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)

2023 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the "Board") of Art Group Holdings Limited (the "Company") is pleased to announce the audited consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 30 June 2023 together with the comparative figures in 2022 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2023

	NOTES	**2023** *HK$'000*	2022 *HK$'000*
Continuing operations			
Revenue	*4*	**143,233**	184,601
Cost of sales		**(37,521)**	(37,311)
Gross profit		**105,712**	147,290
Other income and other gain and loss	*5*	**28,476**	33,156
Administrative expenses		**(21,766)**	(23,617)
Impairment loss on loan receivable		**(184,361)**	(51,551)
Impairment loss on rental deposits		**(19,247)**	–
Impairment loss on trade receivables		**(2,225)**	–
Loss on fair value changes of investment properties		**(720,225)**	(162,651)
Finance costs	*6*	**(43,761)**	(47,711)

	NOTES	2023 HK$'000	2022 HK$'000
Loss before taxation		**(857,397)**	(105,084)
Income tax credit	*7*	**173,949**	27,401
Loss for the year from continuing operations		**(683,448)**	(77,683)
Discontinued operation			
Loss for the year from discontinued operation		**–**	(10,476)
Loss for the year	*8*	**(683,448)**	(88,159)
Other comprehensive expense:			
Item that will not be reclassified to profit or loss			
Exchange differences on translation from functional currency to presentation currency		**(60,534)**	(28,968)
Other comprehensive expense for the year		**(60,534)**	(28,968)
Total comprehensive expense for the year		**(743,982)**	(117,127)
Loss for the year attributable to owners of the Company:			
From continuing operations		**(683,448)**	(86,409)
From discontinued operation		**–**	(10,263)
Loss for the year attributable to owners of the Company		**(683,448)**	(96,672)
Profit/(loss) for the year attributable to non-controlling interests:			
From continuing operations		**–**	8,726
From discontinued operation		**–**	(213)
Profit for the year attributable to non-controlling interests		**–**	8,513
		(683,448)	(88,159)

	NOTES	2023 HK$'000	2022 HK$'000
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		**(743,982)**	(127,796)
Non-controlling interests		**–**	10,669
		(743,982)	(117,127)
Total comprehensive expense for the year attributable to owners of the Company:			
From continuing operations		**(743,982)**	(117,154)
From discontinued operation		**–**	(10,642)
		(743,982)	(127,796)
LOSS PER SHARE	*10*		
From continuing and discontinued operations			
Basic *(HK cents)*		**(25.42)**	(3.60)
Diluted *(HK cents)*		**(25.42)**	(3.60)
From continuing operations			
Basic *(HK cents)*		**(25.42)**	(3.21)
Diluted *(HK cents)*		**(25.42)**	(3.21)
From discontinuing operation			
Basic *(HK cents)*		**–**	(0.38)
Diluted *(HK cents)*		**–**	(0.38)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

		2023	2022
	NOTES	***HK$'000***	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**3,467**	3,786
Right-of-use assets		**3,809**	5,336
Investment properties		**995,699**	1,843,529
Rental deposits		**157,481**	186,623
Deferred tax asset		**8,996**	–
		1,169,452	2,039,274
CURRENT ASSETS			
Trade and other receivables	*11*	**30,538**	22,949
Loan receivable		**–**	213,709
Bank balances and cash		**33,152**	21,526
		63,690	258,184
CURRENT LIABILITIES			
Other payables		**47,365**	43,656
Contract liabilities		**11,017**	9,881
Lease liabilities		**120,545**	88,808
Amount due to a substantial shareholder		**192**	47,496
Bonds		**–**	15,341
Tax liabilities		**1,572**	2,621
		180,691	207,803
NET CURRENT (LIABILITIES)/ASSETS		**(117,001)**	50,381
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,052,451**	2,089,655

	2023	2022
	HK$'000	*HK$'000*
CAPITAL AND RESERVES		
Share capital	**26,888**	26,888
Reserves	**241,554**	985,536
TOTAL EQUITY	**268,442**	1,012,424
NON-CURRENT LIABILITIES		
Lease liabilities	**773,081**	887,292
Deferred tax liabilities	**925**	179,936
Bonds	**10,003**	10,003
	784,009	1,077,231
	1,052,451	2,089,655

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2023

1. GENERAL

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

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

The Company is an investment holding company. Its subsidiaries are engaged in property operating business.

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

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on 1 July 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to Hong Kong Accounting Standard (the "HKAS") 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contract – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

The applications of these amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 1	Non-current Liabilities with Convenants[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

Notes:

[1] Effective for annual periods beginning on or after 1 January 2023, earlier application is permitted.

[2] Effective for annual periods beginning on or after 1 January 2024, earlier application is permitted.

[3] No mandatory effective date yet determined but available for adoption.

The directors of the Company anticipate that the application of all new and amendments to HKFRSs is unlikely to have a material impact on the Group's financial position and performance as well as disclosure in foreseeable future.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of consolidated financial statements

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

As at 30 June 2023, the Company has incurred net current liabilities of HK$117,001,000. including contract liabilities, receipts in advance and deposits received from tenants of aggregated amount of HK$50,891,000, which shall not result in any cash outflow of the Group eventually. The directors of the Company believes that the Group has sufficient operating inflow to cover operating outflow, which is included lease payments for two shopping malls, namely the Jiachao's Shopping Mall and the Zone C Shopping Mall, and an office premise in Hong Kong in the next 12 months from 30 June 2023.

The directors of the Company have reviewed the cash flow projections of the Group prepared by the management covering a period of not less than 12 months from 30 June 2023. Taking into account of the internally available funds and bank borrowing, the directors of the Company are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

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

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

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

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

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

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

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

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

4. REVENUE AND SEGMENT INFORMATION

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

	2023	2022
	HK$'000	*HK$'000*
Continuing operations		
Revenue from major business services:		
Revenue within the scope of HKFRS 16		
Rental income from leasing of properties	**60,174**	74,516
Revenue from contracts with customers within the scope of HKFRS 15		
Property management fee income	**81,312**	107,556
Property management – other related services	**1,747**	2,529
	83,059	110,085
	143,233	184,601

Disaggregated by timing of revenue recognition:

	2023	2022
Over time:		
Property management fee income	**81,312**	107,556
Property management – other related services	**1,747**	2,529
	83,059	110,085

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 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.

For the reporting period, 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"). From a product perspective, the management assesses the performance from property operating segment only.

The accounting policies of the operating segment are the same as the Group's accounting policies described in note 3. Segment results represent profit or loss from the segment without allocation of income tax credit, loan interest income, impairment loss on loan receivable and unallocated administrative expenses.

One single tenant from the property operating segment contributed to 10 per cent or more of the Group's revenue for the year ended 30 June 2023 (2022: One). The total amount of revenue from this tenant was HK$24,781,000 (2022: HK$33,531,000).

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 the property operating 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.

For the year ended 30 June 2023 **Continuing operations**	**Property operating** ***HK$'000***
Revenue	**143,233**
Segment result	**(674,864)**
Income tax credit	**173,949**
Loan interest income	**13,964**
Impairment loss on loan receivable	**(184,361)**
Unallocated administrative expenses	**(12,136)**
Loss for the year from continuing operations	**(683,448)**

	Property operating ***HK$'000***	**Unallocated** ***HK$'000***	**Total** ***HK$'000***
Amounts included in the measure of segment profit or loss			
Interest income	**55**	**2**	**57**
Interest expenses	**(41,989)**	**(1,772)**	**(43,761)**
Loss on fair value changes of investment properties	**(720,225)**	**–**	**(720,225)**
Impairment loss on rental deposits	**(19,247)**	**–**	**(19,247)**
Impairment loss on trade receivables	**(2,225)**	**–**	**(2,225)**
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss			
Depreciation of property, plant and equipment	**(192)**	**(4)**	**(196)**
Depreciation of right-of-use assets	**(198)**	**(985)**	**(1,183)**
Additions to non-current assets	**203**	**–**	**203**

For the year ended 30 June 2022 **Continuing operations**	Property operating *HK$'000*
Revenue	184,601
Segment result	(53,220)
Income tax credit	27,401
Loan interest income	20,923
Impairment loss on loan receivable	(51,551)
Modification loss on loan receivable	(6,812)
Unallocated administrative expenses	(14,424)
Loss for the year from continuing operations	(77,683)

	Property operating *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Amounts included in the measure of segment profit or loss			
Interest income	29	543	572
Interest expenses	(45,542)	(2,169)	(47,711)
Loss on fair value changes of investment properties	(162,651)	–	(162,651)
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss			
Depreciation of property, plant and equipment	(111)	(4)	(115)
Depreciation of right-of-use assets	(103)	(1,037)	(1,140)
Additions to non-current assets	8,287	1,971	10,258

5. OTHER INCOME AND OTHER GAIN AND LOSS

	2023	2022
	HK$'000	*HK$'000*
Continuing operations		
Bank interest income	**57**	572
Car parking income	**7,159**	6,653
Service income	**2,895**	4,709
Exchange (loss)/gain	**(1,724)**	1,187
Government grant *(Note)*	**99**	176
Loan interest income	**13,964**	20,923
Rental deposits imputed interest income	**5,570**	5,580
Others	**456**	168
Modification loss of loan receivable	**–**	(6,812)
	28,476	33,156

Note:

During the year ended 30 June 2023, the Group recognised COVID-19-related government grants of approximately HK$52,000 related to Employment Support Scheme provided by the Government of the Hong Kong Special Administrative Region (the "Hong Kong government") under the Anti-Epidemic Fund and the remaining balance of grant of approximately HK$47,000 is provided by the PRC government in relation to the employment support scheme. There are no unfulfilled conditions and other contingencies attached to the receipts of those subsidies.

During the year ended 30 June 2022, the Group recognised COVID-19-related government grants of approximately HK$104,000 related to Employment Support Scheme provided by the Hong Kong government under the Anti-Epidemic Fund and the remaining balance of grant of approximately HK$72,000 is provided by the PRC government in relation to the flood occurred across Zhengzhou. There are no unfulfilled conditions and other contingencies attached to the receipts of those subsidies.

6. FINANCE COSTS

	2023	2022
	HK$'000	*HK$'000*
Continuing operations		
Interest on		
– Secured bank borrowing	**19**	–
– Bonds	**1,706**	2,080
– Lease liabilities	**42,036**	45,631
	43,761	47,711

7. INCOME TAX CREDIT

	2023	2022
	HK$'000	*HK$'000*
Continuing operations		
Income tax recognised in profit and loss		
PRC Enterprise Income Tax ("EIT")		
– Current income tax	**4,792**	16,478
– Under/(over) provision in prior years	**1,640**	(3,216)
Deferred tax	**(180,381)**	(40,663)
	(173,949)	(27,401)

Hong Kong Profits Tax was calculated at 16.5% (2022: 16.5%) of the estimated assessable profit for the financial year. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group did not generate any assessable profits arising in Hong Kong for both years.

PRC enterprise income tax has been entitled at the rate of 25% of the profits for the PRC statutory financial reporting purpose for the years ended 30 June 2023 and 2022, adjusted for those items which are not assessable or deductible for the PRC enterprise income tax purpose. Zhengzhou Xufu Commercial Operation Management Co., Ltd., one of the subsidiaries of the Company, is entitled to a preferential enterprise income tax rate of 5% as Small and Micro Enterprises.

As at 30 June 2023 and 2022, no deferred tax liabilities 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.

8. LOSS FOR THE YEAR

	2023	2022
	HK$'000	*HK$'000*
Continuing operations		
Loss for the year from continuing operations has been arrived at after charging/(crediting):		
Staff costs		
– directors' emoluments	**3,929**	3,961
– other staff's salaries and other benefits	**14,679**	16,378
– other staff's retirement benefit scheme contributions	**2,027**	2,240
	20,635	22,579
Auditor's remuneration	**1,200**	1,300
Depreciation of property, plant and equipment	**196**	115
Depreciation of right-of-use assets	**1,183**	1,140
Exchange loss/(gain), net	**1,724**	(1,187)
Expenses related to short-term leases in respect of rented premise	**571**	–

9. DIVIDEND

	2023	2022
	HK$'000	*HK$'000*
Dividend for ordinary shareholders of the Company recognised as distribution during the year:		
Special dividend – HK$0.08 per share	**–**	215,104

The board of directors does not recommend any final dividend for the year ended 30 June 2023 (2022: Nil).

10. LOSS PER SHARE

From continuing operations

	2023	2022
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to the owners of the Company for the purposes of basic and diluted loss per share	**(683,448)**	(86,409)

	2023	2022
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**2,688,805**	2,688,805

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

From continuing and discontinued operations

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

	2023	2022
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to the owners of the Company for the purposes of basic and diluted loss per share	**(683,448)**	(96,672)

The denominators used are the same as those detailed above for both basic and diluted loss per share.

From discontinued operation

During the year ended 30 June 2022, basic and diluted loss per share for the discontinued operation is HK0.38 cents per share, based on the loss for the year from the discontinued operation attributable to the owners of the Company of approximately HK$10,263,000 and the denominators detailed above for both basic and diluted loss per share.

11. TRADE AND OTHER RECEIVABLES

	2023	2022
	HK$'000	*HK$'000*
Trade receivables	**15,290**	11,036
Less: Provision for impairment loss	**(2,129)**	–
	13,161	11,036
Prepayment	**1,064**	1,185
Other receivables	**16,313**	10,728
	30,538	22,949

As at 30 June 2023 and 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 before deducting the provision for impairment loss presented based on date of rendering of services:

	2023	2022
	HK$'000	*HK$'000*
0 – 60 days	**4,938**	7,196
61 – 90 days	**3,214**	1,449
Over 90 days	**7,138**	2,391
Trade receivables	**15,290**	11,036

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"), 鄭州金福商業管理有限公司 (Zhengzhou Jinfu Commercial Management Co., Ltd.) ("Zhengzhou Jinfu") and 鄭州旭福商業運營管理有限公司 (Zhengzhou Xufu Commercial Operation Management Co., Ltd.) ("Zhengzhou Xufu") in the PRC. The principal activity of Zhongyuan Jinyi, Zhengzhou Jinfu and Zhengzhou Xufu is property operating business. During the year ended 30 June 2023, the Group, for the ease of management and the purpose of potential development of new property, spread the property operating business used to be solely run by Zhongyuan Jinyi to two other PRC subsidiaries as a long-term strategy formulation. During the year ended 30 June 2022, 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 eleven 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, car sales, international brands for fashion, fitness, lifestyle, casual wear/sport, kid's paradise, kid's learning and restaurants. Approximately 99.0% of the lettable area in the Jiachao's Shopping Mall was rented out to approximately 134 tenants as at 30 June 2023. 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 30 June 2023, approximately 95.0% of the lettable area of the Zone C Shopping Mall had been leased out to approximately 106 tenants as retail shops, restaurants and/or for entertainment and leisure use. The Zone C Shopping Mall offers a wide range of services and goods with including a cinema, an aquarium, jewelries, beauty shops, car sales, international brands for fashion, 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 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 year ended 30 June 2022, 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, 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 keeps focusing 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. 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. During the year ended 30 June 2023, the Borrower settled RMB10 million. As at 30 June 2023, the Group had not received any payments of the remaining principal amount of RMB180 million after the maturity date on 27 April 2023. The Group has been in discussions with the Borrower and the parties have reached consensus of a revised repayment schedule of the Renewed Loan with the last repayment date is on 31 January 2024. 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 had been impacted by the closure of the shopping malls and controls of the epidemic to a significant extent during the current year. The Group had supported more than 275 tenants (2022: 275 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 year ended 30 June 2023 with an aggregated amount of approximately HK$23,025,000 (2022: HK$8,087,000). 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 year ended 30 June 2023, the Group recorded a revenue of approximately HK$143,233,000 (2022: HK$184,601,000), approximately 22.4% less than that in 2022. 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 current year was due to a reduction of rental, management and operating service charges granted to more than 275 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 (2022: 275 tenants) on different bases with an aggregated amount of approximately HK$23,025,000 (2022: HK$8,087,000).

Gross Profit

The gross profit margin was approximately 73.8% for the year ended 30 June 2023 (2022: 79.8%). 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 larger reduction of rental, management and operating service charges granted to more than 275 tenants of the Jiachao's Shopping Mall and the Zone C Shopping Mall who were affected by the epidemic during the year ended 30 June 2023.

Loss for the Year

The Group's loss incurred for the year ended 30 June 2023 was approximately HK$683,448,000 (2022: HK$77,683,000). The loss margin was 477.2% for the year ended 30 June 2023 (2022: 42.1%). Both decreased significantly for the year ended 30 June 2023 mainly because of (1) 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$720,225,000 (2022: HK$162,651,000) 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 and the downturn of the property market in the PRC throughout the year ended 30 June 2023; and (2) an impairment loss on loan receivable of approximately HK$184,361,000 (2022: HK$51,551,000) due to the default payment of the Renewed Loan.

Other Income and Other Gain and Loss

Other income and other gain and loss for the year ended 30 June 2023 was approximately HK$28,476,000 (2022: HK$33,156,000), which comprised interest incomes and other kinds of incomes generated from property operating segment, such as car parking fees and other services provided to tenants. Decrease in other income and other gain and loss was mainly because loan receivable matured on 27 April 2023 while loan interest income was generated throughout the whole year ended 30 June 2022.

Expenses

Administrative expenses amounted to approximately HK$21,766,000 (2022: HK$23,617,000), representing approximately 15.2% (2022: 12.8%) of revenue for the year ended 30 June 2023. Administrative expenses was maintained at the similar level for both years ended on 30 June 2022 and 30 June 2023 due to the implementation of stringent cost control policies throughout the year ended 30 June 2023.

Impairment loss on loan receivable amounted to approximately HK$184,361,000 (2022: HK$51,551,000). The material increase was because the Renewed Loan had not been settled on its maturity date, which in turn increased its credit risk to a significant extent.

Impairment loss on rental deposits amounted to approximately HK$19,247,000 (2022: Nil) for the year ended 30 June 2023 was due to the seizure of some shops by certain banks and financial institutions as a consequence of the pledge of the Jiachao's Shopping Mall and the Zone C Shopping Mall 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 impairment loss was estimated based on the expected credit loss (the "ECL") assessment prepared by an independent valuer engaged by the Group. The ECL of loan receivable and rental deposits were 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 year ended 30 June 2023 was worse than that for the year ended 30 June 2022, 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.

The carrying value of the Group's investment properties, the Jiachao's Shopping Mall and the Zone C Shopping Mall, as at 30 June 2023 of approximately HK$995,699,000 (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$720,225,000 (2022: HK$162,651,000). This loss on fair value changes of investment properties mainly reflected an on-going less flourishing rental growth of the investment properties during the year ended 30 June 2023. The attributable net loss on fair value changes on investment properties of approximately HK$540,169,000 (2022: HK$121,988,000), after deducting related deferred tax liabilities, was debited to the 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 and the consumption growth continue to drop. In addition, in the first half of 2023, China's macro-economy has recovered steadily, but the foundation for recovery is not yet solid. The recovery of the real estate market has not been as good as expected. Some real estate companies still have financial pressure. Under the influence of multiple factors, the supply and demand ends of the commercial real estate market are still weak. As a result, the commercial rental performance decreased. The PRC government has made expanding domestic demand and increasing the customer consumption as the top priority of government work in 2023. With the gradual recovery of customer consumption, the commercial real estate market is also expected to recover in 2024. In addition, customer consumption demands are constantly upgrading, and they pay more attention to consumption experience. The young customers (generation Z) prefer the integration of concepts such as green, health, humanities and art, which can fit their interests, hobbies, and lifestyles. The Group has conducted large-scale marketing and promotional activities to fit and attract different kinds of customers.

Finance costs amounted to approximately HK$43,761,000 (2022: HK$47,711,000), representing approximately 30.6% (2022: 25.8%) of revenue for the year ended 30 June 2023. Finance costs were maintained at the similar level for both years ended 30 June 2022 and 30 June 2023.

Dividend

The Board does not recommend the payment of a final dividend for the year ended 30 June 2023 (2022: Nil).

During the year ended 30 June 2022, the Board declared and paid a special dividend of HK$0.08 per share to the shareholders of the Company.

Discontinued Operation

Loss for the Year

The discontinued operation had no revenue and loss for the year ended 30 June 2023 because the biotechnology segment was disposed of during the year ended 30 June 2022. Loss for the year ended 30 June 2022 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 focusing on and 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 further spread the property operating business used to be solely run by Zhongyuan Jinyi, an indirect wholly-owned subsidiary of the Company in the PRC, to two other indirect wholly-owned PRC subsidiaries of the Company, namely Zhengzhou Jinfu and Zhengzhou Xufu, during the year ended 30 June 2023 so as to increase the flexibility and efficiency in the management, decision-making and long-term strategy formulation and with a view to enhance the Group's development and to maximise the shareholders' return.

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 owners 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. Furthermore, 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 and consequently imposed a series of policies in different industries to stimulate the economy. The Board believes that the reopen will bring positive effects in the economic resurgence in the coming years. 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 in the future.

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. 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 30 June 2023, the Group had net current liabilities and total assets less current liabilities of approximately HK$117,001,000 (net current assets in 2022: HK$50,381,000) and HK$1,052,451,000 (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 issue of bonds. As at 30 June 2023, the Group had cash and bank deposits of approximately HK$33,152,000 (2022: HK$21,526,000). The current ratio of the Group was approximately 35.2% (2022: 124.2%).

Total equity of the Group as at 30 June 2023 was approximately HK$268,442,000 (2022: HK$1,012,424,000). As at 30 June 2023, two bonds (2022: four bonds) measured at amortised cost was approximately HK$10,003,000 (2022: HK$25,344,000) in aggregate, the gross debt gearing ratio (i.e. bonds/shareholders' fund) was approximately 3.7% (2022: 2.5%).

Though the return of funds has slowed down since 2020 as a result of the ongoing 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 30 June 2023, the Group had no borrowing facilities (2022: Nil). In addition, two bonds (2022: four bonds) amounted to approximately HK$10,003,000 (2022: HK$25,344,000) in aggregate, measured at amortised cost, were arranged with one (2022: three) independent third party.

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

CAPITAL STRUCTURE

As at 30 June 2023, the share capital of the Company comprised ordinary shares only.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

During the year ended 30 June 2023, the Group was not subject to any significant exposure to foreign exchange rates risk as the majority of its transactions were denominated in RMB. Hence, no financial instrument for hedging was employed.

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

CHARGE ON GROUP'S ASSETS

As at 30 June 2023, the Group did not pledge any assets to any banks or financial institutions (2022: Nil).

CAPITAL EXPENDITURE

During the year ended 30 June 2023, the Group invested approximately HK$203,000 (2022: HK$3,981,000) in property, plant and equipment; all was used for purchase of furniture, fixtures, office equipment and motor vehicles.

As at 30 June 2023, the Group had no capital commitments in property, plant and equipment (2022: Nil).

STAFF POLICY

The Group had 144 employees altogether in the PRC and Hong Kong as at 30 June 2023. 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 year ended 30 June 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The audit committee of the Company comprises 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 consolidated financial statements and annual results for the year ended 30 June 2023.

EVENTS AFTER THE REPORTING PERIOD

The Group has been in discussions with the Borrower and has reached consensus of a revised repayment schedule of the Renewed Loan with the last repayment date is on 31 January 2024. Subject to the Borrower shall repay the principal amount of the Renewed Loan according to the above revised repayment schedule, the Lender shall waive all interest (including any default interest) accrued on the Renewed Loan. The parties will enter info formal agreement with respect to the revised repayment arrangement and the Company will comply with the requirement of the Listing Rules when and where appropriate.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the year ended 30 June 2023.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS (THE "MODEL CODE")

The Group has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. All directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 30 June 2023.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL ANNOUNCEMENT

This announcement is published on the website of the Stock Exchange at https://www.hkexnews.hk and on the website of the Company at https://artgroup.etnet.com.hk. An annual report for the year ended 30 June 2023 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 September 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.