

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

INTERIM RESULTS

The board of directors (the “**Board**”) of Wenye Group Holdings Limited (the “**Company**”) hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (together, the “**Group**”) for the period ended 30 June 2022 (“**1H2022**”) together with the comparative figures for the period ended 30 June 2021 (“**1H2021**”).

FINANCIAL HIGHLIGHTS

	For the six months Ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue	238,039	662,590
Gross profit margin	5.9%	12.2%
(Loss)/profit for the period attributable to owners of the Company	(95,747)	26,257
Basic and diluted (loss)/earnings per share (RMB)	(0.16)	0.04

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	Six months ended 30 June	
		2022	2021
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	5	238,039	662,590
Cost of sales		(224,096)	(581,875)
Gross profit		13,943	80,715
Other income		530	2,978
Other losses, net		(290)	(2,484)
Selling and marketing expenses		(2,591)	(4,700)
General and administrative expenses		(30,619)	(16,893)
Impairment losses of financial assets and contract assets		(70,122)	(17,756)
Finance costs, net		(6,426)	(6,336)
(Loss)/Profit before tax		(95,575)	35,524
Income tax expense	6	(172)	(9,267)
(Loss)/Profit for the period		(95,747)	26,257
Other comprehensive (loss)/income			
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		—	486
OTHER COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD, NET OF TAX		—	486
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD		(95,747)	26,743
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
— Basic and diluted (<i>RMB</i>)	8	(0.16)	0.04

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		7,893	9,676
Right-of-use assets		13,455	6,007
Investment properties		2,089	2,128
Trade and other receivables	9	259	11,229
		23,696	29,040
CURRENT ASSETS			
Trade and other receivables	9	201,990	229,286
Contract assets	10	152,228	220,175
Restricted cash		29,545	66,611
Bank and cash balances	11	12,704	22,689
		396,467	538,761
CURRENT LIABILITIES			
Trade and other payables	12	852,424	865,933
Contract liabilities	10	56,390	57,072
Bank borrowings		57,261	102,261
Other borrowings		75,623	70,864
Lease liabilities		6,017	6,400
Amounts due to related parties		—	4,100
Current income tax liabilities		38,809	39,082
		1,086,524	1,145,712
NET CURRENT LIABILITIES		(690,056)	(606,951)
TOTAL ASSETS LESS CURRENT LIABILITIES		(666,360)	(577,911)

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CON'T)**

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
NON-CURRENT LIABILITIES		
Other borrowings	866	866
Lease liabilities	8,407	1,109
	<u>9,273</u>	<u>1,975</u>
NET LIABILITIES	<u>(675,633)</u>	<u>(579,886)</u>
CAPITAL AND RESERVES		
Share capital	51	51
Reserves	(675,684)	(579,937)
Equity attributable to owners of the Company	(675,663)	(579,886)
Non-controlling interest	<u>—</u>	<u>—</u>
TOTAL EQUITY	<u>(675,633)</u>	<u>(579,886)</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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 RMB95,747,000 for the period ended 30 June 2022. As at 30 June 2022 the Group had net current liabilities and net liabilities of approximately RMB690,056,000 and RMB675,633,000 respectively. The Group’s total bank and other borrowings amounted to approximately RMB57,261,000 and RMB76,489,000 respectively as at 30 June 2022 while its cash and cash equivalents amounted to approximately RMB12,704,000.

Based on the latest 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 RMB109,055,000 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 payables. The expected penalty arising from such 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 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 half 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 2022. 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.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CON'T)

3.1. Significant Accounting Policies (Con't)

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

The preparation of 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.

The Group’s revenue was mainly derived in the PRC during the period ended 30 June 2022 and 2021.

As at 30 June 2022, all of the non-current assets were located in the PRC (31 December 2021: Same).

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.

5. REVENUE

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue from construction services	232,964	657,555
Design service income	5,075	5,035
	<u>238,039</u>	<u>662,590</u>

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Current income tax	172	9,267
Deferred income tax	—	—
Income tax expense	<u>172</u>	<u>9,267</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% (2021: 25%).

Shenzhen Wenye Decoration Design Engineering Co., Ltd., a wholly owned subsidiary of the Company, has qualified as high and new technology enterprise (“HNTTE”) 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. DIVIDENDS

The directors do not recommend the payment of any dividend for each of the years ended 30 June 2022 and 2021.

8. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic loss (30 June 2021: earnings) per share attributable to owners of the Company is based on the loss (30 June 2021: profit) for the period attributable to owners of the Company of approximately RMB95,747,000 (30 June 2021: RMB26,257,000) and the weighted average number of ordinary shares of 594,000,000 (30 June 2021: 594,000,000, 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 sharing unit scheme (“RSU scheme”) in issue during the six months 30 June 2022 (30 June 2021: 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 six months ended 30 June 2022 (30 June 2021: Same).

9. TRADE AND OTHER RECEIVABLES

		As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
	<i>Notes</i>		
Trade receivables	(i)	676,034	739,930
Provision for loss allowance		(569,042)	(551,107)
Trade receivables, net		106,992	188,913
Retention receivables	(ii)	200,822	194,667
Provision for loss allowance		(192,709)	(178,924)
Retention receivables, net		8,113	15,743
Deposits	(iii)	13,529	21,545
Provision for loss allowance		(8,661)	(8,105)
Deposits, net		4,868	13,440
Bills receivables	(iv)	6,395	7,035
Prepayments		327	1,644
Advances to staff		4,713	—
Loan receivable	(v)	1,487	1,068
Other receivables		69,354	5,090
Total trade and other receivables		202,249	240,515
Analysed as:			
Current assets		201,990	229,286
Non-current assets		259	11,229
		202,249	240,515

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

9. 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:

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
Unbilled revenue (<i>Note (i)</i>)	467,098	567,872
Within 30 days	50,771	11,289
31 days to 6 months	12,623	28,814
6 months to 1 year	23,362	13,697
1 to 2 years	29,648	51,129
2 to 3 years	33,909	8,716
Over 3 years	58,624	58,413
	<u>676,034</u>	<u>739,930</u>

Note (i): 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 30 June 2022, trade receivables were pledged as collateral for the Group's certain bank borrowings (2021: Same).

- (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. The 30 June 2022 and 31 December 2021, the ageing analysis of the retention receivables based on the retention period expiry date, is as follows:

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
Within 1 year	109,486	25,177
1 to 2 years	91,336	169,490
	<u>200,822</u>	<u>194,667</u>

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

9. 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) The ageing analysis of the bills receivables based on the invoice date, is as follows:

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
31 days to 6 months	1,000	3,612
6 months to 1 year	2,072	3,051
1 to 2 years	3,273	322
Over 2 years	50	50
	<u>6,395</u>	<u>7,035</u>

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. Up to the date of this announcement, the loan receivable was fully settled.

10. CONTRACT ASSETS AND LIABILITIES

Disclosures of revenue-related items:

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)	As at 1 January 2021 <i>RMB'000</i> (Audited)
Contract assets — construction services	797,174	829,182	807,056
Contract assets — design services	<u>2,530</u>	<u>1,024</u>	<u>1,089</u>
	799,704	830,206	808,145
Less: Provision for loss allowance	<u>(647,476)</u>	<u>(610,031)</u>	<u>(17,423)</u>
Total contract assets	<u>152,228</u>	<u>220,175</u>	<u>790,722</u>
Contract liabilities — construction services	43,167	44,116	28,850
Contract liabilities — design services	<u>13,223</u>	<u>12,956</u>	<u>10,770</u>
Total contract liabilities	<u>56,390</u>	<u>57,072</u>	<u>39,620</u>
Contract receivables (include in trade receivables)	<u>267,333</u>	<u>188,913</u>	<u>817,728</u>
	Six months ended 30 June 2022 <i>RMB'000</i> (Unaudited)	Year ended 31 December 2021 <i>RMB'000</i> (Audited)	
Revenue recognized in the period/year that was included in contract liabilities at beginning of period/year:			
— Construction services	17,271	508	
— Design services	<u>2,198</u>	<u>1,456</u>	
	<u>19,458</u>	<u>1,964</u>	

10. CONTRACT ASSETS AND LIABILITIES (CON'T)

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

	As at 30 June 2022 Contract assets RMB'000 (Unaudited)	As at 30 June 2022 Contract liabilities RMB'000 (Unaudited)	As at 31 December 2021 Contract assets RMB'000 (Audited)	As at 31 December 2021 Contract liabilities RMB'000 (Audited)
Increase due to operations in the year	97,759	18,776	212,206	836,607
Transfer of contract assets to trade receivables	(2,009)	—	(190,145)	—
Transfer of contract liabilities to revenue	—	19,458	—	(819,155)
	<u> </u>	<u> </u>	<u> </u>	<u> </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.

11. BANK AND CASH BALANCES

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Cash at banks	<u>12,704</u>	<u>22,689</u>
	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Denominated in:		
RMB	12,610	22,369
HK\$	<u>94</u>	<u>320</u>
	<u>12,704</u>	<u>22,689</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.

12. TRADE AND OTHER PAYABLES

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
Trade payables	711,871	722,308
Bills payables	15,445	18,880
	<u>727,316</u>	<u>741,188</u>
Accruals and other payables		
— Accrued staff benefits	15,960	24,327
— Other payables and accruals	65,761	56,709
— Provision for litigation penalty	43,386	43,709
	<u>125,108</u>	<u>124,745</u>
	<u><u>852,424</u></u>	<u><u>865,933</u></u>

As at 30 June 2022 and 31 December 2021, the carrying amounts of trade and other payables approximate their fair values and are denominated in the following currencies:

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
RMB	852,281	865,790
HK\$	143	143
	<u>852,424</u>	<u>865,933</u>

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

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
Within 30 days	83,511	65,302
31 days to 6 months	51,080	140,330
6 months to 1 year	136,533	154,351
1 to 2 years	312,813	345,822
2 to 3 years	117,152	17,810
Over 3 years	26,226	17,573
	<u>727,316</u>	<u>741,188</u>

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

The Group's revenue dropped by approximately RMB424.6 million to approximately RMB238.0 million for the six months ended 30 June 2022 ("1H2022") from approximately RMB662.6 million for the six months ended 30 June 2021 ("1H2021").

In the first half of 2022, the COVID-19 epidemic has spread in many places in the PRC, especially in Southern China, Shanghai, Beijing and other provinces where the Group has a large proportion of business in. The lockdown measures in various provinces have affected the Group's operations, including (i) the tendering of potential projects; (ii) the logistics of construction materials; (iii) the progress of the Group's existing projects, etc. The state's macro-control on the PRC real estate industry continued to impose major impacts on the operating and financial performance of the Group and the PRC building decoration industry as a whole.

Despite the tremendous challenges, the PRC building decoration industry still has room for development. The Group has plans to serve more customers in the industrial and commercial, infrastructure and public building sectors, while improving the Group's competitiveness and management standards in terms of operation and management. The Group also plans to transform into a company that pursues soundness and healthy cash flows. To adapt to the current market situation, the Group strives to adjust its business strategy in a timely manner, to mitigate adverse effects and promote the Group's sustainable development through measures such as precise management and promotion of digital implementation.

FUTURE PROSPECTS

Looking ahead, given the challenges in the global economic outlook, the Group is prepared to adopt the following strategies to improve the operating results and promote the steady development of the Group's business:

1. Improve liquidity by strengthening cash management

The Group will enhance the collection of accounts receivable procedure by monitoring the aging of receivables, following up receivables with long outstanding balance and taking steps to collect payment on overdue receivables.

To manage cash balance, the Group will improve the accuracy of cash flow forecast to ensure cash on hand is enough to meet short-term obligation.

2. Optimize the project management process and promote management quality and efficiency

The Group will continue to optimize the project management process and improve the efficiency of the project management. The Group will maximize the utilization of the Group's collective purchasing platform and enhance the economy of scale on procurement.

3. The Group's overseas establishment

To promote the Group's reputation overseas and increase overseas revenue, the Group plans to establish overseas company to provide building decorative services to foreign clients in light of the PRC government "Belt and Road Initiative" policy.

FINANCIAL REVIEW

Revenue

The Group principally derives its revenue from provision of building decoration works and design services in the PRC. Revenue generated by service type was set out below:

	Six months ended 30 June			
	2022		2021	
	<i>RMB million</i>	<i>%</i>	<i>RMB million</i>	<i>%</i>
	(unaudited)		(unaudited)	
Revenue from construction contracts	233.0	97.8	657.6	99.2
Design service income	5.0	2.2	5.0	0.8
Total	238.0	100	662.6	100

The Group's revenue dropped by approximately RMB424.6 million to approximately RMB238.0 million for 1H2022 from approximately RMB662.60 million for 1H2021 mainly due to the impact from national macro-control policies on the PRC real estate industry in 1H2022.

Cost of sales

The cost of sales of the Group decreased to approximately RMB224.1 million for 1H2022 from approximately RMB581.9 million for 1H2021, representing a decrease of approximately 61.5% which is in line with the decrease in revenue due to the lockdown.

Gross profit and gross profit margin

The gross profit of the Group decreased to approximately RMB13.9 million for 1H2022 from approximately RMB80.7 million for 1H2021, representing a decrease of RMB66.8 million. Due to the increase of the cost of material, the gross profit decreased. Our gross profit margin decrease to 5.9% for 1H2022 mainly due to the generally lower gross profit margin from projects commencing in 2022.

Other income

The Group recorded other income of approximately RMB0.5 million for 1H2022 which mainly comprised rental income from investment properties. (1H2021: RMB3.0 million).

Other losses, net

The Group's other losses primarily consist of impairment right of use assets of RMB1.1 million and gain on disposal of subsidiaries of RMB0.96 million for 1H2022 (Other loss for 1H2021: RMB2.5 million).

Selling and marketing expenses

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

Selling and marketing expenses decreased to approximately RMB2.6 million for 1H2022 from approximately RMB4.7 million for 1H2021, representing a decrease of 44.9%. The decrease was mainly due to a decrease in headcount and marketing and advertising expense due to the COVID-19 in 2022.

General and administrative expenses

The 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.

The general and administrative expenses increased to approximately RMB30.6 million for 1H2022 from approximately RMB16.9 million for 1H2021, representing an increase of approximately 44.2%. The increase was mainly attributed to the increase of the research and development expense of approximately RMB15.2 million.

Net impairment losses on financial and contract assets

Net impairment losses on financial and contract assets increased by 293.8% from approximately RMB17.8 million for 1H2021 to approximately RMB70.1 million for 1H2022.

(Loss)/Profit for the period

Profit for the period of the Group decreased by 463.9% from approximately RMB26.3 million for 1H2021 to approximately negative RMB95.7 million for 1H2022, mainly due to (i) the decrease in the revenue of the Group, which was mainly resulted from the delay in work schedules of projects and (ii) the increase of the net impairment losses on financial and contract assets.

Financial position, liquidity and financial resources

Trade and other receivables

The trade and other receivables decreased from approximately RMB229.3 million as at 31 December 2021 to approximately RMB202.0 million as at 30 June 2022, representing a decrease of 13.5%. The trade receivables are the amount due from customers.

Trade and other payable

The trade and other payable decreased by 1.6% from approximately RMB865.9 million as at 31 December 2021 to approximately RMB852.4 million as at 30 June 2022. The trade payables are the amount due to suppliers.

Bank Borrowings

As at 30 June 2022, the Group had bank borrowings of approximately RMB57.3 million (31 December 2021: approximately RMB102.3) 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, trade receivables, a related company, 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 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 at 30 June 2022, the Group had cash and cash equivalents of approximately RMB12.7 million (31 December 2021: approximately RMB22.7 million). The Group's current ratio and gearing ratio are as follows:

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
Current ratio	36.5%	47.0%
Gearing ratio	0.5%	3.6%

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 not made any significant investment, material acquisitions or disposal of subsidiaries, associates or joint ventures during 1H2022.

Capital commitments

As at 30 June 2022, the Group had no capital commitment.

Contingent liabilities

As at the date of this announcement, the material contingent liability for the Group is approximately RMB9.3 million which is due to a dispute in relation to payment between one of our subcontractors and its construction workers.

The Directors considered that Shenzhen Wenye Decoration Design Engineering Co., Ltd (“**Wenye Decoration**”) should not bear any obligation and liability of the claims amount to the construction workers given there was no contractual agreement between Wenye Decoration and the construction workers and Wenye Decoration had settled all the amounts due to the Subcontractor in relation to the construction works. Accordingly, no provision was made.

Dividends

The Board does not recommend the payment of an interim dividend for the period ended 30 June 2022.

Foreign currency exposure

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

As at 30 June 2022, 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 of 30 June 2022 and up to the date of this announcement.

Charges on the Group's assets

As at 30 June 2022, the Group's land and buildings of RMB4.7 million, investment properties of RMB2.1 million and trade receivables was pledged as collateral for the Group's borrowings (31 December 2021: land and buildings of RMB4.8 million, investment properties of RMB2.1 million, restricted cash of RMB25.1 million and trade receivables were pledged as collateral of the Group's borrowings).

OTHER INFORMATION

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2022.

Compliance with the Code or Corporate Governance Practices

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 six months ended 30 June 2022, the Company has fully complied with all the code provisions 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 of the date of this announcement, the roles of chairman and chief executive officer of the Company are not separated and Mr. Fan Shaozhou ("**Mr. Fan**") 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 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 Board, which currently 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 as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its own code of conduct for dealing in securities in the Company. Having made specific enquiry to all Directors of the Company, all Directors have confirmed that they have strictly complied with the required standard set out in the Model Code during the six months ended 30 June 2022. The Board has also adopted the Model Code to regulate all dealings by relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of securities in the Company as referred to in Code Provision D.2.4 of the CG Code. After making reasonable enquiry, no incident of non-compliance with the Model Code by relevant employees of the Company has been noted during the six months ended 30 June 2022.

REVIEW OF THE INTERIM 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 (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 interim results of the Group for the six months ended 30 June 2022.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.szwyzs.com.cn). The interim report of the Company for the six months ended 30 June 2022 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available on the same 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, namely, 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.