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Wenye Group Holdings Limited

文業集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1802)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

FINAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Wenye Group Holdings Limited (the “**Company**”) hereby announces the audited consolidated results of the Company and its subsidiaries (together, the “**Group**”) for the year ended 31 December 2021 together with the comparative figures for the year ended 31 December 2020.

FINANCIAL HIGHLIGHTS

	2021	2020
	RMB'000	RMB'000
Revenue	1,031,361	1,247,561
Gross profit margin	7.5%	11.9%
(Loss)/profit for the year attributable to owners of the Company	(1,206,176)	21,069
Basic and diluted (loss)/earnings per share (RMB)	(2.03)	0.04

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Revenue	5	1,031,361	1,247,561
Cost of sales		<u>(953,668)</u>	<u>(1,098,967)</u>
Gross profit		77,693	148,594
Other income		2,662	14,282
Other losses, net		(31,060)	(4,364)
Selling and marketing expenses		(9,719)	(9,912)
General and administrative expenses		(64,084)	(57,016)
Impairment losses of financial assets and contract assets		(1,125,166)	(44,312)
Impairment losses of non-current assets		(1,039)	—
Finance costs, net		<u>(12,153)</u>	<u>(14,747)</u>
(Loss)/profit before tax		(1,162,866)	32,525
Income tax expense	6	<u>(43,310)</u>	<u>(11,456)</u>
(Loss)/profit for the year	7	<u>(1,206,176)</u>	<u>21,069</u>
Other comprehensive income/(loss)			
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		<u>486</u>	<u>(494)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		<u>486</u>	<u>(494)</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		<u>(1,205,690)</u>	<u>20,575</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME (CON'T)**

For the year ended 31 December 2021

	<i>Notes</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
(Loss)/profit for the year attributable to:			
Owners of the Company		(1,206,176)	21,069
Non-controlling interests		<u>—</u>	<u>—</u>
		<u>(1,206,176)</u>	<u>21,069</u>
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		(1,205,690)	20,575
Non-controlling interests		<u>—</u>	<u>—</u>
		<u>(1,205,690)</u>	<u>20,575</u>
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
— Basic and diluted (RMB)	9	<u>(2.03)</u>	<u>0.04</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	<i>Notes</i>	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		9,676	12,128
Right-of-use assets		6,007	13,534
Investment properties		2,128	2,205
Intangible assets		—	595
Deferred income tax assets		—	41,590
Trade and other receivables	<i>10</i>	11,229	39,855
		29,040	109,907
CURRENT ASSETS			
Trade and other receivables	<i>10</i>	229,286	951,297
Contract assets	<i>11</i>	220,175	790,722
Restricted cash		66,611	43,895
Bank and cash balances	<i>12</i>	22,689	56,856
		538,761	1,842,770
CURRENT LIABILITIES			
Trade and other payables	<i>13</i>	865,933	1,034,774
Contract liabilities	<i>11</i>	57,072	39,620
Bank borrowings		102,261	155,311
Other borrowings		70,864	24,384
Lease liabilities		6,400	6,710
Amounts due to related parties		4,100	721
Current income tax liabilities		39,082	49,899
		1,145,712	1,311,419
NET CURRENT (LIABILITIES)/ASSETS		(606,951)	531,351
TOTAL ASSETS LESS CURRENT LIABILITIES		(577,911)	641,258

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CON'T)

As at 31 December 2021

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
NON-CURRENT LIABILITIES		
Bank borrowings	—	6,000
Other borrowings	866	—
Lease liabilities	1,109	9,454
	<u>1,975</u>	<u>15,454</u>
NET (LIABILITIES)/ASSETS	<u><u>(579,886)</u></u>	<u><u>625,804</u></u>
CAPITAL AND RESERVES		
Share capital	51	51
Reserves	(579,937)	625,753
TOTAL EQUITY	<u><u>(579,886)</u></u>	<u><u>625,804</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. GENERAL INFORMATION

Wenye Group Holdings Limited (“**the Company**”) was incorporated in the Cayman Islands on 13 November 2018 as an exempted company with limited liability under Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together, the “**Group**”) are principally engaged in provision of interior and exterior building decoration and design services (the “**Business**”) in the People’s Republic of China (the “**PRC**”).

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 14 January 2020 (the “**Listing**”).

The consolidated financial statements are presented in thousands of Renminbi (“**RMB’000**”), unless otherwise stated.

2. GOING CONCERN BASIS

The Group incurred a loss for the year of approximately RMB1,206,176,000 for the year ended 31 December 2021 and as of 31 December 2021 the Group had net current liabilities and net liabilities of approximately RMB606,951,000 and RMB579,886,000 respectively. The Group’s total all bank and other borrowings amounted to approximately RMB102,261,000 and RMB71,730,000 respectively as of 31 December 2021 while its cash and cash equivalents amounted to approximately RMB22,689,000.

Based on the latest available management account, the aggregate outstanding principal amounts of the bank and other borrowings in the book of the Company of approximately RMB28,794,000 and RMB109,337,000 respectively while its cash and cash equivalents amounted to approximately RMB3,389,000. Certain bank and other borrowings of approximately RMB28,794,000 and RMB79,988,000 are repayable on demand or within one year.

As of the date of this announcement, the Group is involved in 255 litigations due to its inability to repay its outstanding bank and other borrowings as well as trade and other payables. The expected cash outflow arising from above mentioned litigations amounted to approximately RMB35,292,000.

The above conditions indicate the existence of material uncertainties which cast significant doubt regarding the Group’s ability to continue as a going concern.

2. GOING CONCERN BASIS (CON'T)

The Directors have undertaken a number of plans and measures to improve the Group's liquidity and financial position, including: (i) the Group has been actively seeking and communicating with new customers on the projects of interior and exterior building decoration and design; (ii) the Group has been actively negotiating with the Bank Borrower and Other Borrowers on the extension of Overdue Bank Borrowing and Overdue Other Borrowings; (iii) the Group has been actively seeking Potential New Fundings through various channels, including but not limited to new financing in terms of issuance of new shares of the Company and from potential investors and (iv) the Group has been actively communicating with Creditors to resolve outstanding amount due to the creditors as well as the due payments on pending lawsuits through carrying out Debt Restructuring.

The directors of the Company, taking into account the above plans and measures, are in the opinion that, they are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (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 consolidated 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 consolidated financial statements of the Group.

3.1. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties which are carried at their fair values/fair values less costs to sell.

The preparation of these consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies.

4. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by chief operation decision-maker (“CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company.

The Group is principally engaged in provision of interior and exterior building decoration and design services in the PRC. The CODM reviews the operating results of the business as one segment to make decisions about resources to be allocated. Therefore, the CODM regards that there is only one segment which is used to make strategic decisions. Revenue and profit before income tax are the measure reported to the CODM for the purpose of resources allocation and performance assessment.

All of the Group’s revenue was mainly derived in the PRC during the years ended 31 December 2021 and 2020.

As at 31 December 2021 and 2020, all of the non-current assets were located in the PRC.

The revenue from external parties is derived from numerous external customers and the revenue reported to the CODM is measured in a manner consistent with that in the consolidated financial statements.

Revenue from major customers:

	2021 <i>RMB’000</i>	2020 <i>RMB’000</i>
Customer A	<u>109,941</u>	<u>N/A*</u>

* The corresponding revenue did not contribute over 10% of the total revenue of the Group in the particular year.

5. REVENUE

	2021 <i>RMB’000</i>	2020 <i>RMB’000</i>
Revenue from construction services	1,016,893	1,224,256
Design service income	<u>14,468</u>	<u>23,305</u>
	<u>1,031,361</u>	<u>1,247,561</u>

6. INCOME TAX EXPENSE

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current income tax	1,720	8,474
Deferred income tax	<u>41,590</u>	<u>2,982</u>
Income tax expense	<u><u>43,310</u></u>	<u><u>11,456</u></u>

Current taxation primarily represented the provision for PRC Corporate Income Tax (“CIT”) for companies operating in the PRC. These companies are subject to CIT on their taxable income as reported in their respective statutory financial statements adjusted in accordance with the relevant tax laws and regulations in the PRC. Pursuant to the PRC Corporate Income Tax Law, the CIT rate for domestic enterprises and foreign invested enterprises is 25% (2020: 25%).

Shenzhen Wenye Decoration Design Engineering Co., Ltd., a wholly owned subsidiary of the Company, has qualified as high and new technology enterprise (“HNTE”) for which preferential tax rate of 15% is granted on 11 December 2020.

No provision for Hong Kong Profits Tax is required since the Group’s income is derived from overseas source which is not liable to Hong Kong Profits Tax.

7. (LOSS)/PROFIT FOR THE YEAR

The Group's (loss)/profit for the year is stated after charging the following:

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Amortisation of intangible assets	310	464
Auditors' remuneration	2,251	2,300
Bad debt written-off	27,602	—
Cost of sales	953,668	1,098,967
Depreciation of property, plant and equipment	2,452	3,536
Depreciation of investment properties	77	2,544
Depreciation of right-of-use assets	5,476	7,824
Impairment losses of financial assets and contract assets:		
Impairment of trade receivables, net	348,976	32,635
Impairment of contract assets	592,608	10,995
Impairment of retention receivables	176,877	682
Impairment of deposits	6,705	—
	<u>1,125,166</u>	<u>44,312</u>
Impairment losses of non-current assets		
Impairment of property, plant and equipment	754	—
Impairment of intangible assets	285	—
	<u>1,039</u>	<u>—</u>
Listing expenses	—	12,277
Staff costs including directors' remuneration:		
Salaries, wages and bonuses	31,759	35,812
Housing funds, medical insurances and other social insurances	3,994	3,650
Other welfare and allowances	1,117	1,043
	<u>36,870</u>	<u>40,505</u>

8. DIVIDENDS

The directors do not recommend the payment of any dividend for each of the years ended 31 December 2021 and 2020.

9. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic loss (2020: earnings) per share attributable to owners of the Company is based on the loss (2020: profit) for the year attributable to owners of the Company of approximately RMB1,207,868,000 (2020: RMB21,069,000) and the weighted average number of ordinary shares of 593,940,017 (2020: 588,699,905, as adjusted to reflect the capitalisation of 444,510,000 shares which took place on 14 January 2020), and excluded shares held under the restricted share unit scheme (“**RSU scheme**”) in issue during the year ended 31 December 2021 (2020: same).

(b) Diluted (loss)/earnings per share

No diluted (loss)/earnings per share are presented as the Company did not have any dilutive potential ordinary sharing during the two years ended 31 December 2021 and 2020.

10. TRADE AND OTHER RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables (<i>Note (i)</i>)	739,930	1,019,769
Provision for loss allowance	<u>(551,107)</u>	<u>(202,041)</u>
Trade receivables, net	<u>188,913</u>	<u>817,728</u>
Retention receivables (<i>Note (ii)</i>)	194,667	109,704
Provision for loss allowance	<u>(178,924)</u>	<u>(2,047)</u>
Retention receivables, net	<u>15,743</u>	<u>107,657</u>
Deposits (<i>Note (iii)</i>)	21,545	25,385
Provision for loss allowance	<u>(8,105)</u>	<u>(1,400)</u>
Deposits, net	<u>13,440</u>	<u>23,985</u>
Bills receivables (<i>Note (iv)</i>)	7,035	3,340
Prepayments	1,644	9,579
Advances to staff	7,582	6,166
Compensation receivable from termination of a lease contract	—	10,000
Loan receivable (<i>Note (v)</i>)	1,068	10,843
Other receivables	<u>5,090</u>	<u>1,854</u>
Total trade and other receivables	<u><u>240,515</u></u>	<u><u>991,152</u></u>
Analysed as:		
Current assets	229,286	951,297
Non-current assets	<u>11,229</u>	<u>39,855</u>
	<u><u>240,515</u></u>	<u><u>991,152</u></u>

The maximum exposure to credit risk at the announcement date is the carrying amounts of each class of receivable mentioned above. The Group does not hold collateral as security.

10. TRADE AND OTHER RECEIVABLES (CON'T)

Notes:

- (i) The credit terms of trade receivables are generally stated as up to 60 days from the invoice date. The ageing analysis of the trade receivables based on the invoice date is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Unbilled revenue (<i>Note (a)</i>)	567,872	785,251
Within 30 days	11,289	25,485
31 days to 6 months	28,814	44,181
6 months to 1 year	13,697	45,587
1 to 2 years	51,129	25,606
2 to 3 years	8,716	30,251
Over 3 years	58,413	63,408
	<u>739,930</u>	<u>1,019,769</u>

Note (a): The balances above included unbilled revenue for projects completed by the Group but yet to bill, which has excluded the portion of retention receivables. The Group has unconditional right to the payment of these unbilled revenue and hence classified as trade receivables.

The carrying amounts of trade receivables approximate their fair values and are denominated in RMB.

As at 31 December 2021 and 2020, trade receivables were pledged as collateral for the Group's certain bank borrowings.

- (ii) Retention receivables represented amounts due from customers upon completion of the free maintenance period of the construction work, which normally lasts for 1 to 2 years. As at 31 December 2021 and 2020, the ageing analysis of the retention receivables, based on the retention period expiry date, is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 1 year	25,177	72,830
1 to 2 years	169,490	36,874
	<u>194,667</u>	<u>109,704</u>

The carrying amounts of retention receivables approximate their fair values and are denominated in RMB.

10. TRADE AND OTHER RECEIVABLES (CON'T)

- (iii) Deposits mainly represented tender deposits and performance bonds due from customers.

The carrying amounts of deposits approximate their fair values and are denominated in RMB.

- (iv) As at 31 December 2021 and 2020, the ageing analysis of the bills receivables, based on the invoice date, is as follows:

	2021 RMB'000	2020 <i>RMB'000</i>
Within 30 days	—	1,207
31 days to 6 months	3,612	1,883
6 months to 1 year	3,051	200
1 to 2 years	322	50
2 to 3 years	50	—
	<hr/> 7,035 <hr/>	<hr/> 3,340 <hr/>

The carrying amounts of bills receivables approximate their fair values and are denominated in RMB.

- (v) On 24 February 2020, the Group granted a loan of HK\$13,000,000 (equivalent to approximately RMB11,717,000) to an independent third party. The loan bears an interest rate of 1.5% per month and is repayable in one year from the drawdown date on 25 February 2020. As at 31 December 2021, the outstanding amount of the loan is RMB1,068,000 (2020: RMB10,843,000). Up to the date of this announcement, the loan receivable was fully settled.

11. CONTRACT ASSETS AND LIABILITIES

Disclosures of revenue-related items:

	As at 31 December 2021 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 1 January 2020 <i>RMB'000</i>
Contract assets — construction services	829,182	807,056	564,463
Contract assets — design services	<u>1,024</u>	<u>1,089</u>	<u>4,237</u>
	830,206	808,145	568,700
Less: Provision for loss allowance	<u>(610,031)</u>	<u>(17,423)</u>	<u>(6,428)</u>
Total contract assets	<u>220,175</u>	<u>790,722</u>	<u>562,272</u>
Contract liabilities — construction services	44,116	28,850	29,315
Contract liabilities — design services	<u>12,956</u>	<u>10,770</u>	<u>13,223</u>
Total contract liabilities	<u>57,072</u>	<u>39,620</u>	<u>42,538</u>
Contract receivables (include in trade receivables)	<u>188,913</u>	<u>817,728</u>	<u>952,837</u>
Transaction prices allocated to performance obligations unsatisfied at end of year and expected to be recognized as revenue in:			
— 2021	—	729,084	
— 2022	378,119	110,360	
— 2023	<u>468,049</u>	<u>—</u>	
	<u>846,168</u>	<u>839,444</u>	
Year ended 31 December	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	
Revenue recognized in the year that was included in contract liabilities at beginning of year:			
— Construction services	508	18,974	
— Design services	<u>1,456</u>	<u>7,274</u>	
	<u>1,964</u>	<u>26,248</u>	

11. CONTRACT ASSETS AND LIABILITIES (CON'T)

Significant changes in contract assets (before impairment) and contract liabilities during the year:

	2021 Contract assets <i>RMB'000</i>	2021 Contract liabilities <i>RMB'000</i>	2020 Contract assets <i>RMB'000</i>	2020 Contract liabilities <i>RMB'000</i>
Increase due to operations in the year	212,206	836,607	416,689	827,954
Transfer of contract assets to trade receivables	(190,145)	—	(177,244)	—
Transfer of contract liabilities to revenue	—	(819,155)	—	(830,872)
	<u>—</u>	<u>(819,155)</u>	<u>—</u>	<u>(830,872)</u>

A contract asset is the Group's right to consideration in the exchange for services that the Group has transferred to the customer. The contract assets transferred to trade and retention receivables when receipt of the consideration is conditional only on the passage of time.

The contract liabilities above are due to the non-refundable advance payment made by customers. Such liabilities fluctuated as a result of the terms of different projects. A contract liability is the Group's obligation to render services to a customer for which the Group has received consideration from the customer. A contract liability is recognised by the Group when the customer pays consideration but before the Group renders the service to the customer.

12. BANK AND CASH BALANCES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cash at bank	<u>22,689</u>	<u>56,856</u>
Denominated in:		
RMB	22,369	54,250
HK\$	<u>320</u>	<u>2,606</u>
	<u>22,689</u>	<u>56,856</u>

Certain of the Group's bank balances and deposits denominated in RMB are deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies and the remittance of fund out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the government of the PRC.

13. TRADE AND OTHER PAYABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade payables	722,308	844,552
Bills payables	<u>18,880</u>	<u>12,738</u>
	<u>741,188</u>	<u>857,290</u>
Accruals and other payables		
— Accrued staff benefits	24,327	10,524
— Accruals for listing expenses	—	3,106
— Other payables and accruals	56,709	149,087
— Provision for litigation penalty	<u>43,709</u>	<u>14,767</u>
	<u>124,745</u>	<u>177,484</u>
	<u>865,933</u>	<u>1,034,774</u>

As at 31 December 2021 and 2020, the carrying amounts of trade and other payables approximate their fair values and are denominated in the following currencies:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
RMB	865,790	1,031,524
HK\$	<u>143</u>	<u>3,250</u>
	<u>865,933</u>	<u>1,034,774</u>

The ageing analysis of the trade and bills payable, based on invoice date, is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 30 days	65,302	665,965
31 days to 6 months	140,330	100,137
6 months to 1 year	154,351	21,757
1 to 2 years	345,822	51,046
2 to 3 years	17,810	12,897
Over 3 years	<u>17,573</u>	<u>5,488</u>
	<u>741,188</u>	<u>857,290</u>

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract from the independent auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2021 which has included a disclaimer of opinion on material uncertainty related to going concern.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the consolidated financial statements which mentions that, the Group incurred a loss of approximately RMB1,206,176,000 for the year ended 31 December 2021 and as of 31 December 2021, the Group had net current liabilities and net liabilities of approximately RMB606,951,000 and RMB579,886,000 respectively. The Group's total bank and other borrowings amounted to approximately RMB102,261,000 and RMB71,730,000, respectively as of 31 December 2021 while its cash and cash equivalents amounted to approximately RMB22,689,000. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The validity of the going concern assumption on which the consolidated financial statements are prepared is dependent on the favourable outcomes of the steps being taken by the Directors as described in Note 2 to the consolidated financial statements. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at other than the amounts at which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets as current assets.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT (CON'T)

Up to the date of this report, the Group had signed contracts with several independent third party new customers on the projects of interior and exterior building decoration and design (the “**Projects**”). We were unable to obtain sufficient appropriate audit evidence as to the source of funding in materializing the Projects, as well as whether the estimated completion dates of the project can be satisfactorily adhered to.

Furthermore, up to the date of this report, the Group had notified and requested a settlement arrangement with the bank (the “**Bank Borrower**”) with respect to its overdue bank borrowing with principal amount of approximately RMB28,794,000 (the “**Overdue Bank Borrowing**”). The Group is also in the process of negotiating with other borrowers (the “**Other Borrowers**”) as to the settlement arrangement of overdue other borrowing with principal amount of approximately RMB84,720,000 (the “**Overdue Other Borrowing**”) (Collectively, the “**Settlement Arrangements**”). As of the date of this report, we have not been provided with the Settlement Arrangements with Bank Borrower and Other Borrowers in respect to the Overdue Bank Borrowing and Overdue Other Borrowing.

In addition, the Company planned to issue new shares after the resumption of trading of its shares listed in The Stock Exchange of Hong Kong Limited (the “**SEHK**”) (the “**Resumption**”), subjected to the successful Resumption, approval from the SEHK as well as the approval by the shareholders of the Company in extraordinary general meeting. As of the date of this report, the Resumption had not been materialized. The Group had also been in discussions with several potential investors to obtain new funding to support the Group's operation (the “**Potential New Fundings**”). We have not been provided with the investments/capital injection agreement and were unable to obtain sufficient appropriate audit evidence as to verify such Potential New Fundings.

As to the outstanding amounts due to the creditors as well as the due payments on pending lawsuits (the “**Creditors**”), the Group is currently discussing with Creditors to carry out debt restructuring exercise (the “**Debt Restructuring**”) for the purpose of reducing the level of debts of the Group. As of the date of this report, we have not been provided with the debt restructuring agreements and were unable to obtain sufficient appropriate audit evidence as to confirm the timing and extent of the Debt Restructuring.

In the absence of sufficient appropriate audit evidence of the above, we were unable to ascertain whether the use of the going concern assumption in the preparation of the consolidated financial statements is appropriate.”

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a building decoration services provider based in Shenzhen City, Guangdong Province, the PRC. With approximately 30 years of operating history, the Group possesses a range of the highest level of qualifications and licences in the building decoration industry in the PRC. The Group's projects cover a wide range of buildings and properties, including public infrastructure, commercial buildings and residential buildings.

BUSINESS REVIEW

In the year ended 31 December 2021, the Group has undertaken a total of 163 new construction projects, of which 117 are construction projects and 46 are design projects, with a total contract value of RMB514.1 million. Compared with last year, the total number of projects has decreased significantly, mainly because in 2021, the Group has mainly undertaken large-value projects and reduced small-value projects. In 2021, there were 16 projects with a value of more than RMB10 million.

During the reporting period, the Group has received a number of awards. The Group was awarded the title of Shenzhen Multinational Corporation Headquarters, the National (Shenzhen) Excellent Foreign-Invested Enterprise Quality Progress Award (2020–2021 年全國(深圳)優秀外商投資企業品質進步獎), and 2 China Construction Engineering Decoration Awards for 2021–2022 (2021–2022年度中國建築工程裝飾獎) from the China Building Decoration Association (中國建築裝飾協會). On top of that, in terms of design, the Group received 1 gold design award, 2 silver design awards and one institutional award from the China Building Decoration Association during the 11th China International Space Design Competition (第十一屆中國國際空間設計大賽) this year. In addition, in terms of scientific research, the Group achieved satisfactory performance in 2021, and won 2 2021 scientific and technological innovation achievement awards in the construction industry of Guangdong Province (2021年廣東省建築裝飾行業科技創新成果獎) and 4 patents for utility models in the PRC.

In addition, the Group has also complied with the call of national policies to simultaneously strengthen digital transformation and upgrade under the dual carbon goals, realize digitalization of operations, reduce costs and increase efficiency in upstream and downstream, vigorously develop platform network technology, and transform into a high-tech platform-based enterprise based on industrial background.

The Group's revenue decreased by approximately RMB216.2 million or 17.3% to approximately RMB1,031.4 million for the year ended 31 December 2021 from approximately RMB1,247.6 million for the year ended 31 December 2020.

The year ended 31 December 2021 is a year full of challenges. As the COVID-19 pandemic continues, the PRC government continued to impose strict precautionary and control measures (such as working from home, lockdown and travel restrictions, etc.), which negatively affected the development of the domestic building decoration industry. Furthermore, the state's macro-control policies and measures has resulted in the decline in the PRC real estate market in general and exerted tremendous pressure on the building decoration industry.

FUTURE PROSPECTS

Looking forward, the Group's plans in 2022 was to implement industrial internet-based SaaS service platform to achieve organization platformisation and to solve the industry closed-loop sore points. Through the online labour services platform, the smart construction site system based on BIM technology, the centralized procurement system covering the entire region, and the combination of industry and financial innovation, the Company aims to become a leading platform-based enterprise and to achieve exponential performance growth.

FINANCIAL REVIEW

Revenue

We principally derive our revenue from provision of interior and exterior building decoration and design services in the PRC. Revenue generated by service types was set out below:

	Year ended 31 December			
	2021		2020	
	<i>RMB</i>		<i>RMB</i>	
	<i>million</i>	<i>%</i>	<i>million</i>	<i>%</i>
Revenue from construction services	1,016.9	98.6	1,224.3	98.1
Design service income	14.5	1.4	23.3	1.9
Total	<u>1,031.4</u>	<u>100.0</u>	<u>1,247.6</u>	<u>100.0</u>

The Group's revenue decreased to approximately RMB1,031.4 million for the year ended 31 December 2021 from approximately RMB1,247.6 million for the year ended 31 December 2020, representing a decrease of approximately 17.3%. Such decrease was mainly due to the implementation of precautionary and control measures by the government authorities in the PRC after the outbreak of COVID-19 in 2021, resulting in the delay in work schedules of the Group's projects.

Cost of sales

The cost of sales of the Group decreased to approximately RMB953.7 million for the year ended 31 December 2021 from approximately RMB1,099.0 million for the year ended 31 December 2020, representing a decrease of approximately 13.2%, which is in line with the decrease in revenue due to suspension of the projects caused by the outbreak of COVID-19 in 2021.

Gross profit and gross profit margin

The gross profit of the Group decreased to approximately RMB77.7 million for the year ended 31 December 2021 from approximately RMB148.6 million for the year ended 31 December 2020, representing a decrease of approximately 47.7%. Due to the increase in the cost of materials, the gross profit margin decreased. Our gross profit margin decreased from 11.9% for the year ended 31 December 2020 to 7.5% for the year ended 31 December 2021.

Other income

The Group recorded other income of approximately RMB2.7 million for the year ended 31 December 2021 which mainly comprised rental income from investment properties of approximately RMB0.6 million, and government grants of approximately RMB2.0 million.

Other losses, net

Other losses, net of the Group for the year ended 31 December 2021 is approximately RMB31.1 million mainly arising from the penalty of lawsuit of approximately RMB31.3 million.

Selling and marketing expenses

The selling and marketing expenses of the Group primarily consist of marketing and advertising expenses, employee benefit expenses and travelling expenses.

Selling and marketing expenses decreased to approximately RMB9.7 million for the year ended 31 December 2021 from approximately RMB9.9 million for the year ended 31 December 2020, representing a decrease of 2%. The decrease was mainly attributable to the decrease in travelling expenses as a result of the suspension of projects due to the COVID-19 outbreak.

General and administrative expenses

General and administrative expenses of the Group primarily consist of employee benefit expenses, legal and professional fees and depreciation of property, plant and equipment, investment properties and right-of-use assets.

General and administrative expenses increased to approximately RMB64.1 million for the year ended 31 December 2021 from approximately RMB57.0 million for the year ended 31 December 2020, representing an increase of approximately 12.5%. The increase was mainly attributed to the increase in bad debts written-off by approximately RMB27.6 million.

Impairment losses on financial and contract assets

Impairment losses on financial and contract assets increased by 2,640.0% from approximately RMB44.3 million for the year ended 31 December 2020 to approximately RMB1,125.2 million for the year ended 31 December 2021.

(Loss)/profit for the year

Profit for the year of the Group decreased by 5,816.6% from approximately RMB21.1 million for the year ended 31 December 2020 to loss for the year of approximately RMB1,206.2 million for the year ended 31 December 2021.

Financial position, liquidity and financial resources

Trade and other receivables

Trade and other receivables decreased from approximately RMB991.2 million as of 31 December 2020 to approximately RMB240.5 million as of 31 December 2021, representing a decrease of 75.7%. Trade and other receivables are mainly representing the amount due from customers and the prepayments to the suppliers and subcontractors.

Trade and other payables

Trade and other payables decreased by 16.3% from approximately RMB1,034.8 million as of 31 December 2020 to approximately RMB865.9 million as of 31 December 2021. Trade and other payables are mainly representing the amounts due to suppliers and the provision for litigation penalty.

Bank Borrowings

As of 31 December 2021, the Group had bank borrowings of approximately RMB102.3 million (2020: approximately RMB161.3 million). Based on the scheduled repayment terms set out in the loan agreements, all the bank borrowings are repayable within 1 year. Bank borrowings were secured and guaranteed by the Group's land and building, investment properties, trade receivables, restricted cash, certain properties owned by certain shareholders and related parties of the Group and limited personal guarantee executed by certain shareholders.

Working capital management

The Group has committed to maintaining a sound financial policy. The Group intends to improve its operational efficiency in order to improve the healthiness of the working capital primarily through capital contribution from operating activities and interest-bearing bank borrowings.

Liquidity ratios

As of 31 December 2021, the Group has cash and cash equivalents of approximately RMB22.7 million (2020: approximately RMB56.9 million). The Group's current ratio and gearing ratio are as follows:

	31 December 2021	31 December 2020
Current ratio	47.0%	140.5%
Gearing ratio	(27.4%)	23.2%

Current ratio is calculated by dividing the current assets by the current liabilities as at the respective dates.

Gearing ratio is calculated by dividing the net debt (being total bank and other borrowings and lease liabilities net of cash and cash equivalents) as at the respective dates by equity attributable to our Shareholders as at the respective dates.

Significant investments/material acquisitions and disposals

The Group had no other significant investment, nor had it made any material acquisition or disposal of the Group's subsidiaries or associated companies during the year ended 31 December 2021.

Capital commitments

As at 31 December 2021, the Group had no capital commitment.

Contingent liabilities

As at 31 December 2021, the Group and the Company did not have any significant contingent liabilities.

Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2021.

Foreign currency exposure

The Group mainly operates in the PRC with most of the transactions settled in RMB.

As at 31 December 2021, foreign exchange risks on financial assets and liabilities denominated in other currencies were insignificant to the Group, and therefore, the Group did not have any hedging activities during the year.

Important events after the end of the period

The Group had no subsequent event after 31 December 2021 and up to the date of this announcement.

Charges on the Group's assets

As at 31 December 2021, the Group's land and buildings of RMB4.8 million, investment properties of RMB2.1 million, restricted cash of RMB25.1 million and trade receivables (2020: land and buildings of RMB4.9 million, investment properties of RMB2.2 million, restricted cash of RMB25.2 million and trade receivables) were pledged as collateral for the Group's borrowings.

USE OF PROCEEDS

On 14 January 2020 (“**Listing Date**”), the Company’s shares in issue were listed on the Main Board of the Stock Exchange. A total of 148,500,000 shares were issued to the public at HK\$1.06 per share, the net proceeds from the Global Offering to be received by the Group, after deduction of the underwriting fees and commissions and other expenses payable by the Group in connection with the Global Offering was approximately HK\$107.4 million.

In light of the difference between the actual and estimated amount of the total net proceeds raised from the IPO (the “**Net Proceeds**”), the Group has adjusted the intended use of the Net Proceeds in the same manner and in the same proportion as shown in the Prospectus. As at 31 December 2021, the Group has fully utilized the net proceeds from the Global Offering of approximately HK\$107.4 million.

Set out below are details of the original allocation of the Net Proceeds, revised allocation of the Net Proceeds (after the adjustment as mentioned above), the utilised amount of the Net Proceeds as of 31 December 2021:

		Original allocation of Net Proceeds <i>HK\$ million</i>	Revised allocation of Net Proceeds <i>HK\$ million</i>	The remaining net proceeds as at 30 June 2021 <i>HK\$ million</i>	The amount utilised during the six months ended 31 December 2021 <i>HK\$ million</i>	Utilised amount (as of 31 December 2021) <i>HK\$ million</i>	Unutilised amount (as of 31 December 2021) <i>HK\$ million</i>
Fund the Group’s capital needs and cash flow under its existing and expected projects	61.2%	80.2	65.7	—	—	65.7	—
Hiring of additional project managers and designer	8.1%	10.6	8.7	2.0	2.0	8.7	—
Improvement of the existing branch offices	20.9%	27.4	22.5	12.8	12.8	22.5	—
General working capital	9.8%	12.9	10.5	—	—	10.5	—
	<u>100%</u>	<u>131.1</u>	<u>107.4</u>	<u>14.8</u>	<u>14.8</u>	<u>107.4</u>	<u>—</u>

OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended 31 December 2021, there was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company.

Compliance with the Corporate Governance Code

The Company is committed to maintaining high quality corporate governance. The corporate governance principles of the Company are to promote effective internal management measures, to maintain high quality ethics, transparency, responsibility and integrity in all aspects of business, to ensure that its business and operations are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to all shareholders. The Company's corporate governance practice is based on the principles and code provisions as set out in 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 of Hong Kong Limited (the "**Stock Exchange**").

During the year, the Company has fully complied with the CG Code except for the deviation from code provision C.2.1 of Part 2 of the CG Code. The Company will continue to review and enhance its corporate governance practice to ensure compliance with the CG Code.

Under code provision C.2.1 of Part 2 of the CG Code, the roles of chairman and chief executive officer should be separated and performed by different individuals. As at the date of this announcement, the roles of chairman and chief executive officer of the Company are not separated and Mr. Fan Shaozhou currently holds both positions. Mr. Fan has extensive experience in the decoration and engineering industry and is responsible for the overall management, decision-making and strategic planning of the Group. He plays a key role in the growth and business expansion of the Group. The Board believes that vesting the roles of both chairman and chief executive officer in Mr. Fan Shaozhou has the benefit of ensuring consistent internal leadership within the Group and enables effective and efficient general strategic planning for the Company. The Board is of the view that the balance of power and authority achieved by the present arrangement will not be impaired and is adequately ensured by the current Board which comprises experienced and high calibre individuals with sufficient number of independent non-executive Directors.

Code of Conduct Regarding Directors' Securities Transaction

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its own code of conduct governing securities transactions by the Directors. Following a specific enquiry made by the Company with each of the Directors, all Directors have confirmed that they had complied with the required dealing standards set out in the Model Code throughout the period from the Listing Date to 31 December 2021.

ANNUAL GENERAL MEETING

The annual general meeting the Company (the “**AGM**”) to receive, consider and adopt the audited consolidated financial statements of the Company and its subsidiaries and the reports of the directors and auditor of the Company for the year ended 31 December 2021 will be held on a date to be announced by the Company. The notice and circular convening the AGM will be published and dispatched to the shareholders in accordance with the requirements of the Listing Rules in due course. Shareholders should refer to details in the circular of the Company regarding the AGM, the notice of AGM and form of proxy despatched by the Company.

SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by the Group's auditors, ZHONGHUI ANDA CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by ZHONGHUI ANDA CPA Limited in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by ZHONGHUI ANDA CPA Limited on the preliminary announcement.

REVIEW OF THE ANNUAL RESULTS BY AUDIT COMMITTEE

As at the date of this announcement, the audit committee of the Board (the “**Audit Committee**”) comprises all the independent non-executive Directors, namely Mr. Ma Kin Ling (the Chairman), Mr. Huang Wei and Ms. Lau Chui Ping Soey.

The Audit Committee has reviewed together with the management and the independent auditor the accounting principles and practices adopted by the Group and has discussed auditing, internal control and financial reporting matters, including the review of the consolidated financial statements. The Audit Committee has also reviewed the annual results of the Group for the year ended 31 December 2021.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.szwyzs.com.cn) in due course. The 2021 annual report of the Company will be despatched to the shareholders and published in the aforesaid websites in due course.

By Order of the Board
Wenye Group Holdings Limited
Fan Shaozhou
Chairman and Executive Director

Shenzhen, PRC, 3 December 2023

As at the date of this announcement, the Board of the Company comprises (i) two executive directors, namely Mr. Fan Shaozhou (Chairman and Chief Executive Officer) and Mr. Kong Guojing (Co-Chairman); (ii) three non-executive directors, Mr. Chen Li, Mr. Shen Peng, and Mr. Li Hongxing; and (iii) three independent non-executive directors, namely, Mr. Huang Wei, Ms. Lau Chui Ping Soey and Mr. Ma Kin Ling.