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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)

**(I) VERY SUBSTANTIAL DISPOSAL IN RELATION
TO THE PROPOSED DISPOSAL OF
75% EQUITY INTERESTS IN A SUBSIDIARY;
(II) VERY SUBSTANTIAL ACQUISITION IN RELATION
TO THE LEASE CONTRACT JIACHAO'S; AND
(III) VERY SUBSTANTIAL ACQUISITION IN RELATION
TO THE LEASE CONTRACT ZONE C**

Financial adviser to the Company



中毅資本有限公司
Grand Moore Capital Limited

SALE AND PURCHASE AGREEMENT

On 26 April 2021 (after trading hours), the Vendor, being an indirect wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Purchaser, pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Equity Interests.

The Consideration to be received by the Vendor amounted to RMB429,540,000 (equivalent to approximately HK\$511,357,000).

LEASE CONTRACT JIACHAO'S

On 26 April 2021 (after trading hours), the Lessee, being an indirect non-wholly-owned subsidiary of the Company, entered into the Lease Contract Jiachao's with the Lessor Jiachao's, pursuant to which the Lessee has conditionally agreed to rent, and the Lessor Jiachao's has conditionally agreed to lease, the Jiachao's Shopping Mall during a lease term of 15 years.

The monthly rent unit price of the Jiachao's Shopping Mall will start at RMB28 per square meter (value-added tax inclusive), and the monthly rent unit price will be increased by 5% every 2 rental years.

LEASE CONTRACT ZONE C

On 26 April 2021 (after trading hours), the Lessee, being an indirect non-wholly-owned subsidiary of the Company, entered into the Lease Contract Zone C with the Lessor Zone C, pursuant to which the Lessee has conditionally agreed to rent, and the Lessor Zone C has conditionally agreed to lease, the Zone C Shopping Mall during a lease term of 15 years.

The monthly rent unit price of the Zone C Shopping Mall will start at RMB28 per square meter (value-added tax inclusive), and the monthly rent unit price will be increased by 5% every 2 rental years.

IMPLICATION UNDER THE LISTING RULES

Sale and Purchase Agreement

As one or more of the applicable percentage ratios (as defined in the Listing Rules) exceeds 75% for the Company, the Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Lease Contract Jiachao's

Under HKFRS 16, the entering into of the Lease Contract Jiachao's as a lessee and sub-letting the Jiachao's Shopping Mall will require the Lessee (i.e. the Group) to initially recognise as right-of-use asset at cost of approximately RMB391,850,000 (equivalent to approximately HK\$466,488,000). Subsequently, the Jiachao's Shopping Mall will be measured at fair value model in accordance with HKAS 40 of approximately RMB1,107,000,000 (equivalent to approximately HK\$1,317,857,000) covered by the Lease Contract Jiachao's as an investment property, and thus the entering into of the Lease Contract Jiachao's and the transactions contemplated thereunder will be regarded as a deemed acquisition of asset by the Group.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) of the entering into of the Lease Contract Jiachao's as a deemed acquisition of investment property exceed 100% on an aggregated basis, the entering into of the Lease Contract Jiachao's constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Lease Contract Zone C

Under HKFRS 16, the entering into of the Lease Contract Zone C as a lessee and sub-letting the Zone C Shopping Mall will require the Lessee (i.e. the Group) to initially recognise as right-of-use asset at cost of approximately RMB250,776,000 (equivalent to approximately HK\$298,543,000). Subsequently, the Zone C Shopping Mall will be measured at fair value model in accordance with HKAS 40 of approximately RMB927,000,000 (equivalent to approximately HK\$1,103,571,000) covered by the Lease Contract Zone C as an investment property, and thus the entering into of the Lease Contract Zone C and the transactions contemplated thereunder will be regarded as a deemed acquisition of asset by the Group.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) of the entering into of the Lease Contract Zone C as a deemed acquisition of investment property exceed 100% on an aggregated basis, the entering into of the Lease Contract Zone C constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

EXTRAORDINARY GENERAL MEETING AND CIRCULAR

An extraordinary general meeting will be convened and held for the purpose of considering and, if thought fit, approve the Transactions. A circular containing, amongst other things, (i) further information on the Transactions; (ii) a valuation report of the Jiachao's Shopping Mall; (iii) a valuation report of the Zone C Shopping Mall; (iv) financial information on the Target Company; (v) financial information on the Zone C Shopping Mall; (vi) an unaudited pro forma financial information of the Group as a result of the Transactions; and (vii) other information as required under the Listing Rules will be despatched to the Shareholders on or before Friday, 28 May 2021 as additional time is required to prepare for the relevant information to be included in the circular.

GENERAL

It should be noted that the Completion is conditional upon the satisfaction of the conditions precedent to the Sale and Purchase Agreement, the Lease Contract Jiachao's and the Lease Contract Zone C, which may or may not be fulfilled. As the Transactions may or may not proceed, Shareholders and potential investors of the Company should exercise caution when they deal or contemplate dealing in the securities of the Company.

INTRODUCTION

The Board is pleased to announce that on 26 April 2021 (after trading hours):

- 1) the Vendor, being an indirect wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Purchaser, pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Equity Interests;
- 2) the Lessee, being an indirect non-wholly-owned subsidiary of the Company, entered into the Lease Contract Jiachao's with the Lessor Jiachao's, pursuant to which the Lessee has conditionally agreed to rent, and the Lessor Jiachao's has conditionally agreed to lease, the Jiachao's Shopping Mall; and
- 3) the Lessee, being an indirect non-wholly-owned subsidiary of the Company, entered into the Lease Contract Zone C with the Lessor Zone C, pursuant to which the Lessee has conditionally agreed to rent, and the Lessor Zone C has conditionally agreed to lease, the Zone C Shopping Mall.

SALE AND PURCHASE AGREEMENT

Date

26 April 2021 (after trading hours)

Parties

The Purchaser (as the Purchaser)

The Vendor (as the Vendor)

To the best of the Directors' knowledge, information and belief having made all reasonable enquires, the Purchaser and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Asset to be disposed of

The Sale Equity Interests

Consideration

The Consideration to be received by the Vendor amounted to RMB429,540,000 (equivalent to approximately HK\$511,357,000), which will be settled in cash in the following manner:

1. RMB214,770,000 (equivalent to approximately HK\$255,679,000) will be paid on or before the application for the Industrial and Commercial Transfer Registration (as defined below);
2. RMB128,862,000 (equivalent to approximately HK\$153,407,000) will be paid on or before the 10th business day after the Industrial and Commercial Transfer Registration (as defined below) is completed; and
3. the remaining RMB85,908,000 (equivalent to approximately HK\$102,271,000) will be paid on or before the 40th business day after the Industrial and Commercial Transfer Registration (as defined below) is completed.

After completion of the Industrial and Commercial Transfer Registration (as defined below), if the Purchaser fails to pay the remaining Consideration, without prejudice to the rights to other remedies, the Purchaser shall pay to the Vendor damages at the rate of 0.05% per day on the unpaid Consideration.

If the Sale and Purchase Agreement is terminated due to the Industrial and Commercial Transfer Registration not being completed, the Vendor will within 10 business days refund to the Purchaser the partial Consideration received, and the Target Company will refund to the Purchaser the Current Accounts-Adjusted (as defined below) and the Bonus Dividend (as defined below) the Purchaser advanced to the Target Company, or paid to the Vendor on behalf of the Target Company. Upon failure to refund, the Vendor or the Target Company (as the case may be) shall pay to the Purchaser damages at the rate of 0.05% per day on the relevant amount.

Basis of the Consideration

The Consideration was determined after arm's length negotiation between the Purchaser and the Vendor with reference to (i) 75% of the unaudited net assets value of the Target Company of approximately RMB545,448,000 (equivalent to approximately HK\$649,342,000) as at 31 March 2021 based on the latest unaudited management accounts of the Target Company (which has taken into account the preliminary valuation of the Jiachao's Shopping Mall (with the assumed existence of the Lease Contract Jiachao's) of approximately RMB1,436,000,000 (equivalent to approximately HK\$1,709,524,000) as at 31 March 2021 based on the income capitalisation method compiled by an independent valuer), being RMB409,086,000 (equivalent to approximately HK\$487,007,000); and (ii) a 5% premium over (i) above of approximately RMB20,454,000 (equivalent to approximately HK\$24,350,000).

Conditions precedent to the Sale and Purchase Agreement

The Completion shall be conditional upon the fulfilment of the following conditions:

1. the Stock Exchange having reviewed and confirmed the relevant announcement(s) and circular in relation to the Sale and Purchase Agreement, the Lease Contract Jiachao's and the transactions contemplated thereunder as required by the Listing Rules, and the Company having published such announcement(s) and circular;

2. the Shareholders approving the Sale and Purchase Agreement, the Lease Contract Jiachao's and the transactions contemplated thereunder in an extraordinary general meeting to be convened by the Company;
3. the Vendor and the Purchaser having obtained all the consents, approvals, filings or registrations (but not including the industrial and commercial transfer registration (工商變更登記) of the Sale Equity Interests) (the "**Industrial and Commercial Transfer Registration**") necessary for them to complete the transactions contemplated under the Sale and Purchase Agreement and the Lease Contract Jiachao's, all such consents, approvals, filings or registrations remaining complete and effective, and any such consents, approvals, filings or registrations not conflicting, altering or invalidating any terms of the Sale and Purchase Agreement;
4. no government department, regulatory bodies, court or other judicial authority having issued any order or made any decision to the effect that the Sale and Purchase Agreement, the Lease Contract Jiachao's and/or the transactions contemplated thereunder is invalid, unenforceable or illegal;
5. the Target Company having executed and submitted to the Vendor the duly signed Lease Contract Jiachao's, and the Shareholders having approved the Lease Contract Jiachao's and the transactions contemplated thereunder in an extraordinary general meeting to be convened by the Company; and
6. the payments below being settled prior to the submission of application for the Industrial and Commercial Transfer Registration:
 - a. the Target Company repaying to the Vendor the current accounts as at 31 March 2021 in the amount of RMB272,472,178.13 (equivalent to approximately HK\$324,372,000) (the "**Current Accounts-Adjusted**"); and
 - b. the Target Company distributing to the Vendor a bonus dividend as at 31 March 2021 in the amount of RMB35,056,406.81 (equivalent to approximately HK\$41,734,000) (the "**Bonus Dividend**").

“Current Accounts-Adjusted” refers to the amount by deducting the payables to the Target Company of RMB33,348,956.87 from the amount due to the Vendor of RMB305,821,135 as at 31 March 2021.

If the Target Company fails to pay to the Vendor the Current Accounts-Adjusted and/or the Bonus Dividend on or before 3 business days after the extraordinary general meeting to be convened by the Company as mentioned in condition 2 above, the Purchaser shall (i) advance as loan to the Target Company a sum equal to the Current Accounts-Adjusted and the Bonus Dividend and the Target Company shall use the sum advanced by the Purchaser to pay the Vendor the amounts set out in conditions 6(a) and (b) above; or (ii) settle/pay the Current Accounts-Adjusted on behalf of the Target Company.

Within 3 business days after the fulfilment of conditions 1 to 5 above, the Vendor and the Purchaser will attend to the Industrial and Commercial Transfer Registration with the relevant industrial and commercial administration bureau.

None of the conditions above are waivable.

Each of the Vendor and the Purchaser has undertaken, and procure to on the best effort basis fulfill the above conditions 1 to 5 on or before the Long Stop Date (or such other dates as agreed by the Vendor and the Purchaser).

If (i) the above conditions 1 to 5 are not fulfilled on or before the Long Stop Date; (ii) the amounts in condition 6 is not paid by the Target Company or the Purchaser on or before the stipulated timeframe; or (iii) the Industrial and Commercial Transfer Registration is not completed within 60 days (or such other days as the parties agree) after the fulfilment of conditions 1 to 5 above, the Sale and Purchase Agreement will be automatically terminated and become invalid. Upon the termination, both parties will have no rights and obligations under the Sale and Purchase Agreement, save for any rights on breach which occurred before the termination.

Completion

Completion will take place on the date when the Industrial and Commercial Transfer Registration is completed.

Upon Completion, the Target Company will cease to be an indirect non-wholly-owned subsidiary of the Company, and the financial results of the Target Company will no longer be consolidated into the financial statements of the Group.

Following Completion, the Group will, through the Lessee, continue to carry on the business of operation and management of (i) the Jiachao's Shopping Mall as a result of the Lease Contract Jiachao's becoming effective; and (ii) the Zone C Shopping Mall as a result of the Lease Contract Zone C becoming effective. Please refer to the sections headed "Information on the Target Company and the Jiachao's Shopping Mall", "Lease Contract Zone C" and "Information on the Zone C Shopping Mall" of this announcement for further details.

INFORMATION ON THE TARGET COMPANY AND THE JIACHAO'S SHOPPING MALL

The Target Company

The Target Company is a company registered in the PRC with limited liability and is owned as to 75% by the Vendor and as to 25% by Henan Diyi Textile Company Limited* (河南第一紡織有限公司), which is also holding 25% equity interests in the Lessee and is a connected person at subsidiary level to the Group. The Target Company is principally engaged in property investment and its major asset is the Jiachao's Shopping Mall. The Group acquired 75% interests in the Target Company as announced by the Company's announcement dated 18 December 2014 at a cash consideration of RMB591,660,000 (equivalent to approximately HK\$748,937,000 at the time of such acquisition). Completion of such acquisition took place in 2015.

The Target Company also leases shop units in the Zone C Shopping Mall, which is adjacent to the Jiachao's Shopping Mall, from the Lessor Zone C to expand its property operating business pursuant to the Existing Lease Contract Zone C. The Existing Lease Contract Zone C will expire on 31 December 2021, subject to renewal or termination.

Please refer to the section headed "Information on the Zone C Shopping Mall" for further information on the Zone C Shopping Mall.

Set out below is the financial summary of the Target Company for the years ended 30 June 2019 and 2020 and the nine months ended 31 March 2021:

	For the nine months ended 31 March 2021	For the year ended 30 June	
	2020	2019	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)
Revenue	143,337	159,547	207,751
Decrease in fair value of investment properties	(1,147,619)	(77,778)	(19,540)
(Loss)/profit before taxation	(1,103,554)	(41,078)	98,540
(Loss)/profit after taxation	(821,713)	(18,582)	82,057

The unaudited net asset value of the Target Company as at 31 March 2021 was approximately HK\$649,342,000.

The Jiachao's Shopping Mall

The Jiachao's Shopping Mall is a shopping mall located at No. 36 Mianfang West Road, Zhongyuan District, Zhengzhou City, Henan Province, the PRC and is the major asset of the Target Company.

The Jiachao's Shopping Mall comprises the whole of a 4-storey shopping mall built over one level of basement commercial space and has a total registered gross floor area of approximately 125,188.32 square meters. As at 31 March 2021, approximately 99.8% of the leasable area of the Jiachao's Shopping Mall had been leased out to retail shops, restaurants and/or for entertainment and leisure use. The Jiachao's Shopping Mall is a one-stop shopping paradise offering a wide range of services and goods to consumers and shoppers with 152 tenants including a renowned department store, a cinema, a supermarket, KTV (a karaoke box), beauty shops, electrical appliances shops, international labels for fashion, lifestyle, casual wear/sport, kid's paradise and restaurants. 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.

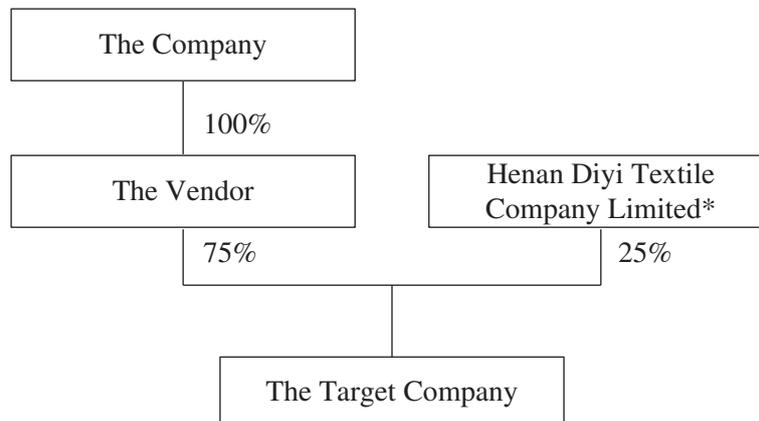
Possibly subject to adjustment, the preliminary market valuation of the Jiachao's Shopping Mall (with the assumed existence of the Lease Contract Jiachao's) as appraised by an independent valuer as at 31 March 2021 was approximately RMB1,436,000,000 (equivalent to approximately HK\$1,709,524,000) based on income capitalisation method.

Set out below is the unaudited statement of profit or loss on the identifiable net income stream of the Jiachao's Shopping Mall for the years ended 30 June 2019 and 2020:

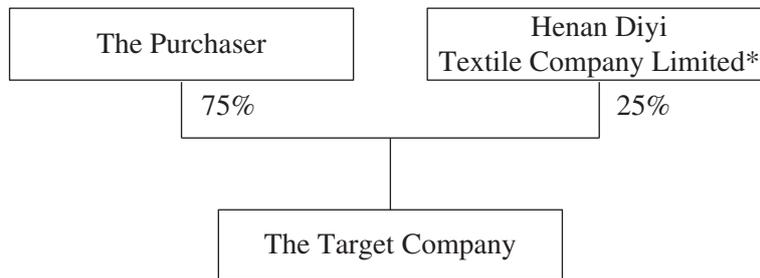
	For the year ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue	105,423	148,351
(Loss)/profit before taxation	(53,837)	85,105
(Loss)/profit after taxation	(28,151)	71,981

Shareholding structure of the Target Company

Set forth below is the simplified group chart of the Target Company as at the date of this announcement:



Set forth below is the simplified group chart of the Target Company immediately upon Completion:



LEASE CONTRACT JIACHAO'S

Date

26 April 2021 (after trading hours)

Parties

Lessor Jiachao's (as the lessor)

Lessee (as the lessee)

Lessor Jiachao's (i.e. the Target Company) is an indirect non-wholly-owned subsidiary of the Company prior to the Completion. To the best of the Directors' knowledge, information and belief having made all reasonable enquires, following Completion, the Lessor Jiachao's and its ultimate beneficial owner will be third parties independent of the Company and its connected persons.

Property

The Jiachao's Shopping Mall

Lease term

15 years commencing from a lease start date mutually agreed by the Lessor Jiachao's and the Lessee after the effective date of the Lease Contract Jiachao's.

The existing intra-group Existing Lease Contract Jiachao's between the Lessor Jiachao's and the Lessee will be terminated on the aforesaid lease start date.

Rental payment

There is no rent-free period.

The monthly rent unit price of the Jiachao's Shopping Mall will start at RMB28 per square meter (value-added tax inclusive), and the monthly rent unit price will be increased by 5% every 2 rental years. The rental payment schedule is as follows:

Rental year	Rental area (square meters)	Monthly rent	Monthly rent (RMB)	Aggregate rent (RMB)
		unit price (RMB per square meter)		
1, 2		28.00	3,505,272.96	84,126,551.04
3, 4		29.40	3,680,536.61	88,332,878.64
5, 6		30.87	3,864,563.44	92,749,522.56
7, 8	125,188.32	32.41	4,057,353.45	97,376,482.80
9, 10		34.03	4,260,158.53	102,243,804.72
11, 12		35.73	4,472,978.67	107,351,488.08
13, 14		37.52	4,697,065.77	112,729,578.48
15		39.40	4,932,419.81	59,189,037.72
Total				<u>744,099,344.04</u>

The monthly rent unit price increment of 5% every 2 rental years was determined after arm's length negotiation among the Purchaser, the Lessor Jiachao's and the Lessee with reference to (i) as announced by the National Bureau of Statistics, in the first quarter of year 2021, the national consumption expenditure per capita in the PRC represented a nominal increase of 17.6% over the same period of the previous year; (ii) as announced by the National Bureau of Statistics, in the first quarter of year 2021, the national disposable income per capita in the PRC represented a nominal increase of 13.7% over the same period of the previous year; (iii) the PRC government's forecasted gross domestic product growth of over 6% in 2021; (iv) according to data whose source is the World Bank, the historical inflation rate in the PRC of approximately 2.07% and 2.90% in the years 2018 and 2019 respectively; and (v) the Group's property operating business on the Zone C Shopping Mall has been profitable since the entering into of the Existing Lease Contract Zone C in August 2015, while the latest monthly rent unit price of the Zone C Shopping Mall is RMB28 per square meter for the year 2021, representing a compounded annual growth rate of approximately 7% from the monthly rent unit price of RMB20 per square meter for the year 2016.

Based on the above, the Directors considered the monthly rent unit price increment of 5% every 2 rental years is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Deposit

Within 10 business days from the effective date of the Lease Contract Jiachao's, the Lessee will pay to the Lessor Jiachao's a deposit of RMB148,820,000 (equivalent to approximately HK\$177,167,000), being 20% of the aggregate rent throughout the whole rental period. The deposit will be applied to settle the rental payment of the 14th rental year and 15th rental year, and the remainder will be refunded to the Lessee accordingly upon the expiry of the Lease Contract Jiachao's.

Usage

Shopping mall leasing, operation and management by the Lessee.

Conditions precedent to the Lease Contract Jiachao's

Following the Lessor Jiachao's and the Lessee having duly signed and executed the Lease Contract Jiachao's, the Lease Contract Jiachao's will become effective subject to the following conditions:

1. the Lease Contract Jiachao's and the transactions contemplated thereunder being approved by the Shareholders in an extraordinary general meeting of the Company; and
2. the Industrial and Commercial Transfer Registration having completed.

Effective date of the Lease Contract Jiachao's

Subject to fulfilment of the conditions precedent to the Lease Contract Jiachao's, the effective date of the Lease Contract Jiachao's is the date Industrial and Commercial Transfer Registration has been completed, i.e. the date of Completion.

Termination

The Lease Contract Jiachao's can be terminated upon mutual agreement of the Lessee and the Lessor Jiachao's.

In the event the Lessee considers that the Jiachao's Shopping Mall does not generate the economic results reasonably anticipated by the Lessee, the Lessee has the right to terminate the Lease Contract Jiachao's, and upon such termination, the Lessee shall pay to the Lessor Jiachao's 20% of the rental payment for the remaining rental period under the Lease Contract Jiachao's.

LEASE CONTRACT ZONE C

Date

26 April 2021 (after trading hours)

Parties

Lessor Zone C (as the lessor)

Lessee (as the lessee)

To the best of the Directors' knowledge, information and belief having made all reasonable enquires, the Lessor Zone C and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Property

The Zone C Shopping Mall

Lease term

15 years commencing from a lease start date mutually agreed by the Lessor Zone C and the Lessee after the effective date of the Lease Contract Zone C.

The Existing Lease Contract Zone C between the Lessor Zone C and the Lessee will be terminated on the aforesaid lease start date.

Rental payment

There is no rent-free period.

The monthly rent unit price of the Zone C Shopping Mall will start at RMB28 per square meter (value-added tax inclusive), and the monthly rent unit price will be increased by 5% every 2 rental years. The rental payment schedule is as follows:

Rental year	Rental area <i>(square meters)</i>	Monthly rent		Aggregate rent <i>(RMB)</i>
		unit price <i>(RMB per square meter)</i>	Monthly rent <i>(RMB)</i>	
1, 2	80,117.99	28.00	2,243,303.72	53,839,289.28
3, 4		29.40	2,355,468.91	56,531,253.84
5, 6		30.87	2,473,242.35	59,357,816.40
7, 8		32.41	2,596,624.06	62,318,977.44
9, 10		34.03	2,726,415.20	65,433,964.80
11, 12		35.73	2,862,615.78	68,702,778.72
13, 14		37.52	3,006,026.98	72,144,647.52
15		39.40	3,156,648.81	<u>37,879,785.72</u>
Total				<u><u>476,208,513.72</u></u>

Pursuant to the Existing Lease Contract Zone C, the monthly rent unit price amounted to RMB28 per square meter for the period from 1 January 2021 to 31 December 2021, and the monthly rent amounted to RMB2,243,303.72 calculated based on the rental area of the Zone C Shopping Mall of 80,117.99 square meters.

The monthly rent unit price increment of 5% every 2 rental years was determined after arm's length negotiation among the Lessor Zone C and the Lessee with reference to (i) as announced by the National Bureau of Statistics, in the first quarter of year 2021, the national consumption expenditure per capita in the PRC represented a nominal increase of 17.6% over the same period of the previous year; (ii) as announced by the National Bureau of Statistics, in the first quarter of year 2021, the national disposable income per capita in the PRC represented a nominal increase of 13.7% over the same period of the previous year; (iii) the PRC government's forecasted gross domestic product growth of over 6% in 2021; (iv) according to data whose source is the World Bank, the historical inflation rate in the PRC of approximately 2.07% and 2.90% in the years 2018 and 2019 respectively; and (v) the Group's property operating business on the Zone C Shopping Mall has been profitable since the entering into of the Existing Lease Contract Zone C in August 2015, while the latest monthly rent unit price of the Zone C Shopping Mall is RMB28 per square meter for the year 2021, representing a compounded annual growth rate of approximately 7% from the monthly rent unit price of RMB20 per square meter for the year 2016.

Based on the above, the Directors considered the monthly rent unit price increment of 5% every 2 rental years is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Deposit

Within 10 business days from the effective date of the Lease Contract Zone C, the Lessee will pay to the Lessor Zone C a deposit of RMB95,242,000 (equivalent to approximately HK\$113,383,000), being 20% of the aggregate rent throughout the whole rental period. The deposit will be applied to settle the rental payment of the 14th rental year and 15th rental year, and the remainder will be refunded to the Lessee accordingly upon the expiry of the Lease Contract Zone C.

Usage

Shopping mall leasing, operation and management by the Lessee.

Conditions precedent to the Lease Contract Zone C

Following the Lessor Zone C and the Lessee having duly signed and executed the Lease Contract Zone C, the Lease Contract Zone C will become effective subject to the Lease Contract Zone C and the transactions contemplated thereunder being approved by the Shareholders in an extraordinary general meeting of the Company.

Effective date of the Lease Contract Zone C

The effective date of the Lease Contract Zone C is the date on which the Lease Contract Zone C and the transactions contemplated thereunder being approved by the Shareholders in an extraordinary general meeting of the Company.

Termination

The Lease Contract Zone C can be terminated upon mutual agreement of the Lessee and the Lessor Zone C.

In the event the Lessee considers that the Zone C Shopping Mall does not generate the economic results reasonably anticipated by the Lessee, the Lessee has the right to terminate the Lease Contract Zone C, and upon such termination, the Lessee shall pay to the Lessor Zone C 20% of the rental payment for the remaining rental period under the Lease Contract Zone C.

INFORMATION ON THE ZONE C SHOPPING MALL

The Zone C Shopping Mall is a shopping mall located at No. 40 Mianfang West Road, Zhongyuan District, Zhengzhou City, Henan Province, the PRC and adjacent to the Jiachao's Shopping Mall.

The Zone C Shopping Mall is currently being leased by the Target Company from the Lessor Zone C pursuant to the Existing Lease Contract Zone C. The Existing Lease Contract Zone C will expire on 31 December 2021, subject to renewal or termination. The Existing Lease Contract Zone C will be terminated upon the Lease Contract Zone C becoming effective.

The Target Company promoted and further rented out the Zone C Shopping Mall to independent tenants. The Target Company has an advantage of having an existing team of high-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 are minimal to the Target Company 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 combined management of both the Jiachao's Shopping Mall and the Zone C Shopping Mall by the Target Company currently and the Lessee upon Completion will bring positive benefits and synergy effects on the customer flow and the tenant profile to the Group, which are expected to eventually contribute to the revenue and profit margin of the property operating business of the Group. As at 31 March 2021, approximately 99.4% of the leasable area of the Zone C Shopping Mall had been leased out as retail shops, restaurants and/or for entertainment and leisure uses which offers a wide range of services and goods with over 113 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.

Possibly subject to adjustment, the preliminary market valuation of the Zone C Shopping Mall during the lease period covered by the Lease Contract Zone C as appraised by an independent valuer as at 31 March 2021 is approximately RMB927,000,000 (equivalent to approximately HK\$1,103,571,000) based on income capitalisation method.

Set out below is the unaudited statement of profit or loss on the identifiable net income stream of the Zone C Shopping Mall for the years ended 30 June 2019 and 2020:

	For the year ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue	54,124	59,400
Profit before taxation	12,759	13,435
Profit after taxation	9,569	10,076

REASONS FOR AND BENEFITS OF THE TRANSACTIONS AND USE OF PROCEEDS

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

An existing team of high-caliber and experienced management and staff in property operating business

The Group has the advantage of having an existing team of high-caliber and experienced management and staff in property operating business. The Group's property operating business is led by the General Manager, a senior commercial real estate management staff who possesses 25 years' experience in commercial enterprise management and full-scale commercial operation, commercial real estate development, planning and operation and investment promotion capabilities, and has successful cases of large-scale comprehensive commercial projects with aggregate leasable area of approximately two million square meters in the PRC. There are in total 138 staff in the Group's property operating business, 28 of which has over 10 years of property operating and management business experience in the PRC. Since the completion of acquisition of the Target Company in 2015, the Group's property operating department managed to achieve occupancy rate of over 98%. As at 31 March 2021, there were 152 tenants in the Jiachao's Shopping Mall, and the vacant units accounted for only approximately 0.2% of the leasable area. As at 31 March 2021, there were 113 tenants in the Zone C Shopping Mall, and the vacant units accounted for approximately 0.6% of the leasable area. In view of the outstanding performance of the existing team in property operating business, the Group, in addition to operating its self-owned Jiachao's Shopping Mall, has entered into the Existing Lease Contract Zone C with the Lessor Zone C and is currently running and operating the Zone C Shopping Mall adjacent to the Jiachao's Shopping Mall. The Group is able to generate income from the provision of rental, management and operating services to tenants of the Zone C Shopping Mall with minimal incremental cost.

The Target Company has been loss-making due to fair value loss on the Jiachao's Shopping Mall

The Jiachao's Shopping Mall is the major asset of the Target Company.

As disclosed above, the Target Company turned around from a profit making position for the year ended 30 June 2019 to a loss making position for the year ended 30 June 2020, and the Target Company recorded an unaudited loss of approximately HK\$274,096,000 for the six months ended 31 December 2020. The Target Company's loss for the year ended 30 June 2020 and the six months ended 31 December 2020 were principally attributable to the decrease in fair value of investment property, i.e. the Jiachao's Shopping Mall. Despite that investment properties will be recognised on the financial statements of the Group pursuant to the Lease Contract Jiachao's and the Lease Contract Zone C in accordance with HKAS 40 – Investment Properties, the possible fair value fluctuation of investment property (the magnitude of which is (i) dependent on, among other things, market rental price of comparable properties and existing rental price and (ii) multiplied by the length of outstanding lease term) is expected to be much smaller in magnitude as the lease term pursuant to the Lease Contract Jiachao's and the Lease Contract Zone C is 15 years, while currently the magnitude of fair value fluctuation of investment property is (i) dependent on, among other things, market rental price of comparable properties and existing rental price and (ii) multiplied by the remaining term of the land use right of the Jiachao's Shopping Mall currently owned by the Target Company, which will expire in 31 years in the year 2052. Therefore, the Board expects that the Disposal of the Jiachao's Shopping Mall will mitigate the Group's exposure on such significant fair value decrease going forward. For illustrative purpose only, if the fair value loss on investment property, i.e. the Jiachao's Shopping Mall is excluded, the Group will record adjusted unaudited profit before taxation for the year ended 30 June 2020 and the six months ended 31 December 2020 of approximately HK\$19,569,000 and HK\$17,117,000, respectively. In respect of cash flow, following Completion and receipt of the Consideration of RMB429,540,000, in addition to pre-payment of the first year's rent approximately RMB42,063,000 and a 20% deposit of the total rent of RMB148,820,000 pursuant to the Lease Contract Jiachao's, the Group's cash outflow would be the quarterly rent payments starting from the second rental year. Rental income will be collected from tenants as it currently does. Following Completion, the Group has no outstanding loans or borrowings and therefore there will be no interest expenses for the Group.

A shift of business focus and resources to asset-light and service-oriented property operator

During the year ended 30 June 2015, the Group completed the acquisition of 75% equity interest in the Target Company in order for the Group to penetrate into the property operating markets. During the year ended 30 June 2016, the Group discontinued and disposed of the non-performing textile product business and determined to focus its resources into the property operating business.

The summary financial results of the Group for the financial years ended 30 June 2016, 2017, 2018, 2019 and 2020 and the six months ended 31 December 2020 are as follows:

	For the six months ended 31 December		For the year ended 30 June			
	2020	2020	2019	2018	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)	(audited)	(audited)	(audited)	(audited)
Revenue	92,000	159,547	211,818	199,219	185,422	164,160
(Loss)/profit for the year/period	(288,519)	(35,713)	76,439	112,195	126,563	500,487

As disclosed above, the Group's property operating business has been satisfactory. However, the Group turned around to a loss making position during the year ended 30 June 2020 and the six months ended 31 December 2020 due to, among other things, (i) a temporary 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 September 2020 with an aggregated amount of approximately HK\$18,386,000 as a result of the COVID-19 pandemic; and (ii) significant decrease in fair value of the Group's investment properties, i.e. the Jiachao's Shopping Mall, of approximately HK\$77,778,000 and HK\$403,000,000 during the year ended 30 June 2020 and the six months ended 31 December 2020, respectively as a result of the aforementioned situation.

As disclosed in the interim report of the Group for the six months ended 31 December 2020, during such period, the Company planned to streamline the Group's businesses by segregating the property holding business and property operating business of the Target Company. The Group has therefore, with the Target Company's minority shareholder in the same shareholding proportion as in the Target Company, established the Lessee in the PRC with the Company indirectly owning a 75% interest in the Lessee. Accordingly, the Lessee is engaged in the property operating business while the Target Company is engaged in property holding business as facilitated by the Existing Lease Contract Jiachao's. All benefits and costs associated with the tenancy agreements between the Target Company and tenants were transferred to the Lessee since 1 April 2021. As at the date of this announcement, 92% of existing tenants of the Jiachao's Shopping Mall's tenancy agreements have been transferred, by way of tri-party agreement, from the Target Company to the Lessee, while 88% of existing tenants of the Zone C Shopping Mall's tenancy agreements, by way of tri-party agreement have been transferred from the Target Company to the Lessee. All remaining current tenants of the Target Company would be transferred to the Lessee and such transfer is expected to complete prior to the Completion. The Target Company and the Lessee agreed that all benefits and costs associated with these tenancy agreements have been transferred by the Target Company to the Lessee since 1 April 2021. All property operating staff's employment contracts were successfully transferred from the Target Company to the Lessee on 1 April 2021.

The Group currently operates the Jiachao's Shopping Mall and the Zone C Shopping Mall and its services includes (i) advertising to, attracting and negotiating with potential new tenants of famous brands; (ii) managing the strategic tenant mix portfolio and maintaining relationship with the tenants; (iii) addressing tenants' requests in a timely manner; (iv) shopping mall cleaning, repair and maintenance and security services; and (v) organising periodic promotion events to attract visitors to the shopping malls and increase visitor flows and revenue of the tenants. As to the Jiachao's Shopping Mall, the Group's revenue is derived from the monthly rent and management fees collected from tenants as well as profit sharing from certain tenants in accordance with the respective tenancy agreements, while the cost structure of the Group includes mainly human resources. As to the Zone C Shopping Mall, the Group's revenue is derived from the monthly rent and management fees collected from tenants as well as profit sharing from certain tenants in accordance with the respective tenancy agreements, while the cost structure of the Group includes mainly rental expense pursuant to the Existing Lease Contract Zone C and human resources.

Following Completion, the Group's revenue in respect of both the Jiachao's Shopping Mall and the Zone C Shopping Mall will be derived from the monthly rent and management fees collected from tenants as well as profit sharing from certain tenants in accordance with the respective tenancy agreements, while the cost structure of the Group includes mainly rental expense pursuant to the Lease Contract Jiachao's and the Lease Contract Zone C and human resources.

As illustrated above, the daily business operation of the Group would remain substantially unchanged prior to and after Completion, and the major difference in the business model of the Group is that prior to Completion, the Group owns the legal title of the Jiachao's Shopping Mall through its equity interest in the Target Company, while the Group will no longer own the legal title of the Jiachao's Shopping Mall immediately upon and after Completion. The Group will operate on light assets and the cost structure will be changed to include rental expenses pursuant to the Lease Contract Jiachao's. With the existing tenants of the Jiachao's Shopping Mall's tenancy agreements have been and will be transferred to the Group before Completion and the scale of properties on which the Group operates is the same before and after Completion, the Directors do not anticipate a substantial change in the business and operation scale of the Group after Completion.

Based on the information currently available including but not limited to business model, business operation scale, working capital and property valuation, the Directors believe that following Completion, the Remaining Group's property operating business will meet the requirements of Rule 13.24 of the Listing Rules in respect of sufficiency of operations and assets.

In view of (i) the strong consumption power of the PRC citizens as announced by the National Bureau of Statistics and discussed above; (ii) the Group's familiarity with the Jiachao's Shopping Mall and the Zone C Shopping Mall since its acquisition of the Target Company and entering into of the Existing Lease Contract Zone C in 2015; (iii) the historical low vacancy rate of the Jiachao's Shopping Mall and the Zone C Shopping Mall, both being managed by the Group's existing team of high-caliber and experienced management and staff in property operating business as discussed in the paragraph headed "An existing team of high-caliber and experienced management and staff in property operating business" above; and (iv) the determination of the Group to shift its business focus and resources to asset-light and service-oriented property operator, the entering into of the Lease Contract Jiachao's and the Lease Contract Zone C with a lease term of 15 years secures the Group's continued use of such quality assets which the Group is familiar with to carry on its property operating business and is considered by the Directors to be favorable to the Group and the Shareholders.

Having considered (i) the outstanding performance of the Group's existing team of high-caliber and experienced management and staff in property operating business; (ii) the successful property operating business of managing the Zone C Shopping Mall (which is leased to and not owned by the Group); (iii) the significant adverse impact on financial results of the Group as a whole for the year ended 30 June 2020 and the six months ended 31 December 2020 as a result from significant decrease in fair value of investment property, i.e. the Jiachao's Shopping Mall, the Board considers the Transactions would allow the Group to (i) continue to carry on the business of operation and management of the Jiachao's Shopping Mall after Completion as a result of the Lease Contract Jiachao's becoming effective; (ii) reposition the Group from an asset-heavy property holding business to an asset-light service-oriented business which would mitigate the Group's exposure on such significant fair value decrease going forward, with the proceeds from the Disposal to be applied in the manner as described below; (iii) utilise the Group's core strength in property operating to the fullest extent; and (iv) secure long term continuity of the Group's operations as a property operator by way of the Lease Contract Jiachao's and the Lease Contract Zone C with long 15 year term.

Use of proceeds from the Disposal

The proceeds generated from the Disposal will be used as to (i) RMB244,062,000 (equivalent to approximately HK\$290,550,000) to settle the deposits pursuant to the Lease Contract Jiachao's and the Lease Contract Zone C; (ii) approximately RMB68,983,000 (equivalent to approximately HK\$82,123,000) to settle the rent prepayment of first rental year of the Jiachao's Shopping Mall and the Zone C Shopping Mall; and (iii) the remainder of approximately RMB116,495,000 (equivalent to approximately HK\$138,684,000) will be applied to finance the exploring/acquisitions of suitable shopping malls/properties and/or as general working capital of the Group.

Following Completion, the Group will continue to deploy its resources on the property operating business including but not limited to (i) recruit more candidates with high-caliber and experience in property operating business; (ii) explore suitable shopping malls/properties of similar size and scale to the Jiachao's Shopping Mall and the Zone C Shopping Mall to expand the Group's property operating portfolio; and (iii) possible merger and acquisition of asset-light property operating business in the PRC so as to strengthen the Group's property operating team and further expand the Group's property management and operating portfolio.

The Group has been paying attention to market information and in search for suitable shopping malls/properties for expanding its property portfolio. As at the date of this announcement, the Group has not identified suitable shopping malls/properties nor was negotiating with potential landlord/shopping mall owners on potential collaboration. There is no defined timeline for the use of proceeds. The proceeds will be applied when and where suitable opportunity arises in the future, and the Company will make an announcement where appropriate.

Having considered the above, the Board considers that the Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE TRANSACTIONS

The Disposal

The Group is expected to recognise an estimated gain of approximately RMB11,574,000 (equivalent to approximately HK\$13,779,000) from the Disposal, which is calculated based on the Consideration, the unaudited net assets value of the Target Company as at 31 March 2021 attributable to the Sale Equity Interests and related costs and expenses associated with the Transactions.

Immediately after Completion, the Target Company will cease to be a non-wholly-owned subsidiary of the Company and the financial results of the Target Company will no longer be consolidated in the Group's consolidated financial statements.

The Group will focus and invest its resources on its property operating business following Completion, and its financial performance will no longer be affected by possible future fluctuations on fair value of investment property which may be significant.

The Lease Contract Jiachao's

According to HKFRS 16 – Leases, the Jiachao's Shopping Mall, which will be leased by the Lessee and then subleased to other third parties to earn rental income, will be initially recognised as right of use assets included in the financial line item “Investment properties” at cost. Subsequently, the Jiachao's Shopping Mall will be measured at fair value under fair value model in accordance with HKAS 40 – Investment Properties and any change in fair value will be recognised in profit or loss. Such accounting treatment was concurred with the Company's auditor.

By entering into the Lease Contract Jiachao's and sub-letting the shopping mall, the Group's cash balance is expected to decrease due to transfer to the Lessor Jiachao's a deposit of RMB148,820,000 (equivalent to approximately HK\$177,167,000), and the Group is expected to recognise an investment property during the lease period covered by the Lease Contract Jiachao's in the amount of approximately RMB1,107,000,000 (equivalent to approximately HK\$1,317,857,000).

The Lease Contract Zone C

According to HKFRS 16 – Leases, the Zone C Shopping Mall, which will be leased by the Lessee and then subleased to other third parties to earn rental income, will be initially recognised as right of use assets included in the financial line item “Investment properties” at cost. Subsequently, the Zone C Shopping Mall will be measured at fair value under fair value model in accordance with HKAS 40 – Investment Properties and any change in fair value will be recognised in profit or loss. Such accounting treatment was concurred with the Company's auditor.

By entering into the Lease Contract Zone C and sub-letting the shopping mall, the Group's cash balance is expected to decrease due to transfer to the Lessor Zone C a deposit of RMB95,242,000 (equivalent to approximately HK\$113,383,000), and the Group is expected to recognise an investment property during the lease period covered by the Lease Contract Zone C in the amount of approximately RMB927,000,000 (equivalent to approximately HK\$1,103,571,000).

Overall effects

Shareholders should note that the financial effects set out above is for illustrative purpose only, which will have to be ascertained at the time of preparation of the Company's consolidated financial statements upon Completion with reference to, among other things, the actual costs and expenses associated with the Transactions, and is subject to audit.

INFORMATION ON THE GROUP, THE VENDOR, THE LESSOR JIACHAO'S AND THE LESSEE

The Group

The Company is a company incorporated in the Cayman Islands with limited liability with its securities listed on the Stock Exchange (stock code: 565.hk).

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

The Vendor

The Vendor is a company established in the PRC with limited liability and is indirectly wholly-owned by the Company. The principal business activity of the Vendor is investment holding.

The Lessor Jiachao's

Please refer to the paragraph headed "The Target Company" above for further information on the Lessor Jiachao's.

The Lessee

The Lessee is a company established in the PRC with limited liability and is a 75% indirect non-wholly-owned subsidiary the Company. The principal business activity of the Lessee is the provision of rental, management and operating services to tenants of shopping malls.

INFORMATION ON THE PURCHASER

The Purchaser is a company established in the PRC with limited liability. Its entire equity interest is owned by Mr. Chen Jianxiong.

The Purchaser is principally engaged in business investment, investment consulting and property leasing. Mr. Chen Jianxiong is principally engaged in property investment related business.

INFORMATION ON THE LESSOR ZONE C

The Lessor Zone C is a company established in the PRC with limited liability. Its entire equity interest is held by Fujian Conghe Investment Co., Ltd.* (福建聰和投資有限公司), which is owned as to 60% by Ms. Wang Ping and as to 40% by Mr. Chen Wenlan.

The Lessor Zone C is principally engaged in property development and management and property leasing.

IMPLICATIONS UNDER THE LISTING RULES

Sale and Purchase Agreement

As one or more of the applicable percentage ratios (as defined in the Listing Rules) exceeds 75% for the Company, the Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Lease Contract Jiachao's

Under HKFRS 16, the entering into of the Lease Contract Jiachao's as a lessee and sub-letting the Jiachao's Shopping Mall will require the Lessee (i.e. the Group) to initially recognise as right-of-use asset at cost of approximately RMB391,850,000 (equivalent to approximately HK\$466,488,000). Subsequently, the Jiachao's Shopping Mall will be measured at fair value model in accordance with HKAS 40 of approximately RMB1,107,000,000 (equivalent to approximately HK\$1,317,857,000) covered by the Lease Contract Jiachao's as an investment property, and thus the entering into of the Lease Contract Jiachao's and the transactions contemplated thereunder will be regarded as a deemed acquisition of asset by the Group.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) of the entering into of the Lease Contract Jiachao's as a deemed acquisition of investment property exceed 100% on an aggregated basis, the entering into of the Lease Contract Jiachao's constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Lease Contract Zone C

Under HKFRS 16, the entering into of the Lease Contract Zone C as a lessee and sub-letting the Zone C Shopping Mall will require the Lessee (i.e. the Group) to initially recognise as right-of-use asset at cost of approximately RMB250,776,000 (equivalent to approximately HK\$298,543,000). Subsequently, the Zone C Shopping Mall will be measured at fair value model in accordance with HKAS 40 of approximately RMB927,000,000 (equivalent to approximately HK\$1,103,571,000) covered by the Lease Contract Zone C as an investment property, and thus the entering into of the Lease Contract Zone C and the transactions contemplated thereunder will be regarded as a deemed acquisition of asset by the Group.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) of the entering into of the Lease Contract Zone C as a deemed acquisition of investment property exceed 100% on an aggregated basis, the entering into of the Lease Contract Zone C constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the knowledge, information and belief of the Board having made all reasonable enquiries, none of the Shareholders has a material interest in any of the Transactions and therefore, no Shareholders will be required to abstain from voting on the resolution(s) to be proposed at the extraordinary general meeting to approve the Transactions.

As additional time is required to prepare the circular containing, amongst other things, (i) further information on the Transactions; (ii) a valuation report of the Jiachao's Shopping Mall; (iii) a valuation report of the Zone C Shopping Mall; (iv) financial information on the Target Company; (v) financial information on the Zone C Shopping Mall; (vi) an unaudited pro forma financial information of the Group as a result of the Transactions; and (vii) other information as required under the Listing Rules, the circular will be despatched to the Shareholders on or before Friday, 28 May 2021.

GENERAL

It should be noted that the Completion is conditional upon the satisfaction of the conditions precedent to the Sale and Purchase Agreement, the Lease Contract Jiachao's and the Lease Contract Zone C, which may or may not be fulfilled. As the Transactions may or may not proceed, Shareholders and potential investors of the Company should exercise caution when they deal or contemplate dealing in the securities of the Company.

DEFINITION

“Board”	the board of Directors
“business day”	a day (other than Sunday, Saturday and public holiday) on which commercial banks are generally open for business in Hong Kong and the PRC
“Company”	Art Group Holdings Limited, a company incorporated in the Cayman Islands with limited liability with its securities listed on the Stock Exchange
“Completion”	completion of the Industrial and Commerce Transfer Registration
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the total consideration in the amount of RMB429,540,000 (equivalent to approximately HK\$511,357,000) in relation to the Disposal
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Sale Equity Interests pursuant to the Sale and Purchase Agreement
“Existing Lease Contract Jiachao's”	the existing intra-group lease contract dated 1 March 2021 entered into between the Lessee and the Lessor Jiachao's in relation to the Jiachao's Shopping Mall

“Existing Lease Contract Zone C”	lease contract dated 12 August 2015 entered into between the Lessee and the Lessor Zone C in relation to the Zone C Shopping Mall (as supplemented by the supplemental lease contracts dated 30 April 2016, 10 September 2016, 22 August 2017, 30 June 2019, 22 July 2019 and 20 July 2020)
“Group”	the Company and its subsidiaries
“HKAS 40”	Hong Kong Accounting Standard 40 – Investment Properties
“HKFRS 16”	Hong Kong Financial Reporting Standard 16 – Leases
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Jiachao’s Shopping Mall”	a shopping mall situated at No. 36 Mianfang West Road, Zhongyuan District, Zhengzhou City, Henan Province, the PRC
“Lease Contract Jiachao’s”	the conditional lease contract dated 26 April 2021 entered into by the Lessor Jiachao’s and the Lessee in respect of the Jiachao’s Shopping Mall
“Lease Contract Zone C”	the conditional lease contract dated 26 April 2021 entered into by the Lessor Zone C and the Lessee in respect of the Zone C Shopping Mall
“Lessee”	Zhengzhou Zhongyuan Jinyi Commercial Operation Management Co., Ltd.* (鄭州中原錦藝商業運營管理有限公司), an indirect non-wholly-owned subsidiary of the Company and is the lessee of (i) the Jiachao’s Shopping Mall pursuant to the Lease Contract Jiachao’s and (ii) the Zone C Shopping Mall pursuant to the Lease Contract Zone C

“Lessor Zone C”	Zhengzhou Hanyuan Real Estate Co., Ltd.* (鄭州翰園置業有限公司), a company established in the PRC with limited liability
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 August 2021 (or such other date as agreed by the Vendor and the Purchaser)
“PRC”	the People’s Republic of China
“Purchaser”	Zhengzhou Fengxiang Investment Co., Ltd.* (鄭州豐祥投資有限公司)
“Remaining Group”	collectively, the Company and its subsidiaries (excluding the Target Company) following Completion
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 26 April 2021 entered into between the Vendor and the Purchaser in relation to the Disposal
“Sale Equity Interests”	75% equity interests in the Target Company
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company” or “Lessor Jiachao’s”	Zhengzhou Jiachao Property Services Co., Ltd.* (鄭州佳潮物業服務有限公司), a company established in the PRC with limited liability and an indirect non-wholly-owned subsidiary of the Company prior to the Completion

“Transactions”	collectively, the Disposal, the Lease Contract Jiachao’s, the Lease Contract Zone C and the transactions contemplated thereunder
“Vendor”	Zhengzhou Changdun Asset Management Co., Ltd.* (鄭州昌盾資產管理有限公司), the Company’s indirect wholly-owned subsidiary
“Zone C Shopping Mall”	a shopping mall situated at No. 40 Mianfang West Road, Zhongyuan District, Zhengzhou City, Henan Province, the PRC

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

Hong Kong, 26 April 2021

* *For identification purpose only*

For the purpose of illustration only and unless otherwise stated, amounts denominated in RMB in this announcement have been translated into HK\$ at the rate of HK\$1.00 = RMB0.84. Such translation should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate or at all.

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.