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)

2022 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 2022 (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 2021 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2022

		Six months ended 31 December	
		2022	2021
		(unaudited)	(unaudited)
	NOTES	***HK$'000***	*HK$'000*
Continuing operations			
Revenue	*3*	**74,788**	94,447
Cost of sales		**(18,662)**	(18,321)
Gross profit		**56,126**	76,126
Other income		**17,599**	20,815
Administrative expenses		**(13,067)**	(11,446)
Impairment loss on rental deposits		**(35,788)**	–
Impairment loss on loan receivable		**(28,866)**	–
Loss on fair value changes on investment properties		**(483,146)**	(3,614)
Finance costs	*4*	**(22,275)**	(23,661)

	NOTES	Six months ended 31 December **2022** **(unaudited)** ***HK$'000***	 2021 (unaudited) *HK$'000*
(Loss)/profit before taxation		**(509,417)**	58,220
Income tax credit/(expense)	*5*	**118,266**	(13,760)
(Loss)/profit for the period from continuing operations	*6*	**(391,151)**	44,460
Discontinued operation			
Loss for the period from discontinued operation	*8*	**–**	(10,476)
(Loss)/profit for the period		**(391,151)**	33,984
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss			
Exchange differences on translation from functional currency to presentation currency		**(40,982)**	21,846
Other comprehensive (expense)/income for the period, net of income tax		**(40,982)**	21,846
Total comprehensive (expense)/income for the period		**(432,133)**	55,830
(Loss)/profit for the period attributable to owners of the Company:			
– From continuing operations		**(391,151)**	35,734
– From discontinued operation		**–**	(10,263)
(Loss)/profit for the period attributable to owners of the Company		**(391,151)**	25,471
Profit for the period attributable to non-controlling interests:			
– From continuing operations		**–**	8,726
– From discontinued operation		**–**	(213)
Profit for the period attributable to non-controlling interests		**–**	8,513
		(391,151)	33,984

	NOTES	Six months ended 31 December 2022 (unaudited) HK$'000	2021 (unaudited) HK$'000
Total comprehensive (expense)/income for the period attributable to:			
– Owners of the Company		**(432,133)**	45,161
– Non-controlling interests		**–**	10,669
		(432,133)	55,830
Total comprehensive (expense)/income for the period attributable to owners of the Company:			
– From continuing operations		**(432,133)**	55,803
– From discontinued operation		**–**	(10,642)
		(432,133)	45,161
(LOSS)/EARNINGS PER SHARE	*9*		
From continuing and discontinued operations			
Basic *(HK cents)*		**(14.55)**	0.95
Diluted *(HK cents)*		**(14.55)**	0.95
From continuing operations			
Basic *(HK cents)*		**(14.55)**	1.33
Diluted *(HK cents)*		**(14.55)**	1.33
From discontinued operation			
Basic *(HK cents)*		**–**	(0.38)
Diluted *(HK cents)*		**–**	(0.38)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	NOTES	**31 December 2022 HK$'000 (unaudited)**	30 June 2022 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**3,562**	3,786
Right-of-use assets		**4,604**	5,336
Investment properties		**1,292,045**	1,843,529
Rental deposits		**146,862**	186,623
		1,447,073	2,039,274
CURRENT ASSETS			
Trade and other receivables	*10*	**39,855**	22,949
Loan receivable		**163,572**	213,709
Bank balances and cash		**9,298**	21,526
		212,725	258,184
CURRENT LIABILITIES			
Other payables	*11*	**62,400**	43,656
Contract liabilities		**5,559**	9,881
Lease liabilities		**92,862**	88,808
Amount due to a substantial shareholder		**1,617**	47,496
Bonds		**15,341**	15,341
Tax liabilities		**2,208**	2,621
		179,987	207,803
NET CURRENT ASSETS		**32,738**	50,381
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,479,811**	2,089,655

	NOTES	31 December 2022 HK$'000 (unaudited)	30 June 2022 HK$'000 (audited)
CAPITAL AND RESERVES			
Share capital		**26,888**	26,888
Reserves		**553,403**	985,536
TOTAL EQUITY		**580,291**	1,012,424
NON-CURRENT LIABILITIES			
Lease liabilities		**837,150**	887,292
Deferred tax liabilities		**51,360**	179,936
Bonds		**11,010**	10,003
		899,520	1,077,231
		1,479,811	2,089,655

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2022

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 and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certificated Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain investment properties 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 2022 are the same as those presented in the Group's annual consolidated financial statements for the year ended 30 June 2022.

Application of amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 July 2022 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

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

3. REVENUE AND SEGMENT INFORMATION

Revenue represents (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 and receivable.

	Six months ended 31 December	
	2022	2021
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Continuing operations		
Revenue from major business services:		
Revenue within the scope of HKFRS 16		
Rental income from leasing of properties	**30,657**	37,407
Revenue from contracts with customers within the scope of HKFRS 15		
Property management fee income	**43,441**	55,293
Property management – other related services	**690**	1,747
	44,131	57,040
	74,788	94,447
Disaggregated by timing of revenue recognition:		
Over time:		
Property management fee income	**43,441**	55,293
Property management – other related services	**690**	1,747
	44,131	57,040

Performance obligations for revenue from contracts with customers

(i) Property management fee

Property management fee is recognised over the service period. The Group receives monthly property management fee payments from customers one to three months in advance under the contracts. Advance consideration allocated to the properties management services is recognised as a contract liability and is released over the period of services.

Segment information

Information reported to the board of directors, 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.

Prior to the period ended 30 June 2022, the management of the Company has determined that the Group has two operating segments as the Group is engaged in the property operating and biotechnology businesses, which is the basis used by the CODM. From a product perspective, the management assesses the performance from property operating and biotechnology segments.

During the period ended 31 December 2021, the biotechnology segment was discontinued due to the disposal of relevant subsidiaries.

Subsequent to the discontinuation of the biotechnology segment, there is only one single reportable segment for the Group, which is the property operating segment operated in the People's Republic of China (the "PRC"). The segment information reported does not include any amounts for this discontinued operation, which is described in details in note 8.

Segment results represent profit or loss from the segment without allocation of income tax credit/(expense), loan interest income, impairment loss on loan receivable 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 2022 (six months ended 31 December 2021: One). The total amount of revenue from this tenant was HK$10,830,000 (six months ended 31 December 2021: HK$17,272,000).

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 2022 **Continuing operations**	**Property operating** ***HK$'000***
Revenue	**74,788**
Segment result	**(483,471)**
Income tax credit	**118,266**
Loan interest income	**8,967**
Impairment loss on loan receivable	**(28,866)**
Unallocated administration expenses	**(6,047)**
Loss for the period from continuing operations	**(391,151)**

Six months ended 31 December 2022 **Continuing operations**	**Property operating** ***HK$'000***	**Unallocated** ***HK$'000***	**Total** ***HK$'000***
Amounts included in the measure of segment profit or loss			
Interest income	**16**	**1**	**17**
Interest expenses	**(21,226)**	**(1,049)**	**(22,275)**
Loss on fair value changes of investment properties	**(483,146)**	**–**	**(483,146)**
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss			
Depreciation of property, plant and equipment	**(91)**	**(2)**	**(93)**
Depreciation of right-of-use assets	**(99)**	**(493)**	**(592)**

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

Six months ended 31 December 2021 Continuing operations	Property operating *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Amounts included in the measure of segment profit or loss			
Interest income	2,861	307	3,168
Interest expenses	(22,563)	(1,098)	(23,661)
Loss on fair value changes of investment properties	(3,614)	–	(3,614)
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss			
Depreciation of property, plant and equipment	–	(37)	(37)
Depreciation of right-of-use assets	–	(583)	(583)
Additions to non-current assets	8,940	1,971	10,911

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

4. FINANCE COSTS

	Six months ended 31 December	
	2022	2021
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Continuing operations		
Interest on		
– Bonds	**1,006**	1,072
– Lease liabilities	**21,269**	22,589
	22,275	23,661

5. INCOME TAX CREDIT/(EXPENSE)

	Six months ended 31 December	
	2022	2021
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Continuing operations		
Income tax recognised in profit and loss		
PRC Enterprise Income Tax ("EIT")		
– Current income tax	**2,521**	14,664
Deferred tax	**(120,787)**	(904)
	(118,266)	13,760

Hong Kong Profits Tax was calculated at 16.5% (six months ended 31 December 2021: 16.5%) of the estimated assessable profit for the Period. No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group did not generate any assessable profits arising in Hong Kong for both periods.

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

During the six months ended 31 December 2022, no deferred tax liabilities (30 June 2022: Nil) were recognised in respect of the undistributed retained earnings of the PRC subsidiaries attributable to the Group under the EIT Law that are subject to withholding tax upon the distribution of such profits to the shareholders outside the PRC.

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

	Six months ended 31 December	
	2022	2021
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Continuing operations		
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	**93**	37
Depreciation of right-of-use assets	**592**	583
Expenses related to short-term leases in respect of rented premises	**–**	51
Exchange losses, net	**2,724**	458

7. DIVIDENDS

No dividends were paid, declared or proposed during the interim period nor has any dividend been proposed since the end of the interim period (six months ended 31 December 2021: Nil).

8. DISCONTINUED OPERATION

During the period ended 31 December 2021, the Group entered into a sale and purchase agreement to dispose of its 100% equity interests in City Charm International Limited and its subsidiaries (the "Disposal Group") that carried out all of the Group's biotechnology operation. The disposal was completed on 22 November 2021, on which date the Group lost control of the Disposal Group. The Group's biotechnology operation is treated as discontinued operation.

The loss for the period ended 31 December 2021 from the discontinued biotechnology operation 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 operation in the PRC as a discontinued operation.

	Six months ended 31 December 2021 *HK$'000* (unaudited)
Loss of biotechnology operation in the PRC for the period	1,305
Loss on disposal of biotechnology operation in the PRC	9,171
	10,476

The results of the biotechnology operation in the PRC for the preceding interim period were as follows:

	Period ended 22 November 2021 *HK$'000* (unaudited)
Revenue	–
Cost of sales	–
Gross profit	–
Other income	243
Administrative expenses	(1,394)
Finance costs	(154)
Loss before taxation	(1,305)
Income tax expense	–
Loss for the period	(1,305)

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

	HK$'000 (unaudited)
Loss on disposal of a subsidiary:	
Total consideration	–*
Less: Net assets disposed of	3,166
Add: Non-controlling interest	(12,337)
Loss on disposal	(9,171)
Total consideration satisfied by:	
Cash consideration received	–*
Net cash outflow arising on disposal:	
Cash consideration received	–*
Bank balances and cash disposed of	(46)
Net cash outflow	(46)

Cash flows from the Disposal Group:

	Period ended 22 November 2021 *HK$'000* (unaudited)
Net cash flows from operating activities	31,002
Net cash flows from investing activities	–
Net cash flows from financing activities	(31,030)
Net cash flows	(28)

* *less than HK$1,000*

9. (LOSS)/EARNINGS PER SHARE

From continuing operations and discontinued operation

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

	Six months ended 31 December	
	2022	2021
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss)/earnings		
(Loss)/profit for the period attributable to the owners of the Company for the purposes of basic and diluted (loss)/earnings per share	**(391,151)**	25,471

	Six months ended 31 December	
	2022	2021
	'000	*'000*
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,688,805**	2,688,805
Effect of dilutive potential ordinary shares in respect of share options issued by the Company	**394**	1,930
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,689,199**	2,690,735

From continuing operations

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

	Six months ended 31 December	
	2022	2021
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss)/earnings		
(Loss)/profit for the period of calculating basic and diluted (loss)/earnings per share from continuing operations	**(391,151)**	35,734

	Six months ended 31 December	
	2022	2021
	'000	*'000*
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,688,805**	2,688,805
Effect of dilutive potential ordinary shares in respect of share options issued by the Company	**394**	1,930
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,689,199**	2,690,735

From discontinued operation

Basic loss per share for the discontinued operation for the six months ended 31 December 2021 was HK0.38 cents per share and diluted loss per share for the discontinued operation was HK0.38 cents per share, based on the loss for the period from the discontinued operation of approximately HK$10,263,000 and the denominators detailed above for both basic and diluted loss per share.

10. TRADE AND OTHER RECEIVABLES

	31 December 2022	30 June 2022
	HK'000	*HK'000*
	(unaudited)	(audited)
Trade receivables	**19,339**	11,036
Prepayment	**1,636**	1,185
Other receivables	**18,880**	10,728
	39,855	22,949

As at 31 December 2022 and 30 June 2022, 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 the date of rendering of services:

	31 December 2022	30 June 2022
	HK'000	*HK'000*
	(unaudited)	(audited)
0-60 days	**9,424**	7,196
61-90 days	**1,533**	1,449
Over 90 days	**8,382**	2,391
	19,339	11,036

The Group measures loss allowances for trade receivables at an amount equal to lifetime expected credit losses ("ECL"), which is assessed individually. Given the Group has not experienced any significant credit losses in the past and holds 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. 49% (30 June 2022: 65%) of trade receivables that are neither past due nor impaired have good credit rating under internal credit assessment adopted by the Group.

11. OTHER PAYABLES

	31 December 2022	30 June 2022
	HK'000	*HK'000*
	(unaudited)	(audited)
Receipts in advance	**30,648**	11,339
Deposits received from tenants	**27,083**	27,488
Accrued charges and other payables	**4,666**	4,814
Dividend payable	**3**	15
	62,400	43,656

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. The principal activity of Zhongyuan Jinyi is property operating business. During the six months ended 31 December 2021, the Company acquired 25% equity interests of Zhongyuan Jinyi. After completion, Zhongyuan Jinyi became 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 service receivables from tenants under the respective tenancy agreements with a remaining term ranging from one year to 12 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, kid's learning and restaurants. Approximately 98.9% of the lettable area in the Jiachao's Shopping Mall was rented out to approximately 134 tenants as at 31 December 2022. 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 eight years. As at 31 December 2022, approximately 91.1% 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 105 tenants including a cinema, an aquarium, jewelries, beauty shops, car sales, international labels for fashion, fitness, lifestyle, casual wear/sport, kid's paradise, kid's learning 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 are 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 six months ended 31 December 2021, the Group disposed of the 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, the Board determined to discontinue the operation of this segment in order to stop incurring further costs.

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 million for a term of 12 months from the drawdown date at an interest of 7.5% per annum. During the year ended 30 June 2022, the principal amount was revised to RMB210 million, as well as the interest of 4.785% 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 guarantors. On 29 June 2022, the parties agreed to extend the repayment date of the loan to 27 April 2023 (the "Renewed Loan"). Before extending the Renewed Loan, the Company has performed certain works to assess the credit risk and repayment ability of the Borrower and the guarantors and such works included (i) obtained and reviewed the latest management accounts of the Borrower then available; (ii) understood the updated business, operation and forecast of the Borrower; (iii) obtained and reviewed certain current business contracts of the Borrower and the guarantors; and (iv) conducted updated background and corporate searches of the Borrower and the guarantors. As at 28 February 2023, the Group had not received the second payment of the Renewed Loan of RMB90 million, which became due on 31 January 2023. Please also refer to the announcements of the Company dated 28 April 2021, 13 May 2021, 19 November 2021, 27 May 2022, 29 June 2022 and 23 February 2023, as well as the circular of the Company dated 12 August 2022 for details.

The COVID-19 epidemic 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 closure of the shopping malls and controls of the epidemic to a significant extent during the Period. The Group had supported more than 235 tenants (2021: 15 tenants) of the Jiachao's Shopping Mall and the Zone C Shopping Mall (including kiosks and booths of trendy and stylish items) who were affected by the epidemic by reducing their rental, management and operating service charges on different bases throughout the Period with an aggregated amount of approximately HK$32,634,000 (2021: HK$1,031,000). The Group sees cost reduction as a key strategic focus to help navigate business uncertainty resulting from the COVID-19 epidemic. 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$74,788,000 (2021: HK$94,447,000), approximately 20.8% less than that in 2021. 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. Decrease in revenue during the Period was due to a reduction of rental, management and operating service charges granted to more than 235 tenants of the Jiachao's Shopping Mall and the Zone C Shopping Mall (including kiosks and booths of trendy and stylish items) who were affected by the epidemic (2021: 15 tenants) on different bases with an aggregated amount of approximately HK$32,634,000 (2021: HK$1,031,000).

Gross Profit

The gross profit margin was approximately 75.0% for the Period (2021: 80.6%). 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 decrease in revenue as a result of a reduction of rental, management and operating service charges granted to more than 235 tenants of the Jiachao's Shopping Mall and the Zone C Shopping Mall who were affected by the epidemic during the Period.

Loss for the Period

The Group's loss incurred for the Period was approximately HK$391,151,000 (profit in 2021: HK$44,460,000). The loss margin was 523.0% for the Period (profit margin in 2021: 47.1%). Both decreased significantly for the six months ended 31 December 2022 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$483,146,000 (2021: HK$3,614,000) as a consequence of mandatory closure of the two shopping malls due to the COVID-19 epidemic regulatory policies for the period from October to November 2022.

Other Income

Other income for the six months ended 31 December 2022 was approximately HK$17,599,000 (2021: HK$20,815,000), which comprised other kinds of incomes generated from property operating segment, such as car parking fees and other services provided to tenants. Decrease in other income was due to mandatory closure of the Jiachao's Shopping Mall and the Zone C Shopping Mall as a result of the COVID-19 epidemic regulatory policies for the period from October to November 2022.

Expenses

Administrative expenses amounted to approximately HK$13,067,000 (2021: HK$11,446,000), representing approximately 17.5% (2021: 12.1%) of revenue for the six months ended 31 December 2022. Administrative expenses increased by approximately 14.2% mainly because there was a depreciation of RMB, the functional currency of the Company, during the Period.

Impairment loss on loan receivable amounted to approximately HK$28,866,000 (2021: Nil) for the Period. The material increase was because the loan had been extended one more year after its initial maturity date on 27 April 2022, which in turn increased its credit risk to a certain extent.

The impairment loss was estimated based on the expected credit loss ("ECL") assessment prepared by an independent valuer engaged by the Group. The ECL of loan receivable was estimated with three parameters, namely Exposure at Default ("EAD"), Probability of Default ("PD"), and Loss Given Default ("LGD").

EAD is based on the discounted loan receivable at amortised cost of the Group. PD is estimated with reference to the credit rating analysis of the Borrower and the latest financial performance of the Borrower, and further adjusted with the forward-looking factor. The valuer concluded that the credit rating of the Borrower for the six months ended 31 December 2022 was worse than that for the six months ended 31 December 2021, based on the credit rating analysis of the Borrower with consistent method across the period. LGD is 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 guarantor based on the loan agreement was adopted to estimate the recovery rate in case the Borrower defaults.

Impairment loss on rental deposits amounted to approximately HK$35,788,000 (2021: Nil) for the Period. The impairment loss was estimated based on the ECL assessment prepared by an independent valuer engaged by the Group. The material increase was mainly due to the seizure of some shops by certain banks and financial institutions to whom the Jiachao's Shopping Mall and the Zone C Shopping Mall were pledged by their respective owner, which in turn increased the credit risk to a certain extent. Nevertheless, the two shopping malls, including the subject shops, operated normally as at the date of reporting.

The carrying value of the Group's investment properties, the Jiachao's Shopping Mall and the Zone C Shopping Mall, as at 31 December 2022 of approximately HK$1,292,045,000 (30 June 2022: HK$1,843,529,000) 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$483,146,000 (2021: 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 on investment properties of approximately HK$362,360,000 (2021: HK$2,711,000), after deducting related deferred tax liabilities, was debited to the condensed consolidated income statement. Decrease in the carrying value was due to the COVID-19 epidemic spreading across the globe since the beginning of 2020, causing the carrying value of the investment properties continue to drop. In 2022, COVID-19 pandemic was across China, it reduced the consumption growth. As a result, the commercial rental performance decreased. Since the end of December 2022, the consumer market has shown signs of recovery, and the passenger flow of physical businesses has rebounded. The directors believe the carrying value should improve in 2023.

Finance costs amounted to approximately HK$22,275,000 (2021: HK$23,661,000), representing approximately 29.8% (2021: 25.1%) of revenue for the six months ended 31 December 2022. Finance costs were maintained at the similar level for the six months ended 31 December 2021 and 31 December 2022.

Dividend

The Board does not recommend the payment of an interim dividend for the Period (2021: Nil).

Discontinued Operation

Loss for the Period

The discontinued operation had no revenue and loss for the Period because the biotechnology segment was disposed of during the six months ended 31 December 2021. Loss for the six months ended 31 December 2021 from discontinued operation was approximately HK$10,476,000 and no revenue was generated because no CBD production approval license was granted from the PRC regulatory body. Thus the commercial production had not yet been commenced.

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 six months ended 31 December 2021 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 of 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 income 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 keeps changing during the time of the epidemic. 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 post-pandemic period. 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 and alleviate the financial pressure on the property operating business by imposing control over operating costs and capital expenditures and strengthening accounts receivable management. In addition, adapting to a new normal, corporate resilience is essential to harness new opportunities while recovering quickly from unprecedented shocks during the post-pandemic period.

The PRC Government started to lift lockdowns and relax control restrictions at the beginning of 2023. The Board believes that the reopen will bring positive effects in the economic resurgence in the coming year. The demand for goods and services will recover and a surge in prices will accelerate; especially household consumption. The sales and customer flow of the shopping malls will gradually restore in the future. The confidence of tenants increases with this anticipated steady growth; hence the Group will no longer need to provide rental reduction to the tenants.

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, as well as the effectiveness of the Regional Comprehensive Economic Partnership from January 2022. By continually capturing opportunities for expansion and 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 2022, the Group had net current assets and total assets less current liabilities of approximately HK$32,738,000 (30 June 2022: HK$50,381,000) and HK$1,479,811,000 (30 June 2022: HK$2,089,655,000), 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 2022, the Group had cash and bank deposits of approximately HK$9,298,000 (30 June 2022: HK$21,526,000). The current ratio of the Group was approximately 118.2% (30 June 2022: 124.2%).

Total equity of the Group as at 31 December 2022 was approximately HK$580,291,000 (30 June 2022: HK$1,012,424,000). As at 31 December 2022, four bonds (30 June 2022: four bonds) measured at amortised cost was approximately HK$26,351,000 (30 June 2022: HK$25,344,000) in aggregate, the gross debt gearing ratio (i.e. bonds/shareholders' fund) was approximately 4.5% (30 June 2022: 2.5%).

Though the return of funds has slowed down since 2020 as a result of the COVID-19 epidemic, 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 2022, the Group had no borrowing facilities (30 June 2022: Nil). In addition, four bonds (30 June 2022: four bonds) amounted to approximately HK$26,351,000 (30 June 2022: HK$25,344,000) in aggregate, measured at amortised cost, were arranged with three (30 June 2022: three) 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 2022, the share capital of the Company comprised ordinary shares only.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

During the six months ended 31 December 2022, 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 2022, the Group did not pledge any assets to any banks or financial institutions (30 June 2022: Nil).

STAFF POLICY

The Group had 141 employees altogether in the PRC and Hong Kong as at 31 December 2022. 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 (Chapter 485 of the Laws of Hong Kong) for its employees in Hong Kong.

The Group also provides periodic internal training to its employees.

Three independent non-executive directors are appointed by the Company for a term of one year commencing from 11 April, 19 September, and 1 December each year respectively.

CONTINGENT LIABILITIES

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

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

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

CODE ON CORPORATE GOVERNANCE

The Company is committed to achieving the best corporate governance practices as a listed company. The Board believes that high standards and rigorous corporate governance practices can improve the accountability and transparency of the Company. Consequently, during the Period, the Company complied with the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "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 three independent non-executive directors of the Company. The principal duties of the audit committee include the review of the Group's financial reporting procedures, risk management and internal control and financial results. The audit committee has reviewed with the management and the external auditor the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters including the review of the unaudited condensed consolidated interim financial statements of the Group for the Period.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of The Stock Exchange of Hong Kong Limited 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 2022 will be despatched 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 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.