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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)

**SUPPLEMENTAL ANNOUNCEMENT
IN RELATION TO
THE ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2022**

Reference is made to (i) the announcement of Art Group Holdings Limited (the “**Company**”, which together with its subsidiaries, the “**Group**”) dated 27 September 2022 in relation to the audited annual results for the year ended 30 June 2022; and (ii) the annual report of the Company for the year ended 30 June 2022 which was published on 28 October 2022.

The Company would like to supplement the following additional information with respect to the impairment loss on loan receivable of approximately HK\$51.6 million for the year (the “**Impairment**”) recognised for the Loan advanced by the Group to Fujian Qiancheng Lujinguan Engineering Co., Ltd.* (福建千城綠景觀工程有限公司) (the “**Borrower**”). Please refer to the announcement and the circular of the Company (the “**Circular**”) dated 29 June 2022 and 12 August 2022, respectively, for details of the Loan. Terms used herein shall have the same meanings as defined in the Circular unless the contents herein require otherwise.

VALUATION METHOD

The Impairment was supported by a valuation report prepared by an independent valuer engaged by the Company (the “**Independent Valuer**”).

The Impairment was estimated based on the expected credit loss (“**ECL**”) assessment prepared by the Independent Valuer.

According to the Independent Valuer, the ECL of the loan receivables was estimated with three parameters, namely Exposure at Default (“**EAD**”), Probability of Default (“**PD**”) and Loss Given Default (“**LGD**”).

Key inputs	Value of inputs		Basis and assumptions
	As of 30 June 2022	As of 30 June 2021	
EAD	RMB224,831,312	RMB253,287,671	Based on the discounted loan receivable at amortized cost of the Group.
PD	47.65%	0.34%	Estimated with reference to the credit rating of the Borrower, research study on default probabilities of corporates by credit rating, and further adjusted with the forward-looking factor.
LGD	40.30%	45.30%	Calculated by one minus recovery rate, where the recovery rate is based on the value of collateral-to-loan ratio. The fair value of the collateral provided by the Guarantors based on the Loan Agreement was adopted to estimate the recovery rate in case the Borrower defaults.

There was a significant increase in PD from 0.34% as of 30 June 2021 to 47.65% as of 30 June 2022.

The Independent Valuer had performed the credit rating analysis with the latest financial performance of the Borrower as of 30 June 2021 and 30 June 2022 with reference to *Moody's Financial Metrics™ Key Ratios by Rating and Industry for Global Non-Financial Corporations*.

Based on the facts that (a) the result of credit rating analysis of the Borrower for the year ended 30 June 2022 was estimated to be worse than the result of credit rating analysis of the Borrower for 30 June 2021 by using the same method; and (b) the Loan outstanding was only partially repaid for RMB40,000,000 on or before the original maturity of the original Loan Agreement, and the Loan Agreement thus was extended on the maturity for the Loan repayment, the Independent Valuer concluded the credit rating of the Borrower was downgraded for the year ended 30 June 2022 in comparing to the credit rating for the year ended 30 June 2021.

The method in determining the PD is consistent between 30 June 2021 and 30 June 2022.

The adopted valuation method is a common method to calculate the ECL for a loan receivable.

LOAN APPROVAL PROCEDURES

The Loan was approved in accordance with the Group's established internal control procedures including credit assessment procedures and there was no material deviation from such procedures.

The major works performed by the Company on the Borrower, the Guarantor and the New Guarantor include:

- obtained and reviewed the latest management accounts then available;
- understood the updated business, operation and forecast;
- obtained and reviewed certain current business contracts of the Borrower, the Guarantor and the New Guarantor; and
- conducted updated background and corporate searches.

Based on the results of the works performed by the Company on the Borrower at or around the time of renewing the Loan, it was assessed that the default risk of the Borrower was low and no matters indicating that the Borrower would likely default in payment were brought to the attention of the Directors.

While assessing whether to renew the Loan, the Board more focused on the credit risk, repayment ability, industry and business forecast, amount of outstanding loans and historical default of the Borrower, the Guarantor and the New Guarantor. No calculation of impairment loss was carried out at the relevant time. The Impairment was conducted in pursuance to the relevant accounting standard on the reporting date of 30 June 2022, which largely is calculated based on a pre-set formula and may not equivalent to the actual payment ability/default, was brought to the attention of the Board during the audit process in September 2022.

CURRENT STATUS OF THE LOAN

The first repayment of RMB20,000,000 of the Loan was made on or before 30 September 2022 in accordance with the terms of the Loan Agreement (as amended and supplemented). As at the date of this announcement, the outstanding principal amount of the Loan was RMB190,000,000. The Group had not received the second payment of the Loan, which became due on 31 January 2023. In around mid-October 2022, due to the increase in confirmed cases, the COVID-19 control measures in the People's Republic of China (the "PRC") were tightened and various cities and districts, including Zhengzhou, were locked down. This was unexpected at the time when the Company considered if to renew the Loan. To the knowledge of the Directors, the unexpected and sudden lock-down of Zhengzhou and other cities led to postponements of the Borrower's projects, delay in its receipt of receivables and loss on its projects' preparation works, etc. These in turn had a material adverse impact on the Borrower's business, operation and financial position and therefore causing it unable to make the second payment of the Loan on or before 31 January 2023.

The Group is discussing with the Borrower on a revised repayment schedule of the Loan. The Borrower proposed to partially repay an amount of RMB10,000,000 at the beginning of April 2023 and other terms of repayment are still under negotiation. The Group is also assessing the recoverability risk of the Loan and had sought preliminary advice from its PRC lawyer. No formal legal action has been taken against the Borrower, the Guarantor and/or the New Guarantor as at the date of this announcement. If the parties fail to agree on a revised repayment schedule, or the Borrower fails to make any payment according to the revised repayment schedule or the Borrower's situation becomes worse and the recoverability risk is high, the Company will consider to take formal legal actions on the Borrower, the Guarantor and/or the New Guarantor. The Company will make further announcement(s) on the updated status of the Loan when and where appropriate.

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

Hong Kong, 23 February 2023

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, Ms. Chong Sze Pui Joanne and Ms. Wang Yuqin.

* *for identification purpose only*