

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**ART GROUP HOLDINGS LIMITED**

**錦藝集團控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 565)**

**SUPPLEMENTAL ANNOUNCEMENT  
IN RELATION TO  
THE ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2023**

Reference is made to (i) the announcement of Art Group Holdings Limited (the “**Company**”, which together with its subsidiaries, the “**Group**”) dated 28 September 2023 in relation to the audited annual results for the year ended 30 June 2023; and (ii) the annual report of the Company for the year ended 30 June 2023 which was published on 30 October 2023.

The Company would like to supplement the following additional information with respect to the impairment loss on loan receivable of approximately HK\$184.4 million for the year (the “**Impairment**”) recognised for the Loan advanced by the Group to Fujian Qiancheng Lujingguan Engineering Co., Ltd.\* (福建千城綠景觀工程有限公司) (the “**Borrower**”). Please refer to the announcements of the Company dated 29 June 2022 and 23 February 2023 and the circular of the Company (the “**Circular**”) dated 12 August 2022 for details of the Loan. Terms used herein shall have the same meanings as defined in the Circular unless the contents herein require otherwise.

## THE IMPAIRMENT

The Impairment was mainly attributable to the prolonged pandemic and economic recession in 2023, which had an adverse impact on the financial condition of the Borrower and caused a significant decrease in its ability to meet debt obligations. In particular, during the year ended 30 June 2023, there was an unexpected and sudden lock-down of Zhengzhou, Fuzhou and other cities led to postponements of the Borrower's projects, delay in its receipts of receivables and loss on its projects' preparation works. These in turn had a material adverse impact on the Borrower's business, operation and financial position.

The Borrower did not make full repayments of the Loan pursuant to the second supplemental loan agreement dated 29 June 2022. There was an outstanding principal amount of RMB180 million as of 30 June 2023 after the extended maturity date on 27 April 2023.

The Group assessed the credit risk of the Loan based on the Borrower's repayment ability, financial status and communications with the Borrower. As of 30 June 2023, the Group has not yet reached any consensus with the Borrower with respect to a revised repayment schedule for the Loan. Hence, the Borrower was considered to be in default as of 28 April 2023, and therefore, loan receivable has been transferred to stage 3 or written-off where lifetime expected credit loss ("**ECL**") is recognised.

The Impairment was estimated based on the 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**"). The adopted valuation method is a common method to calculate the ECL for a loan receivable.

EAD is based on the discounted loan receivable at amortised cost of the Group. PD is estimated with reference to the credit analysis, historical repayment record and repayment schedule renewal status 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 risk and credit conditions 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 analysis of the Borrower with consistent method across the period and the actual repayment made by the Borrower. 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 guarantors based on the Loan Agreement was adopted to estimate the recovery rate in case the Borrower defaults.

## Value of inputs

Key inputs	As of 30 June 2023	As of 30 June 2022	Basis and assumptions
EAD	RMB207,259,300	RMB224,831,312	Based on the discounted loan receivable at amortized cost of the Group.
PD	100%	47.65%	Estimated with reference to the credit analysis, historical repayment record and repayment schedule renewal status of the Borrower, research study on default probabilities of corporates by credit rating, and further adjusted with the forward-looking factor.
LGD	100%	40.30%	Calculated by one minus recovery rate, where the recovery rate is based on the value of collateral-to-loan ratio. The fair value of the collateral provided by the guarantors based on the Loan Agreement was adopted to estimate the recovery rate in case the Borrower defaults.

The independent valuer had performed the credit analysis with the latest financial performance of the Borrower as of 30 June 2022 and 30 June 2023 with reference to Moody's Financial Metrics™ Key Ratios by Rating and Industry for Global Non-Financial Corporations. Such method adopted in credit analysis is consistent between 30 June 2022 and 30 June 2023.

Based on the fact that (a) the credit analysis of the Borrower resulted at a highly speculative risk level as of 30 June 2023 based on the Moody's Financial Metrics™; (b) the Borrower did not make full repayments of the Loan with extended maturity date of 27 April 2023 on schedule according to the second supplemental loan agreement dated 29 June 2022; and (c) the Company has not yet reached consensus of any revised repayment schedule of the Loan, the recoverability of the Loan was considered to be highly uncertain as at 30 June 2023 and the Borrower was considered to be in default. Hence, the independent valuer concluded the PD of 100% for the year ended 30 June 2023.

## **ACTIONS TAKEN BY THE GROUP WITH RESPECT TO THE RECOVERY OF THE LOAN**

For reasons stated below, no legal action has been taken against the Borrower and its guarantors after 28 April 2023 and up to date:

- (a) the default was not due to the Borrower's own operation but mainly caused by factors which are out of the Borrower's control;
- (b) the Group is given to understand that since May 2023, approximately 70% of the Borrower's projects resumed works and the Borrower strives to complete 50% of the works in the three quarters following May 2023 so as to meet the payment conditions under its business contract(s);
- (c) the parties have been in discussion on a revised repayment schedule;
- (d) the Borrower all along has been co-operative with and responsive to the Group and continued to keep the Group updated of its financial and operation status;
- (e) the Borrower has agreed to repay the Loan first upon receipt of payments from its projects; and
- (f) the parties have reached a consensus to revise the last repayment date of the Loan to 31 March 2024 and waive all interest (including any default interest) accrued on the Loan.

The Directors believe that the Group and the shareholders of the Company taken as a whole will be more benefitted to receiving repayment of the Loan at the end than taking out legal actions against the Borrower and its guarantors which can be time and cost consuming on the part of the Group. Accordingly, no legal actions were taken after 28 April 2023 up to date.

The actions taken by the Group with respect to the recovery of the Loan from 28 April 2023 include:

- sought advice from its PRC legal advice on the legal position of the Group;
- issued demands for payment to the Borrower and its guarantors on 8 May 2023, 7 June 2023, 10 July 2023, 8 August 2023 and 6 September 2023;
- discussed with the Borrower and its guarantors on a revised repayment schedule and proactively met and communicated with the Borrower on its financial and operation status. Physical meetings with the Borrower were held on 28 April 2023, 9 May 2023, 7 June 2023, 12 July 2023, 16 August 2023 and 13 September 2023; and
- continued to assess the credit risk and repayment ability of the Borrower and its guarantors.

## **ASSESSMENT OF THE LOAN**

Before renewing the Loan, the Company had conducted credit risk assessments on the Borrower and the guarantors including:

- (a) obtained and reviewed the unaudited financial statements as at 30 June 2022 of the Borrower, the Guarantor and the New Guarantor which did not reveal extraordinary liabilities;
- (b) obtained and reviewed the business contracts of the Borrower with respect to major projects undertaken by the Borrower, namely the Rongxin Langyue Time City Secondary School Landscape, Drainage and Sewage Project\* (融信朗悅時光之城中學景觀及兩污水工程), the Zhongyuan Huaqiao City Court No. 1 Landscape Project\* (中原華僑城一號院景觀工程) and the Guian•Xianshan de Shan Project\* (貴安•先山的山);
- (c) discussed with the Borrower and understood the projects of the Borrower, including progress of the projects, and amount and anticipated timeline of receiving payments by the Borrower according to the terms of the contracts and the project milestones;

- (d) obtained and reviewed the works completed by the Borrower from May 2021 to May 2022 and the projection on progress of works prepared by the Borrower in June 2022 with respect to the Borrower's major projects on hand for the period from 21 May 2022 to 31 March 2023; and
- (e) reviewed the projected cash flow position of the Borrower from July 2022 to April 2023 which projected that the Borrower would have a net cash position after settling the payables and the Loan.

After the uplift of the COVID-19 control measures, the Group has been in close discussions with the Borrower to understand the progress of its projects and the projected cash flow position. The Group reviewed the cash flow position of the Borrower from November 2023 to March 2024. The Group was given to understand that some of the delayed projects are completed and now at the stage of settling payments to the Borrower. The Borrower has repaid RMB20 million in September 2023 and the outstanding principal amount of the Loan currently is RMB160 million. In light of the Borrower's projected cash flow position from November 2023 to March 2024, the Company is of the view that the Borrower is able to repay the Loan and therefore no legal action was taken and the parties have been working on a revised repayment schedules.

On behalf of the Board  
**ART GROUP HOLDINGS LIMITED**  
**Chen Jinyan**  
*Chairman*

Hong Kong, 6 December 2023

*\* For identification purpose only*

*As at the date of this announcement, the executive directors of the Company are Mr. Chen Jinyan and Mr. Chen Jindong; the non-executive director of the Company is Ms. Cai Wenxiao and the independent non-executive directors of the Company are Mr. Kwan Chi Fai, Ms. Chong Sze Pui Joanne and Ms. Wang Yuqin.*