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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)

2021 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the “Board”) of Art Group Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (together, the “Group”) for the six months ended 31 December 2021 (the “Period”), which were reviewed by the auditor and the audit committee of the Company, together with the comparative figures for the corresponding period in 2020 are as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

For the six months ended 31 December 2021

		Six months ended	
		31 December	
		2021	2020
		(unaudited)	(unaudited)
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Re-presented)
Continuing operations			
Revenue	3	94,447	92,000
Cost of sales		(18,321)	(40,079)
Gross profit		76,126	51,921
Other income		20,815	15,837
Administrative expenses		(11,446)	(13,933)
Loss on fair value changes on investment properties		(3,614)	(403,000)
Finance costs	4	(23,661)	(30,774)

		Six months ended	
		31 December	
		2021	2020
		(unaudited)	(unaudited)
	<i>NOTES</i>	HK\$'000	<i>HK\$'000</i>
			(Re-presented)
Profit/(loss) before taxation		58,220	(379,949)
Income tax (expense)/credit	5	<u>(13,760)</u>	<u>97,364</u>
Profit/(loss) for the period from continuing operations	6	44,460	(282,585)
Discontinued operations			
Loss for the period from discontinued operations	8	<u>(10,476)</u>	<u>(5,934)</u>
Profit/(loss) for the period		<u>33,984</u>	<u>(288,519)</u>
Other comprehensive income:			
<i>Items that will not be reclassified to profit or loss</i>			
Exchange differences on translation from functional currency to presentation currency		<u>21,846</u>	<u>132,036</u>
Other comprehensive income for the period, net of income tax		<u>21,846</u>	<u>132,036</u>
Total comprehensive income/(expense) for the period		<u>55,830</u>	<u>(156,483)</u>
Profit/(loss) for the period attributable to owners of the Company:			
– From continuing operations		35,734	(214,062)
– From discontinued operations		<u>(10,263)</u>	<u>(3,840)</u>
Profit/(loss) for the period attributable to owners of the Company		25,471	(217,902)
Profit/(loss) for the period attributable to non-controlling interests:			
– From continuing operations		8,726	(68,523)
– From discontinued operations		<u>(213)</u>	<u>(2,094)</u>

	Six months ended	
	31 December	
	2021	2020
	(unaudited)	(unaudited)
<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Re-presented)
Profit/(loss) for the period attributable to non-controlling interests	<u>8,513</u>	<u>(70,617)</u>
	<u>33,984</u>	<u>(288,519)</u>
Total comprehensive income/(expense) for the period attributable to:		
– Owners of the Company	<u>45,161</u>	(111,658)
– Non-controlling interests	<u>10,669</u>	<u>(44,825)</u>
	<u>55,830</u>	<u>(156,483)</u>
Total comprehensive income/(expense) for the period attributable to owners of the Company:		
– From continuing operations	<u>55,803</u>	(108,644)
– From discontinuing operations	<u>(10,642)</u>	<u>(3,014)</u>
	<u>45,161</u>	<u>(111,658)</u>
EARNINGS/(LOSS) PER SHARE	9	
From continuing and discontinued operations		
Basic (<i>HK cents</i>)	<u>0.95</u>	<u>(8.10)</u>
Diluted (<i>HK cents</i>)	<u>0.95</u>	<u>(8.10)</u>
From continuing operations		
Basic (<i>HK cents</i>)	<u>1.33</u>	<u>(7.96)</u>
Diluted (<i>HK cents</i>)	<u>1.33</u>	<u>(7.96)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

		31 December 2021 <i>HK\$'000</i> (unaudited)	30 June 2021 <i>HK\$'000</i> (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		4,662	11
Right-of-use assets		6,044	298
Investment properties		2,071,951	2,050,602
Rental deposits		<u>190,687</u>	<u>185,540</u>
		<u>2,273,344</u>	<u>2,236,451</u>
CURRENT ASSETS			
Trade and other receivables	10	27,799	296,331
Loan receivable		270,850	304,694
Bank balances and cash		<u>188,692</u>	<u>16,693</u>
		<u>487,341</u>	<u>617,718</u>
CURRENT LIABILITIES			
Other payables	11	44,936	35,126
Contract liabilities		18,010	20,651
Lease liabilities		62,068	22,270
Amount due to a substantial shareholder		26,689	47,888
Bonds		–	24,349
Tax liabilities		<u>15,688</u>	<u>5,600</u>
		<u>167,391</u>	<u>155,884</u>
NET CURRENT ASSETS		<u>319,950</u>	<u>461,834</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>2,593,294</u></u>	<u><u>2,698,285</u></u>

	31 December	30 June
	2021	2021
<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)
CAPITAL AND RESERVES		
Share capital	26,888	26,888
Reserves	1,373,597	1,327,663
	<u>1,400,485</u>	<u>1,354,551</u>
Equity attributable to owners of the Company		
	<u>1,400,485</u>	<u>1,354,551</u>
Non-controlling interests	–	160,207
	<u>–</u>	<u>160,207</u>
TOTAL EQUITY	<u>1,400,485</u>	<u>1,514,758</u>
NON-CURRENT LIABILITIES		
Lease liabilities	939,730	948,620
Deferred tax liabilities	226,717	224,904
Bonds	26,362	10,003
	<u>1,192,809</u>	<u>1,183,527</u>
	<u>1,192,809</u>	<u>1,183,527</u>
	<u>2,593,294</u>	<u>2,698,285</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2021

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2021 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 30 June 2021.

Application of amendments to HKFRSs

In the current interim period, the Group has applied, the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 July 2021 for the preparation of the Group’s condensed consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

The application of the amendments to HKFRSs in the current interim period has had no material effect on the Group’s financial positions and performance for the current and prior periods and/or disclosures set out in these condensed consolidated financial statements.

3. 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 period; and (ii) property management and related services fee received and receivable.

Information reported to the Board, 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. Therefore, the CODM only considers the Group’s business from a product perspective, rather than from a geographic perspective 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. From a product perspective, the CODM assesses the performance from property operating for the six months ended 31 December 2021 and 31 December 2020.

The accounting policies of the operating segments are the same as the Group’s accounting policies described in note 3 to the consolidated financial statements of the Company’s 2021 annual report. Segment results represent the profit or loss from the segment without allocation of income tax expense, loan interest income and unallocated administrative expenses.

One single tenant from property operating segment contributed to 10 per cent or more of the Group’s revenue for the six months ended 31 December 2021 (six months ended 31 December 2020: One). The total amount of revenue from this tenant was HK\$17,272,000 (six months ended 31 December 2020: HK\$16,087,000).

	Six months ended	
	31 December	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Continuing operations		
Revenue from major business services:		
<i>Revenue within the scope of HKFRS 16</i>		
Rental income from leasing of properties	<u>37,407</u>	<u>37,309</u>
<i>Revenue from contracts with customers within the scope of HKFRS 15</i>		
Property management fee income	55,293	53,513
Property management – other related services	<u>1,747</u>	<u>1,178</u>
	<u>57,040</u>	<u>54,691</u>
	<u>94,447</u>	<u>92,000</u>
Disaggregated by timing of revenue recognition:		
<i>Over time:</i>		
Property management fee income	55,293	53,513
Property management – other related services	<u>1,747</u>	<u>1,178</u>
	<u>57,040</u>	<u>54,691</u>
	<u>57,040</u>	<u>54,691</u>

Performance obligations for revenue from contracts with customers

Property management fee

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

Segment information

The Group is principally engaged in property operating business in the PRC. During the six months ended 31 December 2021, the Group disposed of the biotechnology operations and the results of such operation together with the related loss on disposal have been presented as discontinued operations in the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 31 December 2021 (Note 8).

Subsequent to the disposal of the biotechnology operations, there is only one single reportable segment for the Group, which is property operating business in the PRC.

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

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.

Six months ended 31 December 2021	Property operating HK\$'000
Continuing operations	
Revenue	<u><u>94,447</u></u>
Segment result	55,041
Income tax expense	(13,760)
Loan interest income	11,288
Unallocated administration expenses	<u>(8,109)</u>
Profit for the period from continuing operations	<u><u>44,460</u></u>

	Property operating HK\$'000	Unallocated HK\$'000	Total HK\$'000
Amounts included in the measure of segment profit			
Interest income	2,861	307	3,168
Interest expenses	(22,563)	(1,098)	(23,661)
Depreciation of property, plant and equipment	–	(37)	(37)
Depreciation of right-of-use assets	–	(583)	(583)
Fair value changes of investment properties	<u>(3,614)</u>	<u>–</u>	<u>(3,614)</u>
Six months ended 31 December 2020			Property operating HK\$'000
Continuing operations			
Revenue			<u>92,000</u>
Segment result			(371,460)
Income tax credit			97,364
Unallocated administration expenses			<u>(8,489)</u>
Loss for the period from continuing operations			<u>(282,585)</u>

	Property operating <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amounts included in the measure of segment loss			
Interest income	3,427	1	3,428
Interest expenses	(29,384)	(1,390)	(30,774)
Depreciation of property, plant and equipment	(663)	(5)	(668)
Depreciation of right-of-use assets	–	(596)	(596)
Fair value changes of investment properties	<u>(403,000)</u>	<u>–</u>	<u>(403,000)</u>

4. FINANCE COSTS

	Six months ended	
	31 December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Continuing operations		
Interest on		
– Secured bank borrowings	–	29,384
– Bonds	1,072	1,371
– Lease liabilities	22,589	19
	<u>23,661</u>	<u>30,774</u>

5. INCOME TAX EXPENSE/(CREDIT)

	Six months ended	
	31 December	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Continuing operations		
<i>Income tax recognised in profit and loss</i>		
PRC Enterprise Income Tax ("EIT")		
– Current income tax	14,664	3,386
Deferred tax	(904)	(100,750)
	<u>13,760</u>	<u>(97,364)</u>

Hong Kong Profits Tax was calculated at 16.5% (six months ended 31 December 2020: 16.5%) of the estimated assessable profits for the period. No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group did not generate any assessable profits arising in Hong Kong for both periods.

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

During the six months ended 31 December 2021, no deferred tax liabilities (30 June 2021: Nil) were recognised in respect of the undistributed retained earnings of the PRC subsidiaries attributable to the Group under the EIT Law that are subject to withholding tax upon the distribution of such profits to the shareholders outside the PRC.

6. PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS

	Six months ended	
	31 December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Continuing operations		
Profit/(loss) for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	37	668
Depreciation of right-of-use assets	583	596
Expenses related to short-term leases in respect of rented premises	51	14,816
Exchange loss, net	<u>458</u>	<u>1,849</u>

7. DIVIDEND

No dividend were paid or proposed during the period nor has any dividend been proposed since the end of the period (six months ended 31 December 2020: Nil).

8. DISCONTINUED OPERATIONS

During the current interim period, the Group entered into a sale and purchase agreement with an independent third party to dispose of the entire equity interests in City Charm International Limited and its subsidiaries (the “Disposal Group”) that carried out the Group’s biotechnology operations at a nominal consideration of US\$1.00. The disposal was completed on 22 November 2021, on which date, the Group lost control of the Disposal Group. The Group’s biotechnology operations are treated as discontinued operations.

The loss for the current interim period from the discontinued biotechnology operations in the PRC is set out below. The comparative figures in the condensed consolidated statement of profit or loss and other comprehensive income have been restated to re-present the biotechnology operations in the PRC as discontinued operations.

	Six months ended	
	31 December	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss of biotechnology operations in the PRC for the period	1,305	5,934
Loss on disposal of biotechnology operations in the PRC	9,171	–
	<u>10,476</u>	<u>5,934</u>

The results of the biotechnology operations in the PRC for the current and preceding interim periods were as follows:

	Period	Six months
	ended	ended
	22 November	31 December
	2021	2020
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Revenue	–	–
Cost of sales	<u>–</u>	<u>–</u>
Gross profit	–	–
Other income	243	144
Administrative expenses	(1,394)	(3,570)
Loss on fair value change of biological assets	–	(2,386)
Finance costs	<u>(154)</u>	<u>(122)</u>
Loss before taxation	(1,305)	(5,934)
Income tax expense	<u>–</u>	<u>–</u>
Loss for the period	<u>(1,305)</u>	<u>(5,934)</u>

The net assets of the Disposal Group as at the date of disposal were as follows:

	<i>HK\$'000</i>
	(unaudited)
<i>Loss on disposal of subsidiaries:</i>	
Total consideration	_*
<i>Less:</i> Net assets disposed of	3,166
<i>Add:</i> Non-controlling interest	<u>(12,337)</u>
Loss on disposal	<u>(9,171)</u>
<i>Total consideration satisfied by:</i>	
Cash consideration received	<u>_*</u>
<i>Net cash outflow arising on disposal:</i>	
Cash consideration received	_*
Bank balances and cash disposed of	<u>(46)</u>
Net cash outflow	<u><u>(46)</u></u>

Cash flows from the Disposal Group:

	Period ended 22 November 2021 (unaudited) <i>HK\$'000</i>	Six months ended 31 December 2020 (unaudited) <i>HK\$'000</i>
Net cash flows from operating activities	31,002	1,032
Net cash flows from investing activities	–	(9,859)
Net cash flows from financing activities	<u>(30,970)</u>	<u>8,273</u>
Net cash flows	<u><u>32</u></u>	<u><u>(554)</u></u>

* *less than HK\$1,000*

9. EARNINGS/(LOSS) PER SHARE

From continuing operations and discontinued operations

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

	Six months ended	
	31 December	
	2021	2020
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings/(loss)		
Profit/(loss) for the period attributable to the owners of the Company for the purposes of basic and diluted earnings/(loss) per share	<u>25,471</u>	<u>(217,902)</u>
	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	2,688,805	2,688,805
Effect of dilutive potential ordinary shares in respect of share options issued by the Company	<u>1,930</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	<u>2,690,735</u>	<u>2,688,805</u>

From continuing operations

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

Six months ended	
31 December	
2021	2020
<i>HK\$'000</i>	<i>HK\$'000</i>
(unaudited)	(unaudited)

Earnings/(loss) figures are calculated as follow:

Profit/(loss) for the period of calculating basic earnings/(loss) per share from continuing operations	<u>35,734</u>	<u>(214,062)</u>
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Six months ended	
31 December	
2021	2020
'000	'000
(unaudited)	(unaudited)

Number of shares

Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	2,688,805	2,688,805
Effect of dilutive potential ordinary shares in respect of share options issued by the Company	<u>1,930</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	<u>2,690,735</u>	<u>2,688,805</u>

From discontinued operations

Basic loss per share for the discontinued operations was HK0.38 cents per share (2020: HK0.14 cents per share) and diluted loss per share for the discontinued operations was HK0.38 cents per share (2020: HK0.14 cents per share), based on the loss for the period from the discontinued operations of approximately HK\$10,263,000 (2020: HK\$3,840,000) and the denominators detailed above for both basic and diluted loss per share.

10. TRADE AND OTHER RECEIVABLES

	31 December	30 June
	2021	2021
	HK'000	HK'000
	(unaudited)	(audited)
Trade receivables	5,264	3,972
Prepayment and other receivables	22,535	33,600
Consideration receivable (<i>Note</i>)	–	258,759
	<u>27,799</u>	<u>296,331</u>

Note: The consideration receivable represents the consideration of the disposal of Zhengzhou Jiachao Property Services Co., Ltd.*, an indirect 75%-owned subsidiary of the Company, on 22 June 2021. The consideration receivable was fully received during the six months ended 31 December 2021.

As at 31 December 2021 and 30 June 2021, all trade receivables of the Group were in the functional currency of the relevant group entities.

* *For identification only*

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

	31 December	30 June
	2021	2021
	HK'000	HK'000
	(unaudited)	(audited)
0 – 60 days	3,515	3,305
61 – 90 days	696	667
Over 90 days	1,053	–
	<u>5,264</u>	<u>3,972</u>

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

Before accepting any new tenants, the Group assesses the potential tenants’ credit quality. 67% (30 June 2021: 83%) of the trade receivables that were neither past due nor impaired had good credit rating under internal credit assessment adopted by the Group.

11. OTHER PAYABLES

	31 December	30 June
	2021	2021
	<i>HK’000</i>	<i>HK’000</i>
	(unaudited)	(audited)
Receipts in advance	15,970	12,273
Deposits received from tenants	23,480	14,503
Accrued charges and other payables	5,486	8,350
	44,936	35,126

MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Review

The Group is principally engaged in property operating business through holding all 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; of which, the principal activity of Zhongyuan Jinyi is property operating business. During the Period, the Company acquired 25% equity interests of Zhongyuan Jinyi by an indirect wholly-owned subsidiary. After completion, Zhongyuan Jinyi becomes an indirect wholly-owned subsidiary of the Company. Please refer to the announcement dated 15 November 2021 for details.

Zhongyuan Jinyi leased 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, situated in Zhengzhou City, Henan Province, the PRC. The Group generates revenue from the monthly incomes of rental, management and operating services payable by more than 146 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 99.0% of the lettable area in the Jiachao’s Shopping Mall was rented out as at 31 December 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, 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 nine years. As at 31 December 2021, approximately 97.7% 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 123 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.

During the Period, the Group disposed of biotechnology segment in Honghezhou, Yunnan Province, the PRC, of which, the Company held 60% equity interests in this segment. As no production approval license of cannabidiol ("CBD") was granted from the PRC regulatory body, the commercial production had not yet been commenced since its set-up in 2019; consequently, the Board determined to discontinue the operation of this segment in order to stop incurring further expenses.

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. During the Period, the principal amount was revised to RMB210,000,000. 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, 13 May 2021 and 19 November 2021 for details.

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 situation in the PRC was at low risk and numerous business activities maintained at normal during the Period. The Board agrees that the Group’s business has been impacted by the current public health situation to certain extent. Moreover, the Group had supported 15 tenants of the Jiachao’s Shopping Mall and the Zone C Shopping Mall which were affected by serious flooding happened in Zhengzhou City in July 2021 by reducing their rental, management and operating service charges on different bases for the period from July to September 2021 with an aggregated amount of approximately HK\$1,031,000 (2020: HK\$17,705,000). The Group sees cost reduction as a key strategic focus to help navigate business uncertainty resulting from the prolonged global COVID-19 pandemic and natural disaster. The Group also focuses on protecting and advancing the interests of tenants and customers in these difficult times, whilst prioritising the safety and well-being of its employees and business partners.

Continuing Operations

Revenue

For the Period, the Group recorded a revenue of approximately HK\$94,447,000 (2020: HK\$92,000,000), approximately 2.7% 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. Revenue of property operating segment for the Period maintained at the same level as that for the six months ended 31 December 2020.

Gross Profit

The gross profit margin was approximately 80.6% for the Period (2020: 56.4%). 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. A significant increase in gross profit margin was mainly due to the short-term lease in respect of the Zone C Shopping Mall recorded in cost of sales during the six months ended 31 December 2020 and after signing the 15-year lease in June 2021, relevant cost was classified as interest on lease liabilities in finance costs in accordance with HKFRS 16 Leases during the Period.

Profit for the Period

The Group's profit generated for the Period was approximately HK\$44,460,000 (loss incurred in 2020: HK\$282,585,000). The profit margin was approximately 47.1% for the Period (loss margin in 2020: 307.2%). Both increased positively for the Period because a loss on fair value changes of the Group's investment properties of approximately HK\$403,000,000 incurred for the six months ended 31 December 2020 as a consequence of the outbreak of COVID-19 pandemic during the year of 2020.

Other Income

Other income for the Period was approximately HK\$20,815,000 (2020: HK\$15,837,000), which comprised mainly other kinds of incomes generated from property operating segment, such as car parking fees and other services provided to tenants. Increase in other income was due to interest income earned from loan receivables during the Period.

Expenses

Administrative expenses amounted to approximately HK\$11,446,000 (2020: HK\$13,933,000), representing approximately 12.1% (2020: 15.1%) of revenue for the Period. Administrative expenses decreased by approximately 17.8% because fewer expenses related to the ownership of the Jiachao's Shopping Mall, such as salaries and insurance charges etc., were incurred during the Period after its disposal in June 2021.

The carrying value of the Group's investment properties as at 31 December 2021 of approximately HK\$2,071,951,000 was stated at fair value based on an independent valuation as at that date, which produced a loss on fair value changes of investment properties of approximately HK\$3,614,000. 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 of investment properties of approximately HK\$2,033,000, after deducting related deferred tax liabilities and non-controlling interests, was debited to the consolidated income statement. The carrying value of the Group's investment properties as at 31 December 2021 was maintained at the same level as at 30 June 2021 due to well-controlled epidemic situation throughout the Period.

Finance costs amounted to approximately HK\$23,661,000 (2020: HK\$30,774,000), representing approximately 25.1% (2020: 33.5%) of revenue for the Period. The decrease was from interest expenses of two bank borrowings with aggregated principal amount of RMB800 million of a subsidiary disposed of in June 2021 that incurred for the six months ended 31 December 2020.

Dividend

The Board does not recommend the payment of an interim dividend for the Period (2020: Nil).

Discontinued Operations

Loss for the Period

Loss for the Period from discontinued operations was approximately HK\$10,476,000 (2020: HK\$5,934,000). There was no revenue generated from biotechnology segment for the six months ended 31 December 2020 and 2021 because no CBD production approval license was granted from the PRC regulatory body and thus the commercial production had not yet been commenced. The increase by approximately 76.5% was mainly due to the loss on disposal of biotechnology operations incurred during the Period.

FUTURE PLANS AND PROSPECTS

In view of achieving the best interests of the Company and its shareholders as a whole, the Group has been putting effort in enlarging its operations of property operating business. Substantial resources have been placed into property operating business to explore future prospects and develop relevant markets. Thus, the Group acquired 25% equity interests in Zhongyuan Jinyi during the Period so as to increase the flexibility and efficiency in the management, decision-making and long-term strategy formulation by wholly owned the principal operating subsidiary, with a view to enhance the Group's development and to maximise the shareholders' return by focusing on property operating 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, Zhongyuan Jinyi had entered into the tenancy agreements with each the landlords of the Jiachao's Shopping Mall and the Zone C Shopping Mall. The Group will persist to upgrade the tenants of the two shopping malls 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.

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 all of 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 market, 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. 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 property operating market. 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. The business growth of the Group is expected to accelerate and accordingly, the positive outcome will be gradually reflected in the future along with continuing development of the Belt and Road Initiative and the Internal/External Circular Economy that advocated by the PRC government. By continually diversifying the Group's business, the market value of the Company and the return to its shareholders will be maximised in long-term.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2021, the Group had net current assets and total assets less current liabilities of approximately HK\$319,950,000 (30 June 2021: HK\$461,834,000) and HK\$2,593,294,000 (30 June 2021: HK\$2,698,285,000), 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 31 December 2021, the Group had cash and bank deposits of approximately HK\$188,692,000 (30 June 2021: HK\$16,693,000). The current ratio of the Group was approximately 291.1% (30 June 2021: 396.3%).

Total equity of the Group as at 31 December 2021 was approximately HK\$1,400,985,000 (30 June 2021: HK\$1,514,758,000). As at 31 December 2021, four bonds (30 June 2021: five bonds) measured at amortised cost was approximately HK\$26,362,000 (30 June 2021: HK\$34,352,000) in aggregate, the gross debt gearing ratio (i.e. bonds/shareholders' fund) was approximately 1.9% (30 June 2021: 2.3%).

Though the return of funds has slowed down since 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 31 December 2021, the Group had no borrowing facilities (30 June 2021: Nil). In addition, four bonds (30 June 2021: five bonds) amounted to approximately HK\$26,362,000 (30 June 2021: HK\$34,352,000) in aggregate, measured at amortised cost, were arranged with three (30 June 2021: four) independent third parties.

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

CAPITAL STRUCTURE

As at 31 December 2021, the share capital of the Company comprised ordinary shares only.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

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

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

CHARGE ON GROUP'S ASSETS

As at 31 December 2021, the Group did not pledge any assets to any banks or financial institutions (30 June 2021: Nil).

STAFF POLICY

The Group had 144 employees altogether in the PRC and Hong Kong as at 31 December 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 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.

USE OF PROCEEDS FROM THE DISPOSAL

The proceeds generated from the disposal in June 2021 were used as to (i) RMB244,060,000 (equivalent to approximately HK\$294,048,000) to settle the deposits of leasing the Jiachao's Shopping Mall and the Zone C Shopping Mall; (ii) approximately RMB68,983,000 (equivalent to approximately HK\$83,112,000) 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 RMB116,497,000 (equivalent to approximately HK\$140,358,000) to settle part of the acquisition of 25% equity interests in Zhongyuan Jinyi.

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

During the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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

AUDIT COMMITTEE

The audit committee of the Company comprises four independent non-executive directors of the Company. The principal duties of the audit committee include the review of the Group's financial reporting procedures, risk management and internal control and financial results. The audit committee has reviewed with the management and the external auditor the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters including the review of the unaudited condensed consolidated financial statements of the Group for the Period.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at <http://artgroup.etnet.com.hk>. An interim report for the six months ended 31 December 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, 28 February 2022

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.