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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 2022

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 2022 together with the comparative figures for the year ended 31 December 2021.

FINANCIAL HIGHLIGHTS

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	378,119	1,031,361
Gross profit margin	6.3%	7.5%
Loss for the year attributable to owners of the Company	(193,360)	(1,206,176)
Basic and diluted loss per share (RMB)	(0.33)	(2.03)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	<i>Notes</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
REVENUE	5	378,119	1,031,361
Cost of sales		<u>(354,459)</u>	<u>(953,668)</u>
Gross profit		23,660	77,693
Other income		3,246	2,662
Other losses, net		(1,173)	(31,060)
Selling and marketing expenses		(3,060)	(9,719)
General and administrative expenses		(35,290)	(64,084)
Impairment losses of financial assets and contract assets		(166,137)	(1,125,166)
Impairment losses of non-current assets		(9,034)	(1,039)
Finance costs, net		<u>(5,629)</u>	<u>(12,153)</u>
LOSS BEFORE TAX		(193,417)	(1,162,866)
Income tax expense	6	<u>(172)</u>	<u>(43,310)</u>
LOSS FOR THE YEAR	7	<u>(193,589)</u>	<u>(1,206,176)</u>
Other comprehensive (loss)/income:			
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		<u>(4)</u>	<u>486</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		<u>(4)</u>	<u>486</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(193,593)</u>	<u>(1,205,690)</u>

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

For the year ended 31 December 2022

	<i>Notes</i>	2022 RMB'000	2021 RMB'000
Loss for the year attributable to:			
Owners of the Company		(193,360)	(1,206,176)
Non-controlling interests		(229)	—
		<u>(193,589)</u>	<u>(1,206,176)</u>
Total comprehensive loss for the year attributable to:			
Owners of the Company		(193,364)	(1,205,690)
Non-controlling interests		(229)	—
		<u>(193,593)</u>	<u>(1,205,690)</u>
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
— Basic and diluted (<i>RMB</i>)	9	<u>(0.33)</u>	<u>(2.03)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	<i>Notes</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		7,804	9,676
Right-of-use assets		—	6,007
Investment properties		2,051	2,128
Intangible assets		—	—
Deferred income tax assets		—	—
Trade and other receivables	<i>10</i>	5,084	11,229
		14,939	29,040
CURRENT ASSETS			
Trade and other receivables	<i>10</i>	160,327	229,286
Contract assets	<i>11</i>	94,394	220,175
Restricted cash		30,976	66,611
Bank and cash balances	<i>12</i>	344	22,689
		286,041	538,761
CURRENT LIABILITIES			
Trade and other payables	<i>13</i>	837,046	865,933
Contract liabilities	<i>11</i>	52,209	57,072
Bank borrowings		36,222	102,261
Other borrowings		88,072	70,864
Lease liabilities		1,683	6,400
Amounts due to related parties		268	4,100
Current income tax liabilities		38,765	39,082
		1,054,265	1,145,712
NET CURRENT LIABILITIES		(768,224)	(606,951)
TOTAL ASSETS LESS CURRENT LIABILITIES		(753,285)	(577,911)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CON'T)

As at 31 December 2022

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
NON-CURRENT LIABILITIES		
Other borrowings	10,299	866
Lease liabilities	<u>7,895</u>	<u>1,109</u>
	<u>18,194</u>	<u>1,975</u>
NET LIABILITIES	<u><u>(771,479)</u></u>	<u><u>(579,886)</u></u>
CAPITAL AND RESERVES		
Share capital	51	51
Reserves	<u>(773,301)</u>	<u>(579,937)</u>
Equity attributable to owners of the Company	<u>(773,250)</u>	<u>(579,886)</u>
Non-controlling interests	<u>1,771</u>	<u>—</u>
TOTAL EQUITY	<u><u>(771,479)</u></u>	<u><u>(579,886)</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 RMB193,589,000 for the year ended 31 December 2022 and as of 31 December 2022 the Group had net current liabilities and net liabilities of approximately RMB768,224,000 and RMB771,479,000 respectively. The Group’s total bank and other borrowings amounted to approximately RMB36,222,000 and RMB98,371,000 respectively as of 31 December 2022 while its cash and cash equivalents amounted to approximately RMB344,000.

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 repayment 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 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.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings and 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 2022 and 2021.

As at 31 December 2022 and 2021, 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:

	2022 <i>RMB’000</i>	2021 <i>RMB’000</i>
Customer A	N/A*	109,941
Customer B	<u>53,488</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

	2022 <i>RMB’000</i>	2021 <i>RMB’000</i>
Revenue from construction services	363,506	1,016,893
Design service income	<u>14,613</u>	<u>14,468</u>
	<u>378,119</u>	<u>1,031,361</u>

6. INCOME TAX EXPENSE

	2022	2021
	RMB'000	RMB'000
Current income tax	172	1,720
Deferred income tax	<u>—</u>	<u>41,590</u>
Income tax expense	<u>172</u>	<u>43,310</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 (“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 FOR THE YEAR

The Group's loss for the year is stated after charging the following:

	2022	2021
	RMB'000	RMB'000
Amortisation of intangible assets	—	310
Auditors' remuneration	1,331	2,251
Bad debt written-off	—	27,602
Cost of sales	354,459	953,668
Depreciation of property, plant and equipment	2,341	2,452
Depreciation of investment properties	77	77
Depreciation of right-of-use assets	3,722	5,476
Impairment losses of financial assets and contract assets:		
Impairment of trade receivables, net	63,006	348,976
Impairment of contract assets	65,092	592,608
Impairment of retention receivables	37,152	176,877
Impairment of deposits	887	6,705
	<u>166,137</u>	<u>1,125,166</u>
Impairment losses of non-current assets		
Impairment of property, plant and equipment	98	754
Impairment of right-of-use assets	8,936	—
Impairment of intangible assets	—	285
	<u>9,034</u>	<u>1,039</u>
Staff costs including directors' remuneration:		
Salaries, wages and bonuses	17,059	31,759
Housing funds, medical insurances and other social insurances	3,345	3,994
Other welfare and allowances	313	1,117
	<u>20,717</u>	<u>36,870</u>

8. DIVIDENDS

The directors do not recommend the payment of any dividend for each of the years ended 31 December 2022 and 2021.

9. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately RMB193,360,000 (2021: RMB1,206,176,000) and the weighted average number of ordinary shares of 593,940,017 (2021: 593,940,017), and excluded shares held under the restricted share unit scheme (“**RSU scheme**”) in issue during the year ended 31 December 2022.

(b) Diluted loss per share

No diluted loss per share are presented as the Company did not have any dilutive potential ordinary sharing during the two years ended 31 December 2022 and 2021.

10. TRADE AND OTHER RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables (<i>Note (i)</i>)	692,882	739,930
Provision for loss allowance	<u>(614,023)</u>	<u>(551,017)</u>
Trade receivables, net	<u>78,859</u>	<u>188,913</u>
Retention receivables (<i>Note (ii)</i>)	224,954	194,667
Provision for loss allowance	<u>(216,076)</u>	<u>(178,924)</u>
Retention receivables, net	<u>8,878</u>	<u>15,743</u>
Deposits (<i>Note (iii)</i>)	25,113	21,545
Provision for loss allowance	<u>(8,992)</u>	<u>(8,105)</u>
Deposits, net	<u>16,121</u>	<u>13,440</u>
Bills receivables (<i>Note (iv)</i>)	5,024	7,035
Prepayments	43,736	1,644
Advances to staff	1,150	7,582
Loan receivable (<i>Note (v)</i>)	—	1,068
Other receivables	<u>11,643</u>	<u>5,090</u>
Total trade and other receivables	<u>165,411</u>	<u>240,515</u>
Analysed as:		
Current assets	160,327	229,286
Non-current assets	<u>5,084</u>	<u>11,229</u>
	<u>165,411</u>	<u>240,515</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 aging analysis of the trade receivables based on the invoice date is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Unbilled revenue (<i>Note (a)</i>)	476,946	567,872
Within 30 days	779	11,289
31 days to 6 months	30,833	28,814
6 months to 1 year	36,903	13,697
1 to 2 years	31,886	51,129
2 to 3 years	49,402	8,716
Over 3 years	66,133	58,413
	<u>692,882</u>	<u>739,930</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 2022 and 2021, 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 2022 and 2021, the aging analysis of the retention receivables based on the retention period expiry date, is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 1 year	23,257	25,177
1 to 2 years	201,697	169,490
	<u>224,954</u>	<u>194,667</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 2022 and 2021, the aging analysis of the bills receivables based on the invoice date is as follows:

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
31 days to 6 months	1,701	3,612
6 months to 1 year	2,359	3,051
1 to 2 years	592	322
2 to 3 years	372	50
	<hr/> 5,024 <hr/>	<hr/> 7,035 <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. 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 2022 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>	As at 1 January 2021 <i>RMB'000</i>
Contract assets — construction services	765,233	829,182	807,056
Contract assets — design services	4,284	1,024	1,089
	<u>769,517</u>	<u>830,206</u>	<u>808,145</u>
Less: Provision for loss allowance	<u>(675,123)</u>	<u>(610,031)</u>	<u>(17,423)</u>
Total contract assets	<u><u>94,394</u></u>	<u><u>220,175</u></u>	<u><u>790,722</u></u>
Contract liabilities — construction services	43,791	44,116	28,850
Contract liabilities — design services	8,418	12,956	10,770
	<u>52,209</u>	<u>57,072</u>	<u>39,620</u>
Total contract liabilities	<u><u>52,209</u></u>	<u><u>57,072</u></u>	<u><u>39,620</u></u>
Contract receivables (include in trade receivables)	<u><u>78,859</u></u>	<u><u>188,913</u></u>	<u><u>817,728</u></u>
Transaction prices allocated to performance obligations unsatisfied at end of year and expected to be recognized as revenue in:			
— 2022	—	378,119	
— 2023	469,293	468,049	
— 2024	304,321	—	
	<u><u>773,614</u></u>	<u><u>846,168</u></u>	
Year ended 31 December	<u><u>2022</u></u> <i>RMB'000</i>	<u><u>2021</u></u> <i>RMB'000</i>	
Revenue recognized in the year that was included in contract liabilities at beginning of year:			
— Construction services	23,982	508	
— Design services	9,445	1,456	
	<u><u>33,427</u></u>	<u><u>1,964</u></u>	

11. CONTRACT ASSETS AND LIABILITIES (CON'T)

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

	2022 Contract assets RMB'000	2022 Contract liabilities RMB'000	2021 Contract assets RMB'000	2021 Contract liabilities RMB'000
Increase due to operations in the year	15,483	357,773	212,206	836,607
Transfer of contract assets to receivables	(76,172)	—	(190,145)	—
Transfer of contract liabilities to revenue	—	(362,636)	—	(819,155)

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

	2022 RMB'000	2021 RMB'000
Cash at bank	<u>344</u>	<u>22,689</u>
Denominated in:		
RMB	244	22,369
HK\$	<u>100</u>	<u>320</u>
	<u>344</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.

13. TRADE AND OTHER PAYABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade payables	711,132	722,308
Bills payables	15,445	18,880
	<u>726,577</u>	<u>741,188</u>
Accruals and other payables		
Accrued staff benefits	14,789	24,327
Other payables and accruals	49,078	56,709
Provision for litigation penalty	46,602	43,709
	<u>110,469</u>	<u>124,745</u>
	<u>837,046</u>	<u>865,933</u>

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
RMB	837,046	865,790
HK\$	—	143
	<u>837,046</u>	<u>865,933</u>

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 30 days	36,293	65,302
31 days to 6 months	40,842	140,330
6 months to 1 year	83,876	154,351
1 to 2 years	250,543	345,822
2 to 3 years	279,883	17,810
Over 3 years	35,140	17,573
	<u>726,577</u>	<u>741,188</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 2022 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 RMB193,589,000 for the year ended 31 December 2022 and as of 31 December 2022, the Group had net current liabilities and net liabilities of approximately RMB768,224,000 and RMB771,479,000 respectively. The Group’s total bank and other borrowings amounted to approximately RMB36,222,000 and RMB98,371,000, respectively as of 31 December 2022 while its cash and cash equivalents amounted to approximately RMB344,000. 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.

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.

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

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 2022, the Group has undertaken a total of 41 new construction projects, of which 35 were construction projects and 6 are design projects, with a total contract value of RMB287.5 million. Compared with last year, the total number of projects has decreased significantly, mainly because in 2022, the Group has mainly undertaken large-value projects and reduced small-value projects, this situation was also affected by the Covid-19 pandemic.

During the reporting period, the Group has received a number of awards, including Guangxi Building Decoration Project Public Building Quality Award for the year 2022 (2022年度廣西建築裝潢工程優質獎), two 2021–2022 China Building Decoration Awards (Public Building Decoration Category) (2021-2022年度中國建築裝飾獎(公共建築裝飾類)), the 2022 Shenzhen Decoration Engineering Jinpeng Award (2022年度深圳市裝飾工程金鵬獎), the 2023 Guangdong Outstanding Architectural Decoration Engineering Award (Public Building Decoration Category) (2023年度廣東省優良建築裝飾工程獎(公共建築裝飾類)) and the Bronze Award of the 13th China International Space Design Competition (第十三屆中國國際空間設計大賽銅獎) in 2022. In addition, in terms of scientific research, the Group was awarded 5 invention patents in the PRC for the year ended 31 December 2022.

The Group's revenue decreased by approximately RMB653.3 million or 63.3% to approximately RMB378.1 million for the year ended 31 December 2022 from approximately RMB1,031.4 million for the year ended 31 December 2021.

During the year ended 31 December 2022, the PRC was facing more severe challenges in both domestic and international economic environment. Under this context, and together with the adverse effect of the state's macro-control policies, China's real estate market continued to be under tremendous pressure. Similarly, the building decoration industry, being closely linked to the real estate market, was negatively affected. The Group was seriously affected by the contraction of the PRC's real estate market in general, which inevitably resulted in a significant decrease in the Group's revenue for the year ended 31 December 2022.

FUTURE PROSPECTS

Despite the challenges faced by the global economy, the domestic economy and the downturn experienced by the real estate industry, the Group believes that the building decoration industry is still in demand and there is expectation for growth. As the state redefined the real estate industry and introduced supporting policies, the Group sees these as good signals for revival of the real estate industry in the PRC. The Group plans to grab the first initiative to increase its share in the market after market resumption, in particular, the Group has the following plans:

1. Put further efforts in fields which the Group already had advantages in, such as high-speed railway, airport, hospital, hotel and other engineering.
2. Develop overseas business by taking advantage of the opportunities of the “Belt and Road Initiative”.
3. Strengthen the Group’s competitiveness, strengthen the Group’s recovery of accounts receivables for existing projects and strengthen the Group’s capital management.
4. Reinvent the Group’s business model and business partnership system.
5. Achieve growth through the Group’s transformation.

FINANCIAL REVIEW

Revenue

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

	Year ended 31 December			
	2022		2021	
	<i>RMB million</i>	<i>%</i>	<i>RMB million</i>	<i>%</i>
Revenue from construction services	363.5	96.1	1,016.9	98.6
Design service income	14.6	3.9	14.5	1.4
Total	<u>378.1</u>	<u>100.0</u>	<u>1,031.4</u>	<u>100.0</u>

The Group's revenue decreased to approximately RMB378.1 million for the year ended 31 December 2022 from approximately RMB1,031.4 million for the year ended 31 December 2021, representing a decrease of approximately 63.3%. Such decrease was mainly due to the control by the government authorities in the building industry.

Cost of sales

The cost of sales of the Group decreased to approximately RMB354.5 million for the year ended 31 December 2022 from approximately RMB953.7 million for the year ended 31 December 2021, representing a decrease of approximately 62.8%, which is in line with the decrease in revenue.

Gross profit and gross profit margin

The gross profit of the Group decreased to approximately RMB23.7 million for the year ended 31 December 2022 from approximately RMB77.7 million for the year ended 31 December 2021, representing a decrease of approximately 69.5%. Due to the increase in the cost of materials, the gross profit margin decreased. Our gross profit margin remains stable and slightly decreased from 7.5% for the year ended 31 December 2021 to 6.3% for the year ended 31 December 2022.

Other income

The Group recorded other income of approximately RMB3.2 million for the year ended 31 December 2022 which mainly comprised rental income from investment properties of approximately RMB0.7 million, government grants of approximately RMB2.2 million.

Other losses, net

Other losses, net of the Group for the year ended 31 December 2022 is approximately RMB1.2 million mainly comprised penalty from lawsuit of approximately RMB3.7 million, gain on termination of a lease contract of approximately RMB1.0 million and gain on disposal of a subsidiary of approximately RMB1.2 million.

Selling and marketing expenses

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 RMB3.1 million for the year ended 31 December 2022 from approximately RMB9.7 million for the year ended 31 December 2021, representing a decrease of 68.0%. The decrease was mainly due to decrease in the headcount.

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 decreased to approximately RMB35.3 million for the year ended 31 December 2022 from approximately RMB64.1 million for the year ended 31 December 2021, representing a decrease of approximately 44.9%. The decrease was mainly attributed to the decrease in bad debts written-off of approximately RMB27.6 million.

Impairment losses on financial and contract assets

Impairment losses on financial and contract assets decreased by approximately 85.2% from approximately RMB1,125.2 million for the year ended 31 December 2021 to approximately RMB166.1 million for the year ended 31 December 2022.

Loss for the year

Loss for the year of the Group decreased by 83.9% from approximately RMB1,206.2 million for the year ended 31 December 2021 to approximately RMB193.6 million for the year ended 31 December 2022.

Financial position, liquidity and financial resources

Trade and other receivables

Trade and other receivables decreased from approximately RMB240.5 million as of 31 December 2021 to approximately RMB165.4 million as of 31 December 2022, representing a decrease of 31.2%. 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 3.3% from approximately RMB865.9 million as of 31 December 2021 to approximately RMB837.0 million as of 31 December 2022. Trade and other payables are mainly representing the amounts due to suppliers and the provision for litigation penalty.

Bank Borrowings

As of 31 December 2022, the Group had bank borrowings of approximately RMB36.2 million (2021: approximately RMB102.3 million). Based on the scheduled repayment terms set out in the loan agreements, all bank borrowings are repayable within 1 year. Bank borrowings were secured and guaranteed by the Group's land and building, investment properties, trade receivables, certain properties owned by certain shareholders and related parties of the Group and limited personal guarantee executed by certain shareholders (2021: 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 2022, the Group has cash and cash equivalents of approximately RMB0.3 million (2021: approximately RMB22.7 million). The Group's current ratio and gearing ratio are as follows:

	31 December 2022	31 December 2021
Current ratio	27.1%	47.0%
Gearing ratio	(18.6%)	(27.4%)

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 2022.

Capital commitments

As at 31 December 2022, the Group had no capital commitment.

Contingent liabilities

As at 31 December 2022, 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 2022.

Foreign currency exposure

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

As at 31 December 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 31 December 2022 and up to the date of this announcement.

Charges on the Group's assets

As at 31 December 2022, the Group's land and buildings of RMB4.7 million, investment properties of RMB2.1 million and trade receivables (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 for the Group's borrowings.

OTHER INFORMATION

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

During the year ended 31 December 2022, 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 2022.

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 2022 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

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 2022 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 2022.

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 2022 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, namely, Mr. Chen Li, Mr. Shen Peng, and Mr. Li Hongxing; and (iii) three independent non-executive director, namely Mr. Huang Wei, Ms. Lau Chui Ping Soey and Mr. Ma Kin Ling.