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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)**

## **SUPPLEMENTAL ANNOUNCEMENT TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2018**

Reference is made to the annual report (the “**2018 Annual Report**”) of AVIC Joy Holdings (HK) Limited (the “**Company**”) for the year ended 31 December 2018. Capitalised terms used in this announcement shall have the same meanings as those defined in the 2018 Annual Report unless the context otherwise requires.

As disclosed in the 2018 Annual Report, the Group recognized an impairment loss on intangible assets (the “**Impairment Loss**”) of HK\$423,816,000 for the year ended 31 December 2018 due to, among others, the possible outcome of an appeal (the “**Appeal**”) filing made by the Group in May 2018 to the Intermediate People’s Court of Putian Municipality\* (莆田市中級人民法院) in relation to the Project.

### **SUPPLEMENTAL INFORMATION IN RELATION TO THE IMPAIRMENT LOSS**

In addition to the information provided in the 2018 Annual Report, the Board would like to provide additional information in relation to the Impairment Loss as follows:

#### **Background**

In concluding that the Impairment Loss was approximately HK\$423,816,000 for the year ended 31 December 2018 under the provision of land development services and sale of construction materials segment, the Group made reference to the recoverable amount of the land development service CGU based on the business valuation of 100% equity interest Spotwin Investment Limited (“**Spotwin**”), the holding company of AVIC Fujian (together with Spotwin, the “**Spotwin Group**”), of RMB472,000,000 (equivalent to approximately HK\$540,184,000) as at 31 December 2018 pursuant to a business valuation report (the “**Business Valuation Report**”) dated 26 March 2019 issued by an independent professional valuer, Roma Appraisals Limited (the “**Valuer**”), and compared the carrying amount of intangible assets in respect of the Project.

## **Valuation method**

Under HKAS 36, the recoverable amount of the relevant assets is measured based on the higher of fair value less costs of disposal and value in use.

Taking into account the operating and industry environment of the Spotwin Group and the nature of its business, the Group measured the recoverable amount of land development service CGU based on fair value less costs of disposal using the discounted cash flow (“DCF”) method under the income-based approach which is categorised under level 3 fair value hierarchy and it was adopted by the Valuer in assessing the market value of 100% equity interest of the Spotwin Group. The market-based approach was not adopted since valuation multiples derived from guideline companies and transactions might not reflect the risk and return characteristics of the Project. The asset-based approach was also not adopted because it could not capture the future earning potential of the Spotwin Group.

## **Details of value of inputs**

The discount rate is one of the key factors for the market value calculation of the Spotwin Group.

The discount rate is estimated by using pre-tax rate that reflect current market assessments of the time value of money and the risks specific to the Spotwin Group.

Accordingly, the discount rate of 20.40% was adopted as at 31 December 2018 and the market value of 100% equity interest of the Spotwin Group i.e. the recoverable amount of the land development service CGU was calculated as RMB472,000,000 (approximately of HK\$540,184,000) as at 31 December 2018.

## **Basis and assumptions**

The Valuer has taken into account the major factors including (i) the nature and prospect of the Spotwin Group; (ii) the financial information of the Spotwin Group; (iii) the terms and conditions set out in the MICCA; (iv) the business plan of the Spotwin Group; (v) the economic outlook in general and specific economic environment and market elements affecting the business, industry and market; (vi) the business risks of the Spotwin Group; and (vii) the investment returns and market transactions of entities engaged in similar lines of business.

The Valuer has also taken into account the major assumptions of both the optimistic and pessimistic scenarios regarding the Appeal. The optimistic scenario represents that the Group succeeds in the Appeal and operates till the end of the contract, while the pessimistic scenario represents that the Group fails in the Appeal and shuts down the business with receiving the working capital employed.

There were no significant changes in the valuation method adopted in the Business Valuation Report from those adopted in the previous years. However, the value of the inputs and assumptions have been changed after taking into account of the circumstances as detailed in note 18 to the financial statements of the 2018 Annual Report.

The Board confirms that the abovementioned supplemental information does not affect other information contained in the 2018 Annual Report. Save as disclosed above, all other information in the 2018 Annual Report shall remain unchanged.

By order of the Board  
**AVIC Joy Holdings (HK) Limited**  
**GUAN Liquan**

*Chairman, Chief Executive Officer and Executive Director*

Hong Kong, 29 October 2019

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

*\* For identification purpose only*