related services	**2,452**	25,728
	93,721	137,248

Performance obligations for revenue from contracts 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 and biotechnology segments based on sales and net profit.

2020

	Property operating *HK$'000*	**Biotechnology** *HK$'000*	**Consolidated** *HK$'000*
Revenue	**159,547**	**–**	**159,547**
Segment result	**(41,078)**	**(1,022)**	**(42,100)**
Income tax credit	**22,496**	**–**	**22,496**
Central administration costs			**(16,109)**
Loss for the year			**(35,713)**
Amounts included in the measure of segment loss			
Depreciation of property, plant and equipment	**2,104**	**27**	
Depreciation of right-of-use assets	**–**	**76**	

2019

	Property operating HK$'000	Biotechnology HK$'000	Consolidated HK$'000
Revenue	211,818	–	211,818
Segment result	102,651	(600)	102,051
Income tax expense	(16,483)	–	(16,483)
Gain on disposal of a subsidiary			4,400
Central administration costs			(13,529)
Profit for the year			76,439
Amounts included in the measure of segment profit			
Depreciation of property, plant and equipment	3,154	–	

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

5. OTHER INCOME

	2020 **HK$'000**	2019 HK$'000
Bank interest income	**126**	60
Car parking income	**6,151**	7,110
Service income	**7,667**	8,223
Exchange gain	**317**	565
Others	**503**	108
	14,764	16,066

6. FINANCE COSTS

	2020	2019
	HK$'000	*HK$'000*
Interest on		
– Secured bank borrowings wholly repayable over five years	**58,291**	26,640
– Bonds	**3,550**	2,776
– Lease liabilities	**101**	–
	61,942	29,416

7. INCOME TAX (CREDIT)/EXPENSE

	2020	2019
	HK$'000	*HK$'000*
Income tax recognised in profit or loss		
PRC Enterprise Income Tax ("EIT")		
– Current income tax	**2,443**	21,368
– Overprovision in previous years	**(5,495)**	–
Deferred tax	**(19,444)**	(4,885)
	(22,496)	16,483

Hong Kong Profits Tax was calculated at 16.5% (2019: 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% for both years.

As at 30 June 2020, no deferred tax liabilities (2019: Nil) were recognised in respect of the undistributed retained earnings 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.

8. (LOSS)/PROFIT FOR THE YEAR

	2020	2019
	HK$'000	*HK$'000*
(Loss)/profit for the year has been arrived at after charging/ (crediting):		
Staff costs		
– directors' emoluments	**4,008**	4,008
– other staff's salaries and other benefits	**17,374**	15,583
– other staff's retirement benefit scheme contributions	**1,267**	2,032
	22,649	21,623
Auditor's remuneration	**1,200**	1,100
Depreciation of property, plant and equipment	**2,142**	3,164
Depreciation of right-of-use assets	**971**	–
Short-term leases	**21,981**	–
Minimum lease payments in respect of rented premises	**–**	18,940
Exchange gain	**(317)**	(565)
Gain on disposal of property, plant and equipment	**–**	(6)

9. DIVIDEND PAID

No dividend was paid or proposed for the year ended 30 June 2020 nor has any dividend been proposed since the end of the reporting period (2019: Nil).

10. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share attributable to the owners of the Company is based on the following data:

	2020	2019
	HK$'000	*HK$'000*
(Loss)/earnings		
(Loss)/profit for the year attributable to the owners of the Company for the purposes of basic and diluted (loss)/earnings per share	**(30,658)**	55,925

	2020	2019
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	**2,688,805**	2,688,805
Effect of dilutive potential ordinary shares in respect of share options issued by the Company	**–**	1,795
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	**2,688,805**	2,690,600

11. TRADE AND OTHER RECEIVABLES

	2020	2019
	HK$'000	*HK$'000*
Trade receivables	**3,769**	31,409
Prepayments, deposits and other receivables	**33,262**	16,888
Consideration receivable *(Note)*	**–**	229,817
	37,031	278,114

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 30 June 2020 and 30 June 2019, all trade receivables of the Group were in the functional currency of the relevant group entities.

The following is an aged analysis of trade receivables presented based on date of rendering of services:

	2020	2019
	HK$'000	*HK$'000*
0 – 60 days	**3,532**	29,489
61 – 90 days	**104**	1,053
Over 90 days	**133**	867
Trade receivables	**3,769**	31,409

The Group measures loss allowances for trade receivables at an amount equal to lifetime expected credit loss ("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. 94% (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.

12. OTHER PAYABLES

	2020	2019
	HK$'000	*HK$'000*
Receipts in advance	**16,681**	20,944
Deposits received from tenants	**32,804**	32,496
Accrued charges and other payables	**7,527**	11,869
Other payables	**57,012**	65,309

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL AND FINANCIAL REVIEW

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

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 remaining term ranging from one year to 14 years. The Jiachao's Shopping Mall is a one-stop shopping paradise with more than 140 tenants that offer a wide range of services and goods including shopping, dining and entertainment, such as a renowned department store, a cinema, a supermarket, 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 2020. Certain area of the Jiachao's Shopping Mall is rented to tenants on short-term leases for use including kiosks and booths of trendy and stylish items.

In addition, Jiachao leased shop units in a shopping mall (the "Zone C Shopping Mall") from a real estate developer to the end of 2021. 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 incomes 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 30 June 2020, 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 120 tenants including a cinema, an aquarium, jewelries, beauty shops, international labels for fashion, fitness, lifestyle, casual wear/sport, kid's paradise and restaurants. Certain area of the Zone C Shopping Mall is rented to tenants on short-term leases for use including kiosks and booths of trendy and stylish items.

The COVID-19 pandemic spreads across the globe starting from the beginning of 2020, since then, the situation around the world continues to change rapidly. The Board agrees that the Group's business has been impacted by the current public health situation to certain extent. The Group had supported the tenants by reducing the rental, management and operating service charges to more than 280 tenants (including tenants of the short-term leases) of the Jiachao's Shopping Mall and the Zone C Shopping Mall on different bases for the period from January to June 2020 with an aggregated amount of approximately HK$17,705,000. The Group also granted permission to a small number of merchants with difficulties to postpone their payments of rent and settle monthly prepayment instead of original quarterly prepayment. Moreover, the Group cites cost reduction as a key strategic focus to help navigate business uncertainty resulting from the COVID-19 pandemic and ensures that the interests of tenants and customers continue to be protected and advanced in these difficult times, whilst prioritising the safety and well-being of the employees and business partners of the Group.

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 Biotech") by the Company's indirect wholly-owned subsidiary registered in the PRC during the current year. Ganlin Biotech holds the whole equity interest of 紅河乾林農業有限公司 (Honghe Ganlin Agricultural Company Limited) during the current year. In addition, a factory with an area of approximately 2,904 square meters and large pieces of land with an aggregated area of approximately 1,028,133 square meters all located in Honghezhou, Yunnan Province, the PRC, were leased for building the production line and planting raw material, respectively. Relevant machinery and equipment for the production process, such as process of distillation, purification and extraction etc., have also been gradually installed during the current year. The finished goods of the factory will be cannabidiol ("CBD") processed for industrial use with its market in the North America and Europe. The target production quantity is expected to be approximately 2,000 kilograms per year.

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.

Revenue

For the financial year ended 30 June 2020, the Group recorded a revenue of approximately HK$159,547,000 (2019: HK$211,818,000), approximately 24.7% less than that in 2019. Since the Group holds the Jiachao's Shopping Mall as investment properties during the current year, 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 current year was due to (1) a reduction of rental, management and operating service charges to more than 280 tenants (including tenants of the short-term leases) of the Jiachao's Shopping Mall and the Zone C Shopping Mall on different bases for the period from January to June 2020 with an aggregated amount of approximately HK$17,705,000 as a result of the COVID-19 pandemic; (2) a decrease in rental income of approximately HK$23,422,000 due to a decline in usage rate for an advertisement board by the real estate companies; and (3) no revenue (2019: HK$4,067,000) generated from the Jiacong's Shops after its disposal on 27 June 2019. Moreover, there was no revenue generated from biotechnology segment for the years ended 30 June 2019 and 2020 since the production was not yet started during the preliminary set-up stage and under the construction of the factory, respectively.

Gross Profit

The gross profit margin was approximately 60.1% for the year ended 30 June 2020 (2019: 69.9%). 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 mainly due to (1) a reduction of rental, management and operating service charges to more than 280 tenants (including tenants of the short-term leases) of the Jiachao's Shopping Mall and the Zone C Shopping Mall on different bases for the period from January to June 2020 with an aggregated amount of approximately HK$17,705,000 as a result of the COVID-19 pandemic; (2) a decrease in rental income of approximately HK$23,422,000 due to a decline in usage rate for an advertisement board by the real estate companies; (3) no revenue (2019: HK$4,067,000) generated from the Jiacong's Shops after its disposal on 27 June 2019; and (4) an increase in the lease payments of the Zone C Shopping Mall of approximately HK$6,379,000 during the current year.

Loss for the Year

The Group's loss incurred for the year ended 30 June 2020 was approximately HK$35,713,000 (profit generated in 2019: HK$76,439,000). The loss margin was 22.4% for the current year (profit margin in 2019: 36.1%). Both reduced significantly for the year ended 30 June 2020 because of (1) a reduction of rental, management and operating service charges to more than 280 tenants (including tenants of the short-term leases) of the Jiachao's Shopping Mall and the Zone C Shopping Mall on different bases for the period from January to June 2020 with an aggregated amount of approximately HK$17,705,000 as a result of the COVID-19 pandemic; (2) a decrease in rental income of approximately HK$23,422,000 due to a decline in usage rate for an advertisement board by the real estate companies; (3) no revenue (2019: HK$4,067,000) generated from the Jiacong's Shops after its disposal on 27 June 2019; (4) a decrease in fair value of the Group's investment properties, the Jiachao's Shopping Mall, of approximately HK$77,778,000; and (5) a substantial increase in finance costs of approximately HK$32,526,000 mainly as a result of the two new bank borrowings with aggregated principal amount of RMB800 million for repayments of amount due to a substantial shareholder and previous bank borrowings, as well as the higher interest rate of new bank borrowings charged by the bank throughout the year ended 30 June 2020.

Other Income

Other income for the year ended 30 June 2020 was approximately HK$14,764,000 (2019: HK$16,066,000), which was mainly 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 less consumption of car park by customers of the Jiachao's Shopping Mall, in particular during the mandatory closure of the Jiachao's Shopping Mall and the Zone C Shopping Mall for some months except the supermarket as a consequence of the COVID-19 pandemic.

Expenses

Administrative expenses amounted to approximately HK$29,946,000 (2019: HK$26,722,000), representing approximately 18.8% (2019: 12.6%) of revenue for the year ended 30 June 2020. Administrative expenses increased by approximately 12.1% because of the setting up of a number of subsidiaries engaging in biotechnology segment during the current year.

Finance costs amounted to approximately HK$61,942,000 (2019: HK$29,416,000), representing approximately 38.8% (2019: 13.9%) of revenue for the year ended 30 June 2020. The material increase was due to higher interest rate charged by the bank on two new bank borrowings with aggregated principal amount of RMB800 million throughout the current year.

The carrying value of the Group's investment properties as at 30 June 2020 of approximately HK$2,637,363,000 (2019: HK$2,806,818,000) was stated at fair value based on an independent valuation as at that date, which produced a loss on fair value change on investment properties of HK$77,778,000 (2019: HK$19,541,000). This loss on fair value change on investment properties mainly reflected a less flourishing rental growth of the investment properties. The attributable net loss on fair value change on investment properties of HK$43,750,000 (2019: HK$10,992,000), after deducting related deferred tax liabilities and non-controlling interests, was debited to the consolidated income statement. Decrease in the carrying value was due to the COVID-19 pandemic spreading across the globe in the first half year of 2020, which made the carrying value of the investment properties drop dramatically.

Dividend

The Board does not recommend the payment of a final dividend for the year ended 30 June 2020 (2019: 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 incomes 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.

Though, during the year ended 30 June 2019, the Group disposed of Jiacong due to being not optimistic 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 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 are of the view that the disposal would 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 for the year ended 30 June 2019.

By aiming to diversify the types of business and increase the shareholders' return, the Group explored biotechnology segment since the year ended 30 June 2019. A number of subsidiaries to produce the finished goods, CBD, were established in Honghezhou, Yunnan Province, the PRC, during the year ended 30 June 2020, including a subsidiary responsible for the provision of raw material for the purpose of supply stablisation and quality assurance of CBD. A factory with an area of approximately 2,904 square meters and large pieces of land with aggregated area of approximately 1,028,133 square meters were leased for building the production line and planting raw material, respectively. Moreover, the Industrial CBD Cultivation License was already granted by the PRC regulatory body. Once the Industrial CBD Trial Production License has been granted by the PRC regulatory body and the machinery and equipment has been fully set up, trial run is expected to be commenced at the beginning of 2021.

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 world will be a different place after the pandemic is over. This poses a tremendous challenge to the Group. Nevertheless, the Group has been striving to use all of its resources on hand flexibly to cope with the difficulties happened in the PRC during the current year and in future. Extra prudence is needed in these unprecedented times; the Group can help support their tenants both now and over the long-term by increasing promotion activities to raise the popularity of the shopping malls, paying close attention to business operations, providing policies of assistance for key merchants and following closely to market trends and government-related policies in real time in order to make appropriate management decisions in a timely manner.

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 begin 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 30 June 2020, the Group had net current assets and total assets less current liabilities of approximately HK$290,629,000 (2019: net current liabilities of approximately HK$124,948,000) and HK$2,978,960,000 (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 30 June 2020, the Group had cash and bank deposits of approximately HK$419,095,000 (2019: HK$32,377,000). The current ratio of the Group was approximately 274.1% (2019: 71.3%).

Total equity of the Group as at 30 June 2020 was approximately HK$1,748,402,000 (2019: HK$1,856,626,000). As at 30 June 2020, the total borrowings of the Group, repayable from within 12 months to over nine years from the end of the reporting period, denominated in RMB795,816,000 were equivalent to approximately HK$874,523,000 (2019: HK$494,318,000) and six bonds measured at amortised cost was approximately HK$44,343,000 in aggregate (2019: HK$35,287,000). As at 30 June 2020, the gross debt gearing ratio (i.e. total borrowings and bonds/shareholders' fund) was approximately 52.6% (2019: 28.5%).

Though the return of funds has slowed down during the first half year of 2020 as a result of the COVID-19 pandemic, the Group still 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 2020, the total borrowing facilities of the Group amounted to approximately HK$874,523,000 (2019: HK$494,318,000), of which, all facilities (2019: all facilities) was utilised. In addition, six bonds (2019: five bonds) amounted to approximately HK$44,343,000 in aggregate (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 30 June 2020, the share capital of the Company comprises ordinary shares only.

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 2020, certain investment properties of the Group with aggregate carrying value of approximately HK$1,145,566,000 (2019: HK$1,219,171,000) were pledged to a bank to secure banking facilities granted to the Group.

CAPITAL EXPENDITURE

During the year ended 30 June 2020, the Group invested approximately HK$6,463,000 (2019: HK$1,241,000) in property, plant and equipment; all was used for purchase of plant and machineries, furniture, fixtures, office equipment and motor vehicles.

As at 30 June 2020, the Group had capital commitments of approximately HK$8,548,000 (2019: Nil) in property, plant and equipment.

STAFF POLICY

The Group had 143 employees altogether in the PRC and Hong Kong as at 30 June 2020. 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 year ended 30 June 2020, 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 2020.

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 2020.

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 2020.

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 2020 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, 30 September 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.