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 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the "Board") of Art Group Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (together, the "Group") for the six months ended 31 December 2020 (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 2019 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2020

		Six months ended 31 December	
		2020	2019
		(unaudited)	(unaudited)
	NOTES	***HK$'000***	*HK$'000*
Revenue	*3*	**92,000**	88,939
Cost of sales		**(40,079)**	(33,954)
Gross profit		**51,921**	54,985
Other income		**15,981**	8,209
Administrative expenses		**(17,503)**	(19,997)
Loss on fair value changes on investment properties		**(403,000)**	–
Loss on fair value change on biological assets		**(2,386)**	–
Finance costs	*4*	**(30,896)**	(27,012)

	NOTES	Six months ended 31 December **2020** **(unaudited)** ***HK$'000***	2019 (unaudited) *HK$'000*
(Loss)/profit before taxation		**(385,883)**	16,185
Income tax credit/(expense)	*5*	**97,364**	(1,292)
(Loss)/profit for the period	*6*	**(288,519)**	14,893
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Exchange differences on translation from functional currency to presentation currency		**132,036**	(21,974)
Other comprehensive income/(expense) for the period, net of income tax		**132,036**	(21,974)
Total comprehensive expense for the period		**(156,483)**	(7,081)
(Loss)/profit for the period attributable to:			
Owners of the Company		**(217,902)**	9,352
Non-controlling interests		**(70,617)**	5,541
		(288,519)	14,893
Total comprehensive income/(expense) for the period attributable to:			
Owners of the Company		**(111,658)**	(8,469)
Non-controlling interests		**(44,825)**	1,388
		(156,483)	(7,081)
(LOSS)/EARNINGS PER SHARE	*8*		
Basic *(HK cents)*		**(8.10)**	0.35
Diluted *(HK cents)*		**(8.10)**	0.35

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	NOTES	31 December 2020 (unaudited) HK$'000	30 June 2020 (audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**18,716**	8,609
Right-of-use assets		**6,780**	7,595
Investment properties		**2,432,795**	2,637,363
Goodwill		**34,764**	34,764
		2,493,055	2,688,331
CURRENT ASSETS			
Biological assets		**–**	1,418
Inventories		**72**	–
Trade and other receivables	*9*	**49,858**	37,031
Bank balances and cash		**352,311**	419,095
		402,241	457,544
CURRENT LIABILITIES			
Other payables	*10*	**61,654**	57,012
Contract liabilities		**22,101**	23,876
Lease liabilities		**1,017**	1,315
Secured bank borrowings		**80,819**	74,713
Bond		**9,000**	9,999
Tax liabilities		**2,365**	–
		176,956	166,915
NET CURRENT ASSETS		**225,285**	290,629
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,718,340**	2,978,960

	NOTES	31 December 2020 (unaudited) HK$'000	30 June 2020 (audited) HK$'000
CAPITAL AND RESERVES			
Share capital		**26,888**	26,888
Reserves		**1,263,211**	1,374,869
Equity attributable to owners of the Company		**1,290,099**	1,401,757
Non-controlling interests		**296,282**	346,645
TOTAL EQUITY		**1,586,381**	1,748,402
NON-CURRENT LIABILITIES			
Lease liabilities		**4,854**	4,935
Deferred tax liabilities		**318,534**	391,469
Secured bank borrowings		**783,231**	799,810
Bonds		**25,340**	34,344
		1,131,959	1,230,558
		2,718,340	2,978,960

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2020

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" issued by the Hong Kong Institute of Certificated Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed 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.

Other than additional accounting policies resulting from application of amendments to 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 2020 are the same as those presented in the Group's annual consolidated financial statements for the year ended 30 June 2020.

Application of amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 July 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the Group's condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

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 business 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 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 six months ended 31 December 2020 and 31 December 2019.

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 2020 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 2020 (six months ended 31 December 2019: One). The total amount of revenue from this tenant was HK$16,087,000 (six months ended 31 December 2019: HK$14,058,000).

	Six months ended 31 December	
	2020	2019
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Revenue from major business services:		
Revenue within the scope of HKFRS 16		
Rental income from leasing of properties	**37,309**	35,555
Revenue from contracts with customers within the scope of HKFRS 15		
Property management fee income	**53,513**	51,847
Property management – other related services	**1,178**	1,537
	54,691	53,384
	92,000	88,939
Disaggregated by timing of revenue recognition:		
Over time:		
Property management fee income	**53,513**	51,847
Property management – other related services	**1,178**	1,537
	54,691	53,384

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.

Six months ended 31 December 2020	**Property operating** *HK$'000*	**Biotechnology** *HK$'000*	**Consolidated** *HK$'000*
Revenue	**92,000**	**–**	**92,000**
Segment result	**(371,460)**	**(5,230)**	**(376,690)**
Income tax expense			**97,364**
Central administration costs			**(9,193)**
Loss for the period			**(288,519)**
Amounts included in the measure of segment loss			
Depreciation of property, plant and equipment	**663**	**121**	
Depreciation of right-of-use assets	**–**	**332**	

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

4. FINANCE COSTS

	Six months ended 31 December	
	2020	2019
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest on		
– Secured bank borrowings wholly repayable over five years	**29,384**	25,252
– Bonds	**1,371**	1,735
– Lease liabilities	**141**	25
	30,896	27,012

5. INCOME TAX CREDIT/(EXPENSE)

	Six months ended 31 December	
	2020	2019
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Income tax recognised in profit and loss		
PRC Enterprise Income Tax ("EIT")		
– Current income tax	**3,386**	1,292
Deferred tax	**(100,750)**	–
	(97,364)	1,292

Hong Kong Profits Tax was calculated at 16.5% (six months ended 31 December 2019: 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% for both periods.

As at 31 December 2020, no deferred tax liabilities (30 June 2020: 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.

6. LOSS/PROFIT FOR THE PERIOD

	Six months ended 31 December	
	2020	2019
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss/profit for the period has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	**789**	1,368
Depreciation of right-of-use assets	**928**	288
Short-term leases	**14,816**	–
Exchange loss/(gain)	**1,849**	(270)

7. DIVIDENDS

No dividends were paid, declared or proposed during the interim period nor has any dividend been proposed since the end of the interim period (six months ended 31 December 2019: Nil).

8. (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:

	Six months ended 31 December	
	2020	2019
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss)/earnings		
(Loss)/profit for the period attributable to the owners of the Company for the purposes of basic and diluted loss/earnings per share	**(217,902)**	9,352

	Six months ended 31 December 2020	2019
	'000	*'000*
	(unaudited)	(unaudited)
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	**–**	1,954
Weighted average number of ordinary shares for the purpose of diluted loss/earnings per share	**2,688,805**	2,690,759

9. TRADE AND OTHER RECEIVABLES

	31 December 2020	30 June 2020
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade receivables	**4,243**	3,769
Prepayment and other receivables	**45,615**	33,262
	49,858	37,031

As at 31 December 2020 and 30 June 2020, 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:

	31 December 2020 HK$'000 (unaudited)	30 June 2020 HK$'000 (audited)
0 – 60 days	**3,696**	3,532
61 – 90 days	**360**	104
Over 90 days	**187**	133
	4,243	3,769

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. 87% (30 June 2020: 94%) of trade receivables that are neither past due nor impaired have good credit rating under internal credit assessment adopted by the Group.

10. OTHER PAYABLES

	31 December 2020 HK$'000 (unaudited)	30 June 2020 HK$'000 (audited)
Receipts in advance	**15,290**	16,681
Deposits received from tenants	**34,529**	32,804
Accrued charges and other payables	**11,835**	7,527
	61,654	57,012

MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Review

The Group is principally engaged in property operating business and biotechnology business, which is a newly-introduced segment to be further developed.

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 People's Republic of China (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 13 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 and entertainment, such as a renowned department store, a cinema, a supermarket, KTV, beauty shops, electrical appliances shops, international labels for fashion, lifestyle, casual wear/sport, kid's paradise and restaurants. Approximately 99.4% shop units in the Jiachao's Shopping Mall were rented out as at 31 December 2020. Certain area of the Jiachao's Shopping Mall was 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 31 December 2020, more than 98.2% of the commercial space of the Zone C Shopping Mall had been leased out as retail shops, restaurants and/or for entertainment and leisure use which offers a wide range of services and goods with over 110 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 was rented to tenants on short-term leases for use including kiosks and booths of trendy and stylish items.

The Group was also engaged in biotechnology segment through 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. Ganlin Biotech then holds the whole equity interest of 紅河乾林農業有限公司 (Honghe Ganlin Agriculture Company Limited). In addition, a factory with 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 all been installed for trial-run during the Period. 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.

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 situation in the PRC gradually improved during the Period, and business activities returned to normal. Thus, the Group had only supported a few tenants of the Jiachao's Shopping Mall and the Zone C Shopping Mall by reducing their rental, management and operating service charges on different bases for the period from July to September 2020 with an aggregated amount of approximately HK$681,000 (2019: Nil). 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. Nevertheless, the Group still cites cost reduction as a key strategic focus to help navigate business uncertainty resulting from the global 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.

Revenue

For the Period, the Group recorded a revenue of approximately HK$92,000,000 (2019: HK$88,939,000), approximately 3.4% more than that in 2020. 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. Slight increase in revenue during the Period was due to a trivial increment in income of rental, management and operating services. Moreover, there was no revenue generated from the biotechnology segment for the periods ended 31 December 2019 and 2020 since the official production was not yet started during the preliminary set-up stage and under trial-run of a production line, respectively.

Gross Profit

The gross profit margin was approximately 56.4% for the Period (2019: 61.8%). 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 an increase in the lease payments of the Zone C Shopping Mall of approximately HK$7,184,000 during the Period.

Loss for the Period

The Group's loss incurred for the Period was approximately HK$288,519,000 (profit generated in 2019: HK$14,893,000). The loss margin was 313.6% for the Period (profit margin in 2019: 16.7%). The profit and the profit margin both reduced significantly for the Period because of a significant decrease in fair value of the Group's investment properties, the Jiachao's Shopping Mall, of approximately HK$403,000,000 as a result of the COVID-19 pandemic spreading across the globe since the first half year of 2020. If the loss on fair value of investment properties were excluded, the profit and profit margin for the Period would be maintained at the similar level as those for the period ended 31 December 2019.

Other Income

Other income for the Period was approximately HK$15,981,000 (2019: HK$8,209,000), which comprised mainly other kinds of income earned by Jiachao, such as car parking fees and other services provided to tenants. Increase in other income was due to the receipt of bank interest income from a term deposit, the forfeit of rental deposits from defaulted termination or withdrawal of shop units and the subsidies of employment support provided by the PRC and Hong Kong governments.

Expenses

Administrative expenses amounted to approximately HK$17,503,000 (2019: HK$19,997,000), representing approximately 19.0% (2019: 22.5%) of revenue for the Period. Administrative expenses decreased by approximately 12.5% because of a handling charge paid for two new bank borrowings obtained during the period ended 31 December 2019.

The carrying value of the Group's investment properties as at 31 December 2020 of approximately HK$2,432,795,000 (30 June 2020: HK$2,637,363,000) was stated at fair value based on an independent valuation as at that date, which produced a loss on fair value of investment properties of approximately HK$403,000,000 (2019: Nil). This loss on fair value change on investment properties mainly reflected a less flourishing rental growth of the investment properties as a result of the COVID-19 pandemic spreading across the globe since the first half year of 2020. The attributable net loss on fair value change on investment properties of approximately HK$226,688,000 (2019: Nil), after deducting related deferred tax liabilities and non-controlling interest, was debited to the condensed consolidated income statement.

Loss on fair value change on biological assets amounted to approximately HK$2,386,000 (2019: Nil). The increase was due to the biotechnology business was preliminarily set up during the period ended 31 December 2019. The loss was caused by heavy rain during harvesting which had hindered trucks to enter the planting base and after that the plants withered.

Finance costs amounted to approximately HK$30,896,000 (2019: HK$27,012,000), representing approximately 33.6% (2019: 30.4%) of revenue for the Period. Finance costs increased by approximately 14.4% due to interest expenses of two bank borrowings incurred throughout the whole Period.

Dividend

The Board does not recommend the payment of an interim dividend for the Period (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.

During the Period, the Company planned to streamline the Group's businesses by segregating the property holding business and property operating business of Jiachao. The Group therefore with Jiachao's minority shareholder in the same shareholding proportion as in Jiachao established a company 鄭州中原錦藝商業運營管理有限公司 (Zhengzhou Zhongyuan Jinyi Commercial Operation Management Company Limited) ("Zhongyuan Jinyi") in the PRC. The Company indirectly owned 75% interests in Zhongyuan Jinyi. Consequently, Zhongyuan Jinyi would be engaged in the property operating business while Jiachao would be engaged in property holding business. The current tenants of Jiachao would be transferred to Zhongyuan Jinyi and such transfer is expected to complete in the second quarter of 2021. As part of this, Zhongyuan Jinyi would enter into tenancy agreements with Jiachao and the real estate developer in respect of the Group's shopping malls.

The Company will from time to time review the Group's operation, including its business, assets and financial position, and adopt such plans and acts which the Board considers will best benefit the Group and its shareholders as a whole, with an aim to maximise returns to shareholders as far as possible.

By aiming to diversify the types of business and increase the shareholders' return, the Group explored biotechnology segment since 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 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 a production line and planting raw material, respectively. Moreover, the Industrial CBD Cultivation Approval License and the Industrial CBD Trial Production Approval License were already granted by the PRC regulatory body. The trial production was then carried out during the Period and relevant result was submitted to the PRC regulatory body. Once the Industrial CBD Production Approval License has been granted, the commercial production is expected to commence accordingly.

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 manages and operates the property operating segment by the current caliber management and competent employees of subsidiaries and builds 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 and uncertainties happened in the PRC during the Period and in the 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 with 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 and the Internal/External Circular Economy that advocated by the PRC 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 2020, the Group had net current assets and total assets less current liabilities of approximately HK$225,285,000 (30 June 2020: HK$290,629,000) and HK$2,718,340,000 (30 June 2020: HK$2,978,960,000), respectively. The Group had maintained its financial position by financing its operations with internally generated resources, bonds and bank borrowings. As at 31 December 2020, the Group had cash and bank deposits of approximately HK$352,311,000 (30 June 2020: HK$419,095,000). The current ratio of the Group was approximately 227.3% (30 June 2020: 274.1%).

Total equity of the Group as at 31 December 2020 was approximately HK$1,586,381,000 (30 June 2020: HK$1,748,402,000). As at 31 December 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 RMB727,383,000 were equivalent to approximately HK$864,050,000 (30 June 2020: HK$874,523,000) and five bonds (30 June 2020: six bonds) measured at amortised cost was approximately HK$34,340,000 in aggregate (30 June 2020: HK$44,343,000). As at 31 December 2020, the gross debt gearing ratio (i.e. total borrowings and bonds/shareholders' fund) was approximately 56.6% (30 June 2020: 52.6%).

Though the return of funds has slowed down since the beginning of 2020 as a result of the global COVID-19 pandemic, the Group still has maintained and will continue to maintain a reasonable amount of working capital on hand in order to preserve 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 2020, the total borrowing facilities of the Group amounted to approximately HK$864,050,000 (30 June 2020: HK$874,523,000), of which, all facilities (30 June 2020: all facilities) was utilised. In addition, five bonds (30 June 2020: six bonds) amounted to approximately HK$34,340,000 in aggregate (30 June 2020: HK$44,343,000), measured at amortised cost, were arranged with four 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 2020, 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 2020, certain investment properties of the Group with aggregate carrying value of approximately HK$1,056,710,000 (30 June 2020: HK$1,145,566,000) were pledged to a bank to secure banking facilities granted to the Group.

STAFF POLICY

The Group had 160 employees altogether in the PRC and Hong Kong as at 31 December 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 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (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 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, 26 February 2021

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.