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)

2021 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the "Board") of Art Group Holdings Limited (the "Company") is pleased to announce the audited consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 30 June 2021 together with the comparative figures in 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2021

		2021	2020
	NOTES	***HK$'000***	*HK$'000*
Revenue	*4*	**188,634**	159,547
Cost of sales		**(82,286)**	(63,598)
Gross profit		**106,348**	95,949
Other income	*5*	**30,280**	14,764
Administrative expenses		**(37,696)**	(29,946)
Impairment loss on other assets	*6*	**(22,160)**	–
Impairment loss on loan receivable		**(460)**	–
Loss on fair value changes of investment properties		**(260,550)**	(77,778)
(Loss)/gain on fair value change of biological assets		**(2,989)**	744
Loss on disposal of a subsidiary		**(30,602)**	–
Finance costs	*7*	**(66,243)**	(61,942)

	NOTES	2021 HK$'000	2020 HK$'000
Loss before taxation		**(284,072)**	(58,209)
Income tax credit	*8*	**56,180**	22,496
Loss for the year	*9*	**(227,892)**	(35,713)
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Exchange differences on translation from functional currency to presentation currency		**163,826**	(61,261)
Other comprehensive income/(expense) for the year		**163,826**	(61,261)
Total comprehensive expense for the year		**(64,066)**	(96,974)
Loss for the year attributable to:			
Owners of the Company		**(178,319)**	(30,658)
Non-controlling interests		**(49,573)**	(5,055)
		(227,892)	(35,713)
Total comprehensive expense for the year attributable to:			
Owners of the Company		**(47,206)**	(79,731)
Non-controlling interests		**(16,860)**	(17,243)
		(64,066)	(96,974)
LOSS PER SHARE	*11*		
Basic *(HK cents)*		**(6.63)**	(1.14)
Diluted *(HK cents)*		**(6.63)**	(1.14)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	NOTES	2021 HK$'000	2020 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**11**	8,609
Right-of-use assets		**298**	7,595
Investment properties		**2,050,602**	2,637,363
Rental deposits		**185,540**	–
Goodwill		**–**	34,764
		2,236,451	2,688,331
CURRENT ASSETS			
Biological assets		**–**	1,418
Trade and other receivables	*12*	**296,331**	37,031
Loan receivable		**304,694**	–
Bank balances and cash		**16,693**	419,095
		617,718	457,544
CURRENT LIABILITIES			
Other payables	*13*	**35,126**	57,012
Contract liabilities		**20,651**	23,876
Lease liabilities		**22,270**	1,315
Amount due to a substantial shareholder		**47,888**	–
Secured bank borrowings		**–**	74,713
Bonds		**24,349**	9,999
Tax liabilities		**5,600**	–
		155,884	166,915
NET CURRENT ASSETS		**461,834**	290,629
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,698,285**	2,978,960

	2021	2020
	HK$'000	*HK$'000*
CAPITAL AND RESERVES		
Share capital	**26,888**	26,888
Reserves	**1,327,663**	1,374,869
Equity attributable to owners of the Company	**1,354,551**	1,401,757
Non-controlling interests	**160,207**	346,645
TOTAL EQUITY	**1,514,758**	1,748,402
NON-CURRENT LIABILITIES		
Lease liabilities	**948,620**	4,935
Deferred tax liabilities	**224,904**	391,469
Secured bank borrowings	**–**	799,810
Bonds	**10,003**	34,344
	1,183,527	1,230,558
	2,698,285	2,978,960

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2021

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate and ultimate holding company is Fully Chain Limited, a private company incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Chen Jinyan. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HK$") and the functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in HK$ for the convenience of the shareholders because the Company's shares are listed in Hong Kong.

The Company is an investment holding company. Its subsidiaries are engaged in property operating and biotechnology businesses.

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

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

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRSs, Hong Kong Accounting Standards ("HKASs") and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 July 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Interest Rate Benchmark Reform
Amendments to HKFRS 3	Definition of a Business
Amendment to HKFRS 16	Covid-19-Related Rent Concessions

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to HKAS 1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole. The application of the amendments in the current year had no impact on the consolidated financial statements.

Impacts on application of Amendments to HKFRS 3 Definition of a Business

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired. In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis. The amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group make any acquisition.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments[4]
Amendments to HKFRS 3	Reference to the Conceptual Framework[3]
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[1]
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRS 16 (2021)	Covid-19-Related Rent Concessions beyond 30 June 2021[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[4]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[4]
Amendments to HKAS 8	Definition of Accounting Estimates[4]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[4]
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use[3]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020[3]

[1] Effective for annual periods beginning on or after 1 January 2021.
[2] Effective for annual periods beginning on or after 1 April 2021.
[3] Effective for annual periods beginning on or after 1 January 2022.
[4] Effective for annual periods beginning on or after 1 January 2023.
[5] Effective for annual periods beginning on or after a date to be determined.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and biological assets that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 *Impairment of Assets*.

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

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

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

– Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

– Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

– Level 3 inputs are unobservable inputs for the asset or liability.

4. REVENUE AND SEGMENT INFORMATION

Revenue represents (i) the lease payments received and receivable in the normal course of business, net of related taxes for the year and (ii) property management and related services fee received.

Information reported to the Board of the Company, being the chief operating decision maker (the "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 (2020: Two) as the Group is engaged in the property operating and biotechnology businesses, which is the basis used by the CODM. From a product perspective, management assesses the performance from property operating and biotechnology segments for the years ended 30 June 2021 and 30 June 2020.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit or loss from the segments without allocation of income tax credit and central administration costs.

One single tenant from property operating segment contributed to 10 per cent or more of the Group's revenue for the year ended 30 June 2021 (2020: One). The total amount of revenue from this tenant was HK$33,019,000 (2020: HK$28,260,000).

	2021	2020
	HK$'000	*HK$'000*
Revenue from major business services:		
Revenue within the scope of HKFRS 16		
Rental income from leasing of properties	**77,014**	65,826
Revenue from contracts with customers within the scope of HKFRS 15		
Property management fee income	**109,501**	91,269
Property management – other related services	**2,119**	2,452
	111,620	93,721
	188,634	159,547
Disaggregated by timing of revenue recognition:		
Over time:		
Property management fee income	**109,501**	91,269
Property management – other related services	**2,119**	2,452
	111,620	93,721

Performance obligations for revenue from contract with customers

(i) ***Property management fee***

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

(ii) ***Biotechnology***

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

Segment information

The CODM assesses the performance of the property operating and biotechnology segments based on sales and net loss.

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purpose of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

2021

	Property operating *HK$'000*	Biotechnology *HK$'000*	Total *HK$'000*
Revenue	**188,634**	**–**	**188,634**
Segment result	**(206,358)**	**(30,070)**	**(236,428)**
Income tax credit	**56,180**	**–**	**56,180**
Loan interest income			**3,868**
Loss on disposal of a subsidiary			**(30,602)**
Impairment loss on loan receivable			**(460)**
Central administration costs			**(20,450)**
Loss for the year			**(227,892)**

	Property operating *HK$'000*	Biotechnology *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Amounts included in the measure of segment result				
Interest income	**3,549**	**3**	**–**	**3,552**
Interest expenses	**(63,092)**	**(366)**	**(2,785)**	**(66,243)**
Depreciation of property, plant and equipment	**(2,268)**	**(592)**	**(8)**	**(2,868)**
Depreciation of right-of use assets	**–**	**(1,301)**	**(1,193)**	**(2,494)**
Impairment loss on other assets	**–**	**(22,160)**	**–**	**(22,160)**
Fair value change of investment properties	**(260,550)**	**–**	**–**	**(260,550)**
Fair value change of biological assets	**–**	**(2,989)**	**–**	**(2,989)**

2020

	Property operating *HK$'000*	Biotechnology *HK$'000*	Total *HK$'000*
Revenue	159,547	–	159,547
Segment result	(41,078)	(1,022)	(42,100)
Income tax credit	22,496	–	22,496
Central administration costs			(16,109)
Loss for the year			(35,713)

	Property operating *HK$'000*	Biotechnology *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Amounts included in the measure of segment result				
Interest income	118	3	5	126
Interest expenses	(58,291)	(61)	(3,590)	(61,942)
Depreciation of property, plant and equipment	(2,104)	(27)	(11)	(2,142)
Depreciation of right-of use assets	–	(76)	(895)	(971)
Fair value change of investment properties	(77,778)	–	–	(77,778)
Fair value change of biological assets	–	744	–	744

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

5. OTHER INCOME

	2021	2020
	HK$'000	*HK$'000*
Bank interest income	**3,552**	126
Car parking income	**8,526**	6,151
Service income	**10,248**	7,667
Exchange gain	**–**	317
Government grants *(Note)*	**1,798**	–
Loan interest income	**3,868**	–
Others	**2,288**	503
	30,280	14,764

Note: During the year ended 30 June 2021, the Group recognised COVID-19-related government grants of approximately HK$339,000 related to Employment Support Scheme provided by the Government of the Hong Kong Special Administrative Region under the Anti-Epidemic Fund and the remaining balance grant is provided by the PRC government as employment securing subsidy. There are no unfulfilled conditions and other contingencies attached to the receipts of those subsidies.

6. IMPAIRMENT LOSS OF OTHER ASSETS

	2021	2020
	HK$'000	*HK$'000*
Impairment loss of property, plant and equipment	**16,926**	–
Impairment loss of right-of-use assets	**5,234**	–
	22,160	–

7. FINANCE COSTS

	2021	2020
	HK$'000	*HK$'000*
Interest on		
– Secured bank borrowings	**61,818**	58,291
– Bonds	**2,756**	3,550
– Lease liabilities	**1,669**	101
	66,243	61,942

8. INCOME TAX CREDIT

	2021	2020
	HK$'000	*HK$'000*
Income tax recognised in profit and loss		
PRC Enterprise Income Tax ("EIT")		
– Current income tax	**8,957**	2,443
– Overprovision in previous years	**–**	(5,495)
Deferred tax	**(65,137)**	(19,444)
	(56,180)	(22,496)

Hong Kong Profits Tax was calculated at 16.5% (2020: 16.5%) of the estimated assessable profit for the financial year. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group did not generate any assessable profits arising in Hong Kong for both years.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries was 25% (2020:25%).

As at 30 June 2021, no deferred tax liabilities (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.

9. LOSS FOR THE YEAR

	2021	2020
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging/(crediting):		
Staff costs		
– directors' emoluments	**4,008**	4,008
– other staff's salaries and other benefits	**19,203**	17,374
– other staff's retirement benefit scheme contributions	**1,509**	1,267
	24,720	22,649
Auditor's remuneration	**1,200**	1,200
Depreciation of property, plant and equipment	**2,868**	2,142
Depreciation of right-of-use assets	**2,494**	971
Loss on disposal of property, plant and equipment	**65**	–
Expenses related to short-term leases in respect of rented premises	**29,334**	21,981
Exchange losses, net	**1,302**	–

10. DIVIDEND PAID

No dividend was paid or proposed for the year ended 30 June 2021 nor has any dividend been proposed since the end of the reporting period (2020: Nil).

11. LOSS PER SHARE

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

	2021	2020
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to the owners of the Company for the purposes of basic and diluted loss per share	**(178,319)**	(30,658)

	2021	2020
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**2,688,805**	2,688,805

The computation of diluted loss per share does not assume the exercise of the company's outstanding options since their assumed exercise would result in a decrease in loss per share for both years.

12. TRADE AND OTHER RECEIVABLES

	2021	2020
	HK$'000	*HK$'000*
Trade receivables	**3,972**	3,769
Prepayment and other receivables	**33,600**	33,262
Consideration receivable *(Note)*	**258,759**	–
	296,331	37,031

Note: The consideration receivable represents the consideration of the disposal of Zhengzhou Jiachao Property Services Company Limited, an indirect 75%-owned subsidiary of the Company, on 22 June 2021. Subsequent to the year ended 30 June 2021, the consideration receivable was fully received.

As at 30 June 2021 and 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:

	2021	2020
	HK$'000	*HK$'000*
0 – 60 days	**3,305**	3,532
61 – 90 days	**667**	104
Over 90 days	**–**	133
Trade receivables	**3,972**	3,769

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

Before accepting any new tenants, the Group assesses the potential tenants' credit quality. 83% (2020: 94%) of the trade receivables that are neither past due nor impaired have good credit rating under internal credit assessment adopted by the Group.

13. OTHER PAYABLES

	2021	2020
	HK$'000	*HK$'000*
Receipts in advance	**12,273**	16,681
Deposits received from tenants	**14,503**	32,804
Accrued charges and other payables	**8,350**	7,527
	35,126	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 had a shift of business focus and resources to become an asset-light and service-oriented property operator during the current year by transferring from the property holding and operating aspect to solely property operating aspect through (1) the disposal of 75% equity interests in 鄭州佳潮物業服務有限公司 (Zhengzhou Jiachao Property Services Co., Ltd.) ("Zhengzhou Jiachao"), an indirect 75%-owned PRC subsidiary of the Company; and (2) holding of 75% equity interests in 鄭州中原錦藝商業運營管理有限公司 (Zhengzhou Zhongyuan Jinyi Commercial Operation Management Co., Ltd.) ("Zhongyuan Jinyi") in the PRC with Zhengzhou Jiachao's minority shareholder in the same shareholding proportion as in Zhengzhou Jiachao. The major asset of Zhengzhou Jiachao is the Jiachao's Shopping Mall. The principal activity of Zhongyuan Jinyi is property operating business.

Simultaneously, Zhongyuan Jinyi leased the Jiachao's Shopping Mall from Zhengzhou Jiachao after the disposal. The Jiachao's Shopping Mall, with a rental period to expire in the mid of 2036, comprises the whole of a 4-storey shopping mall built over one level of basement commercial space with a gross floor area of approximately 125,188 square meters. The Group generates revenue from the monthly incomes of rental, management and operating services payable by more than 140 independent 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 that offers a wide range of services and goods including shopping, dining and entertainment, such as a renowned department store, a cinema, a supermarket, KTV (a karaoke box), jewelries, beauty shops, electrical appliances shops, international labels for fashion, fitness, lifestyle, casual wear/sport, kid's paradise and restaurants. Approximately 96.3% of the lettable area in the Jiachao's Shopping Mall was rented out as at 30 June 2021. Certain area of the Jiachao's Shopping Mall is rented to tenants on short-term leases for use including kiosks and booths of trendy and stylish items.

In addition, Zhongyuan Jinyi leased the Zone C Shopping Mall, a 5-storey integrated commercial mall built over one level of basement commercial space with a gross floor area of approximately 80,118 square meters, situated in Zhengzhou City, Henan Province, the PRC, from a real estate developer with a rental period to expire in the mid of 2036. The Zone C Shopping Mall is a shopping mall located adjacent to the Jiachao's Shopping Mall. Zhongyuan Jinyi promoted and further rented out the Zone C Shopping Mall to various independent tenants under the respective tenancy agreements with a remaining term ranging from one year to 10 years. As at 30 June 2021, approximately 98.3% of the lettable area of the Zone C Shopping Mall had been leased out as retail shops, restaurants and/or for entertainment and leisure use which offers a wide range of services and goods with approximately 120 tenants including a cinema, an aquarium, jewelries, beauty shops, car sales, international labels for fashion, fitness, lifestyle, casual wear/sport, kid's paradise and restaurants. Certain area of the Zone C Shopping Mall is rented to tenants on short-term leases for use including kiosks and booths of trendy and stylish items.

Zhongyuan Jinyi has an advantage of having an existing team of caliber and experienced management and staff to run the two shopping malls together. As such, the extra costs for running the shopping malls is minimal to Zhongyuan Jinyi while it is earning considerable amount of incomes from renting out shopping malls 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 Zhongyuan Jinyi 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.

The Group has started to engage in biotechnology segment since prior years in Honghezhou, Yunnan Province, the PRC. The Company's indirect wholly-owned PRC subsidiary holds 60% equity interests in 紅河乾林生物科技有限公司 (Honghe Ganlin Biotechnology Co., Ltd.) ("Ganlin Biotech"), which in turn holds the whole equity interests of 紅河乾林農業有限公司 (Honghe Ganlin Agricultural Co., Ltd.). In addition, a factory for building the production line and a few plots of land for planting raw material had been leased. Relevant machinery and equipment for the production process, such as process of distillation, purification and extraction etc., had all been installed in the factory. The finished goods of the factory are CBD for industrial use with its market overseas.

On 28 April 2021, an indirect wholly-owned PRC subsidiary of the Company entered into a loan agreement with 福建千城綠景觀工程有限公司 (Fujian Qiancheng Lujingguan Engineering Co., Ltd.), an independent third party, (the "Borrower") pursuant to which, it was agreed to lend to the Borrower a loan in the principal amount of RMB250,000,000 for a term of 12 months from the drawdown date at an interest of 7.5% per annum. The Group will focus its resources on property operating business and has no intention to commence money lending business. The Borrower approached the Group and looked for a source of financing. The entering into of the aforesaid loan agreement is due to (i) the surplus cash position of the Group; (ii) the interest income to be received by the Group; and (iii) the credit and repayment ability of the Borrower and its guarantor. Please also refer to the announcements of the Company dated 28 April 2021 and 13 May 2021.

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 current year, 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$697,000 (2020: HK$17,705,000). The Group also granted permission to a small number of merchants with difficulties to postpone their payments of rent and settle monthly prepayment instead of original quarterly prepayment. The Group sees cost reduction as a key strategic focus to help navigate business uncertainty resulting from the prolonged global COVID-19 pandemic. It also focuses on protecting and advancing the interests of tenants and customers in these difficult times, whilst prioritising the safety and well-being of the employees and business partners of the Group.

Revenue

For the financial year ended 30 June 2021, the Group recorded a revenue of approximately HK$188,634,000 (2020: HK$159,547,000), approximately 18.2% more than that in 2020. Revenue of the Group included the monthly income of rental, management and operating services received and receivable from the tenants of the Jiachao's Shopping Mall and the Zone C Shopping Mall. Increase in revenue during the current year was due to a reduction of rental, management and operating service charges granted to two tenants of the Jiachao's Shopping Mall and the Zone C Shopping Mall which were under mandatory closure as a result of the regulatory policies for the period from July to September 2020 (2020: 280 tenants (including tenants of the short-term leases)) on different bases with an aggregated amount of approximately HK$697,000 (2020: HK$17,705,000) because of the COVID-19 pandemic. Moreover, there was no revenue generated from biotechnology segment for the years ended 30 June 2020 and 2021 because the commercial production had not yet been commenced due to the application of CBD production approval still in process since November 2020.

Gross Profit

The gross profit margin was approximately 56.4% for the year ended 30 June 2021 (2020: 60.1%). Property operating segment has simple costs of sales due to its business nature, such as water, electricity and heat supply charges, rent, salary and wages, marketing and promotion expenses, public security and hygiene expenses, repair and maintenance fees etc. incurred for operating the shopping malls. Decrease in gross profit margin was due to resumption of normal opening of the shopping malls throughout the current year as a result of well-controlled epidemic situation; hence, variable costs of sales increased to some extent.

Loss for the Year

The Group's loss incurred for the year ended 30 June 2021 was approximately HK$227,892,000 (2020: HK$35,713,000). The loss margin was 120.8% for the current year (2020: 22.4%). Both reduced significantly for the year ended 30 June 2021 mainly because of a substantial decrease in fair value of the Group's investment properties, the Jiachao's Shopping Mall and the Zone C Shopping Mall, of approximately HK$260,550,000 (2020: HK$77,778,000) as a consequence of the prolonged COVID-19 pandemic.

Other Income

Other income for the year ended 30 June 2021 was approximately HK$30,280,000 (2020: HK$14,764,000), which comprised mainly other kinds of incomes earned by Zhongyuan Jinyi and Zhengzhou Jiachao, such as car parking fees and other services provided to tenants. Increase in other income was due to (1) more consumption of car parks by customers due to resumption of normal opening of the shopping malls throughout the current year as a result of well-controlled epidemic situation; (2) interest income generated from a term deposit; and (3) receipts of business subsidies from local governments as a consequence of the COVID-19 pandemic.

Expenses

Administrative expenses amounted to approximately HK$37,696,000 (2020: HK$29,946,000), representing approximately 20.0% (2020: 18.8%) of revenue for the year ended 30 June 2021. Administrative expenses increased by approximately 25.9% because of CBD trial production performed in biotechnology segment and the professional fees incurred for the disposal of a PRC subsidiary during the current year.

Impairment loss on other assets amounted to approximately HK$22,160,000 (2020: Nil) was related to right-of-use assets and property, plant and equipment of the biotechnology segment which had not yet been commenced commercial production due to the application of CBD production approval still in process since November 2020.

The carrying value of the Group's investment properties, the Jiachao's Shopping Mall and the Zone C Shopping Mall, as at 30 June 2021 of approximately HK$2,050,602,000 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$260,550,000. This loss on fair value changes of investment properties mainly reflected a less flourishing rental growth of the investment properties. The attributable net loss on fair value changes on investment properties of approximately HK$146,559,000, after deducting related deferred tax liabilities and non-controlling interests, was debited to the consolidated income statement. Decrease in the carrying value was due to the COVID-19 pandemic spreading across the globe since the beginning of 2020, causing the carrying value of the investment properties continue to drop dramatically.

Finance costs amounted to approximately HK$66,243,000 (2020: HK$61,942,000), representing approximately 35.1% (2020: 38.8%) of revenue for the year ended 30 June 2021. The increase was due to two bank borrowings with aggregated principal amount of RMB800 million of Zhengzhou Jiachao charged at higher interest rate by the bank throughout the current year.

Dividend

The Board does not recommend the payment of a final dividend for the year ended 30 June 2021 (2020: 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 in the property operating business to explore future prospects and develop relevant markets, with a view to enhance the Group's development and to maximise the shareholders' return by focusing on property operating aspect rather than on property holding aspect.

The Group targets to engage in the provision of rental, management and operating services to more tenants of different kinds of shopping malls in various locations. Therefore, the Company streamlined the Group's property operating business by establishing a company, Zhongyuan Jinyi, in the PRC with Zhengzhou Jiachao's minority shareholder in the same shareholding proportion as in Zhengzhou Jiachao. The ex-tenants of Zhengzhou Jiachao were substantially transferred to Zhongyuan Jinyi in the first two quarters of 2021. The Group agreed with Zhengzhou Jiachao that the revenue and expenses arisen from those tenants who did not transfer to Zhongyuan Jinyi due to their own internal management reasons are recognised by Zhongyuan Jinyi. Moreover, Zhongyuan Jinyi had entered into the tenancy agreements with each Zhengzhou Jiachao (after its disposal in June 2021) and the real estate developer of the Zone C Shopping Mall for renting the shopping malls owned by them. The Group will persist to upgrade the tenants of the Jiachao's Shopping Mall and the Zone C Shopping Mall by offering tenancies to more popular brands and 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.

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 management and 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.

By aiming to diversify the types of business and increase the shareholders' return, the Group also explored biotechnology segment since prior years in Honghezhou, Yunnan Province, the PRC. The trial production result had been submitted to the PRC regulatory body in November 2020. The commercial production will be started when the Industrial CBD Production Approval License is granted.

The world may change after the prolonged pandemic is over. This poses a tremendous challenge to the Group. Nevertheless, the Group has been striving to use its resources on hand flexibly to cope with the difficulties. Extra prudence is needed in these unprecedented times and 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 their 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.

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 the property operating and biotechnology markets, explore other new market potential and increase profit margin. Moreover, the Group intends to manage and operate the property operating segment by the current caliber management and competent employees of its subsidiaries and build up biotechnology segment step by step. Simultaneously, the Group continues to implement conservative and stringent cost control policies in order to maintain sufficient working capital by imposing control over operating costs and capital expenditures and strengthening accounts receivable management.

Looking forward, the Group continues to place additional resources to realise growth momentum from the development of the property operating and biotechnology markets. The Jiachao's Shopping Mall and the Zone C Shopping Mall are situated in Zhengzhou City, the centre and one of the Regional Central Cities of the PRC, and with good economic and demographic fundamentals, which enables the Group to diversify its business operations into the property operating market in depth. As cannabis is widely used in food and beverages, medical and industrial areas, the future prospect of CBD is expected to be 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 the long-term.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2021, the Group had net current assets and total assets less current liabilities of approximately HK$461,834,000 (2020: HK$290,629,000) and HK$2,698,285,000 (2020: HK$2,978,960,000), respectively. The Group had maintained its financial position by financing its operations with the proceeds from the disposal of a PRC subsidiary, internally generated resources and bonds. As at 30 June 2021, the Group had cash and bank deposits of approximately HK$16,693,000 (2020: HK$419,095,000). The current ratio of the Group was approximately 396.3% (2020: 274.1%).

Total equity of the Group as at 30 June 2021 was approximately HK$1,514,758,000. As at 30 June 2021, five bonds measured at amortised cost was approximately HK$34,352,000 in aggregate, the gross debt gearing ratio (i.e. bonds/shareholders' fund) was approximately 2.3%.

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

Though the return of funds has slowed down since the first half year of 2020 as a result of the COVID-19 pandemic, the Group still has maintained and will continue to maintain a reasonable amount of working capital on hand in order to maintain its financial position, and sufficient resources are expected to be generated from its business operations and financial support from a substantial shareholder of the Company in meeting its short-term and long-term obligations.

FINANCING

As at 30 June 2021, the Group had no borrowing facilities. In addition, five bonds amounted to approximately HK$34,352,000 in aggregate, measured at amortised cost, were arranged with four independent third parties.

As at 30 June 2020, the total borrowing facility of the Group amounted to approximately HK$874,523,000 and, all facility was utilised. In addition, six bonds amounted to approximately HK$44,343,000 in aggregate, measured at amortised cost, were arranged with five independent third parties.

The Board believes that the existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable term.

CAPITAL STRUCTURE

As at 30 June 2021, the share capital of the Company comprised ordinary shares only.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

During the current year, the Group was not subject to any significant exposure to foreign exchange rates risk as the majority of its transactions were denominated in RMB. Hence, no financial instrument for hedging was employed.

The Board monitors interest rate change exposure and may consider a hedging policy should the need arise.

CHARGE ON GROUP'S ASSETS

As at 30 June 2021, no investment properties of the Group were pledged to any bank or financial institutions.

As at 30 June 2020, certain investment properties of the Group with aggregate carrying value of approximately HK$1,145,566,000 were pledged to a bank to secure banking facilities granted to the Group.

CAPITAL EXPENDITURE

During the year ended 30 June 2021, the Group invested approximately HK$10,725,000 (2020: HK$6,463,000) in property, plant and equipment; all was used for purchase of plant and machineries, furniture, fixtures, office equipment, motor vehicles and leasehold improvements, of which, there were approximately HK$7,000 additions of furniture, fixtures, office equipment and motor vehicles belonged to Zhengzhou Jiachao which was disposed of on 22 June 2021. Please refer to the announcements and the circular of the Company dated 26 April 2021, 22 June 2021 and 28 May 2021, respectively.

As at 30 June 2021, the Group had no capital commitments in property, plant and equipment (2020: HK$1,494,000). The capital commitments for the year ended 30 June 2020 were funded by internally generated resources.

STAFF POLICY

The Group had 148 employees altogether in the PRC and Hong Kong as at 30 June 2021. 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 (each an “Independent Non-executive Director”) are appointed by the Company for a term of one year commencing from 11 April, 19 September, 15 October and 1 December each year respectively.

CONTINGENT LIABILITIES

At the end of the reporting period, the Group and the Company did not have any significant contingent liabilities.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the year ended 30 June 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

AUDIT COMMITTEE

The audit committee of the Company comprises four Independent Non-executive Directors of the Company. The principal duties of the audit committee include the review of the Group’s financial reporting procedures, risk management and internal control and financial results. The audit committee has reviewed with the management and the external auditor the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters including the review of the consolidated financial statements and annual results for the year ended 30 June 2021.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the year ended 30 June 2021.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS (THE “MODEL CODE”)

The Group has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors’ securities transactions. All directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 30 June 2021.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at http://artgroup.etnet.com.hk. An annual report for the year ended 30 June 2021 will be dispatched to the shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 30 September 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, Ms. Chong Sze Pui Joanne and Ms. Wang Yuqin.