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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 2020

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 2020 together with the comparative figures for the year ended 31 December 2019.

FINANCIAL HIGHLIGHTS

	2020	2019
	RMB'000	RMB'000
Revenue	1,247,561	1,557,914
Gross profit margin	11.9%	12.0%
Profit attributable to owners of the Company	21,069	40,066
Adjusted profit attributable to owners of the Company (excluding listing expenses)	33,346	52,752
Basic and diluted earnings per share (RMB)	0.04	0.09

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

		2020	2019
	Notes	RMB'000	RMB'000
Revenue	4	1,247,561	1,557,914
Cost of sales	5	<u>(1,098,967)</u>	<u>(1,371,001)</u>
Gross profit		148,594	186,913
Other income		14,282	11,794
Other gains/(losses), net		(4,364)	(3,945)
Selling and marketing expenses	5	(9,912)	(8,352)
General and administrative expenses	5	(57,016)	(60,510)
Net impairment losses on financial assets and contract assets		<u>(44,312)</u>	<u>(55,507)</u>
Operating profit		47,272	70,393
Finance income		1,878	132
Finance costs		<u>(16,625)</u>	<u>(11,185)</u>
Finance costs, net		<u>(14,747)</u>	<u>(11,053)</u>
Profit before income tax		32,525	59,340
Income tax expense	6	<u>(11,456)</u>	<u>(19,508)</u>
Profit for the year		21,069	39,832
Profit/(loss) attributable to:			
Owners of the Company		21,069	40,066
Non-controlling interests		<u>—</u>	<u>(234)</u>
		<u>21,069</u>	<u>39,832</u>

		2020	2019
	Notes	RMB'000	RMB'000
Other comprehensive (loss)/income			
<i>Item that may be reclassified to profit or loss</i>			
Currency translation differences		<u>(494)</u>	<u>6</u>
Other comprehensive (loss)/income for the year		<u><u>(494)</u></u>	<u><u>6</u></u>
Total comprehensive income for the year		<u><u>20,575</u></u>	<u><u>39,838</u></u>
Total comprehensive income/(loss)			
attributable to:			
Owners of the Company		20,575	40,072
Non-controlling interests		<u>–</u>	<u>(234)</u>
		<u><u>20,575</u></u>	<u><u>39,838</u></u>
Earnings per share attributable to the equity			
holders of the Company			
– Basic and diluted (RMB)	8	<u><u>0.04</u></u>	<u><u>0.09</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		2020	2019
	Notes	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		12,128	23,041
Investment properties		2,205	14,619
Intangible assets		595	927
Right-of-use assets		13,534	17,067
Deferred income tax assets		41,590	44,572
Trade and other receivables	9	39,855	75,856
		<u>109,907</u>	<u>176,082</u>
Current assets			
Contract assets		790,722	562,272
Trade and other receivables	9	951,297	1,030,360
Restricted cash		43,895	7,640
Cash and cash equivalents	10	56,856	46,684
		<u>1,842,770</u>	<u>1,646,956</u>
Total assets		<u>1,952,677</u>	<u>1,823,038</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		51	—
Share premium		130,425	—
Other reserves		178,634	174,387
Retained earnings		316,694	300,366
Total equity		<u>625,804</u>	<u>474,753</u>

		2020	2019
	<i>Notes</i>	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Bank borrowings		6,000	13,200
Lease liabilities		9,454	33,868
		<u>15,454</u>	<u>47,068</u>
Current liabilities			
Trade and other payables	<i>11</i>	1,034,774	1,028,207
Contract liabilities		39,620	42,538
Lease liabilities		6,710	6,492
Amounts due to related parties		721	848
Bank borrowings		155,311	169,983
Other borrowings		24,384	4,979
Current income tax liabilities		49,899	48,170
		<u>1,311,419</u>	<u>1,301,217</u>
Total liabilities		<u>1,326,873</u>	<u>1,348,285</u>
Total equity and liabilities		<u>1,952,677</u>	<u>1,823,038</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 Floor 4, Willow House, Cricket Square, Grand Cayman KY1-9010, 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 ultimate controlling shareholder is Mr. Fan Shaozhou (the “**Controlling Shareholder**”), who has been controlling the group companies since their incorporation or establishment.

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 Renminbi (“**RMB**”), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

Standards	Subject of amendment
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Hedge Accounting
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

The Group has adopted these new standards, amendments of standards and interpretations and the adoption of these new standards, amendments of standards and interpretations do not have significant impacts on the Group's consolidated financial statements.

(b) New standards and interpretations not yet adopted

The following new standards, amendments to standards and annual improvement have been issued but are not effective for the financial year beginning on 1 January 2020 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
Amendments to HKFRS 16	Covid-19-related Rent Concessions	1 June 2020
Amendments to HKFRS 3, HKAS 16 and HKAS 37	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Annual Improvements Project	Annual Improvements to HKFRS Standards 2018-2020	1 January 2022
Revised Accounting Guideline 5	Merger Accounting for Common Control Combination	1 January 2022
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The directors of the Group are in the process of assessing the financial impact of the adoption of the above new standards, amendments to standards and annual improvement. The Group will adopt the new standards, amendments to standards and annual improvement when they become effective.

3. 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 is derived in the PRC during the year ended 31 December 2020 (2019: Same).

As at 31 December 2020, all of the non-current assets were located in the PRC (2019: 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.

Revenue individually generated from the following customer contributed more than 10% of the total revenue of the Group:

	2020 RMB’000	2019 RMB’000
Customer A	<u>N/A</u>	<u>13%</u>

During the year ended 31 December 2020, there was no customer that individually accounted for more than 10% of the Group’s revenue (2019: All other customers individually accounted for less than 10% of the Group’s revenue).

4. REVENUE

	2020 RMB'000	2019 RMB'000
Revenue from construction services	1,224,256	1,533,523
Design service income	23,305	24,391
	<u>1,247,561</u>	<u>1,557,914</u>

5. EXPENSES BY NATURE

	2020 RMB'000	2019 RMB'000
Raw materials and consumables used	627,328	796,036
Remuneration paid or payable to work forces engaged by the Group	405,412	493,865
Design service contract cost	13,188	18,185
Employee benefit expenses	40,505	52,365
Business and other taxes	8,314	9,017
Depreciation of property, plant and equipment	3,536	3,520
Depreciation of investment properties	2,544	2,544
Amortisation of intangible assets	464	403
Depreciation of right-of-use assets	7,824	3,423
Short-term leases expenses	437	141
Marketing and advertising expenses	405	785
Legal and professional fees	6,078	7,854
Auditor's remuneration		
– Audit services	2,300	1,800
Travel and entertainment expenses	2,569	4,536
Listing expenses	12,277	12,686
Other expenses	32,714	32,703
	<u>1,165,895</u>	<u>1,439,863</u>
Total cost of sales, selling and marketing expenses and general and administrative expenses	<u>1,165,895</u>	<u>1,439,863</u>

6. INCOME TAX EXPENSE

	2020 RMB'000	2019 RMB'000
Current income tax	8,474	33,385
Deferred income tax	<u>2,982</u>	<u>(13,877)</u>
	<u>11,456</u>	<u>19,508</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% (2019: 25%).

The weighted average applicable tax rate was 28% for the year ended 31 December 2020 (2019: 28%).

7. DIVIDENDS

No dividend has been paid or declared by the Company for the year ended 31 December 2020 (2019: Nil).

8. EARNINGS PER SHARE

(a) *Basic*

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue.

The weighted average number of ordinary shares used for such purpose has been retrospectively adjusted by 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 2020 (2019: Same).

	2020	2019
Profit attributable to owners of the Company (RMB'000)	21,069	40,066
Weighted average number of share in issue or deemed to be in issue (number of shares)	<u>588,699,905</u>	<u>445,488,946</u>
Basic earnings per share (RMB)	<u><u>0.04</u></u>	<u><u>0.09</u></u>

(b) *Diluted*

Diluted earnings per share presented is the same as the basic earnings per share as there was no potentially dilutive ordinary share outstanding during the year ended 31 December 2020 (2019: Same).

9. TRADE AND OTHER RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	1,019,769	1,122,243
<i>Less: provision for impairment of trade receivables</i>	<u>(202,041)</u>	<u>(169,406)</u>
Trade receivables, net (Note (a))	<u>817,728</u>	<u>952,837</u>
Retention receivables	109,704	110,523
<i>Less: provision for impairment of retention receivables</i>	<u>(2,047)</u>	<u>(1,365)</u>
Retention receivables, net (Note (c))	<u>107,657</u>	<u>109,158</u>
Deposits (Note (d))	25,385	26,092
<i>Less: provision for impairment of deposits</i>	<u>(1,400)</u>	<u>(1,400)</u>
Deposits, net (Note (d))	<u>23,985</u>	<u>24,692</u>
Bills receivable, net (Note (b))	<u>3,340</u>	<u>4,772</u>
Prepayments	9,579	12,317
Advances to staff	6,166	1,707
Compensation receivable from termination of a lease contract	10,000	–
Loan receivable (Note (e))	10,843	–
Other receivables	<u>1,854</u>	<u>733</u>
	<u>991,152</u>	<u>1,106,216</u>
<i>Less: non-current portion:</i>		
Deposits	(2,981)	(2,154)
Retention receivables	<u>(36,874)</u>	<u>(73,702)</u>
	<u>(39,855)</u>	<u>(75,856)</u>
Current portion	<u>951,297</u>	<u>1,030,360</u>

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.

Notes:

- (a) The credit terms of trade receivables are generally stated as up to 60 days from the invoice date. As at 31 December 2020 and 2019, the ageing analysis of the trade receivables based on the invoice date is as follows:

	2020 RMB'000	2019 RMB'000
Unbilled revenue (Note (i))	785,251	847,314
Within 30 days	25,485	48,897
31 days to 6 months	44,181	53,506
6 months to 1 year	45,587	56,671
1 year to 2 years	25,606	49,760
2 years to 3 years	30,251	33,110
Over 3 years	63,408	32,985
	<u>1,019,769</u>	<u>1,122,243</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 31 December 2020, trade receivables were pledged as collateral for the Group's certain bank borrowings (2019: Same).

- (b) As at 31 December 2020 and 2019, the ageing analysis of the bills receivable based on the invoice date is as follows:

	2020 RMB'000	2019 RMB'000
Within 30 days	1,207	1,810
31 days to 6 months	1,883	2,597
6 months to 1 year	200	315
1 year to 2 years	50	—
	<u>3,340</u>	<u>4,722</u>

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

Notes:

- (c) 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 2020 and 2019, the ageing analysis of the retention receivables based on the retention period expiry date is as follows:

	2020	2019
	RMB'000	RMB'000
Within 1 year	72,830	36,821
1 year to 2 years	36,874	73,702
	109,704	110,523

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

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

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

- (e) 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 Group has received the loan and interest receivables in aggregate of HK\$14,012,000 (equivalent to approximately RMB12,050,000).

10. CASH AND CASH EQUIVALENTS

	2020 RMB'000	2019 RMB'000
Cash at banks	<u>56,856</u>	<u>46,684</u>
Maximum exposure to credit risk	<u>56,828</u>	<u>46,684</u>

As at 31 December 2020 and 2019, the carrying amount of cash and cash equivalents are denominated in the following currencies:

	2020 RMB'000	2019 RMB'000
RMB	54,250	46,609
HK\$	<u>2,606</u>	<u>75</u>
	<u>56,856</u>	<u>46,684</u>

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.

11. TRADE AND OTHER PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables	844,552	874,196
Bills payable	<u>12,738</u>	<u>4,738</u>
	<u>857,290</u>	<u>878,934</u>
Accruals and other payables		
– Accrued staff benefits	10,524	8,973
– Other taxes payable	138,779	114,869
– Accruals for listing expenses	3,106	6,454
– Other payables and accruals	<u>25,075</u>	<u>18,977</u>
	<u>177,484</u>	<u>149,273</u>
	<u>1,034,774</u>	<u>1,028,207</u>

As at 31 December 2020 and 2019, the carrying amounts of trade and other payables approximate their fair values and denominated in the following currencies:

	2020 RMB'000	2019 RMB'000
RMB	1,031,524	1,026,534
HK\$	3,250	1,579
United States dollars ("US\$")	—	94
	1,034,774	1,028,207

As at 31 December 2020 and 2019, the ageing analysis of the trade and bills payable based on invoice date is as follows:

	2020 RMB'000	2019 RMB'000
Within 30 days	665,965	730,890
31 days to 6 months	100,137	59,231
6 months to 1 year	21,757	30,459
1 year to 2 years	51,046	42,747
2 years to 3 years	12,897	13,979
Over 3 years	5,488	1,628
	857,290	878,934

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FUTURE PROSPECTS

The Group is a building decoration services provider based in Shenzhen, Guangdong Province, the PRC. We possess 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 industrial buildings, public infrastructure, commercial buildings and residential buildings.

The Group's revenue dropped by approximately RMB310.3 million or 19.9% to approximately RMB1,247.6 million for the year ended 31 December 2020 from approximately RMB1,557.9 million for the year ended 31 December 2019. Such decrease was mainly due to the implementation of precautionary and control measures (such as quarantine, lockdown and travel restrictions) by the government authorities in the PRC after the outbreak of novel coronavirus (“**COVID-19**”) in the first half of 2020, resulting in the delay in work schedules of the Group's projects as well as the shortage of labor force and materials in areas where certain of the Group's projects were located (collectively the “**Adverse Factors**”).

In the second half of 2020, the Group adjusted its business strategy in a timely manner to speed up the construction progress of the project and actively undertook new projects. Even with the above Adverse Factors, the Group earned the profit attributable to the Shareholders of approximately RMB21.1 million for the year ended 31 December 2020.

Throughout the year of 2020, the Group has signed 432 projects with total contract value (including tax) of RMB1,649.3 million. As at the 31 December 2020, the Group has 272 ongoing projects and the value of unrecognized revenue from outstanding contracts was approximately RMB1,077.2 million.

During review of the reporting period, the Group showed satisfactory performance and received a number of awards, including China Construction Engineering and Decoration Award (中國建築工程裝飾獎), Tenth China International Space Design Competition – Golden Award & Silver Award (中國國際空間設計大賽金獎及銀獎), and 2020 Guangdong Province Excellent Construction Engineering and Decoration Award (2020年廣東省優秀建築裝飾工程獎). The Group continued to maintain the momentum of research and development. In December 2020, the Group obtained the “High-tech Enterprise” certification jointly issued by Shenzhen Science and Technology Innovation Commission (深圳市科技創新委員會), Shenzhen Finance Bureau (深圳市財政局), and Shenzhen Tax Service, State Taxation Administration (國家稅務總局深圳市稅務局), marking that the Group has officially entered the ranks of national high-tech enterprises. As at 31 December 2020, the Group maintained 21 registered patents, including 5 new patents obtained in the year of 2020.

Looking ahead, given the challenges in the global economic outlook, the Group is prepared to continue to adopt the following strategies:

1. Strategically cooperate with the largest domestic real estate companies and high-end brand international hotels. We intend to provide all-round, high-quality and high-grade decoration services for the companies and hotels mentioned above.
2. Focus on the expansion of the marketing channel, and gradually establish a nationwide marketing network.
3. We intend to undertake some high-end projects with brand and demonstration effects such as high-end star hotels, commercial complexes, high-end office buildings, government projects.
4. We plan to focus on the development of environmentally friendly, technological, and intelligent building decoration.
5. Continue to drive technological innovation. We plan to introduce an incentive mechanism regarding the innovation for design, technology and corporate management, and continuously improve our technical level in new material processing and architectural decoration construction.

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			
	2020		2019	
	RMB million	%	RMB million	%
Revenue from construction services	1,224.3	98.1	1,533.5	98.4
Design service income	23.3	1.9	24.4	1.6
Total	1,247.6	100	1,557.9	100

The Group's revenue decreased to approximately RMB1,247.6 million for the year ended 31 December 2020 from approximately RMB1,557.9 million for the year ended 31 December 2019, representing a decrease of approximately 19.9%. 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 the first half of 2020, resulting in the delay in work schedules of the Group's projects as well as the shortage of labor force and materials in areas where certain projects of the Group were located.

Cost of sales

The cost of sales of the Group decreased to approximately RMB1,099.0 million for the year ended 31 December 2020 from approximately RMB1,371.0 million for the year ended 31 December 2019, representing a decrease of approximately 19.8%, which is in line with the decrease in revenue due to suspension of the projects caused by the outbreak of COVID-19.

Gross profit and gross profit margin

The gross profit of the Group decreased to approximately RMB148.6 million for the year ended 31 December 2020 from approximately RMB186.9 million for the year ended 31 December 2019, representing a decrease of approximately 20.5%. The decrease is in line with the decrease in revenue. Our gross profit margin remains stable and slightly decreased from 12.0% for the year ended 31 December 2019 to 11.9% for the year ended 31 December 2020.

Other income

The Group recorded other income of approximately RMB14.3 million for the year ended 31 December 2020 which mainly comprised rental income from investment properties of approximately RMB2.5 million, government grants of approximately RMB1.2 million, compensation from lawsuit of approximately RMB0.6 million and compensation from termination of a lease contract of approximately RMB10 million.

Other gains/(losses), net

Other gains/(losses), net of the Group for the year ended 31 December 2020 is approximately RMB4.3 million mainly arising from the penalty of lawsuit of approximately RMB14.2 million and loss on disposal of property, plant and equipment of approximately RMB10.1 million which is offset by a gain on termination of a lease contract of approximately RMB20.0 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 increased to approximately RMB9.9 million for the year ended 31 December 2020 from approximately RMB8.4 million for the year ended 31 December 2019, representing an increase of 17.9%. The increase was mainly due to an increase in headcount and their compensation level following the expansion of our operation.

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 decreased to approximately RMB57.0 million for the year ended 31 December 2020 from approximately RMB60.5 million for the year ended 31 December 2019, representing a decrease of approximately 5.8%. The decrease was mainly attributed to (i) the decrease in employee benefit expenses by approximately RMB11.9 million and (ii) the decrease in legal and professional fee by approximately RMB1.8 million.

Net impairment losses on financial and contract assets

Net impairment losses on financial and contract assets decreased by 20.2% from approximately RMB55.5 million for the year ended 31 December 2019 to approximately RMB44.3 million for the year ended 31 December 2020. The decrease of the net impairment losses on financial and contract assets was primarily due to the collection of trade receivable of which the balance is due for over 3 years in the second half of the year.

Net profit and adjusted profit attributable to owners of the Company

Profit for the year of the Group decreased by 47.0% from approximately RMB39.8 million for the year ended 31 December 2019 to approximately RMB21.1 million for the year ended 31 December 2020. If the non-recurring listing expenses were excluded, the adjusted net profit of the Group for the year ended 31 December 2020 would be revised to approximately RMB33.3 million, representing a decrease of approximately 36.9%, comparing with the adjusted profit attributable to owners of the Company of approximately RMB52.8 million for the year ended 31 December 2019.

Financial position, liquidity and financial resources

Trade and other receivables

The trade and other receivables decreased from approximately RMB1,106.2 million as of 31 December 2019 to approximately RMB991.2 million as of 31 December 2020, representing a decrease of 10.4%. The trade receivables are the amount due from customers and the prepayments to the suppliers and subcontractors.

Trade and other payables

The trade and other payables increased by 0.6% from approximately RMB1,028.2 million as of 31 December 2019 to approximately RMB1,034.8 million as of 31 December 2020. The trade payables are the amounts due to suppliers.

Bank Borrowings

As of 31 December 2020, the Group had bank borrowings of approximately RMB161.3 million (31 December 2019: approximately RMB183.2 million). Based on the scheduled repayment terms set out in the loan agreements, approximately RMB155.3 million of the bank borrowings are repayable within 1 year. Bank borrowings were secured and guaranteed by the Group's land and building, trade receivables, 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 2020, the Group has cash and cash equivalents of approximately RMB56.9 million (31 December 2019: approximately RMB46.7 million). The Group's current ratio and gearing ratio are as follows:

	31 December 2020	31 December 2019
Current ratio	1.41	1.27
Gearing ratio	23.2%	38.3%

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.

The Group maintained net cash position and healthy current and gearing ratios, reflecting its healthy financial position.

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 2020.

Capital commitments

As at 31 December 2020, 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 a final dividend for the year ended 31 December 2020.

Foreign currency exposure

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

As at 31 December 2020, 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 2020 and up to the date of this announcement.

Charges on the Group’s assets

As at 31 December 2020, the Group’s land and buildings of RMB4.9 million, investment properties of RMB2.2 million, restricted cash of RMB25 million and trade receivables were pledged as collateral for the Group’s borrowings (31 December 2019: land and buildings of RMB5.0 million, investment properties of RMB2.3 million and trade receivables were pledged as collateral of 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.

As of the date of this announcement, the Group does not anticipate any change to its plan on the use of proceeds as stated in the prospectus dated 31 December 2019 and the unutilised amount of the net proceeds as of 31 December 2020 are deposited in bank accounts of the Group.

		Original allocation of Net Proceeds <i>HK\$ million</i>	Revised allocation of Net Proceeds <i>HK\$ million</i>	Utilised amount (as of 31 December 2020) <i>HK\$ million</i>	Unutilised amount (as of 31 December 2020) <i>HK\$ million</i>	Expected utilised timeline
Fund the Group’s capital needs and cash flow under its existing and expected projects	61.2%	80.2	65.7	65.3	0.4	on or before June 2021
Hiring of additional project managers and designers	8.1%	10.6	8.7	4.7	4.0	on or before December 2021
Improvement of the existing branch offices	20.9%	27.4	22.5	8.5	14.0	on or before December 2021
General working capital	9.8%	12.9	10.5	10.5	–	
	<u>100%</u>	<u>131.1</u>	<u>107.4</u>	<u>89.0</u>	<u>18.4</u>	

OTHER INFORMATION

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

During the period from the Listing Date and up to 31 December 2020, 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 A.2.1 of the CG Code. The Company will continue to review and enhance its corporate governance practice to ensure the compliance with the CG Code.

Under code provision A.2.1 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 2020.

ANNUAL GENERAL MEETING

The annual general meeting the Company (the “**AGM**”) will be held on 23 June 2021. Shareholders should refer to details in the circular of the Company regarding the AGM, the notice of AGM and form of proxy accompanying thereto to be despatched by the Company.

REVIEW OF ANNUAL RESULTS ANNOUNCEMENT

The figures in respect of this preliminary announcement of the Group's results for this year have been agreed by the Group's independent auditor, PricewaterhouseCoopers (“**PwC**”), to the amounts set out in the Group's audited consolidated financial statements. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently, no assurance has been expressed by PwC on this 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 Ms. Huang Guiqing (chairman), Mr. Liu Ziping and Mr. Liu Xiaoyi.

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 2020.

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 2020 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, 31 March 2021

As at the date of this announcement, the Board of the Company comprises (i) Mr. Fan Shaozhou, Mr. Wan Neng and Mr. Peng Weizhou as the executive Directors; (ii) Mr. Deng Guanghui and Mr. Chen Li as the non-executive Directors; and (iii) Ms. Huang Guiqing, Mr. Liu Ziping and Mr. Liu Xiaoyi as the independent non-executive Directors.