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AVIC Joy Holdings (HK) Limited

幸福控股(香港)有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 260)

UNAUDITED RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

The board (the “**Board**”) of directors (the “**Directors**”) of AVIC Joy Holdings (HK) Limited (the “**Company**”) announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2021 (the “**Year**”) together with the comparative figures for the previous year. For the reasons explained in the paragraph headed “Review of Unaudited Annual Results” in this announcement, the auditing process for the annual results of the Group for the Year has not been completed.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	Notes	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Audited)
Revenue	2	3,189	5,903
Cost of sales		—	—
Gross profit		3,189	5,903
Other income, gains and losses	3	785	8,484
Reversal of expected credit losses (“ECLs”) on financial assets	2	—	7,000
Administrative expenses		(16,772)	(30,787)
Fair value losses on investment properties, net	2	—	(2,340)
Impairment of intangible assets	2	—	(225,000)
Gain on disposal of subsidiaries		—	52,612
Share of profits of joint ventures		18,983	8,955
Finance costs	5	(89,728)	(68,275)
LOSS BEFORE TAX		(83,543)	(243,448)
Income tax (expense)/credit	6	(10)	54,737
LOSS FOR THE YEAR	4	(83,553)	(188,711)
Attributable to:			
Owners of the Company		(67,717)	(85,562)
Non-controlling interests		(15,836)	(103,149)
		(83,553)	(188,711)
LOSS PER SHARE	7	(HK1.14 cents)	(HK1.44 cents)
Basic and diluted			

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the year ended 31 December 2021*

	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Audited)
LOSS FOR THE YEAR	(83,553)	(188,711)
OTHER COMPREHENSIVE INCOME/(EXPENSES):		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of foreign operations	5,127	7,777
Share of joint ventures' exchange differences on translation of foreign operations	2,401	4,587
Reclassification adjustments for foreign operations disposed of during the year	<u>–</u>	<u>(46,276)</u>
Other comprehensive income/(expenses) for the year, net	<u>7,528</u>	<u>(33,912)</u>
TOTAL COMPREHENSIVE EXPENSES FOR THE YEAR	<u>(76,025)</u>	<u>(222,623)</u>
Total comprehensive expenses attributable to:		
Owners of the Company	(60,493)	(120,104)
Non-controlling interests	<u>(15,532)</u>	<u>(102,519)</u>
	<u>(76,025)</u>	<u>(222,623)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		436	557
Right-of-use assets		73	920
Intangible assets		–	–
Investments in joint ventures		94,544	73,160
Prepayments and deposits		125	333
Finance lease receivables	10	<u>3,795</u>	<u>26,999</u>
		<u>98,973</u>	<u>101,969</u>
CURRENT ASSETS			
Contract costs		324,206	315,446
Trade receivables	9	20,175	19,629
Prepayments, deposits and other receivables		10,908	10,058
Finance lease receivables	10	24,494	26,223
Promissory note receivables		62,300	62,300
Amounts due from joint ventures		128,968	128,692
Bank balances and cash		<u>28,845</u>	<u>39,665</u>
		<u>599,896</u>	<u>602,013</u>
CURRENT LIABILITIES			
Trade payables	11	8,093	7,874
Other payables and accruals		207,755	167,724
Lease liabilities		78	886
Interest-bearing bank and other borrowings		212,778	213,283
Loans from related companies		795,527	810,714
Loans from joint ventures		15,858	15,698
Loans from non-controlling shareholders		32,343	32,343
Tax payable		<u>2,502</u>	<u>4,106</u>
		<u>1,274,934</u>	<u>1,252,628</u>
NET CURRENT LIABILITIES		<u>(675,038)</u>	<u>(650,615)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(576,065)</u>	<u>(548,646)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Audited)
NON-CURRENT LIABILITIES		
Lease liabilities	–	76
Interest-bearing bank and other borrowings	786	20,190
Deferred tax liabilities	232	232
	<u>1,018</u>	<u>20,498</u>
NET LIABILITIES	<u>(577,083)</u>	<u>(569,144)</u>
CAPITAL AND RESERVES		
Share capital	2,234,815	2,234,815
Other reserves	(2,741,618)	(2,736,798)
Equity attributable to owners of the Company	(506,803)	(501,983)
Non-controlling interests	(70,280)	(67,161)
	<u>(577,083)</u>	<u>(569,144)</u>

NOTES:

1.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). In addition, the consolidated financial statements include applicable disclosures required by The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and by the Hong Kong Companies Ordinance (the “**Companies Ordinance**”). The consolidated financial statements have been prepared on the historical cost basis. The consolidated financial statements are presented in Hong Kong dollars (“**HKS**”) and all values are rounded to the nearest thousand except when otherwise indicated.

The financial information relating to the year ended 31 December 2020 that is included in this unaudited results announcement for the Year as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company’s auditor has reported on these financial statements. The auditor’s report was qualified and contained a statement under section 407(3) of the Companies Ordinance and with a material uncertainty related to going concern to which the auditor drew attention by way of emphasis without qualifying its reports, but did not contain a statement under sections 406(2) or 407(2) of the Companies Ordinance.

1.2 APPLICATION OF NEW AND AMENDMENTS TO HKFRS

In the current year, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2021. HKFRSs comprise Hong Kong Financial Reporting Standards (“**HKFRS**”); Hong Kong Accounting Standards (“**HKAS**”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

2. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has following reporting segments as follows:

- (a) Management and operation of light-emitting diode (“**LED**”) energy management contracts (“**EMC**”);
- (b) Provision of finance lease and loan services and property investment; and

(c) Provision of land development services and sale of construction materials.

Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's loss before tax except that certain exchange losses, and certain finance costs, depreciation, as well head office and corporate expenses are excluded from such measurement.

For the presentation of the Group's geographical information, revenues and results information is attributed to the segments based on the locations of the customers, and assets information is based on the locations of the assets. As the Group's major operations and markets are located in the People's Republic of China (the "PRC"), no further geographical information is provided.

The following table presents revenue and profit/(loss) for the Group's primary segment for the years ended 31 December 2021 and 2020.

Year ended 31 December 2021 (Unaudited)

	Management and operation of LED EMC <i>HK\$'000</i>	Provision of finance lease and loan services and property investment <i>HK\$'000</i>	Provision of land development services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue:				
Leases	–	3,189	–	3,189
Segment results	18,912	(3,320)	(31,285)	(15,693)
<i>Reconciliation:</i>				
Finance costs – unallocated				(59,848)
Corporate and other unallocated expenses				(8,002)
Loss before tax				(83,543)
Income tax expense				(10)
Loss for the year				<u>(83,553)</u>
Other segment information:				
Interest income	–	279	1	280
Depreciation	–	(75)	(49)	(124)
Depreciation – unallocated				(875)
Share of profits of joint ventures	18,983	–	–	18,983
Written off of other receivables	–	(1,388)	–	(1,388)
Finance costs	–	(1,418)	(28,462)	(29,880)
Capital expenditure*	–	(4)	–	(4)

* *Capital expenditure consists of additions to property, plant and equipment.*

Year ended 31 December 2020 (Audited)

	Management and operation of LED EMC <i>HK\$'000</i>	Provision of finance lease and loan services and property investment <i>HK\$'000</i>	Provision of land development services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue:				
Leases	–	5,903	–	5,903
Segment results	12,918	28,436	(241,463)	(200,109)
<i>Reconciliation:</i>				
Finance costs – unallocated				(41,733)
Unallocated other gain				7,182
Corporate and other unallocated expenses				(8,788)
Loss before tax				(243,448)
Income tax credit				54,737
Loss for the year				<u>(188,711)</u>
Other segment information:				
Interest income	–	771	1	772
Depreciation	–	(72)	(145)	(217)
Depreciation – unallocated				(1,554)
Share of profits of joint ventures	8,955	–	–	8,955
Loss on disposal of property, plant and equipment	–	(195)	–	(195)
Reversal of ECLs on financial assets	4,000	3,000	–	7,000
Gain on disposal of subsidiaries	–	53,764	–	53,764
Loss on disposal of subsidiaries – unallocated				(1,152)
Impairment of intangible assets	–	–	(225,000)	(225,000)
Finance costs	–	(16,238)	(10,304)	(26,542)
Fair value losses on investment properties, net	–	(2,340)	–	(2,340)
Capital expenditure*	–	(356)	–	(356)

* *Capital expenditure consists of additions to property, plant and equipment.*

3. OTHER INCOME, GAINS AND LOSSES

An analysis of the Group's other income, gains and losses is as follows:

	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Audited)
Other income		
Interest income	280	772
Promissory note interest income	1,914	1,914
Sub-total	<u>2,194</u>	<u>2,686</u>
Other gains and losses, net		
Exchange losses, net	(1,058)	(10,809)
Loss on disposal of property, plant and equipment	–	(195)
Waiver of other payables upon deregistration of a subsidiary	–	15,677
Written off of other receivables	(1,388)	–
Others	1,037	1,125
Sub-total	<u>(1,409)</u>	<u>5,798</u>
Total	<u><u>785</u></u>	<u><u>8,484</u></u>

4. LOSS FOR THE YEAR

The Group's loss for the year has been arrived at after charging/(crediting):

	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Audited)
Auditor's remuneration		
– Annual audit	1,150	1,100
– Others	200	1,086
Depreciation on property, plant and equipment	139	280
Depreciation of right-of-use assets	860	1,491
Reversal of ECLs on financial assets	–	(7,000)
Written off of other receivables	1,388	–
Employee benefit expense (excluding directors' and chief executive's remuneration)		
– Wages, salaries, allowances and benefits in kind	8,085	7,759
– Retirement scheme contributions	536	272
	<u>8,621</u>	<u>8,031</u>

5. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Audited)
Interests on bank and other borrowings	18,511	29,867
Interests on loans from related companies	37,091	38,339
Imputed interests on loans from related companies	34,099	–
Interests on lease liabilities	27	69
	<u>89,728</u>	<u>68,275</u>

6. INCOME TAX EXPENSE/(CREDIT)

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong in both years. Taxation on PRC profits was calculated on the estimated assessable profits for the year at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Audited)
PRC Enterprise Income Tax:		
– Current tax	–	1,529
– Under/(Over) provision in prior year	10	(16)
Deferred tax credit	–	(56,250)
	<u>10</u>	<u>(54,737)</u>

7. LOSS PER SHARE

The calculation of the basic loss per share amount is based on the loss for the year attributable to owners of the Company of approximately HK\$67,717,000 (2020: approximately HK\$85,562,000), and the weighted average number of ordinary shares of 5,943,745,741 (2020: 5,943,745,741) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the year ended 31 December 2021 as there are no dilutive potential ordinary shares and for the year ended 31 December 2020 as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amount presented.

8. DIVIDEND

The directors do not recommend the payment of dividend to the shareholders of the Company (the “Shareholders”) for the year ended 31 December 2021 (2020: Nil).

9. TRADE RECEIVABLES

	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Audited)
Trade receivables – contracts with customers	58,335	56,759
Less: Allowance for ECLs	<u>(38,160)</u>	<u>(37,130)</u>
	<u><u>20,175</u></u>	<u><u>19,629</u></u>

The trade receivables are related to sales of construction materials. The credit period granted to customers is generally 90 days.

The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

An aging analysis of the gross trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Audited)
Over 1 year	<u><u>58,335</u></u>	<u><u>56,759</u></u>

10. FINANCE LEASE RECEIVABLES

The Group provides finance leasing services on equipment in the PRC. These leases are classified as finance leases and have remaining lease terms ranging from one to three years.

For the year ended 31 December 2021, the finance lease receivables decreased due to repayments of finance lease receivables.

	Minimum lease payments		Present value of minimum lease payments	
	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Audited)	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Audited)
Finance lease receivables comprise:				
Within one year	27,049	30,279	24,494	26,223
In the second year	2,851	25,042	2,184	22,804
In the third year	1,939	2,774	1,611	2,078
In the fourth year	–	2,580	–	2,117
	<u>31,839</u>	<u>60,675</u>	<u>28,289</u>	<u>53,222</u>
Less: unearned finance income	<u>(3,550)</u>	<u>(7,453)</u>		
Present value of minimum lease payments	<u>28,289</u>	<u>53,222</u>		
Analysed for reporting purposes as:				
Current assets	24,494	26,223		
Non-current assets	3,795	26,999		
	<u>28,289</u>	<u>53,222</u>		

The Group's finance lease receivables are denominated in Renminbi ("RMB"), which is the functional currency of the relevant group entity.

As at 31 December 2021, the Group's finance lease receivables with an aggregate carrying amount of HK\$28,289,000 (2020: HK\$53,222,000) were pledged as security for the Group's certain bank loans.

11. TRADE PAYABLES

An aging analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Audited)
Over 1 year	<u>8,093</u>	<u>7,874</u>

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

During the Year, the principal business activities of the Group comprise provision of finance lease and loan services and property investment; provision of the PPP Class 1 land development services; and management and operation of LED EMC in the PRC. The Group also operates LED EMC business through its investment in a joint venture.

During the Year, the consolidated revenue of the Group amounted to approximately HK\$3.2 million (2020: approximately HK\$5.9 million), representing a decrease of 45.8% as compared with last year, which mainly attributed to decline in the number of ongoing projects of finance lease business.

The net loss of the Group was approximately HK\$83.6 million during the Year, representing a decrease of approximately HK\$105.1 million as compared with the net loss of approximately HK\$188.7 million last year. The decrease in net loss was mainly attributable to (i) an impairment loss of approximately HK\$225.0 million on the Group's intangible assets in relation to the PPP's project was recorded in last year, while no such impairment loss was recorded during the Year; (ii) a deferred tax credited to profit or loss of approximately HK\$56.3 million in related to the impairment of intangible assets in last year, while no such deferred tax credit was recorded during the Year; (iii) a gain on disposal of subsidiaries of approximately HK\$52.6 million was recorded in last year, while no such gain was recorded during the Year; and (iv) increase in share of profits of joint ventures by approximately HK\$10.0 million during the Year.

Operational Review

(1) Finance Lease and Loan Service and Property Investment Business

During the Year, due to resurgence of COVID-19 in both Hong Kong and the PRC, continued travel restrictions were imposed by the governments, a few discussions of new projects, which were in advanced form, are yet to be finalised and enter into final contracts. The total revenue recorded for the Year decreased to approximately HK\$3.2 million (2020: approximately HK\$5.9 million), representing a decrease of approximately 45.8%.

The Group has disposed all of its commercial properties in last year, and the Group no longer holds any investment properties since then.

(2) PPP Class 1 Land Development Business

During the Year, no revenue was recorded in the Group's business in the PPP Class 1 land Central New Coastal City* (中部濱海新城) and the construction of Ronggang Avenue* (融港大道) (collectively referred to as the "Project") at Fuqing City, Fujian Province (2020: Nil).

During the Year, the loss of this segment decreased to approximately HK\$31.3 million (2020: approximately HK\$241.5 million), mainly due to no impairment provided for intangible assets during the Year.

* English translation for reference only

(3) LED EMC Business

The Group operates LED EMC business through its investment in a joint venture in previous years.

During the Year, the Group also established a new subsidiary to carry on the LED EMC business. However, the business is still in initial stage and no revenue was recorded so far.

Business Outlook

Affected by various unfavorable factors such as the COVID-19 outbreak, industries around the world have suffered from hidden worries, weakened economic activities, and intensified business competition pressure. It is challenging to invest in new markets. Looking forward, in the course of its business development, the Group will adopt a prudent and proactive development policy to continue to develop the existing businesses of the Company under the premise of controlling the business risks, and continue to look for new commercial investment opportunities to expand valuable businesses.

In recent years, the Group has managed to optimize asset allocation and reduce investment losses through the sale of gas businesses with unsatisfactory development prospects and properties that continue to record losses. Looking forward, the Group will continue to optimize its remaining businesses and continue to look for valuable and suitable investment opportunities. Amid the pandemic, the Group will support the development of the finance lease business of its subsidiary Guangdong Zi Yu Tai Finance Leasing Company Limited* (廣東資雨泰融資租賃有限公司) to provide finance lease services for related equipment to Chinese public hospitals, high-quality listed companies and private enterprises with good growth. On the premise of controlling the risks, the Group will focus on sunrise industries and continuously expand the finance lease market.

Regarding PPP Class 1 land development business, the development of the Project involves a total of 3,990 mu of land available to be developed for commercial and residential uses. Due to changes in relevant domestic laws and regulations and changes in the government's attitude towards the Project, the development of the Project is suspended. The Group filed a lawsuit with Intermediate People's Court of Putian Municipality* (莆田市中級人民法院) (the "**Putian Court**") in May 2018, aiming to request Fuqing Municipal People's Government* (福清市人民政府) (the "**Fuqing Government**") to continue to execute the land development contract in relation to the Project. The Group received a judgment dated 10 June 2020 issued by the Putian Court, which dismissed the petition made by the Group. As a result, the land development of the Project will continue to be suspended. The Group filed an appeal to the High People's Court of Fujian Province* (福建省高級人民法院) (the "**High People's Court**") in June 2020 to protect its interests. The High People's Court has accepted the appeal on 6 August 2020 and the Group is expecting the notice of hearing. The hearing will be scheduled at the discretion of the High People's Court. Besides, the Group has started mediation to resolve the dispute with Fuqing Government during the Year, the Group will still try its best to restart the Project as soon as practicable.

* *English translation for reference only*

Financial Resources

As at 31 December 2021, the Group's total debts (including trade payables, other payables and accruals, lease liabilities, interest-bearing bank and other borrowings, loans from related companies, loans from joint ventures and loans from non-controlling shareholders) amounted to approximately HK\$1,273.2 million (2020: approximately HK\$1,268.8 million). Cash and bank balances amounted to approximately HK\$28.8 million (2020: approximately HK\$39.7 million). Net debt amounted to approximately HK\$1,244.4 million (2020: approximately HK\$1,229.1 million). As a result, the Group's gearing ratio, representing the ratio of the Group's net debt divided by adjusted capital and net debt of approximately HK\$737.6 million (2020: approximately HK\$727.1 million), was 168.7% (2020: 169.0%).

During the Year, the Group was not materially exposed to foreign currency risk.

Dividend

The Board does not recommend the payment of a final dividend for the Year (2020: Nil).

Staff Benefits

As at 31 December 2021, the Group had a total of 29 employees (2020: 31). The staff costs for the Year amounted to approximately HK\$8.6 million (2020: approximately HK\$8.0 million). The Group continues to provide remuneration package to employees according to market practices, their experience, professional qualification and performance. Other benefits include contribution of statutory mandatory provident fund for the employees, medical scheme and share option schemes. There was no major change to staff remuneration policies during the Year.

Human Resources

Apart from remunerating and promoting staff according to an established mechanism based on individual performance, experience, professional qualification and prevailing market practices, the Group actively encouraged and subsidised staff to participate in job-related study, trainings and seminars as part of the welfare and incentive scheme. This aims to encourage staff to embark on life-long study, and to formulate a feasible plan to their career development, which lays a solid foundation for sound and sustainable development of the Group.

Pledge of assets

As at 31 December 2021, the Group had pledged certain finance lease receivables for bank borrowings granted.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES AND SIGNIFICANT INVESTMENT

The Group had no material acquisition or disposal of subsidiaries, associates and joint ventures or significant investment or updates in relation thereto during the Year.

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

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

CORPORATE GOVERNANCE PRACTICES

The Company is committed to pursuing strict and high standards of corporate governance since the Board believes that good corporate governance practices are essential to achieving the Group's objectives of enhancing corporate value as well as safeguarding the interests of the Shareholders.

The Company has complied with the applicable code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules during the Year, save and except as disclosed hereunder:

- (i) code provision A.2.1 of the CG Code stipulates that the roles of the chairman of the Board and the chief executive officer of the Company should be served by different individuals to achieve a balance of authority and power. Prior to the resignation of Mr. Chan Hon Wai with effect from 30 January 2022, he was an executive Director, the chief executive officer and the chairman of the Board. Mr. Chang Chien has been appointed as an executive Director with effect from 18 September 2020, he has been appointed as the chairman of the Board with effect from 4 February 2022 to fill the vacancy after Mr. Chan Hon Wai resigned. The chairman of the Board is primarily responsible for the leadership of the Board ensuring that all significant policy issues are discussed by the Board in a timely and constructive manner by drawing up and approving the agenda and taking into account any matters proposed by other Directors for inclusion in the agenda, and that all Directors are properly briefed on issues arising at Board meetings, and that the Directors receive accurate, timely and clear information. The chief executive officer of the Company is responsible for day-to-day management of the Group's business.

The post of chief executive officer of the Company has remained vacant since 30 January 2022. The duties of chief executive officer had been performed by other executive Directors. As there is a clear division of responsibilities of each director, the vacancy of the post of chief executive officer did not have any material impact on the operations of the Group. Nevertheless, the Board will keep reviewing the current structure of the Board and the need of appointment of a suitable candidate to separate the role of chief executive officer and chairman of the board. Appointment will be made to comply with code provision A.2.1 of the CG Code if necessary;

- (ii) code provision A.4.1 of the CG Code stipulates that non-executive directors (including independent non-executive directors) should be appointed for a specific term. The non-executive Directors were appointed without specific terms, but they are subject to retirement by rotation and being eligible for re-election at least once every three years in accordance with Articles of Association; and

(iii) code provision D.1.4 of the CG Code stipulates that listed issuers should have formal letters of appointment for directors setting out the key terms and conditions of their appointments. The Company did not have letters of appointment for Directors. However, the Directors shall be subject to retirement by rotation and being eligible for re-election pursuant to the Articles of Association. Moreover, the Directors are required to comply with the requirements under statute and common law, the Listing Rules, the Companies Ordinance, legal and other regulatory requirements, if applicable.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transaction by its Directors. The Directors are required to strictly comply with the Model Code when dealing in the securities of the Company.

Following specific enquiry made by the Company, all the Directors confirmed their compliance with the required standards as set out in the Model Code during the Year.

REVIEW OF UNAUDITED ANNUAL RESULTS

Due to the spreading of COVID-19 as well as precautionary measures and pandemic prevention policy adopted by Hong Kong and different cities in the PRC, which have caused serious disruption in preparing, finalizing and auditing of accounts of the Company and its subsidiaries which are located in Hong Kong and the PRC respectively. The continuous spreading of COVID-19 pandemic and appearance of variant viruses have disrupted the reporting and auditing processes of the Group’s consolidated financial statements, the auditing process for the annual results of the Group for the Year has not been completed. The Company is unable to publish an audited annual results announcement by 31 March 2022 in accordance with Rules 13.49(1) and 13.49(2) of the Listing Rules.

The unaudited annual results contained herein have not been agreed by the Company’s auditor but have been reviewed by the audit committee of the Company.

An announcement relating to the audited annual results announcement will be made when the auditing process is completed in accordance with Hong Kong Standards on Auditing issued by HKICPA, together with the material differences (if any) as compared with the unaudited annual results contained herein.

UPDATES ON 2020 QUALIFIED OPINION

The Company's auditor has expressed qualified opinion on the audited consolidated financial statements of the Group for the financial year ended 31 December 2020. The Board would like to provide following updates on the audit qualifications.

(1) Intangible assets and related deferred tax liabilities (the “**First Qualification**”)

The intangible assets are recognised in respect of land development contracts in relation to the Project. While the related deferred tax liabilities are recognised for the taxable temporary differences in respect of intangible assets, at tax rate of 25%. The Project was suspended since November 2017 and impairments were provided on the intangible assets and related deferred tax liabilities recognised were then credited to profit or loss during the year ended 31 December 2020 and 2019.

As discussed in the “Business Outlook” section, the Group received a judgment dated 10 June 2020 issued by the Putian Court, which dismissed the petition made by the Group in relation to the Project. The Group then filed an appeal to the High People's Court in June 2020 to protect its interests. Due to the outcome of the appeal is uncertain, the auditor considered themselves did not obtain sufficient audit evidence to support the basis for the impairment. Therefore, the auditor was unable to satisfy themselves whether the impairment and the carrying amount of the intangible assets are free from material misstatement.

During the Year, the Group is still expecting the notice of hearing for the appeal, which is at the discretion of the High People's Court. Besides, the Group has started mediation to resolve the dispute with Fuqing Government during the Year, however, no results from the mediation so far. Therefore, no reversal of impairment on intangible assets and corresponding deferred tax charged during the Year.

(2) Contract costs (the “**Second Qualification**”)

Contract cost represented capital expenditures incurred related to the Project. Land preparation works were done during the year 2014 to 2018 and the costs mainly included demolition compensation fees, survey fees and related construction costs. The auditor considered themselves were unable to satisfy whether the contract cost can be recovered in full and whether any impairment should be recognized.

With reference to the Investment and Construction Cooperation Agreement (the “**Agreement**”) between Fuqing Government (as Party A) and the Group (as Party B), clause 16.5.2 of the Agreement provides that “In the case of the termination or dissolution caused by the breach of contract or non-attributable to Party B, Party A shall pay Party B the amount of compensation for the actual investment, interest and construction costs that Party B has been paid in this project and in accordance with this Agreement.”. The calculation criteria of financial expenses are calculated according to clause 6.2.3(5) of the Agreement, “The calculation rate of the financial expenses of construction costs, other costs of construction and construction land fees shall be calculated at 30% plus the benchmark interest rate of the People's Bank of China loans rate during the same period.”

The Agreement was terminated by the Fuqing Government, according to clauses above, Fuqing Government shall compensate for the comprehensive cost of the Project and the corresponding financial expenses incurred. Thus, the management considered that the contract cost is fully recoverable and no impairment should be provided for the Year and the year ended 31 December 2020. Besides, as discussed above in the First Qualification, the Group has started mediation to resolve the dispute with Fuqing Government during the Year, however, no results from the mediation so far. The procedure to claim the contract cost is complicated and take time, the timing to recover the contract cost is uncertain.

(3) Promissory note receivables (the “**Third Qualification**”)

On 4 December 2015, Kingfun Investment Limited (“**Kingfun**”) acquired 17.5% issued shares of Spotwin Investment Limited (“**Spotwin**”) from Ontex Enterprises Limited (“**Ontex**”), an indirect non wholly-owned subsidiary of the Company. Spotwin is the holding company of those project companies of the Project. Kingfun issued the promissory note to Ontex to settle part of the considerations.

The promissory note was originally due on 15 June 2018, and a deed of replacement as entered and the maturity date was then extended to 15 June 2019. No repayments received or new deed of replacement was entered on the due date, an impairment loss of approximately HK\$26.7 million was recognised during the year ended 31 December 2019.

The auditor consider themselves were unable to obtain sufficient audit evidence to assess the creditworthiness of the issuer of the promissory note. Therefore, the auditor were unable to satisfy themselves whether any provision should be made for any unrecoverable amounts.

For the Year and the year ended 31 December 2020, the management have considered the promissory note was secured by the 17.5% of the issued share capital of Spotwin, its value mainly depend on continuation of the Project, which the result is uncertain depend on the progress and result of the appeal and mediation with Fuqing Government as mentioned above. Besides, as at 31 December 2021 and 2020, the Group has an outstanding loan from Kingfun of approximately HK\$16.9 million. The management have considered above factors and concluded that 30% impairment provided on the gross carrying amount of approximately HK\$89.0 million (i.e. approximately HK\$26.7 million) is sufficient, and thus no further impairment provided for the Year and the year ended 31 December 2020.

(4) Trade receivables (the “**Fourth Qualification**”)

The trade receivables were entirely related to sales of construction material to two customers in 2017 with gross amount of approximately RMB60.1 million as at 31 December 2017. The customers repaid RMB2.5 million, RMB1.8 million and RMB8.2 million during 2020, 2019 and 2018 respectively, while no repayment was made during the Year. The gross receivables amount as at 31 December 2021 and 2020 were approximately RMB47.6 million. The impairment provided were approximately RMB31.1 million as at 31 December 2021 and 2020 and the net receivables amount were approximately RMB16.5 million as at 31 December 2021 and 2020.

The auditor consider themselves were unable to obtain sufficient audit evidence to assess the creditworthiness of the customers. Therefore, the auditor were unable to satisfy themselves whether any provision should be made for any unrecoverable amounts.

The management monitors the repayment progress and the financial conditions of the outstanding customers on an ongoing basis. The customers have repaid part of the outstanding amounts during the previous years, also the customers have signed the repayment schedules with the Group in March 2021. The management expects the outstanding trade receivables at 31 December 2020 will be recovered gradually and therefore no further expected credit losses was provided for the year ended 31 December 2020.

During the Year, as the customers failed to repay per the repayment schedules, the Group has appointed a PRC law firm to issue demands for payment to the customers in November 2021, requesting them to repay the outstanding amounts. The management expects the outstanding trade receivables at 31 December 2021 will be recovered through further legal actions and therefore no further expected credit losses was provided during the Year.

Based on preliminary discussion with the Company's auditor, it is currently expected that the above audit qualifications are likely to remain for the Year.

The Group's plans to address and removal of the audit qualifications are as follows:

(1) The First Qualification and Second Qualification

The Group will actively follow up the status of the mediation with Fuqing Government. If there are still no results from the mediation by June 2022, the Group will contact and enquiry the High People's Court for scheduled time of hearing and the status of the appeal.

(2) The Third Qualification

The Group is in the progress of making assessments of possible solutions to recover the promissory note, depend on the result of the appeal and mediation with Fuqing Government.

The Group has appointed a law firm to issue demand for payment to Kingfun in March 2022, requesting Kingfun to repay the outstanding amounts. If Kingfun failed to repay per the demand, a final demand letter will be served to Kingfun for warning Kingfun that the Group may commence legal proceedings to enforce the debt, or exercise the right on the share charge over 17.5% of the issued share capital of Spotwin.

(3) The Fourth Qualification

The Group has appointed a PRC law firm to issue demands for payment to the customers in November 2021, requesting them to repay the outstanding amounts. If they failed to repay per the demands by June 2022, the Group may commence legal proceedings to enforce the debt.

PUBLICATION OF UNAUDITED RESULTS ANNOUNCEMENT AND DESPATCH OF ANNUAL REPORT

This results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.avicjoyhk.com). The annual report of the Company for the Year containing all the information required by the Listing Rules will be despatched to the Shareholders and available on the same websites in due course.

The financial information contained herein in respect of the annual results of the Group for the year ended 31 December 2021 have not been audited and have not been agreed with the auditor, and is subject to possible adjustments. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
AVIC Joy Holdings (HK) Limited
CHANG Chien
Chairman and Executive Director

Hong Kong, 31 March 2022

As at the date of this announcement, the board of Directors comprises:

Executive Directors

Mr. Chang Chien (Chairman), Mr. Lam Toi Man and Mr. Zhu Chengye

Independent Non-Executive Directors

Mr. To Chun Kei and Mr. Weng Huaren