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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

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 (the “**Group**”) for the six months ended 30 June 2019 together with the comparative figures for 2018 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	<i>Notes</i>	For the six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
		HK\$’000	HK\$’000
REVENUE	4	36,814	70,015
Cost of sales		(22,789)	(49,383)
Gross profit		14,025	20,632
Other income, gains and losses	4	1,722	2,567
Impairment losses under expected credit loss (“ECL”) model, net of reversal		(1,244)	(33,153)
Selling and distribution expenses		(4,758)	(9,720)
Administrative expenses		(25,188)	(43,485)
Other expenses		(12)	(3,640)
Finance costs	5	(57,881)	(66,180)
Share of profits of joint ventures		357	8,206

		For the six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
LOSS BEFORE TAX	6	(72,979)	(124,773)
Income tax expense	7	<u>(284)</u>	<u>(292)</u>
LOSS FOR THE PERIOD		<u>(73,263)</u>	<u>(125,065)</u>
Attributable to:			
Owners of the Company		(69,681)	(104,550)
Non-controlling interests		<u>(3,582)</u>	<u>(20,515)</u>
		<u>(73,263)</u>	<u>(125,065)</u>
LOSS PER SHARE			
Basic and diluted	8	<u>HK(1.17) cents</u>	<u>HK(1.76) cents</u>

**INTERIM CONDENSED CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME**

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
LOSS FOR THE PERIOD	<u>(73,263)</u>	<u>(125,065)</u>
OTHER COMPREHENSIVE INCOME/(EXPENSES):		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	890	(2,918)
Item that will not be reclassified subsequently to profit or loss:		
Fair value loss on investment in equity instrument at fair value through other comprehensive income	<u>(10,000)</u>	<u>(31,029)</u>
Other comprehensive expenses for the period	<u>(9,110)</u>	<u>(33,947)</u>
TOTAL COMPREHENSIVE EXPENSES FOR THE PERIOD	<u>(82,373)</u>	<u>(159,012)</u>
Total comprehensive expenses attributable to:		
Owners of the Company	(78,794)	(137,124)
Non-controlling interests	<u>(3,579)</u>	<u>(21,888)</u>
	<u>(82,373)</u>	<u>(159,012)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2019 (Unaudited) <i>HK\$'000</i>	31 December 2018 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		17,968	20,495
Right-of-use assets		10,899	–
Prepaid land lease payments		–	6,466
Investment properties		1,707,264	1,707,264
Goodwill		29,285	29,285
Intangible assets		540,731	540,776
Investments in joint ventures		65,606	65,249
Equity instrument at fair value through other comprehensive income		6,622	16,622
Other asset		2,680	2,680
Prepayments and deposits		5,044	5,285
Finance lease receivables	11	17,937	22,340
		<u>2,404,036</u>	<u>2,416,462</u>
CURRENT ASSETS			
Inventories		11	11
Contract costs		291,421	289,918
Trade receivables	10	27,947	31,437
Prepayments, deposits and other receivables		49,591	53,915
Finance lease receivables	11	9,203	8,807
Promissory note receivable		89,000	89,000
Amounts due from joint ventures		141,127	158,640
Bank balances and cash		38,518	40,484
		<u>646,818</u>	<u>672,212</u>

		30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
	<i>Note</i>		
CURRENT LIABILITIES			
Trade payables	12	8,268	8,720
Other payables and accruals		116,262	99,854
Interest-bearing bank and other borrowings		469,286	487,573
Loans from joint ventures		8,736	8,736
Lease liabilities		2,952	–
Tax payable		3,239	3,226
		608,743	608,109
NET CURRENT ASSETS			
		38,075	64,103
TOTAL ASSETS LESS CURRENT LIABILITIES			
		2,442,111	2,480,565
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		1,151,652	1,196,598
Loans from related companies		646,873	564,982
Loans from non-controlling shareholders		313,424	307,779
Lease liabilities		1,329	–
Deferred tax liabilities		135,770	135,770
		2,249,048	2,205,129
NET ASSETS			
		193,063	275,436
CAPITAL AND RESERVES			
Share capital		2,234,815	2,234,815
Other reserves		(2,230,958)	(2,152,164)
Equity attributable to owners of the Company		3,857	82,651
Non-controlling interests		189,206	192,785
		193,063	275,436

Notes:

1. CORPORATE INFORMATION

AVIC Joy Holdings (HK) Limited is a limited liability company incorporated in Hong Kong whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The Group was principally involved in the operation of compressed natural gas (“**CNG**”) refueling stations; management and operation of light-emitting diode (“**LED**”) energy management contracts (“**EMC**”); provision of finance lease and loan services and property investment; and provision of land development services in the People’s Republic of China (the “**PRC**”). The Group operates LED EMC business through its investment in a joint venture.

The financial information relating to the year ended 31 December 2018 that is included in these condensed consolidated financial statements 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 is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“**HKAS 34**”) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

The condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values.

Other than changes in accounting policies resulting from the application of new and amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in these condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs and an interpretation issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) — Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs and the interpretation in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* (“HKAS 17”), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Short-term leases

The Group applies the short-term lease recognition exemption of office premises that have a lease of term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the condensed consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within “investment properties”.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* (“**HKFRS 9**”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 *Revenue from Contracts with Customers* (“**HKFRS 15**”) to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Sales and lease back transactions

The Group acts as a buyer-lessor

For a transfer of asset that does not satisfy the requirements of HKFRS 15 to be accounted for as a sale of asset, the Group as a buyer-lessor does not recognise the transferred and recognises a loan receivable equal to the transfer proceeds within the scope HKFRS 9.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and
- ii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of in the PRC was determined on a portfolio basis.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rate applied by the relevant group entities is 4.75%.

	At 1 January 2019 HK\$'000
Operating lease commitments disclosed as at 31 December 2018	7,046
Less: Recognition exemption – short-term leases	(777)
	<hr/>
Operating lease commitments as at 1 January 2019	6,269
	<hr/> <hr/>
Lease liabilities as at 1 January 2019 discounted at relevant borrowing rates	6,088
	<hr/> <hr/>
Analysed as	
Current	3,662
Non-current	2,426
	<hr/>
	6,088
	<hr/> <hr/>

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	<i>Notes</i>	Right-of-use assets <i>HK\$'000</i>
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		6,088
Reclassified from prepaid land lease payments	(a)	6,667
Adjustments on rental deposits at 1 January 2019	(b)	<u>52</u>
		<u>12,807</u>
By class:		
Leasehold lands		6,667
Land and buildings		<u>6,140</u>
		<u>12,807</u>

Notes:

- (a) Upfront payments for leasehold lands in the PRC were classified as prepaid land lease payments as at 31 December 2018. Upon application of HKFRS 16, the non-current and current portion of prepaid land lease payments amounting to HK\$6,466,000 and HK\$201,000 respectively were reclassified to right-of-use assets.
- (b) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK\$52,000 was adjusted to refundable rental deposits paid and right-of-use assets.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1 January 2019. However, effective 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect. The discounting effect had no material impact on the condensed consolidated financial statements of the Group.

Effective on 1 January 2019, the Group has applied HKFRS 15 to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the condensed consolidated financial statements of the Group for the current period.

Sales and leaseback transactions

The Group acts as a buyer-lessor

In accordance with the transition provisions of HKFRS 16, sales and leaseback transactions entered into before the date of initial application were not reassessed. Upon application of HKFRS 16, the Group as a buyer-lessor does not recognise the transferred asset if such transfer does not satisfy the requirements of HKFRS 15 as a sale. The application of HKFRS 16 as a buyer-lessor has no material impact on condensed consolidated financial statements of the Group for the current period as there is no new sales and leaseback arrangement commenced during the period.

The application of HKFRS 16 has no material impact on accumulated losses at 1 January 2019.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	<i>Notes</i>	Carrying amounts previously reported at 31 December 2018 HK\$'000	Adjustments HK\$'000	Carrying amounts under HKFRS 16 at 1 January 2019 HK\$'000
Non-current Assets				
Prepaid land lease payments	(a)	6,466	(6,466)	—
Right-of-use assets		—	12,807	12,807
Prepayments and deposits	(b)	5,285	(9)	5,276
Current Assets				
Prepayment, deposits and other receivables	(a), (b)	53,915	(244)	53,671
Current Liabilities				
Lease liabilities		—	3,662	3,662
Non-current Liabilities				
Lease liabilities		—	2,426	2,426

Note: For the purpose of reporting cash flows under indirect method for the six months ended 30 June 2019, movements have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

The application of HKRFS 16 as a lessor has no material impact on the Group's condensed consolidated statement of financial position as at 30 June 2019 and its condensed consolidated statements of profit or loss and other comprehensive income and cash flows for the current interim period.

3. OPERATING SEGMENT INFORMATION

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

- (a) Sale of CNG and petroleum products of the Group's gas station operation;
- (b) Management and operation of LED EMC;
- (c) Provision of finance lease and loan services and property investment; and
- (d) Provision of land development services.

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 finance costs, depreciation and amortisation, as well as corporate and other unallocated expenses are excluded from such measurement.

For the presentation of the Groups' 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 PRC, no further geographical information is provided.

The following table represents revenue and profit/(loss) for the Group's primary segment for the six months ended 30 June 2019 and 2018:

	Sale of CNG and petroleum products		Management and operation of LED EMC		Provision of finance lease and loan services and property investment		Provision of land development services		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:										
Revenue from external customers	32,845	64,608	-	-	-	-	-	-	32,845	64,608
Interest income	-	-	-	-	3,969	5,407	-	-	3,969	5,407
	<u>32,845</u>	<u>64,608</u>	<u>-</u>	<u>-</u>	<u>3,969</u>	<u>5,407</u>	<u>-</u>	<u>-</u>	<u>36,814</u>	<u>70,015</u>
Segment results	(846)	(16,587)	333	11,127	(41,972)	(46,699)	(2,534)	(39,234)	(45,019)	(91,393)
Reconciliation:										
Finance costs – unallocated									(21,350)	(26,026)
Corporate and other unallocated expenses									(6,610)	(7,354)
Loss before tax									(72,979)	(124,773)
Income tax expense									(284)	(292)
Loss for the period									<u>(73,263)</u>	<u>(125,065)</u>
Other segment information:										
Depreciation and amortisation	(3,210)	(5,415)	-	-	(558)	(470)	(129)	(163)	(3,897)	(6,048)
Depreciation and amortisation – unallocated									(97)	(260)
Interest income	6	1,509	-	469	58	68	871	882	935	2,928
Share of profits and losses of joint ventures	-	(2,469)	357	10,675	-	-	-	-	357	8,206
Write off of inventories	-	(291)	-	-	-	-	-	-	-	(291)
Impairment losses under ECL model, net of reversal:										
- trade receivables	(1,177)	77	-	-	-	-	(3,876)	(33,094)	(5,053)	(33,017)
- other receivables	-	(136)	-	-	-	-	3,809	-	3,809	(136)
Finance costs	(883)	(2,118)	-	-	(34,834)	(34,961)	(814)	(3,075)	(36,531)	(40,154)
Capital expenditure*	(6)	(1,542)	-	-	(96)	-	-	-	(102)	(1,542)
Capital expenditure – unallocated*									-	(54)

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

4. REVENUE, OTHER INCOME, GAINS AND LOSSES

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Sale of CNG and petroleum products	32,845	64,608
Interest income on finance leases and loans	3,969	5,407
	<u>36,814</u>	<u>70,015</u>
Other income		
Interest income	65	88
Loan interest income	–	1,970
Promissory note interest income	870	870
Gross rental income	619	394
	<u>1,554</u>	<u>3,322</u>
Other gains and losses, net		
Exchange gains/(losses), net	91	(1,900)
Gain on disposal of property, plant and equipment	–	799
Others	77	346
	<u>168</u>	<u>(755)</u>
	<u>1,722</u>	<u>2,567</u>

5. FINANCE COSTS

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

	For the six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Interest on bank loans and other borrowings	37,142	36,784
Interest on convertible bonds	–	9,385
Interest on loans from related companies	12,679	12,012
Interest on loans from non-controlling shareholders	5,646	5,646
Interest on finance lease payable	–	26
Interests on lease liabilities	128	–
Amortisation of financing arrangement fees	1,469	2,327
Others	817	–
	57,881	66,180

6. LOSS BEFORE TAX

The Group's loss before tax is arrived after charging:

	For the six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Cost of inventories sold and operation costs of gas stations*	22,789	49,092
Auditor's remuneration	690	1,733
Depreciation on items of property, plant and equipment	1,966	5,535
Depreciation on right-of-use assets	1,982	–
Amortisation of prepaid land lease payments	–	724
Amortisation of intangible assets	46	49
Write off of inventories*	–	291
Compensation expenses**	–	3,640
Minimum lease payments under operating leases in respect of land and buildings	–	3,321
Employee benefit expenses (excluding directors' and chief executive's remuneration):		
Wages, salaries, allowances and benefits in kind	8,216	16,758
Pension scheme contributions	58	82
	8,274	16,840

* Included in "Cost of sales" on the face of the interim condensed consolidated statement of profit or loss.

** Included in "Other expenses" on the face of the interim condensed consolidated statement of profit or loss.

7. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the period (2018: Nil). Taxation on PRC profit was calculated on the estimated assessable profits for the period at the rates of tax prevailing in the jurisdictions in which the Group operates.

	For the six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Current – PRC Enterprise Income Tax	<u>284</u>	<u>292</u>

8. LOSS PER SHARE

The calculation of the basic loss per share amount is based on the loss for the period attributable to the owners of the Company of HK\$69,681,000 (2018: HK\$104,550,000), and the weighted average number of ordinary shares of 5,943,745,741 (2018: 5,943,745,741) in issue during the period.

No adjustment has been made to the basic loss per share amount presented for the periods ended 30 June 2019 and 2018 in respect of a dilution as the impact of the share options and convertible bonds outstanding had an anti-dilutive effect on the basic earnings per share presented.

9. DIVIDENDS

No dividends were paid, declared or proposed during the interim period (2018: Nil). The directors of the Company do not recommend the payment of any interim dividend to shareholders for the six months ended 30 June 2019.

10. TRADE RECEIVABLES

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Trade receivables	66,566	65,090
Less: Allowance for credit losses	<u>(38,619)</u>	<u>(33,653)</u>
	<u>27,947</u>	<u>31,437</u>

For the sale of CNG and petroleum products, the Group's trading terms with its corporate customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 90 to 120 days, extending up to 180 days for major customers. Each customer has a maximum credit limit.

The Group has concentration of credit risk as 65% (31 December 2018: 71%) of the total trade receivables was due from the Group's largest customer. In order to minimise the credit risk, the management of the Company has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Company uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. The Group performs impairment assessment under ECL model on trade balances based on provision matrix except for significant gross balances of HK\$57,251,000 (31 December 2018: HK\$59,421,000) which are assessed individually. The management has based on the past repayment pattern with forward looking information to determine the provision rate of ECL for significant gross balances. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

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:

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
0 to 90 days	6,204	3,714
91 to 120 days	4	1
121 days to 1 year	–	5
Over 1 year	60,358	61,370
	<u>66,566</u>	<u>65,090</u>

As at 30 June 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$21,739,000 (31 December 2018: HK\$27,722,000) which are past due. All of the past due balances has been past due 90 days or more and is not considered as in default as the management expects that the debtor is able and likely to pay for the debts based on repayment history.

No trade receivables were pledged to secure any interest-bearing bank and other borrowings as at 30 June 2019. As at 31 December 2018, certain trade receivables with aggregate carrying amount of HK\$1,757,000 were pledged to secure a loan advanced from a third party.

11. FINANCE LEASE RECEIVABLES

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

	Minimum lease payments		Present value of minimum lease payments	
	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Finance lease receivables comprise:				
Within one year	12,412	12,412	9,203	8,807
In the second to fifth years, inclusive	22,390	28,097	17,937	22,340
	<u>34,802</u>	<u>40,509</u>	<u>27,140</u>	<u>31,147</u>
Less: unearned finance income	<u>(7,662)</u>	<u>(9,362)</u>		
Present value of minimum lease payments	<u>27,140</u>	<u>31,147</u>		
Analysed for reporting purposes as:				
Current assets	9,203	8,807		
Non-current assets	17,937	22,340		
	<u>27,140</u>	<u>31,147</u>		

Effective interest rate of the above finance leases range from 8.4% to 9.3% (31 December 2018: 8.4% to 9.3%).

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

Finance lease receivables are secured over the plant and machinery leased. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

At 30 June 2019, the Group's finance lease receivables with aggregate carrying amount of HK\$27,140,000 (31 December 2018: HK\$31,147,000) were pledged as security for the Group's certain bank loans.

12. 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:

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Within 90 days	7,531	7,548
91 to 120 days	–	1
Over 120 days	<u>737</u>	<u>1,171</u>
	<u>8,268</u>	<u>8,720</u>

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

13. EVENTS AFTER THE REPORTING PERIOD

In 12 July 2019, the Company, Crystal Concept Investments Limited (“**Crystal Concept**”), Favour King Holdings Limited (“**Favour King**”) and Winfield Innovations Group Limited entered into a share transfer agreement (the “**Share Transfer Agreement**”), pursuant to which, the Company conditionally agreed to sell and Favour King conditionally agreed to purchase the entire issued share capital of Crystal Concept, at a consideration of RMB35,840,000 (equivalent to HK\$40,858,000). The completion of the Share Transfer Agreement is subject to, including but not limited to, the obtain of the approval from the shareholders of the Company at a general meeting in respect of the Share Transfer Agreement and the transactions contemplated thereunder. The details of the Share Transfer Agreement were disclosed in the announcement of the Company dated 12 July 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2019 (the “**Period**”), the principal business activities of the Group comprise the operation of compressed natural gas (“**CNG**”) refueling stations; management and operation of light-emitting diode (“**LED**”) energy management contracts (“**EMC**”); provision of finance lease and loan services and property investment; and provision of land development services in the People’s Republic of China (the “**PRC**” or “**China**”). The Group operates LED EMC business through its investment in a joint venture.

During the Period, the revenue of the Group amounted to HK\$36,814,000 (2018: HK\$70,015,000), representing a decrease of 47.4% as compared with the same period of last year, which mainly attributed to the disposal of subsidiaries in gas business in the second half of last year and decrease in revenue of the remaining gas business during the Period.

The Group’s gross profit for the Period was HK\$14,025,000 (2018: HK\$20,632,000), representing a decrease of 32.0% as compared with the same period of last year, with gross profit margin increased from 29.5% to 38.1%.

The net loss of the Group was HK\$73,263,000 during the Period as compared with the net loss of HK\$125,065,000 in the same period of last year. The decrease in net loss was mainly attributable to (i) a decrease in impairment losses under expected credit loss (“**ECL**”) model, net of reversal compared with the same period of last year from HK\$33,153,000 to HK\$1,244,000; and (ii) a decrease in administrative expenses of HK\$18,297,000 compared with the same period of last year.

Operational Review

(1) Gas Business

During the Period, the total revenue of the gas business reduced to HK\$32,845,000 (2018: HK\$64,608,000), representing a decline of 49.2% as compared with the same period of last year as the sales volume of CNG dropped from 16,926,000 m³ to 11,022,000 m³ as compared to the same period of last year. Since the Group commenced its restructuring in gas business in late 2014, the performance of the Group’s gas business deteriorated as expected due to the various factors which, among others, included (i) the economic slowdown in the provinces of the remaining gas business; (ii) the intensified market competition due to the changes in government policies; and (iii) the divergence of investment and operating strategies between the Group and local shareholders in certain business regions.

(2) Finance Lease and Loan Services and Property Investment

For the six months ended 30 June 2019, the finance lease and loan services and property investment segment recorded a slightly decrease in revenue from HK\$5,407,000 to HK\$3,969,000 as compared with the same period of last year, mainly due to the decrease in finance leasing interest income.

During the first half of 2019, the Grade A office leasing markets in Shanghai remain active with solid demand in central business district although the average rent during the first half of 2019 experienced a slight decrease. The commercial property in Shanghai has not been leased out as the Group was formulating and altering its strategy based on market conditions, including leasing the property or realizing the property at an enhanced capital value.

(3) PPP Class 1 Land Development Business

During the Period, net loss of this business segment reduced to HK\$2,534,000 (2018: HK\$39,234,000) mainly due to a decrease in impairment loss on trade receivables under ECL model, net of reversal compared with the same period of last year from HK\$33,094,000 to HK\$3,876,000.

Business Outlook

It is expected that the operating environment for gas business of the Group will remain difficult due to the sluggish energy prices and keen market competition. The Group will look for ways to overcome the current situation, including without limitation to continue the restructuring plan, as well as to take appropriate actions against those local shareholders in order to protect the interests of the Group.

The finance leasing industry in the PRC has grown rapidly over the past decade. It is expected that the trend of government policies in supporting the innovation and technology development under the 13th five-year plan for the Economic and Social Development of China will boost production equipment upgrade in most industries such as medical sector, which is favorable for equipment leasing industry. The Group will continue to explore opportunities to enhance its finance leasing business.

In October 2017, Fujian Provincial Government issued the “Notice of Eight Measures for Further Strengthening the Regulation of Real Estate Market*” (關於進一步加強房地產市場調控八條措施的通知) to further regulate and control the land transfer procedures against excessive growth in land prices. In view of such policies and delayed schedule in land auction in relation to the PPP Class 1 land development of New Central Coastal City* (中部濱海新城) located at Fuqing City, Fujian Province, the Group will make efforts to speed up the land development and land auction progress.

* English translation for reference only.

Financial Resources

As at 30 June 2019, the Group's total debts (including trade payables, other payables and accruals, loans from joint ventures, interest-bearing bank and other borrowings, loans from related companies and loans from non-controlling shareholders) amounted to HK\$2,714.5 million (31 December 2018: HK\$2,674.2 million), of which HK\$1,620.9 million (31 December 2018: HK\$1,684.2 million) was related to bank and other borrowings at operating subsidiaries level and the mortgage loan for Shanghai property investment denominated in Renminbi. Cash and bank balances amounted to HK\$38.5 million (31 December 2018: HK\$40.5 million). Net debt amounted to HK\$2,676.0 million (31 December 2018: HK\$2,633.7 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 HK\$2,679.9 million (31 December 2018: HK\$2,716.4 million), was 99.9% (31 December 2018: 97.0%).

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (2018: Nil).

Material Acquisition and Disposal and Significant Investment

The Group invested in the shares of Peace Map Holding Limited ("**Peace Map**") (a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (stock code: 402)). Such investment was classified as an equity instrument at fair value through other comprehensive income amounting to HK\$6,622,000 as at 30 June 2019 (31 December 2018: HK\$16,622,000). On 10 August 2018, joint provisional liquidators were appointed to Peace Map to perform provisional liquidation. On 1 February 2019, joint liquidators were appointed to Peace Map with a committee of inspection which is composed of 5 members. References are made to the announcements of Peace Map dated 3 July 2018, 10 July 2018, 16 July 2018, 17 July 2018, 27 July 2018, 8 August 2018, 14 August 2018, 26 September 2018, 12 November 2018, 12 February 2019, 20 February 2019, 19 March 2019, 29 March 2019, 8 April 2019, 16 April 2019, 16 May 2019, 19 July 2019 and 12 August 2019. As disclosed in the announcement of Peace Map dated 12 August 2019, the said joint liquidators continue to hold exploratory discussions with various parties regarding the possibility of restructuring Peace Map and other options available to Peace Map for the formulation of a viable resumption plan, but no other exclusivity agreement has been entered into. Save as disclosed above, there is no further update on Peace Map's business operations, progress of implementing the resumption plan or progress of satisfying the resumption conditions imposed by the Stock Exchange. If there is no significant change in relation to the liquidation of Peace Map, the equity instrument may have to be fully written off to the Group's consolidated other comprehensive income. The Board will pay attention to the winding-up progress of Peace Map and keep assessing the financial effect to the Group. The Company will make further announcement(s) to inform the shareholders of the Company as and when appropriate.

Save as disclosed herein, the Group had no material acquisition or disposal of subsidiaries, associates and joint ventures or significant investment or updates in relation thereto during the first half of 2019.

Events after the Period

In 12 July 2019, the Company, Crystal Concept Investments Limited (“**Crystal Concept**”), Favour King Holdings Limited (“**Favour King**”) and Winfield Innovations Group Limited entered into a share transfer agreement (the “**Share Transfer Agreement**”), pursuant to which, the Company conditionally agreed to sell and Favour King conditionally agreed to purchase the entire issued share capital of Crystal Concept, at a consideration of RMB35,840,000 (equivalent to HK\$40,858,000). The completion of the Share Transfer Agreement is subject to, including but not limited to, the obtain of the approval from the shareholders of the Company at a general meeting in respect of the Share Transfer Agreement and the transactions contemplated thereunder. The details of the Share Transfer Agreement were disclosed in the announcement of the Company dated 12 July 2019.

Employees and Remuneration Policies

As at 30 June 2019, the Group had a total of 127 employees (2018: 355). The staff costs for the Period amounted to HK\$8.3 million (2018: HK\$16.8 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 on staff remuneration policies during the Period.

Human Resources

The Group remunerates and promotes employees according to a balanced mechanism based on individual performance, experience, professional qualification and prevailing market practices. The Group also encourages and subsidizes staff to participate in job related studies, trainings and seminars for all-round development to continually enhance their contribution to and the sustainable development of the Group.

Pledge of Assets

As at 30 June 2019, the Group had pledged certain land use rights, properties and finance lease receivables for bank and other borrowings granted.

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the Period.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the applicable code provisions set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on the Stock Exchange during the Period, save and except the following:

- (i) code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. From 28 March 2018, Mr. GUAN Liqun (“**Mr. Guan**”) performed his duties as the chairman and the chief executive officer of the Company. After evaluating the current situation of the Company and taking the experience of Mr. Guan into account, the Board is of the view that the serving by Mr. Guan as the chairman and the chief executive officer of the Company during current development of the business is beneficial to the consistency of business plans and decision-making of the Company. The Board will continue to review the current management structure from time to time and shall make changes where appropriate and inform the shareholders and investors of the Company accordingly;
- (ii) code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term. The non-executive Directors (including independent non-executive Directors) have been appointed without specific terms. However, the non-executive Directors are subject to retirement by rotation and being eligible for re-election at least once every three years in accordance with the articles of association of the Company; 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 appointment. The Company did not have letters of appointment for the Directors. However, the Directors shall be subject to retirement by rotation and being eligible for re-election pursuant to the articles of association of the Company. Moreover, the Directors are required to comply with the requirements under statute and common laws, the Listing Rules, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and other applicable legal and regulatory requirements.

COMPLIANCE WITH THE MODEL CODE

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 its code of conduct regarding Directors’ securities transactions. Following specific enquiry by the Company, all Directors confirmed that they had complied with the required standard set out in the Model Code during the Period.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”), comprising all the independent non-executive Directors, namely Mr. GUO Wei (chairman of the Audit Committee), Ms. WU Rui and Mr. JIANG Ping, has reviewed the accounting principles and practices adopted by the Group and discussed the interim review, internal control and financial reporting matters with the management of the Group. The Group’s unaudited interim condensed consolidated financial statements for the six months ended 30 June 2019 have been reviewed by the Audit Committee, which is of the opinion that such financial statements have complied with the applicable accounting standards, the Listing Rules and all legal requirements, and that adequate disclosures have been made.

REVIEW OF INTERIM FINANCIAL STATEMENTS BY AUDITOR

The figures in respect of this preliminary announcement of the Group’s interim results for the six months ended 30 June 2019 have been agreed with the Company’s auditor, Deloitte Touche Tohmatsu (“**Deloitte**”), to the amounts set out in the Group’s unaudited consolidated financial statements for the Period. The work performed by Deloitte in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Deloitte on this announcement.

PUBLICATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.avicjoyhk.com). The interim report of the Company for the six months ended 30 June 2019 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and available on the websites of the Stock Exchange and the Company in due course.

By Order of the Board
AVIC Joy Holdings (HK) Limited
GUAN Liqun
*Chairman, Executive Director and
Chief Executive Officer*

Hong Kong, 28 August 2019

As at the date of this announcement, the Board comprises Mr. GUAN Liqun (Chairman and Chief Executive Officer), Mr. ZHANG Zhibiao, Ms. WANG Ying and Ms. MU Yan as executive Directors; and Mr. JIANG Ping, Ms. WU Rui and Mr. GUO Wei as independent non-executive Directors.