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 2019

FINAL RESULTS

The board of directors (the "**Board**") 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 2019 together with the comparative figures for the year ended 31 December 2018.

FINANCIAL HIGHLIGHTS

	2019	2018
	RMB'000	RMB'000
Revenue	**1,557,914**	1,440,788
Gross profit margin	**12.0%**	11.4%
Profit attributable to owners of the Company	**40,066**	60,721
Basic and diluted earnings per share (RMB)	**0.09**	0.14

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	**2019 RMB'000**	2018 RMB'000
Revenue	*4*	**1,557,914**	1,440,788
Cost of sales	*5*	**(1,371,001)**	(1,277,059)
Gross profit		**186,913**	163,729
Other income		**11,794**	8,049
Other losses, net		**(3,945)**	(543)
Selling and marketing expenses	*5*	**(8,352)**	(7,029)
General and administrative expenses	*5*	**(60,510)**	(48,992)
Net impairment losses on financial and contract assets		**(55,507)**	(22,627)
Operating profit		**70,393**	92,587
Finance income		**132**	595
Finance costs		**(11,185)**	(10,041)
Finance costs, net		**(11,053)**	(9,446)
Profit before income tax		**59,340**	83,141
Income tax expense	*6*	**(19,508)**	(23,053)
Profit for the year		**39,832**	60,088
Profit/(loss) attributable to:			
Owners of the Company		**40,066**	60,721
Non-controlling interests		**(234)**	(633)
		39,832	60,088

	Note	2019 RMB'000	2018 RMB'000
Other comprehensive income			
Item that may be reclassified to profit or loss			
Currency translation differences		**6**	–
Other comprehensive income for the year		**6**	–
Total comprehensive income for the year		**39,838**	60,088
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**40,072**	60,721
Non-controlling interests		**(234)**	(633)
		39,838	60,088
Earnings per share attributable to owners of the Company			
– Basic and diluted (RMB)	*8*	**0.09**	0.14

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**23,041**	26,340
Investment properties		**14,619**	17,163
Intangible assets		**927**	1,003
Right-of-use assets		**17,067**	18,419
Deferred income tax assets		**44,572**	30,695
Trade and other receivables	*9*	**75,856**	58,548
		176,082	152,168
Current assets			
Contract assets		**562,272**	420,612
Trade and other receivables	*9*	**1,030,360**	803,857
Amounts due from related parties		**–**	4,215
Restricted cash		**7,640**	1,077
Cash and cash equivalents	*10*	**46,684**	87,206
		1,646,956	1,316,967
Total assets		**1,823,038**	1,469,135
EQUITY			
Equity attributable to owners of the Company			
Share capital		**–**	–
Other reserves		**174,387**	170,895
Retained earnings		**300,366**	270,395
		474,753	441,290
Non-controlling interests		**–**	(423)
Total equity		**474,753**	440,867

	Notes	**2019** **RMB'000**	2018 RMB'000
LIABILITIES			
Non-current liabilities			
Bank borrowings		**13,200**	295
Lease liabilities		**33,868**	38,585
		47,068	38,880
Current liabilities			
Trade and other payables	*11*	**1,028,207**	794,848
Contract liabilities		**42,538**	35,940
Lease liabilities		**6,492**	5,395
Amounts due to related parties		**848**	–
Bank borrowings		**169,983**	110,369
Other borrowings		**4,979**	9,069
Current income tax liabilities		**48,170**	33,767
		1,301,217	989,388
Total liabilities		**1,348,285**	1,028,268
Total equity and liabilities		**1,823,038**	1,469,135

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1.1 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 "**Listing 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 have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 14 January 2020 (the "**Listing**").

The consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated.

1.2 REORGANISATION

Prior to the Reorganisation (as defined below), the Business was primarily operated by Shenzhen Wenye Decoration Design Engineering Co., Ltd. ("Wenye Decoration") and its subsidiaries (the "Operating Subsidiaries").

In preparation for the initial public offering ("IPO") and listing (the "Listing") of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited, a group reorganisation (the "Reorganisation") was undertaken pursuant to which the companies engaged in the Business were transferred to the Company. The Reorganisation involved the followings steps:

On 30 September 2017, Mr. Gan Qingxin transferred his entire equity interest in Wenye Decoration of 26,283,375 shares to Mr. Fan Shaozhou at a consideration of approximately RMB79.5 million.

On 23 October 2018, Wenye Construction and Decoration (Guangzhou) Co., Ltd. ("Wenye Construction"), was established in the PRC with initial registered capital of RMB2.1 million and is owned as to 94.28% by Mr. Fan Shaozhou, 2.86% by Mr. Deng Guanghui and 2.86% by Ms. Huang Jin respectively.

On 12 November 2018, Shenzhen Wenye Industrial Co., Ltd. ("Wenye Industrial") was established in the PRC as a wholly-owned subsidiary of Wenye Construction, with initial registered capital of RMB1.2 million.

Pursuant to an equity transfer agreement dated 4 December 2018 between Wenye Industrial and the then shareholders of Wenye Decoration (the "Previous Wenye Decoration Shareholders"), the Previous Wenye Decoration Shareholders transferred to Wenye Industrial their equity interest in Wenye Decoration for consideration of issuance of an aggregate of RMB2.8 million registered capital of Wenye Industrial.

Further, pursuant to an equity transfer agreement dated 10 December 2018 between Wenye Construction and the Previous Wenye Decoration Shareholders, the Previous Wenye Decoration Shareholders transferred to Wenye Construction their equity interest in Wenye Industrial for consideration of an aggregate of RMB4.9 million registered capital of Wenye Construction.

On 3 December 2018, Sosang (HK) Holdings Limited ("Sosang Hong Kong") was incorporated in Hong Kong as a wholly-owned subsidiary of Sosang Holdings Limited ("Sosang Holdings") and it is beneficially owned by Mr. So Sang, a pre-IPO investor.

Pursuant to an equity transfer agreement dated 18 December 2018 between Mr. Fan Shaozhou, Mr. Lin Yongqi and Sosang Hong Kong, Sosang Hong Kong purchased an aggregate of 5.05% of the equity interest in Wenye Construction from Mr. Fan Shaozhou and Mr. Lin Yongqi at a consideration of approximately RMB16.6 million.

On 13 November 2018, the Company was incorporated in the Cayman Islands as an exempted company with limited liability and authorised share capital of Hong Kong dollars ("HK$") 380,000, divided into 3,800,000,000 shares of a par value of HK$0.0001 each. On the same day, one share was allotted and issued for cash at par to the initial subscriber, and was subsequently transferred to Fanshaozhou Holdings Limited, the offshore shareholding company wholly-owned by Mr. Fan Shaozhou.

On 29 November 2018, Wenye International Holdings Limited ("Wenye BVI") was incorporated in the BVI as a wholly-owned subsidiary of the Company. On 30 November 2018, Wenye International (HK) Holdings Limited ("Wenye Hong Kong") was incorporated in Hong Kong as a wholly-owned subsidiary of Wenye BVI. On 25 December 2018, Shenzhen Wenye Construction Group Co., Ltd. ("WFOE") was established in the PRC as a wholly-foreign-owned enterprise with a registered capital of RMB7.0 million and wholly-owned by Wenye Hong Kong.

On 13 December 2018 and 7 January 2019, the Company allotted and issued an aggregate of 497,566, 42,800, 39,850, 43,000, 50,000, 180,000, 76,800 and 59,983 shares for cash at par to Fanshaozhou Holdings Limited, Linyongqi Holdings Limited, Lijueqing Holdings Limited, Chenli Holdings Limited, Sosang Holdings, Wenye Elite Holdings Limited, Wenye Talent Holdings Limited and Wenye Innovator Holdings Limited, respectively, representing 50.26%, 4.32%, 4.03%, 4.34%, 5.05%, 18.18%, 7.76% and 6.06% of shareholding of the Company, respectively.

On 4 January 2019, an equity transfer agreement was entered into between WFOE and each of the then shareholders of Wenye Construction, pursuant to which WFOE acquired the then shareholders' equity interests in Wenye Construction at an aggregate consideration of approximately RMB6.65 million.

On 13 February 2019, Sosang Holdings transferred its entire equity interest in Sosang Hong Kong at a nominal consideration to Wenye BVI.

Upon completion of Reorganisation, the Company became the holding company of the companies now comprising the Group.

1.3 BASIS OF PRESENTATION

Immediately prior to and after the Reorganisation, the Business is mainly conducted through the Operating Subsidiaries. Pursuant to the Reorganisation, the Business was transferred to and held by the Company. The Company and the newly incorporated subsidiaries have not been involved in any other business prior to the Reorganisation and does not meet the definition of a business. The Reorganisation is merely a reorganisation of the Business with no change in the Controlling Shareholders and management.

Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of the Business conducted through the Operating Subsidiaries and the consolidated financial statements of the Group have been prepared and presented as a continuation of the consolidated financial statements of the Operating Subsidiaries, with the results, assets and liabilities recognised and measured at the carrying amounts of the Business under the consolidated financial statements for all periods presented.

Inter-company transactions, balances and unrealised gains/losses on transactions between companies now comprising the Group are eliminated on combination.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statement which are in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by Hong Kong Institute of Certified Public Accountant (the "**HKICPA**") are set out below. The consolidated financial statement have been prepared under the historical cost convention.

The preparation of consolidated financial statement in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management of the Group to exercise its judgment in the process of applying the Group's accounting policies.

HKFRS 16 "Leases" is effective for annual periods beginning on or after 1 January 2019 and earlier adoption is permitted. The Group has early adopted HKFRS 16 during the year ended 31 December 2018 as disclosed in the prospectus of the Company dated 31 December 2019.

The followings are new standards, amendments to standards and interpretations which have been issued but are not yet effective during the year ended 31 December 2019 and have not been early adopted by the Group in preparing the consolidated financial statement:

		Effective for annual periods beginning on or after
Conceptual framework for financial reporting 2018	Revised conceptual framework for financial reporting	1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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 2019. (2018: Same)

As at 31 December 2019, all of the non-current assets were located in the PRC. (2018: Same)

4. REVENUE

	2019	2018
	RMB'000	RMB'000
Revenue from construction services	**1,533,523**	1,403,052
Design service income	**24,391**	37,736
	1,557,914	1,440,788

Except for one customer accounted for 13% of the Group's revenue, all other customers individually accounted for less than 10% of the Group's revenue for the year ended 31 December 2019. During the year ended 31 December 2018, there was no customer that individually accounted for more than 10% of the Group's revenue.

5. EXPENSES BY NATURE

	2019	2018
	RMB'000	RMB'000
Raw materials and consumables used	**796,036**	772,238
Remuneration paid or payable to work forces engaged by the Group	**493,865**	417,165
Design service contract cost	**18,185**	28,812
Employee benefit expenses	**52,365**	53,307
Business and other taxes	**9,017**	9,667
Depreciation of property, plant and equipment	**3,520**	4,152
Depreciation of investment properties	**2,544**	2,553
Amortisation of intangible assets	**403**	423
Depreciation of right-of-use assets	**3,423**	3,335
Short-term leases expenses	**141**	550
Marketing and advertising expenses	**785**	576
Legal and professional fees	**7,854**	2,163
Travel and entertainment expenses	**4,536**	5,259
Listing expenses	**12,686**	5,731
Other expenses	**34,503**	27,149
Total cost of sales, selling and marketing expenses and general and administrative expenses	**1,439,863**	1,333,080

6. INCOME TAX EXPENSE

	2019	2018
	RMB'000	RMB'000
Current income tax	**33,385**	28,785
Deferred income tax	**(13,877)**	(5,732)
	19,508	23,053

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% (2018: 25%).

The weighted average applicable tax rate was 28% for the year ended 31 December 2019 (2018: 25%).

7. DIVIDENDS

No dividend has been paid or declared by the Company for the year ended 31 December 2019 (2018: Nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY FOR THE YEAR – BASIC AND DILUTED

(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 on 1 January 2018 for the effects of the issue of shares in connection with the Reorganisation completed on 13 February 2019 (Note 1.2), 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 2019 (2018: Same).

	2019	2018
Profit attributable to owners of the Company (RMB'000)	**40,066**	60,721
Weighted average number of share in issue or deemed to be in issue (number of shares)	**445,488,946**	445,488,946
Basic earnings per share (RMB)	**0.09**	0.14

(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 2019 (2018: Same).

9. TRADE AND OTHER RECEIVABLES

	2019	2018
	RMB'000	RMB'000
Trade receivables	**1,122,243**	822,260
Less: provision for impairment of trade receivables	**(169,406)**	(116,680)
Trade receivables, net (Note (a))	**952,837**	705,580
Retention receivables	**110,523**	111,118
Less: provision for impairment of retention receivables	**(1,365)**	(873)
Retention receivables, net (Note (c))	**109,158**	110,245
Deposits (Note (d))	**26,092**	25,157
Less: provision for impairment of deposits	**(1,400)**	(1,400)
Deposits, net (Note (d))	**24,692**	23,757
Bills receivable (Note (b))	**4,772**	10,452
Prepayments	**12,317**	9,124
Advances to staff	**1,707**	2,912
Other receivables	**733**	335
	1,106,216	862,405
Less non-current portion:		
Deposits	**(2,154)**	(4,388)
Retention receivables	**(73,702)**	(54,160)
	(75,856)	(58,548)
Current portion	**1,030,360**	803,857

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 2019 and 2018, the ageing analysis of the trade receivables based on the invoice date is as follows:

	2019	2018
	RMB'000	RMB'000
Unbilled revenue (Note (i))	**847,314**	665,456
Within 30 days	**48,897**	26,878
31 days to 6 months	**53,506**	38,071
6 months to 1 year	**56,671**	24,499
1 year to 2 years	**49,760**	34,575
2 years to 3 years	**33,110**	22,251
Over 3 years	**32,985**	10,530
	1,122,243	822,260

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 2019 and 2018, trade receivables were pledged as collateral for the Group's certain bank borrowings.

Notes:

(b) As at 31 December 2019 and 2018, the ageing analysis of the bill receivables based on the invoice date is as follows:

	2019	2018
	RMB'000	RMB'000
Within 30 days	**1,810**	847
31 days to 6 months	**2,597**	6,250
6 months to 1 year	**315**	3,155
1 year to 2 years	**–**	200
	4,722	10,452

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

(c) Retention receivables represented amounts due from customers upon completion of the free maintenance period of the construction work, which normally lasts from 1 to 2 years. As at 31 December 2019, the ageing analysis of the retention receivables based on the retention period expiry date is as follows:

	2019	2018
	RMB'000	RMB'000
Within 1 year	**36,821**	56,958
1 year to 2 years	**73,702**	54,160
	110,523	111,118

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

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

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

10. CASH AND CASH EQUIVALENTS

	2019 RMB'000	2018 RMB'000
Cash at banks	**46,684**	87,206
Maximum exposure to credit risk	**46,684**	87,206

As at 31 December 2019 and 2018, the carrying amount of cash and cash equivalents are denominated in the following currencies:

	2019 RMB'000	2018 RMB'000
RMB	**46,609**	87,206
HK$	**75**	–
	46,684	87,206

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.

11. TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	**874,196**	701,460
Bills payables	**4,738**	3,301
	878,934	704,761
Accruals and other payables		
– Accrued staff benefits	**8,973**	8,491
– Other taxes payable	**114,869**	72,235
– Accruals for listing expenses	**6,454**	1,073
– Other accruals and other payables	**18,977**	8,288
	149,273	90,087
	1,028,207	794,848

As at 31 December 2019 and 2018, the carrying amounts of trade and other payables approximate their fair values and denominated in the following currencies:

	2019	2018
	RMB'000	RMB'000
RMB	**1,026,534**	794,014
HK$	**1,579**	740
United States dollars	**94**	94
	1,028,207	794,848

As at 31 December 2019 and 2018, the ageing analysis of the trade and bills payables based on invoice date is as follows:

	2019	2018
	RMB'000	RMB'000
Within 30 days	**730,890**	653,451
31 days to 6 months	**59,231**	29,764
6 months to 1 year	**30,459**	5,454
1 year to 2 years	**42,747**	14,432
2 year to 3 years	**13,979**	1,660
Over 3 years	**1,628**	–
	878,934	704,761

12 CONTINGENT LIABILITIES

The Group has the following material contingent liabilities:

(i) In April 2012, Wenye Decoration subcontracted certain construction works to a subcontractor ("the Subcontractor"), which in turn engaged other subcontractors ("Other Subcontractors") to perform the work, while the Other Subcontractors further engaged construction workers to provide the services. In December 2018, claims in aggregate of approximately RMB9,622,000 were lodged to the trial court against Wenye Decoration by certain construction workers. In June 2019, a ruling against Wenye Decoration was made by the trial court and Wenye Decoration was obliged to settle approximately RMB9,347,000 to the construction workers. Based on the advice from Wenye Decoration's litigation lawyer, Wenye Decoration has lodged an appeal to the trial court. In November 2019, the trial court has rescinded the original judgement and sent back the case for re-trial. The directors considered that 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FUTURE PROSPECTS

The Group is a building decoration services provider based in Shenzhen, Guangdong Province. With approximately 30 years of operating history, 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.

Throughout 2019 the Group has signed 384 projects with total contract value (including tax) of RMB1,559.0 million. As at the 31 December 2019, the Group has 281 ongoing projects and the value of unrecognized revenue from outstanding contracts was approximated RMB956.0 million.

During review, 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）, China Construction Engineering Luban Prize（中國建設工程魯班獎）, Ninth China International Space Design Competition – Golden Award（中國國際空間設計大賽金獎）, 2019 National Construction Decoration Industry Technology Demonstration Award (2019年全國建築裝飾行業科技示範工程獎）, National Construction Decoration Industry Scientific and Technology Innovation Award（全國建築裝飾行業科技創新成果獎）. The Group continued to maintain the momentum of research and development. During the 2019, the Group has obtained five patents for utility models, one design patent and one software copyright.

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

1. Expand our core business through continued investments in our projects.

2. Optimize our sales network to further increase our revenue. Based on the strategic locations of particular branches, we intend to enhance the capabilities of existing branches by enlarging office space, increasing headcount and expanding our sales team in the respective branch offices.

3. Recruit talent to increase our capacity and improve our competitiveness. We intend to expand our roster of project managers, designers and research and development personnel to improve our service capacity and competitiveness.

4. Upgrade our information technology systems to modernise our operations. We intend to upgrade our systems for office software automation, human resource management, procurement management and building information modelling, thus improving the efficiency of our sales, design and project implementation teams.

5. We plan to enter into strategic partnerships and make strategic equity investments to drive long-term growth in order to reduce cost and improve control.

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			
	2019		2018	
	RMB million	**%**	RMB million	%
Revenue from construction contracts	**1,533.5**	**98.4**	1,403.1	97.4
Design service income	**24.4**	**1.6**	37.7	2.6
Total	**1,557.9**	**100**	1,440.8	100

The Group's revenue increased to approximately RMB1,557.9 million for the year ended 31 December 2019 from approximately RMB1,440.8 million for the year ended 31 December 2018, representing an increase of approximately 8.1%. Such increase was mainly due to the an increase in revenue from projects relating to public infrastructure from RMB300.4 million for the year ended 31 December 2018 to RMB395.1 million for the year ended 31 December 2019.

Cost of sales

The cost of sales of the Group increased to approximately RMB1,371.0 million for the year ended 31 December 2019 from approximately RMB1,277.1 million for the year ended 31 December 2018, representing an increase of approximately 7.4%. The increase was mainly attributed to increase in raw materials and consumables used, remuneration paid or payable to the work forces which were in line with more projects undertaken by the Group during the year ended 31 December 2019.

Gross profit and gross profit margin

The gross profit of the Group increased to approximately RMB186.9 million for the year ended 31 December 2019 from approximately RMB163.7 million for the year ended 31 December 2018, representing an increase of approximately 14.2%. The increase is in line with the increase in revenue. Our gross profit margin increased to 12.0% for the year ended 31 December 2019 mainly due to the generally higher gross profit margin from projects commenced in 2019.

Other income

The Group recorded other income of approximately RMB11.8 million for the year ended 31 December 2019 which mainly comprised rental income from investment properties, government grants and compensation from lawsuit.

Other losses, net

Other losses, net of the Group increased from approximately RMB0.5 million for the year ended 31 December 2018 to approximately RMB3.9 million for the year ended 31 December 2019, which mainly comprised penalty of lawsuit.

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 RMB8.4 million for the year ended 31 December 2019 from approximately RMB7.0 million for the year ended 31 December 2018, representing an increase of 20.0%. The increase was primarily due to the increase in employee benefit expenses in line with increase in sales.

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 RMB60.5 million for the year ended 31 December 2019 from approximately RMB49.0 million for the year ended 31 December 2018, representing an increase of approximately 23.5%. The increase was mainly attributed to the increase in non-recurring listing expenses of approximately RMB7.0 million and the increase in legal and professional fee of approximately RMB5.7 million.

Net impairment losses on financial and contract assets

Net impairment losses on financial and contract assets increased by 145.6% from approximately RMB22.6 million for the year ended 31 December 2018 to approximately RMB55.5 million for the year ended 31 December 2019. The increase of the net impairment losses on financial and contract assets primarily due to the provision for impairment of trade receivable which the balance is due for over 3 years.

Net profit and adjusted net profit

Profit for the year of the Group decreased by 33.8% from approximately RMB60.1 million for the year ended 31 December 2018 to approximately RMB39.8 million for the year ended 31 December 2019. If the non-recurring listing expenses were excluded, the adjusted net profit of the Group for the year ended 31 December 2019 would be revised to approximately RMB52.8 million, representing an decrease of approximately 20.6%, comparing with the adjusted net profit of the Group for the year ended 31 December 2018.

Financial position, liquidity and financial resources

Trade and other receivable

The trade and other receivables increased from approximately RMB862.4 million as of 31 December 2018 to approximately RMB1,106.2 million as of 31 December 2019, representing an increase of 28.3%. The trade receivables are the amounts due from customers.

Trade and other payable

The trade and other payable increased by 29.4% from approximately RMB794.8 million as of 31 December 2018 to approximately RMB1,028.2 million as of 31 December 2019. The trade payables are the amounts due to suppliers.

Bank Borrowings

As of 31 December 2019, the Group had borrowings of approximately RMB183.2 million (31 December 2018: approximately RMB110.7 million). Based on the scheduled repayment terms set out in the loan agreements, approximately RMB170.0 million of the bank borrowings are repayable within 1 year. Bank borrowings were secured and guaranteed by the Group's land and building, trade receivable, a related company, certain properties owned by certain shareholders and related parties of the Group and limited personal guarantee executed by certain shareholders. Such guarantees from shareholders and related parties, and properties owned by certain directors and shareholders of the Group as the security were in process of release as at 31 December 2019.

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 of 31 December 2019, the Group has cash and cash equivalents of approximately RMB46.7 million (31 December 2018: approximately RMB87.2 million). The Group's current ratio and gearing ratio are as follows:

	31 December 2019	31 December 2018
Current ratio	**1.27**	1.33
Gearing ratio	**38.3%**	17.4%

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.

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

Significant investments/material acquisitions and disposals

The Group had not made any significant investment or material acquisitions and disposal of subsidiaries, associates or joint ventures during the year ended 31 December 2019.

Capital commitments

As at 31 December 2019, 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 the dispute with construction workers. Wenye Decoration subcontracted certain construction works to the Subcontractor, which in turn engaged Other Subcontractors to perform the work, while the Other Subcontractors further engaged the construction workers who provide services.

The directors considered that 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.

SCOPE OF WORK OF THE EXTERNAL AUDITOR

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers 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 Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019.

EVENTS AFTER THE END OF THE YEAR

On 14 January 2020, the shares of the Company were listed on the Stock Exchange. In connection with the Listing completed on 14 January 2020, the Company issued a total of 148,500,000 ordinary shares at a price of HK$1.06 per share for a total proceeds (before related fees and expenses) of HK$157,410,000.

Following the outbreak of Coronavirus Disease 2019 (the "**COVID-19 outbreak**") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country, including extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday in some regions, certain level of restrictions and controls over the travelling of people and traffic arrangements, quarantine of certain residents, heightening of hygiene and epidemic prevention requirements in factories and offices and encouraged social distancing, etc.

The Group will also continue to pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. Pending development of such subsequent non-adjusting event, the Group's financial results may be affected, the extend of which could not be estimated as at the date of approval of these financial statements.

USE OF PROCEEDS

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

In light of the difference between the actual and estimated amount of the total net proceeds raised from the IPO (the "**Net Proceeds**"), the Group has adjusted the intended use of the Net Proceeds in the same manner and in the same proportion as shown in the Prospectus.

Up to the date of this announcement, the amount of the Net Proceeds which has remained unutilised amounted to approximately HK$66.5 million (equivalent to approximately RMB59.3 million). Set out below are details of the original allocation of the Net Proceeds, revised allocation of the Net Proceeds (after the adjustment as mentioned above), the utilised and unutilized amount of the Net Proceeds as at the date of this announcement:

		Original allocation of Net Proceeds *HK$ million*	Revised allocation of Net Proceeds *HK$ million*	Utilised amount (as at the date of this announcement) *HK$ million*	Unutilised amount (as at the date of this announcement) *HK$ million*
Fund the Group's capital needs and cash flow under its existing and expected projects	61.2%	80.2	65.7	29.3	36.4
Hiring of additional project managers and designers	8.1%	10.6	8.7	–	8.7
Improvement of the existing branch offices	20.9%	27.4	22.5	1.1	21.4
General working capital	9.8%	12.9	10.5	10.5	–
	100%	131.1	107.4	40.9	66.5

OTHER INFORMATION

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

As of the Listing Date to the date of this announcement, 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.

As the Company was not listed on the main board of the Stock Exchange until 14 January 2020, the CG Code was not applicable to the Company during the period under review. However, the Directors are of the view that the Company has fully complied with the CG Code during the period 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 the date of this announcement.

ANNUAL GENERAL MEETING

The date of the Annual General Meeting (the "**AGM**") will be announced in due course. Shareholders should refer to details regarding the AGM in the circular of the Company, the notice of AGM and form of proxy accompanying thereto to be dispatched by the Company.

REVIEW OF THE FINAL 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 (the "**INEDs**"), 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.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

All the financial and other related information of the Company required by the Listing Rules will be published on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.szwyzs.com.cn) in due course.

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

Shenzhen, PRC, 30 March 2020

As at the date of this announcement, the Board of the Company comprises (i) Mr. Fan Shaozhou, Mr. Wan Neng and Ms. Huang Jin as the executive Directors;(ii) Mr. Lin Yongqi, 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.