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ART GROUP HOLDINGS LIMITED

錦藝集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 565)

**2024 ANNUAL RESULTS ANNOUNCEMENT
AND
RESUMPTION OF TRADING**

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 2024 together with the comparative figures in 2023 as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the year ended 30 June 2024

	<i>NOTES</i>	2024 HK\$'000	2023 HK\$'000
Revenue	4	111,160	143,233
Cost of sales		(39,503)	(37,521)
Gross profit		71,657	105,712
Other income and other gain and loss	5	13,253	28,476
Administrative expenses		(24,742)	(21,766)
Reversal of allowance for expected credit loss/ (allowance for expected credit loss) on loan receivables		37,310	(184,361)
Allowance for expected credit loss on rental deposits		(89,712)	(19,247)
Allowance for expected credit loss on trade and other receivables		(2,430)	(2,225)
Loss on fair value changes of investment properties		(260,870)	(720,225)
Gain on lease modification		41,698	—
Finance costs	6	(39,485)	(43,761)

		2024	2023
	NOTES	HK\$'000	HK\$'000
Loss before taxation		(253,321)	(857,397)
Income tax (expenses)/credit	7	<u>(17,471)</u>	<u>173,949</u>
Loss for the year attributable to owners of the Company		(270,792)	(683,448)
Other comprehensive expense:			
<i>Items that will not be reclassified to profit or loss</i>			
Exchange differences on translation from functional currency to presentation currency		<u>(2,899)</u>	<u>(60,534)</u>
Other comprehensive expense for the year		<u>(2,899)</u>	<u>(60,534)</u>
Total comprehensive expense for the year attributable to owners of the Company		<u><u>(273,691)</u></u>	<u><u>(743,982)</u></u>
LOSS PER SHARE	10		
Basic (HK cents)		<u><u>(10.07)</u></u>	<u><u>(25.42)</u></u>
Diluted (HK cents)		<u><u>(10.07)</u></u>	<u><u>(25.42)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2024

		2024	2023
	NOTE	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		3,301	3,467
Right-of-use assets		3,592	3,809
Investment properties		568,817	995,699
Rental deposits		47,045	157,481
Deferred tax assets		—	8,996
		<u>622,755</u>	<u>1,169,452</u>
CURRENT ASSETS			
Trade and other receivables	11	29,793	30,538
Loan receivables		18,327	—
Bank balances and cash		40,239	33,152
		<u>88,359</u>	<u>63,690</u>
CURRENT LIABILITIES			
Other payables		57,932	47,365
Contract liabilities		11,301	11,017
Lease liabilities		66,138	120,545
Amount due to a substantial shareholder		4,164	192
Tax liabilities		18	1,572
		<u>139,553</u>	<u>180,691</u>
NET CURRENT LIABILITIES		<u>(51,194)</u>	<u>(117,001)</u>
TOTAL ASSETS LESS			
CURRENT LIABILITIES		<u>571,561</u>	<u>1,052,451</u>

	2024	2023
<i>NOTE</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CAPITAL AND RESERVES		
Share capital	26,888	26,888
Reserves	(34,826)	241,554
	<hr/>	<hr/>
TOTAL (DEFICIT)/EQUITY	(7,938)	268,442
	<hr/>	<hr/>
NON-CURRENT LIABILITIES		
Lease liabilities	564,856	773,081
Deferred tax liabilities	4,638	925
Bonds	10,005	10,003
	<hr/>	<hr/>
	579,499	784,009
	<hr/>	<hr/>
	571,561	1,052,451
	<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2024

1. GENERAL

Art Group Holdings Limited (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 (“BVI”). Its ultimate controlling party is Mr. Chen Jinyan, who is also the director of the Company. 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”)

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

The Group has applied the following new and 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 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts and the related Amendments
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
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

Except for disclosed below, the applications of other new and 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 the consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The following amended HKFRSs, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the respective dates they become effective.

HK Interpretation 5 (Revised)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause ¹
Amendments to HKFRS 9 and HKFRS 7	Amendments to the Classification and Measurement of Financial Instruments ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ¹
HKFRS 18	Presentation and Disclosure in Financial Statements ⁴
HKFRS 19	Subsidiaries without Public Accountability: Disclosures ⁴
HKFRSs Amendments	Annual Improvements to HKFRS Accounting Standards – Volume 11 ³
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 Covenants ¹
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ¹
Amendments to HKAS 21	Lack of Exchangeability ²

Notes:

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

² Effective for annual periods beginning on or after 1 January 2025, earlier application is permitted.

³ Effective for annual periods beginning on or after 1 January 2026, earlier application is permitted.

⁴ Effective for annual periods beginning on or after 1 January 2027, earlier application is permitted.

⁵ 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.

New HKICPA guidance on the accounting implications of the abolition of the MPF-LSP offsetting mechanism

In June 2022, the Government of the Hong Kong SAR (the “Government”) gazetted the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “Amendment Ordinance”), which will come into effect from 1 May 2025 (the “Transition Date”).

Once the Amendment Ordinance takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory contributions to mandatory provident fund (“MPF”) scheme to reduce the long service payment (“LSP”) in respect of an employee’s service from the Transition Date (the abolition of the “offsetting mechanism”). In addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee’s monthly salary immediately before the Transition Date and the years of service up to that date.

In July 2023, the HKICPA published the captioned accounting guidance relating to the abolition of the offsetting mechanism. In particular, the guidance indicates that entities may account for the accrued benefits derived from mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed contributions by that employee towards the LSP.

To better reflect the substance of the abolition of the offsetting mechanism, the Company has applied the above HKICPA guidance and changed its accounting policy in connection with its LSP liability.

The directors of the Company anticipate that the abolition of the offsetting mechanism did not have a material impact on the Company’s profit or loss for the year ended 30 June 2024 and 30 June 2023 and the Company’s financial position as at 30 June 2024 and 30 June 2023.

In light of the immaterial impact, the Company did not apply the change in its accounting policy retrospectively.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

Statement of compliance

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.

Going concern

The directors of the Company have given careful consideration to the going concern status of the Group in light of the fact that (i) the Group incurred a net loss attributable to the owners of the Company of approximately HK\$270,792,000 for the year ended 30 June 2024; (ii) as of that date, the Group had net liabilities of approximately HK\$7,938,000 and net current liabilities of approximately HK\$51,194,000. These conditions indicate the existence of material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

In order to improve the liquidity of the Group and ensure the Group's ability to operate as a going concern, the directors of the Company have implemented measures as follows:

As at 30 June 2024, the Group has incurred contract liabilities and receipts in advance of aggregated amount of HK\$23,329,000, which shall not result in any cash outflow of the Group eventually. Additionally, the Group has also incurred deposits received from tenants of approximately HK\$25,843,000. The directors of the Company are confident that this level of deposits can be sustained in the short term, based on the existing lease agreements with tenants. The directors of the Company will continue to implement measures aiming at improving the working capital and cash flows of the Group including closely monitoring general administrative expenses and operating costs. The directors of the Company believe 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 the date of this report.

Moreover, the substantial shareholders of the Company have undertaken to provide adequate funds to enable the Group to meet its liabilities and to settle financial obligations to third parties as and when they fall due so that the Group can continue as a going concern and carry on its business without significant curtailment of operations for the twelve months from the date of approval of these consolidated financial statements.

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 the date of this report taking into account the impact of the above measures. The directors of the Company are confident that the Group has sufficient cash resources to be able to satisfy its future working capital and 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.

Basis of preparation of consolidated financial statements

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 measurement

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 are 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.

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Revenue from major business services:		
<i>Revenue within the scope of HKFRS 16</i>		
Rental income from leasing of properties	<u>41,577</u>	<u>60,174</u>
<i>Revenue from contracts with customers within the scope of HKFRS 15</i>		
Property management fee income	67,887	81,312
Property management – other related services	<u>1,696</u>	<u>1,747</u>
	<u>69,583</u>	<u>83,059</u>
	<u><u>111,160</u></u>	<u><u>143,233</u></u>
Disaggregated by timing of revenue recognition:		
<i>Over time:</i>		
Property management fee income	67,887	81,312
Property management – other related services	<u>1,696</u>	<u>1,747</u>
	<u>69,583</u>	<u>83,059</u>

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 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, reversal of allowance for expected credit loss on loan receivables and unallocated administrative expenses.

No tenant from the property operating segment contributed 10 per cent or more of the Group’s revenue for the year ended 30 June 2024 (2023: One single tenant from the property operating segment contributed 10 per cent or more of the Group’s revenue, and the total amount of revenue from this tenant was HK\$24,781,000).

The CODM assesses the performance of the property operating segment based on revenue 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 2024	Property operating HK\$'000
Revenue	111,160
Segment result	(279,557)
Income tax expenses	(17,471)
Loan interest income	327
Reversal of allowance for expected credit loss on loan receivable	37,310
Unallocated administrative expenses	(11,401)
Loss for the year	(270,792)

	Property operating HK\$'000	Unallocated HK\$'000	Total HK\$'000
<i>Amounts included in the measure of segment profit or loss</i>			
Bank interest income	33	94	127
Gain on lease modification	41,698	–	41,698
Interest expenses	(38,667)	(818)	(39,485)
Loss on fair value changes of investment properties	(260,870)	–	(260,870)
Allowance for expected credit loss on rental deposits	(89,712)	–	(89,712)
Allowance for expected credit loss on trade receivables	(2,430)	–	(2,430)
<i>Amounts regularly provided to the CODM but not included in the measure of segment profit or loss</i>			
Depreciation of property, plant and equipment	(227)	(12)	(239)
Depreciation of right-of-use assets	(192)	(402)	(594)
Additions to non-current assets	7	438	445

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

	Property operating HK\$'000	Unallocated HK\$'000	Total HK\$'000
<i>Amounts included in the measure of segment profit or loss</i>			
Bank 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)
Allowance for expected credit loss on rental deposits	(19,247)	–	(19,247)
Allowance for expected credit loss on trade receivables	(2,225)	–	(2,225)
<i>Amounts regularly provided to the CODM but not included in the measure of segment profit or loss</i>			
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

5. OTHER INCOME AND OTHER GAIN AND LOSS

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Bank interest income	127	57
Car parking income	6,259	7,159
Service income	3,945	2,895
Net exchange loss	(20)	(1,724)
Government grant (<i>Note</i>)	–	99
Loan interest income	327	13,964
Rental deposits imputed interest income	2,164	5,570
Others	451	456
	<u>13,253</u>	<u>28,476</u>

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 under the Anti-Epidemic Fund and the remaining balance of grant of approximately HK\$47,000 was provided by the PRC government in relation to the employment support scheme. There were no unfulfilled conditions and other contingencies attached to the receipts of those subsidies.

6. FINANCE COSTS

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Interest on		
– Secured bank borrowings	–	19
– Bonds	802	1,706
– Lease liabilities	<u>38,683</u>	<u>42,036</u>
	<u>39,485</u>	<u>43,761</u>

7. INCOME TAX EXPENSES/(CREDIT)

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
<i>Income tax recognised in profit and loss</i>		
PRC Enterprise Income Tax (“EIT”)		
– Current income tax	4,612	4,792
– Under provision in prior years	11	1,640
Deferred tax	<u>12,848</u>	<u>(180,381)</u>
	<u>17,471</u>	<u>(173,949)</u>

Hong Kong Profits Tax was calculated at 16.5% (2023: 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 EIT has been entitled at the rate of 25% of the profits for the PRC statutory financial reporting purpose for the years ended 30 June 2024 and 2023, adjusted for those items which are not assessable or deductible for the PRC EIT purpose.

As at 30 June 2024 and 2023, 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

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Loss for the year		
has been arrived at after charging:		
Staff costs		
– directors' emoluments	3,972	3,929
– other staff's salaries and other benefits	14,480	14,679
– other staff's retirement benefit scheme contributions	1,923	2,027
	<u>20,375</u>	<u>20,635</u>
Auditor's remuneration		
– Audit service		
– Auditor I	1,200	–
– Auditor II	600	–
– Auditor III	–	1,200
– Non-audit service		
– Auditor III	280	–
Depreciation of property, plant and equipment	239	196
Depreciation of right-of-use assets	594	1,183
Expenses related to short-term leases		
in respect of rented premise	<u>6</u>	<u>571</u>

9. DIVIDEND

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Dividend for ordinary shareholders of the Company		
recognised as distribution during the year:		
Special dividend – HK\$0.001 per share	<u>2,689</u>	<u>–</u>

The board of directors does not recommend any final dividend for the year ended 30 June 2024 (2023: Nil).

10. 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:

	2024 <i>HK\$'000</i>	2023 <i>HK\$'000</i>
Loss		
Loss for the year attributable to the owners of the Company for the purposes of basic and diluted loss per share	<u>(270,792)</u>	<u>(683,448)</u>
	2024 <i>'000</i>	2023 <i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>2,688,805</u>	<u>2,688,805</u>

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.

11. TRADE AND OTHER RECEIVABLES

	2024 HK\$'000	2023 HK\$'000
Trade receivables	16,802	15,290
Less: Allowance for expected credit loss	<u>(4,533)</u>	<u>(2,129)</u>
	12,269	13,161
Prepayment	1,226	1,064
Other receivables (<i>Note</i>)	<u>16,298</u>	<u>16,313</u>
	<u>29,793</u>	<u>30,538</u>

Note:

It mainly includes payments on behalf of a landlord of approximately HK\$7,502,000, other tax recoverable of approximately HK\$1,163,000 and deposits paid of approximately HK\$1,325,000 (2023: payments on behalf of a landlord of approximately HK\$5,317,000, other tax recoverable of approximately HK\$1,645,000 and deposits paid of approximately HK\$1,561,000).

As at 30 June 2024 and 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 allowance for expected credit loss presented based on date of rendering of services:

	2024 HK\$'000	2023 HK\$'000
0 – 60 days	3,614	4,938
61 – 90 days	3,704	3,214
Over 90 days	<u>9,484</u>	<u>7,138</u>
Trade receivables	<u>16,802</u>	<u>15,290</u>

12. EVENT AFTER REPORTING PERIOD

The Company understands that Zhengzhou Jiachao Property Services Co., Ltd.* (鄭州佳潮物業服務有限公司) (“Zhengzhou Jiachao”), the landlord of the Jiachao’s Shopping Mall, has taken out loans and charged its properties, including the Jiachao’s Shopping Mall, to the creditors. The Company further understands that certain creditors brought actions against Zhengzhou Jiachao for default in payments. Pursuant to the judgment of the People’s Court of Zhongyuan District, Zhengzhou City, Henan Province ((2024) Yu 0102 Ming Chu No. 4142) (河南省鄭州市中原區人民法院(2024)豫0102民初4142號《民事判決書》), the leased area of 50,532.48 square meters of the Jiachao’s Shopping Mall was deducted from the lease contract dated 26 April 2021 entered into by Zhengzhou Jiachao as the lessor and Zhengzhou Zhongyuan Jinyi Commercial Operation Management Co., Ltd.* (“Zhongyuan Jinyi”) (鄭州中原錦藝商業運營管理有限公司) as the lessee in respect of the Jiachao’s Shopping Mall with a leased area of 125,188.32 square meters (“Jiachao’s Lease Contract”) and rental income from the sub-tenant with respect to those leased area shall be paid to the court. In light of the above, the parties entered into a supplemental agreement (“Supplemental Agreement”) to amend the leased area under Jiachao’s Lease Contract starting from 22 June 2024. Please also refer to the announcement of the Company dated 9 October 2024 for details.

* For identification purpose only

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.

The Group leased partial of the Jiachao’s Shopping Mall and the whole Zone C Shopping Mall from a number of landlords, both shopping malls situated in Zhengzhou City, Henan Province, the PRC. The Jiachao’s Shopping Mall, with a rental period to expire in the mid of 2036, comprises altogether a 4-storey shopping mall and one level of basement commercial space. As a result of certain areas of the Jiachao’s Shopping Mall involved in the litigation with a creditor of its landlord, the Group could not generate any income on such areas. The Group’s leased area of the Jiachao’s Shopping Mall reduced from 125,188.32 square meters to 74,655.84 square meters from 22 June 2024. 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. Nevertheless, the Group promoted and further rented out the remaining Jiachao’s Shopping Mall to approximately 119 tenants and approximately 87.5% of the lettable area had been leased out as of 30 June 2024 as retail shops, restaurants and/or for entertainment and leisure use. The Jiachao’s Shopping Mall is a one-stop shopping paradise that offers a wide range of services and goods to consumers and shoppers including a cinema, a supermarket, KTV (a karaoke box), jewelries, beauty shops, electrical appliances shops, car sales, international labels for fashion, fitness, lifestyle, casual wear/sport, kid’s paradise, kid’s learning and restaurants. Certain areas of the Jiachao’s Shopping Mall are rented to tenants on short-term leases for use, including kiosks and booths of trendy and stylish items.

In addition, the Zone C Shopping Mall, with a rental period to expire in the mid of 2036, is 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. The Zone C Shopping Mall is a shopping mall located adjacent to the Jiachao's Shopping Mall. The Group 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 twelve years. As of 30 June 2024, approximately 91 tenants and approximately 85.0% of the lettable area of the Zone C Shopping Mall had been leased out as retail shops and restaurants and/or for entertainment and leisure use. The Zone C Shopping Mall offers a wide range of services and goods including a cinema, an aquarium, a photo shop, beauty shops, car sales, international labels for fashion, lifestyle, casual wear/sport, kid's paradise, kid's learning and restaurants. Certain areas of the Zone C Shopping Mall are rented to tenants on short-term leases for use, including kiosks and booths of trendy and stylish items.

The Group has an advantage in having an existing team of high-caliber and experienced management and staff to run the two shopping malls together. As such, the extra costs for running the shopping malls have been minimal to the Group and the Group can generate considerable incomes from the provision of rental, management and operating services to tenants of the two shopping malls. The larger the area of the shopping mall, the more the number of similar types of shops open, and thus more customers will be attracted by offering them a large diversity and well-known brand choices. Positive benefits and synergy effects on the customer flow and the tenant grade will be brought to the Group through management of both the Jiachao's Shopping Mall and the Zone C Shopping Mall together, eventually contributing to affirmative revenue and profit margin of property operating business.

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 2024, the Borrower settled RMB20 million and HK\$15 million after the maturity date on 27 April 2023. As of 30 June 2024, the Group had not received further payments of the remaining principal amount of approximately RMB145.7 million. The Group has been in discussions with the Borrower about a revised repayment schedule of the Renewed Loan throughout the current year. 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 spread across the globe starting from the beginning of 2020, and since then, the situation around the world has changed rapidly. The Group's business has been impacted by the closure of the shopping malls and controls of the epidemic to a significant extent during the past few years. COVID-19 had become the endemic disease, therefore, during the year ended 30 June 2024, 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 year ended 30 June 2023, the Group had supported more than 275 tenants of two shopping malls (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 with an aggregated amount of approximately HK\$23,025,000. The Group had seen cost reduction as a key strategic focus to help navigate business uncertainty resulting from the epidemic.

Revenue

For the year ended 30 June 2024, the Group recorded a revenue of approximately HK\$111,160,000 (2023: HK\$143,233,000), approximately 22.4% less than that in 2023. 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. The decrease in revenue during the year ended 30 June 2024 was due to certain areas of the Jiachao's Shopping Mall involved in the litigation with the landlord's creditor, the Group therefore could not generate any income on such areas.

Gross Profit

The gross profit margin was approximately 64.5% for the year ended 30 June 2024 (2023: 73.8%). 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. The decrease in gross profit margin was due to a decrease in revenue because of certain areas of the Jiachao' Shopping Mall involved in the litigation with the landlord's creditor, the Group therefore could not generate any income on such areas.

Loss for the Year

The Group's loss incurred for the year ended 30 June 2024 was approximately HK\$270,792,000 (2023: HK\$683,448,000). The loss margin was approximately 243.6% for the year ended 30 June 2024 (2023: 477.2%). Both decreased significantly for the year ended 30 June 2024 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\$260,870,000 (2023: HK\$720,225,000) due to slow recovery of China's macro-economy during the current year, particularly the real estate market. 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.

Other Income and Other Gain and Loss

Other income and other gain and loss for the year ended 30 June 2024 was approximately HK\$13,253,000 (2023: HK\$28,476,000), 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. The decrease in other income and other gain and loss was mainly because loan interest income was reduced significantly for the year ended 30 June 2024.

Expenses

Administrative expenses amounted to approximately HK\$24,742,000 (2023: HK\$21,766,000), representing approximately 22.3% (2023: 15.2%) of revenue for the year ended 30 June 2024. Administrative expenses increased in the current year due to more professional fees incurred for the adoption of a new share option scheme, appointments of new directors and company secretary etc. and more operating expenses incurred for new property operating market development.

Allowance for expected credit loss on rental deposits amounted to approximately HK\$89,712,000 (2023: HK\$19,247,000) for the year ended 30 June 2024 was due to the seizure and title transfer of certain areas of the Jiachao's Shopping Mall by a number of banks and financial institutions as a result of the exercise of their rights under the pledges of the shopping mall created by its owner, which in turn increased the credit risk to a certain extent.

Reversal of allowance for expected credit loss on loan receivables was approximately HK\$37,310,000 because of settlements of RMB20 million and HK\$15 million made by the Borrower during the year ended 30 June 2024. There was no allowance for expected credit loss on loan receivables for the year ended 30 June 2024 (2023: HK\$184,361,000). 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, that loan receivable was transferred to stage 3 or written-off during the year ended 30 June 2023 where lifetime expected credit loss was recognised. Moreover, there was no allowance for expected credit loss of another loan receivable of HK\$18 million arranged during the year ended 30 June 2024 because of its pledged securities and subsequent settlement made after the reporting period.

Gain on lease modification was approximately HK\$41,698,000 (2023: Nil). As described in note 12 to the consolidated financial statements, since certain areas of the Jiachao's Shopping Mall was involved in the litigation with a creditor of its landlord, the rental area of 50,532.48 square meters of the Jiachao's Shopping Mall was deducted from the Jiachao's Lease Contract pursuant to the judgment of the People's Court of Zhongyuan District, Zhengzhou City, Henan Province. In light of the above, Zhongyuan Jinyi and Zhengzhou Jiachao entered into the Supplemental Agreement to amend the leased area under the Jiachao's Lease Contract starting from 22 June 2024, which constituted a lease modification in the current year. The Group remeasured lease liabilities corresponding to the remaining leased area of the Jiachao's Shopping Mall. The remeasured amount that differed from the original lease liabilities was reduced from the Group's lease liabilities. At the same time, the entering into of the Supplemental Agreement as tenant by Zhongyuan Jinyi required the Group to derecognise the amount from the Group's investment properties arising from the reduction of the leased area under the Jiachao's Lease Contract. The fair values derecognised by the Group under the Supplemental Agreement amounted to approximately RMB157 million (approximately HK\$170,652,000). By doing so, the Group obtained gain from lease modification during the year ended 30 June 2024.

The carrying value of the Group's investment properties, partial of the Jiachao's Shopping Mall and the Zone C Shopping Mall, as of 30 June 2024 of approximately HK\$568,817,000 (2023: 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\$260,870,000 (2023: HK\$720,225,000). Decrease in the carrying value and the loss on fair value changes of investment properties was mainly due to slow recovery of China's macro-economy during the current year, particularly the real estate market. 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 increased customer consumption through some measures. 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\$39,485,000 (2023: HK\$43,761,000), representing approximately 35.5% (2023: 30.6%) of revenue for the year ended 30 June 2024. Decrease in finance costs was mainly due to fewer interest expenses of lease liabilities incurred during the year ended 30 June 2024 because lease modification with respect to certain areas of the Jiachao's Shopping Mall involved in the litigation with a creditor of its landlord was carried out.

Dividend

The Board does not recommend the payment of a final dividend for the year ended 30 June 2024 (2023: Nil).

During the year ended 30 June 2024, the Board declared and paid a special dividend of HK\$0.001 per share to the shareholders of the Company.

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 on developing and expanding its operations of property operating business. Substantial resources have been placed to explore prospects and develop relevant markets. The Company therefore expands its property operating business through its indirect wholly-owned PRC subsidiary which holds entire equity interests in 鄭州英睿物業服務有限公司 (Zhengzhou Yingrui Property Services Co., Ltd.) ("Zhengzhou Yingrui") after the reporting period. Zhengzhou Yingrui leased 42 units with a rental period to expire in the first half of 2027 and with a gross floor area of approximately 130,873 square meters in an industrial park, the Jinyi Zhiyun City, located in Xinmi City, Henan Province, the PRC. The Group promoted and further rented out the Jinyi Zhiyun City to approximately 79 tenants and approximately 73.2% of the lettable area had been leased out after the reporting period as production, processing and sales of men's and women's shoes, processing and sales of shoe accessories and wholesale of groceries. The Group will continue to enlarge the properties for its property operating business by exploring other properties including similar industrial parks.

The Group targets to engage in the provision of rental, management and operating services to more tenants of different kinds of properties in various locations. The Group persists in upgrading the tenants of the Jiachao's Shopping Mall and the Zone C Shopping Mall by offering tenancies to more popular brands and diversifying 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 to raise the popularity of the shopping malls, paying close attention to the business operations, helping key merchants in time and following closely with market trends to make appropriate management decisions in a timely manner so that a stable and constant stream of income and consistent cash flow can be continuously generated to the Group.

The world keeps changing during and after the time of the epidemic, in particular geopolitical tensions, regulatory changes 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 economic uncertainties continues to fluctuate. This poses a tremendous challenge to the Group. Nevertheless, the Group has been striving to use all its resources on hand flexibly to cope with the difficulties. By leveraging on the Group's current strategic plan and established strengths, experience and foresight, the Group continues to seize opportunities to penetrate different areas of the property operating market, explore other new market potential and increase profit margin.

The Group will continue to deploy its resources on the property operating business including but not limited to (i) apart from the current caliber management and competent employees of its subsidiaries, recruit more candidates with high-caliber and experience in property operating business; (ii) explore suitable shopping malls/properties to expand the Group's property management and operating portfolio; (iii) possible merger and acquisition of asset-light property operating business in the PRC so as to further expand the Group's property management and operating portfolio; and (iv) keep implementing conservative and stringent cost control policies 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.

According to the National Bureau of Statistics, in the first half year of 2024, gross domestic product was approximately RMB61.7 trillion, representing an increase of approximately 5% to the corresponding period in 2023. The PRC government also gradually implemented policies to expand domestic demand for goods and services and promote consumption, which is expected to continue effectively to stimulate consumption potential, in particular household, promote the release of consumer demand, and thereby enhance merchant confidence. The shop leasing market in different cities is expected to continue to recover.

Looking forward, the Group continues to place on its property operating business by enhancing the value and economic returns of the existing two shopping malls, expanding the properties the Group operates and diversify the Group's business when and where opportunities arise. By continually capturing opportunities for expansion and diversifying the Group's business with extra prudence in flexibility and efficiency in the management, decision-making and long-term strategy formulation, the market value of the Company and the return to its shareholders will be maximised in the long term.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2024, the Group had net current liabilities and total assets less current liabilities of approximately HK\$51,194,000 (2023: HK\$117,001,000) and HK\$571,561,000 (2023: HK\$1,052,451,000), respectively. The Group has maintained its financial position by financing its operations with internally generated resources and issue of bonds. As at 30 June 2024, the Group had cash and bank deposits of approximately HK\$40,239,000 (2023: HK\$33,152,000). The current ratio of the Group was approximately 63.3% (2023: 35.2%).

Total deficit of the Group as at 30 June 2024 was approximately HK\$7,938,000 (total equity in 2023: HK\$268,442,000). As at 30 June 2024, two bonds (2023: two bonds) measured at amortised cost was approximately HK\$10,005,000 (2023: HK\$10,003,000) in aggregate, the gross debt gearing ratio (i.e. bonds/shareholders' fund) was approximately negative 126.0% (2023: 3.7%). The substantial shareholders have agreed to provide the Company with sufficient financial support to enable the Company to meet its obligations to third parties as and when they fall due and to continue as a going concern.

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 the substantial shareholders of the Company in meeting its short-term and long-term obligations.

FINANCING

As at 30 June 2024, the Group had no borrowing facilities. As at 30 June 2023, the total bank facilities of the Group amounted to approximately HK\$6,129,000, of which, no facilities was utilised.

In addition, two bonds (2023: two bonds) amounted to approximately HK\$10,005,000 (2023: HK\$10,003,000) in aggregate, measured at amortised cost, were arranged with one (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 terms.

CAPITAL STRUCTURE

As at 30 June 2024, the share capital of the Company comprised ordinary shares only.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

During the year ended 30 June 2024, the Group was not subject to any significant exposure to foreign exchange rates risk as most 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 2024, the Group did not pledge any assets to any banks or financial institutions.

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

CAPITAL EXPENDITURE

During the year ended 30 June 2024, the Group invested approximately HK\$70,000 (2023: HK\$203,000) in property, plant and equipment, all was used for purchase of leasehold improvement and office equipment.

As at 30 June 2024, the Group had no capital commitments in property, plant and equipment (2023: Nil).

STAFF POLICY

The Group had 132 employees altogether in the PRC and Hong Kong as at 30 June 2024. The Group offers comprehensive and competitive remuneration, retirement schemes and a benefit package to its employees. A discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contributions to a social insurance scheme in the PRC. Moreover, the Group and its employees in the PRC are required to make respective contributions 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 25 July, 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 2024, 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 2024.

EVENT AFTER THE REPORTING PERIOD

Please refer to note 12 to the consolidated financial statements.

CODE ON CORPORATE GOVERNANCE PRACTICES

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 year ended 30 June 2024, the Company complied with the Corporate Governance Code contained in Appendix C1 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS (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 year ended 30 June 2024.

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.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL 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 annual report for the year ended 30 June 2024 will be despatched to the shareholders of the Company and available on the above websites in due course.

RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on Wednesday, 2 October 2024.

Application has been made by the Company to the Stock Exchange for the resumption of trading in the shares of the Company on the Stock Exchange with effect from 9 a.m. on Friday, 18 October 2024.

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

Hong Kong, 17 October 2024

As at the date of this announcement, the executive directors of the Company are Mr. Chen Jinyan, Mr. Su Peixin and Mr. Yao Linying; and the independent non-executive directors of the Company are Mr. Chong Hon Wang, Ms. Chong Sze Pui Joanne and Ms. Wang Yuqin.

* For identification only