**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 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 2023 (the "Period"), which were reviewed by the audit committee of the Company, together with the comparative figures for the corresponding period in 2022 are as follows:

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

*For the six months ended 31 December 2023*

| | | **Six months ended 31 December** | |
|---|---|---|---|
| | | **2023** | 2022 |
| | *NOTES* | ***HK$'000*** | *HK$'000* |
| | | **(unaudited)** | (unaudited) |
| Revenue | *3* | **70,311** | 74,788 |
| Cost of sales | | **(18,821)** | (18,662) |
| Gross profit | | **51,490** | 56,126 |
| Other income and other gain and loss | | **7,908** | 17,599 |
| Administrative expenses | | **(11,380)** | (13,067) |
| Reversal/(provision) of impairment loss on rental deposits | | **132** | (35,788) |
| Impairment loss on trade receivables | | **(393)** | – |
| Reversal/(provision) of impairment loss on loan receivable | | **37,310** | (28,866) |
| Loss on fair value changes of investment properties | | **(134,783)** | (483,146) |
| Finance costs | *4* | **(18,964)** | (22,275) |

| | NOTES | Six months ended 31 December 2023 HK$'000 (unaudited) | 2022 HK$'000 (unaudited) |
|---|---|---|---|
| Loss before taxation | | **(68,680)** | (509,147) |
| Income tax credit | *5* | **30,390** | 118,266 |
| Loss for the period | *6* | **(38,290)** | (391,151) |
| Other comprehensive expense: | | | |
| *Items that will not be reclassified to profit or loss* | | | |
| Exchange differences on translation from functional currency to presentation currency | | **(8,401)** | (40,982) |
| Other comprehensive expense for the period | | **(8,401)** | (40,982) |
| Total comprehensive expense for the period | | **(46,691)** | (432,133) |
| LOSS PER SHARE | *8* | | |
| Basic *(HK cents)* | | **(1.42)** | (14.55) |
| Diluted *(HK cents)* | | **(1.42)** | (14.55) |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2023*

| | NOTES | 31 December 2023 HK$'000 (unaudited) | 30 June 2023 HK$'000 (audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **3,487** | 3,467 |
| Right-of-use assets | | **3,544** | 3,809 |
| Investment properties | | **881,318** | 995,699 |
| Rental deposits | | **163,863** | 157,481 |
| Deferred tax asset | | **43,260** | 8,996 |
| | | **1,095,472** | 1,169,452 |
| **CURRENT ASSETS** | | | |
| Trade and other receivables | *9* | **48,572** | 30,538 |
| Loan receivable | | **–** | – |
| Bank balances and cash | | **54,747** | 33,152 |
| | | **103,319** | 63,690 |
| **CURRENT LIABILITIES** | | | |
| Other payables | | **43,277** | 47,365 |
| Contract liabilities | | **13,393** | 11,017 |
| Lease liabilities | | **126,034** | 120,545 |
| Amount due to a substantial shareholder | | **12,474** | 192 |
| Tax liabilities | | **1,398** | 1,572 |
| | | **196,576** | 180,691 |
| **NET CURRENT LIABILITIES** | | **(93,257)** | (117,001) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,002,215** | 1,052,451 |

| | NOTES | 31 December 2023 HK$'000 (unaudited) | 30 June 2023 HK$'000 (audited) |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **26,888** | 26,888 |
| Reserves | | **194,863** | 241,554 |
| **TOTAL EQUITY** | | **221,751** | 268,442 |
| **NON-CURRENT LIABILITIES** | | | |
| Lease liabilities | | **769,142** | 773,081 |
| Deferred tax liability | | **925** | 925 |
| Bonds | | **10,397** | 10,003 |
| | | **780,464** | 784,009 |
| | | **1,002,215** | 1,052,451 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 31 December 2023*

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix D2 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").

As at 31 December 2023, the Company has incurred net current liabilities of HK$93,257,000. Including contract liabilities, receipts in advance and deposits received from tenants of aggregated amount of HK$51,914,000, 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, in the next 12 months from 31 December 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 31 December 2023. Taking into account of the internally available funds and bank facilities, 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 condensed consolidated financial statements have been prepared on a going concern basis.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for 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 2023 are the same as those presented in the Group's annual consolidated financial statements for the year ended 30 June 2023.

**Application of amendments to HKFRSs**

***New and amendments to HKFRSs that are mandatorily effective for the current year***

In the current interim period, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the Group's annual period beginning on 1 July 2023 for the preparation of the condensed consolidated financial statements:

| | |
|---|---|
| HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17) | Insurance Contracts |
| Amendments to HKAS 8 | Definition of Accounting Estimates |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction |
| Amendments to HKAS 12 | International Tax Reform-Pillar Two Model Rules |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies |

## 3. REVENUE AND SEGMENT INFORMATION

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

| | Six months ended 31 December | |
|---|---|---|
| | **2023** | 2022 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Revenue from major business services: | | |
| *Revenue within the scope of HKFRS 16* | | |
| Rental income from leasing of properties | **30,089** | 30,657 |
| *Revenue from contracts with customers within the scope of HKFRS 15* | | |
| Property management fee income | **39,395** | 43,441 |
| Property management – other related services | **827** | 690 |
| | **40,222** | 44,131 |
| | **70,311** | 74,788 |
| Disaggregated by timing of revenue recognition: | | |
| *Over time:* | | |
| Property management fee income | **39,395** | 43,441 |
| Property management – other related services | **827** | 690 |
| | **40,222** | 44,131 |

**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 of 2023 annual report. Segment results represent profit or loss from the segment without allocation of income tax expense, loan interest income, reversal of 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 2023 (six months ended 31 December 2022: One). The total amount of revenue from this tenant was HK$13,495,000 (six months ended 31 December 2022: HK$10,830,000).

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.

| **Six months ended 31 December 2023** | **Property operating** *HK$'000* |
|---|---|
| Revenue | **70,311** |
| Segment result | **(102,264)** |
| Income tax credit | **30,390** |
| Reversal of impairment loss on loan receivable | **37,310** |
| Unallocated administration expenses | **(3,726)** |
| Loss for the period | **(38,290)** |

| **Six months ended 31 December 2023** | **Property operating** *HK$'000* | **Unallocated** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|
| *Amounts included in the measure of segment profit or loss* | | | |
| Interest income | **24** | **12** | **36** |
| Interest expenses | **(18,567)** | **(397)** | **(18,964)** |
| Loss on fair value changes of investment properties | **(134,783)** | **–** | **(134,783)** |
| Reversal of impairment loss on rental deposits | **132** | **–** | **132** |
| Impairment loss on trade receivables | **(393)** | **–** | **(393)** |
| *Amounts regularly provided to the CODM but not included in the measure of segment profit or loss* | | | |
| Depreciation of property, plant and equipment | **(114)** | **(5)** | **(119)** |
| Depreciation of right-of-use assets | **(96)** | **(246)** | **(342)** |
| Additions to non-current assets | **–** | **63** | **63** |

| Six months ended 31 December 2022 | 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 | (391,151) |

| Six months ended 31 December 2022 | 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) |

## 4. FINANCE COSTS

| | Six months ended 31 December | |
|---|---|---|
| | **2023** | 2022 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Interest on | | |
| – Bonds | **394** | 1,006 |
| – Lease liabilities | **18,570** | 21,269 |
| | **18,964** | 22,275 |

## 5. INCOME TAX CREDIT

| | Six months ended 31 December | |
|---|---|---|
| | **2023** | 2022 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| *Income tax recognised in profit and loss* | | |
| PRC Enterprise Income Tax ("EIT") | | |
| – Current income tax | **3,306** | 2,521 |
| Deferred tax | **(33,696)** | (120,787) |
| | **(30,390)** | (118,266) |

Hong Kong Profits Tax was calculated at 16.5% (six months ended 31 December 2022: 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.

Except for Zhengzhou Xufu Commercial Operation Management Co., Ltd.*, one of the subsidiaries of the Company, being entitled to a preferential EIT rate of 5% as Small and Micro Enterprises, PRC EIT has been entitled at the rate of 25% of the profits for the PRC statutory financial reporting purpose for the period ended 31 December 2023 and the year ended 30 June 2023, adjusted for those items which are not assessable or deductible for the PRC EIT purpose.

During the six months ended 31 December 2023, no deferred tax liabilities (30 June 2023: 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 FOR THE PERIOD

| | **Six months ended 31 December** | |
|---|---|---|
| | **2023** | 2022 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Loss for the period has been arrived at after charging: | | |
| Depreciation of property, plant and equipment | **119** | 93 |
| Depreciation of right-of-use assets | **342** | 592 |
| Expenses related to short-term leases in respect of rented premises | **66** | – |
| Exchange losses, net | **–** | 2,724 |

## 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 2022: Nil).

* *For identification only*

## 8. LOSS PER SHARE

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

| | Six months ended 31 December | |
|---|---|---|
| | **2023** | 2022 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| **Loss** | | |
| Loss for the period attributable to the owners of the Company for the purposes of basic and diluted loss per share | **(38,290)** | (391,151) |

| | Six months ended 31 December | |
|---|---|---|
| | **2023** | 2022 |
| | ***'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 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **2,688,805** | 2,689,199 |

## 9. TRADE AND OTHER RECEIVABLES

| | **31 December 2023** | 30 June 2023 |
|---|---|---|
| | ***HK'000*** | *HK'000* |
| | **(unaudited)** | (audited) |
| Trade receivables | **16,707** | 15,290 |
| Less: Provision for impairment loss | **(2,573)** | (2,129) |
| | **14,134** | 13,161 |
| Prepayment | **1,653** | 1,064 |
| Other receivables | **32,785** | 16,313 |
| | **48,572** | 30,538 |

As at 31 December 2023 and 30 June 2023, 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:

| | **31 December 2023** | 30 June 2023 |
|---|---|---|
| | ***HK'000*** | *HK'000* |
| | **(unaudited)** | (audited) |
| 0 – 60 days | **3,109** | 4,938 |
| 61 – 90 days | **648** | 3,214 |
| Over 90 days | **12,950** | 7,138 |
| Trade receivables | **16,707** | 15,290 |

The Group measures loss allowances for trade receivables at an amount equal to lifetime expected credit loss ("ECL").

Before accepting any new tenants, the Group assesses the potential tenants' credit quality, 19% (30 June 2023: 32%) of trade receivables that are neither past due nor impaired have good credit rating under internal credit assessment adopted by the Group.

# 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 People's Republic of China (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.

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 93.3% of the lettable area in the Jiachao's Shopping Mall was rented out to approximately 117 tenants as at 31 December 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 seven years. As at 31 December 2023, approximately 94.8% of the lettable area of the Zone C Shopping Mall had been leased out to approximately 97 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 an aquarium, a photo studio, 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.

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 Period, the Borrower settled RMB20 million and HK$15 million after the maturity date on 27 April 2023. As at 31 December 2023, the Group had not received any more payments of the remaining principal amount of RMB145.7 million. The Group has been in discussions with the Borrower for a revised repayment schedule of the Renewed Loan. 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, 23 February 2023 and 6 December 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 past few years. The COVID-19 had become the endemic disease; therefore during the Period, the Group did not give preferential charges to the tenants of the Jiachao's Shopping Mall and the Zone C Shopping Mall anymore. While during the period ended 31 December 2022, the Group had supported more than 235 tenants of two shopping malls who were affected by the epidemic by reducing their rental, management and operating service charges on different bases with an aggregated amount of approximately HK$32,634,000. The Group sees cost reduction as a key strategic focus to help navigate business uncertainty resulting from the epidemic. The Group still focuses on protecting and advancing the interests of tenants and customers in the post-epidemic times, whilst prioritising the safety and well-being of its employees and business partners.

***Revenue***

For the Period, the Group recorded a revenue of approximately HK$70,311,000 (2022: HK$74,788,000), approximately 6.0% 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 Period was due to a reduction of rental, management and operating service charges to a number of large-scale tenants for the purpose of retaining these valuable tenants in two shopping malls after the epidemic.

***Gross Profit***

The gross profit margin was approximately 73.2% for the Period (2022: 75.0%). 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. Gross profit margin was maintained at the similar level for both six months ended 31 December 2022 and 31 December 2023.

### *Loss for the Period*

The Group's loss incurred for the Period was approximately HK$38,290,000 (2022: HK$391,151,000). The loss margin was approximately 54.5% for the Period (2022: 523.0%). Both decreased significantly for the six months ended 31 December 2023 mainly because of a substantial decrease in loss on fair value changes of the Group's investment properties, the Jiachao's Shopping Mall and the Zone C Shopping Mall, of approximately HK$134,783,000 (2022: HK$483,146,000) as a consequence of the steady real estate market in Zhengzhou, the PRC in the second half year of 2023.

### *Other Income and Other Gain and Loss*

Other income and other gain and loss for the Period was approximately HK$7,908,000 (2022: HK$17,599,000), 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 interest income was recognised for the six months ended 31 December 2022.

### *Expenses*

Administrative expenses amounted to approximately HK$11,380,000 (2022: HK$13,067,000), representing approximately 16.2% (2022: 17.5%) of revenue for the Period. Administrative expenses was maintained at the similar level for both six months ended 31 December 2022 and 31 December 2023 due to the implementation of stringent cost control policies throughout the Period.

Reversal of impairment loss on rental deposits amounted to approximately HK$132,000 (provision of impairment loss in 2022: HK$35,788,000) for the Period 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.

Reversal of impairment loss on loan receivable was approximately HK$37,310,000 as a consequence of settlements of RMB20 million and HK$15 million made by the Borrower during the Period. There was no impairment loss on loan receivable for the Period (2022: HK$28,866,000) because the Renewed Loan had not been settled on its maturity date, hence, the Borrower was considered to be in default as of 28 April 2023, and therefore, loan receivable was transferred to stage 3 or written-off during the year ended 30 June 2023 where lifetime expected credit loss was recognised.

The carrying value of the Group's investment properties, the Jiachao's Shopping Mall and the Zone C Shopping Mall, as at 31 December 2023 of approximately HK$881,318,000 (30 June 2022: HK$995,699,000) 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$134,783,000 (2022: HK$483,146,000). This loss on fair value changes of investment properties mainly reflected an ongoing less flourishing rental growth of the investment properties during the Period. The attributable net loss on fair value changes on investment properties of approximately HK$101,087,000 (2022: HK$362,359,000), after deducting related deferred tax liabilities, was debited to the condensed consolidated income statement.

Decrease in the carrying value was because in 2023, China's macro-economy has not yet fully recovered which made the recovery of the real estate market has not been as good as expected. A large number of 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 since the first half year of 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$18,964,000 (2022: HK$22,275,000), representing approximately 27.0% (2022: 29.8%) of revenue for the Period. Decrease in finance costs was mainly due to less interest expenses of lease liabilities incurred during the Period as a result of shorter remaining rental period of two shopping malls.

***Dividend***

The Board does not recommend the payment of an interim dividend for the Period (2022: Nil).

## 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 and after the time of the epidemic; in particular geopolitical tensions and the high-interest-rate environment, of which, global economy in the coming year would still be highly variable and its pace of recovery from the COVID-19 pandemic continues impact. 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 recovery in the coming years. The demand for goods and services will recover and an increase in prices will accelerate; especially household consumption. The sales and customer flow of the shopping malls will gradually restore in the future and the confidence of tenants increases with this anticipated steady growth.

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 31 December 2023, the Group had net current liabilities and total assets less current liabilities of approximately HK$93,257,000 (30 June 2023: HK$117,001,000) and HK$1,002,215,000 (30 June 2023: HK$1,052,451,000), respectively. The Group had maintained its financial position by financing its operations with internally generated resources and issue of bonds. As at 31 December 2023, the Group had cash and bank deposits of approximately HK$54,747,000 (30 June 2023: HK$33,152,000). The current ratio of the Group was approximately 52.6% (30 June 2023: 35.2%).

Total equity of the Group as at 31 December 2023 was approximately HK$221,751,000 (30 June 2023: HK$268,442,000). As at 31 December 2023, two bonds (30 June 2023: two bonds) measured at amortised cost was approximately HK$10,397,000 (30 June 2023: HK$10,003,000) in aggregate, the gross debt gearing ratio (i.e. bonds/shareholders' fund) was approximately 4.7% (30 June 2023: 3.7%).

Though the return of funds has slowed down since 2020 as a result of the protracted 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 2023, the total bank facilities of the Group amounted to approximately HK$6,264,000 (30 June 2023: HK$6,129,000), of which, no facilities (30 June 2023: Nil) was utilised. In addition, two bonds (30 June 2023: two bonds) amounted to approximately HK$10,397,000 (30 June 2023: HK$10,003,000) in aggregate, measured at amortised cost, were arranged with one (30 June 2023: one) 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 31 December 2023, the share capital of the Company comprised ordinary shares only.

### Foreign Exchange Risk and Interest Rate Risk

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

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

### Charge on Group's Assets

As at 31 December 2023, the building and the leasehold land of the Group with net carrying amount of approximately HK$3,260,000 and HK$3,544,000, respectively, were pledged to a bank to secure bank facilities granted to the Group (30 June 2023: HK$3,278,000 and HK$3,563,000).

### Staff Policy

The Group had 141 employees altogether in the PRC and Hong Kong as at 31 December 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 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 C1 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Group has adopted the Model Code set out in Appendix C3 of the Listing Rules as the code of conduct regarding directors' securities transactions. All Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the Period.

The Company has also established written guidelines (the "Employees Written Guidelines") no less exacting than the Required Standard of Dealings for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

## 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 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 at https://www.hkexnews.hk and on the website of the Company at https://artgroup.etnet.com.hk. An interim report for the six months ended 31 December 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, 29 February 2024

*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.*