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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)
(the “Company”)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

INTERIM RESULTS

The board of directors (the “**Board**”) of Wenye Group Holdings Limited (the “**Company**”) hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (together, the “**Group**”) for the period ended 30 June 2020 (“**1H2020**”) together with the comparative figures for the period ended 30 June 2019 (“**1H2019**”).

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Revenue	301,733	668,736
Gross profit margin	12.3%	11.6%
(Loss)/profit attributable to owners of the Company	(22,408)	14,980
Adjusted (loss)/profit attributable to owners of the Company (excluding the listing expenses)	(10,131)	23,879
Basic and diluted (loss)/earnings per share (RMB)	(0.04)	0.03

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	Six months ended 30 June	
		2020	2019
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Revenue	7	301,733	668,736
Cost of sales		(264,565)	(591,181)
Gross profit		37,168	77,555
Other income	8	2,372	6,234
Other gains/(losses), net	8	387	(2,600)
Selling and marketing expenses		(4,780)	(3,608)
General and administrative expenses		(31,509)	(32,370)
Net impairment losses on financial and contract assets		(22,112)	(16,101)
Operating (loss)/profit		(18,474)	29,110
Finance income		815	82
Finance costs		(7,950)	(5,293)
Finance costs, net	10	(7,135)	(5,211)
(Loss)/profit before income tax		(25,609)	23,899
Income tax credit/(expense)	11	3,201	(9,153)
(Loss)/profit for the period		(22,408)	14,746
(Loss)/profit attributable to:			
Owners of the Company		(22,408)	14,980
Non-controlling interests		—	(234)
		(22,408)	14,746

	For the six months ended 30 June	
	2020	2019
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Other comprehensive loss		
<i>Item that may be reclassified to profit or loss</i>		
Currency translation differences	(9)	(1)
Other comprehensive loss for the period	(9)	(1)
Total comprehensive (loss)/income for the period	(22,417)	14,745
Total comprehensive (loss)/income attributable to:		
Owners of the Company	(22,417)	14,979
Non-controlling interests	–	(234)
	(22,417)	14,745
(Loss)/earnings per share attributable to owners of the Company		
– Basic and diluted (RMB)	(0.04)	0.03

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2020	As at 31 December 2019
	<i>Notes</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	14	23,296	23,041
Investment properties	14	13,362	14,619
Intangible assets	14	830	927
Right-of-use assets	14	29,017	17,067
Deferred income tax assets		50,100	44,572
Trade and other receivables	15	63,259	75,856
		179,864	176,082
Current assets			
Contract assets		640,211	562,272
Trade and other receivables	15	826,397	1,030,360
Restricted cash		38,090	7,640
Cash and cash equivalents		26,024	46,684
		1,530,722	1,646,956
Total assets		1,710,586	1,823,038
EQUITY			
Equity attributable to owners of the Company			
Share capital	16	51	–
Reserves		304,803	174,387
Retained earnings		277,958	300,366
Total equity		582,812	474,753

		As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
LIABILITIES			
Non-current liabilities			
Bank borrowings	<i>17</i>	21,300	13,200
Lease liabilities		40,847	33,868
		<u>62,147</u>	<u>47,068</u>
Current liabilities			
Trade and other payables	<i>18</i>	763,561	1,028,207
Contract liabilities		34,918	42,538
Lease liabilities		15,672	6,492
Amounts due to related parties		708	848
Bank borrowings	<i>17</i>	186,574	169,983
Other borrowings		16,348	4,979
Current income tax liabilities		47,846	48,170
		<u>1,065,627</u>	<u>1,301,217</u>
Total liabilities		<u>1,127,774</u>	<u>1,348,285</u>
Total equity and liabilities		<u>1,710,586</u>	<u>1,823,038</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. General Information

Wenye Group Holdings Limited (“**the Company**”) was incorporated in the Cayman Islands on 13 November 2018 as an exempted company with limited liability under Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is 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 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 condensed consolidated interim financial information are presented in Renminbi (“**RMB**”), unless otherwise stated.

2. Basis of Preparation

This condensed consolidated interim financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements of the Company for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA.

3. Summary of significant accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2019, as described in those annual financial statements, except for the adoption of amendments to standards and annual improvements effective for the financial year beginning 1 January 2020 as described below.

Amendments to standards and annual improvements adopted by the Group

The following amendments to standards and annual improvements have been adopted by the Group for the financial period beginning on or after 1 January 2020:

Conceptual framework for financial reporting 2018	Revised conceptual framework for financial reporting
Amendments to HKAS 1 and HKAS 8	Definition of material
Amendments to HKFRS 3	Definition of a Business

These standards have no material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

The Group has not adopted any new or amended standards on interpretations that are not yet effective for interim period.

4. Estimates

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

5. Financial risk management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, cash flow and fair value interest rate risks), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2019.

There have been no changes in the risk management policies since year end.

5.2 Liquidity risk

Compared to year end, there was no material changes to the policies and practices for the Group's liquidity and capital risks management as described in the interim financial statements for the period ended 30 June 2020.

5.3 Fair value estimation

The carrying amounts of the Group's financial assets, including cash and cash equivalents, restricted cash, trade and other receivables and financial liabilities including trade and other payables, bank and other borrowings, lease liabilities and amount due to related parties are assumed to approximate their fair values due to their maturities. The carrying amounts of non-current trade and other receivables approximate their fair values which are estimated based on the discounted cash flows.

6. 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 period ended 30 June 2020. (2019: Same)

As at 30 June 2020, all of the non-current assets were located in the PRC. (31 December 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 condensed consolidated interim financial information.

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

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Customer A	<u><u>N/A</u></u>	<u><u>23%</u></u>

During the period ended 30 June 2020, there was no customer (2019: 1) that individually accounted for more than 10% of the Group's revenue.

7. Revenue

Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Revenue from construction services	292,878	658,367
Design service income	<u>8,855</u>	<u>10,369</u>
	<u><u>301,733</u></u>	<u><u>668,736</u></u>
Timing of revenue recognition over time	<u><u>301,733</u></u>	<u><u>668,736</u></u>

8. Other income and other gains/(losses), net

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Other income		
Government grants (<i>Note i</i>)	–	684
Rental income from investment properties	1,793	3,314
Compensation from lawsuit	579	2,236
	<u>2,372</u>	<u>6,234</u>
Other gains/(losses), net		
Penalty of lawsuit (<i>Note ii</i>)	(2,020)	(3,129)
Gain on disposal of a subsidiary	–	529
Gain from foreign currency exchange	2,666	–
Others	(259)	–
	<u>387</u>	<u>(2,600)</u>

Notes:

- (i) Government grants are under no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.
- (ii) The Group made provision in relation to several legal cases which the Group either lost the lawsuit or it is expected that the results of these cases are not in favour of the Group.

9. Expenses by nature

The following items have been charged to the condensed consolidated interim financial information during the period:

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Depreciation of property, plant and equipment (<i>Note 14</i>)	1,759	1,797
Depreciation of investment properties (<i>Note 14</i>)	1,257	1,272
Amortisation of intangible assets (<i>Note 14</i>)	226	193
Depreciation of right-of-use assets (<i>Note 14</i>)	3,497	1,656
Legal and professional fees	2,528	3,940
Listing expenses	12,277	8,899
	<u>12,277</u>	<u>8,899</u>

10. Finance costs, net

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Finance income:		
– Interest income from bank deposits	815	82
Finance costs:		
– Interest expense on bank and other borrowings	(6,269)	(3,797)
– Interest expense on lease liabilities	(1,681)	(1,496)
	<u>(7,950)</u>	<u>(5,293)</u>
Finance costs, net	<u>(7,135)</u>	<u>(5,211)</u>

11. Income tax (credit)/expense

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 amount of income tax (credit)/expenses charged to the condensed consolidated statement of comprehensive income represents:

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Current income tax	2,327	13,178
Deferred income tax	<u>(5,528)</u>	<u>(4,025)</u>
	<u>(3,201)</u>	<u>9,153</u>

12. Dividend

No dividend has been paid or declared by the Company for the six months ended 30 June 2020 (2019: Same).

13. Earnings per share attributable to owners of the Company for the period – basic and diluted

(a) Basic

Basic earnings per share is calculated by dividing the (loss)/profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the respective periods.

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Audited)
(Loss)/profit attributable to owners of the Company (RMB'000)	(22,408)	14,980
Weighted average number of shares in issue (number of shares)	<u>583,004,015</u>	<u>445,488,946</u>
Basic (loss)/earnings per share (RMB)	<u>(0.04)</u>	<u>0.03</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 six months ended 30 June 2020 (2019: Same).

14. Property, plant and equipment, investment properties, intangible assets and right-of-use assets

	Property, plant and equipment <i>RMB'000</i> (Unaudited)	Investment properties <i>RMB'000</i> (Unaudited)	Intangible assets <i>RMB'000</i> (Unaudited)	Right of use assets <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
For the six months ended					
30 June 2020					
Opening net book amount as at					
1 January 2020	23,041	14,619	927	17,067	55,654
Additions	2,014	–	129	15,447	17,590
Depreciation and amortisation (Note 9)	(1,759)	(1,257)	(226)	(3,497)	(6,739)
Closing net book amount as at					
30 June 2020	23,296	13,362	830	29,017	66,505
For the six months ended					
30 June 2019 (Audited)					
Opening net book amount as at					
1 January 2019	26,340	17,163	1,003	18,419	62,925
Additions	539	–	113	3,096	3,748
Depreciation and amortisation (Note 9)	(1,797)	(1,272)	(193)	(1,656)	(4,918)
Disposal of a subsidiary	(252)	–	–	(1,026)	(1,278)
Closing net book amount as at					
30 June 2019	24,830	15,891	923	18,833	60,477

15. Trade and other receivables

	As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
Trade receivables	897,122	1,122,243
<i>Less: provision for impairment of trade receivables</i>	<u>(189,860)</u>	<u>(169,406)</u>
Trade receivables, net	----- 707,262	----- 952,837
Retention receivables	97,454	110,523
<i>Less: provision for impairment of retention receivables</i>	<u>(1,061)</u>	<u>(1,365)</u>
Retention receivables, net	----- 96,393	----- 109,158
Deposits	27,121	26,092
<i>Less: provision for impairment of deposits</i>	<u>(1,400)</u>	<u>(1,400)</u>
Deposits, net	----- 25,721	----- 24,692
Bills receivable	6,778	4,772
Prepayments	36,199	12,317
Advances to staff	3,898	1,707
Other receivables	<u>13,405</u>	<u>733</u>
	----- 889,656	----- 1,106,216
<i>Less: non-current portion:</i>		
Deposits	(2,420)	(2,154)
Retention receivables	<u>(60,839)</u>	<u>(73,702)</u>
	----- (63,259)	----- (75,856)
Current portion	<u><u>826,397</u></u>	<u><u>1,030,360</u></u>

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

	As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
Unbilled revenue	691,181	847,314
Within 30 days	1,423	48,897
31 days to 6 months	53,403	53,506
6 months to 1 year	24,855	56,671
1 year to 2 years	41,635	49,760
2 years to 3 years	34,501	33,110
Over 3 years	50,124	32,985
	897,122	1,122,243

- (b) The ageing analysis of the bill receivables based on the invoice date is as follows:

	As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
Within 30 days	1,000	1,810
31 days to 6 months	5,481	2,597
6 months to 1 year	247	315
1 year to 2 years	50	–
	6,778	4,722

- (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. The ageing analysis of the retention receivables based on the retention period expiry date is as follows:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Within 1 year	36,615	36,821
1 year to 2 years	60,839	73,702
	<u>97,454</u>	<u>110,523</u>

16. Share capital

	<i>Notes</i>	Number of ordinary shares	Equivalent nominal value of ordinary share RMB'000
Authorised:			
3,800,000,000 shares of HK\$0.0001 each	<i>(i)</i>	<u>3,800,000,000</u>	<u>327</u>
Issued:			
Balance at 31 December 2018 (Audited)		2	–
Share issued pursuant to the group reorganisation	<i>(ii)</i>	<u>989,998</u>	<u>–</u>
Balance at 31 December 2019 (Audited)		<u>990,000</u>	<u>–</u>
Capitalisation issue of shares	<i>(iii)</i>	444,510,000	38
Shares issued pursuant to the IPO	<i>(iii)</i>	<u>148,500,000</u>	<u>13</u>
Balance at 30 June 2020 (Unaudited)		<u>594,000,000</u>	<u>51</u>

Notes:

- (i) The Company was incorporated on 13 November 2018 with an initial authorised share capital of HK\$380,000 divided into 3,800,000,000 shares of a par value of HK\$0.0001 each. On the date of its incorporation, 1 ordinary share of HK\$0.0001 was allocated and issued by the Company.
- (ii) On 7 January 2019, as part of the group reorganisation, the Company allotted and issued an aggregate of 497,566, 42,800, 39,850, 42,999, 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.

Wenye Innovator Holdings Limited holds the shares of the Company as a settlor for the shares on trust under the restricted share unit scheme (“**RSU Scheme**”), which is approved and adopted by the Company on 13 March 2019. The directors are of the view that such shares are with the Company’s control until the shares are vested unconditionally to the participants and hence are considered as treasury shares in substance. As at 31 December 2019 and up to the report date, no restricted share unit has been granted by the Company pursuant to the RSU Scheme.

- (iii) On 14 January 2020, the Company issued an additional 444,510,000 shares (the “**Capitalisation Issue**”), credited as fully paid to the Company, by way of capitalisation of the sum of HK\$44,451 standing to the credit of the share premium account of the Company. On the same day, in connection with the Listing of the Company’s shares, the Company issued 148,500,000 shares at a price of HK\$1.06 per share for a total of HK\$157,410,000 (equivalent to RMB142,783,000) before deducting related expenses.

17. Bank borrowings

	As at 30 June 2020 <i>RMB’000</i> (Unaudited)	As at 31 December 2019 <i>RMB’000</i> (Audited)
Non-current		
Bank borrowings	<u>21,300</u>	<u>13,200</u>
Current		
Bank borrowings	<u>186,574</u>	<u>169,983</u>
Total bank borrowings	<u>207,874</u>	<u>183,183</u>

Bank borrowings due for repayment, based on the scheduled repayment terms set out in the loan agreements are as follows:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Within 1 year	186,574	169,983
Between 1 and 2 years	21,300	–
Between 2 and 5 years	<u>–</u>	<u>13,200</u>
	<u>207,874</u>	<u>183,183</u>

The bank borrowings bear interest at floating rate that are market dependent. The weighted average interest rates during the period/year were as follows:

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Bank borrowings	<u>5.9%</u>	<u>6.2%</u>

As at 30 June 2020, the Group had aggregate banking facilities of RMB253,918,000 (31 December 2019: RMB261,672,000). The Group's banking facilities are subject to annual review and are secured and guaranteed by:

- (i) The Group's property, plant and equipment with total carrying amounts of RMB3,662,000 as at 30 June 2020 (31 December 2019: RMB3,336,000) respectively (Note 14);
- (ii) The Group's trade receivables (Note 15) and bank deposits included in restricted cash;
- (iii) The corporate guarantee executed by a related company, Shenzhen Wenye Xing Investment Enterprises (“**Wenye Xing**”);

- (iv) Certain properties owned by certain shareholders and related parties of the Group; and
- (v) Limited personal guarantee executed by the shareholders, Mr. Fan Shaozhou, Mr. Chen Li, Mr. Deng Guanghui, Mr. Wan Neng, Ms. Huang Jin, Mr. Lin Yongqi, Mr. Peng Weizhou and Mr. Yu Chunhui and related party, Ms. Ye Jinhua.

Such guarantees from shareholders and related parties, and properties owned by certain shareholders and related parties of the Group as the security were in process of release as at 30 June 2020.

18. Trade and other payables

	As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
Trade payables	615,232	874,196
Bills payables	<u>14,859</u>	<u>4,738</u>
	<u>630,091</u>	<u>878,934</u>
Accruals and other payables		
– Accrued staff benefits	8,730	8,973
– Other taxes payable	109,123	114,869
– Accruals for listing expenses	4,241	6,454
– Other accruals and other payables	<u>11,376</u>	<u>18,977</u>
	<u>133,470</u>	<u>149,273</u>
	<u>763,561</u>	<u>1,028,207</u>

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

	As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
Within 30 days	475,016	730,890
31 days to 6 months	49,365	59,231
6 months to 1 year	31,977	30,459
1 year to 2 years	25,500	42,747
2 year to 3 years	34,003	13,979
Over 3 years	14,230	1,628
	630,091	878,934

19. Commitments

(a) Operating lease commitments – Group as lessor

The Group leases its office premise under non-cancellable operating lease. The leases terms are between 1 to 6 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:

	As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
No later than 1 year	1,867	7,627
Later than 1 year and no later than 5 years	1,094	1,640
	2,961	9,267

(b) Capital commitments

As at 30 June 2020, the Group and the Company did not have any significant capital commitments (31 December 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FUTURE PROSPECTS

The Company is a building decoration services provider and shares in issue have been successfully listed on the Main Board of the Stock Exchange on 14 January 2020 (the “**Listing Date**”). Being a listed company contributes to the further development of the Group’s business, strengthens the Group’s capital base and enhances the corporate image and brand awareness.

The Group’s revenue dropped by approximately RMB367.0 million or 54.9% to approximately RMB301.7 million for 1H2020 from approximately RMB668.7 million for 1H2019 mainly due to the outbreak of Coronavirus Disease 2019 (“**COVID-19**”) in early 2020. The COVID-19 pandemic has spread with alarming speed, infecting millions and bringing global economic activities to a near-standstill. In order to prevent COVID-19 from spreading further, construction activities were suspended in early 2020 as required by relevant authorities in the PRC which also influenced the progress of building decoration activities due to shortage of worker output, lack of construction materials and complexity of application for government approval on resumption working.

In response to the situation and relevant measures imposed by the government, we suspended our business operation from the start of the Chinese New Year holiday in early 2020, until the end of March 2020. Despite the resumption of our building decoration projects from the second quarter of 2020, the Group experienced a delay in the overall progress and a drop of our revenue for 1H2020.

With the recent repeated outbreaks in other countries and sporadic outbreaks in some cities in China, temporary suspension and other precautionary and control measures might be implemented across China. The Group will pay close attention to the development of the COVID-19 outbreak, perform further assessment of its impact and take relevant measures.

After the successful listing on the Main Board of the Stock Exchange, the Group has strengthened its operating efforts and continued to undertake new projects. In 1H2020, the Group has undertaken 221 projects with total contract value (including tax) of RMB984.4 million (1H2019: RMB632.7 million), representing an increase of approximately 55.6%, of which 16 projects had contract value of more than RMB20.0 million.

The Group showed satisfactory performance in 1H2020 and received “Shenzhen Decoration Jinpeng Award”（深圳市裝飾金鵬獎）in May 2020.

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

1. To uphold our vision of “Embrace natural and harmony design; Pursue service excellence and craftsmanship”;
2. To take full advantage of our brand and technology and to bring in resources and develop partner system;
3. To focus on operation, endeavor to develop long-term strategic customers;
4. To optimize the Group’ s resources, develop environmental friendly, high-tech and intelligent decoration business, as well as to expedite our development by introducing financing services;
5. To build up our core competitive strength by tapping into niche markets, such as large scale infrastructure (including airport, high speed railway, and rail transit), medical and education sectors;
6. To laid a solid foundation for development, and enhance refined management of our projects; to foster a craftsmanship spirit of striving for the best to complete our projects; and
7. To take innovation as our guiding principle, and to establish a platform for the mutual interests of the Group and our shareholders.

FINANCIAL REVIEW

Revenue

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

	Six months ended 30 June			
	2020		2019	
	<i>RMB million</i>	<i>%</i>	<i>RMB million</i>	<i>%</i>
	(Unaudited)		(Audited)	
Revenue from construction contracts	292.8	97.1	658.3	98.4
Design service income	8.9	2.9	10.4	1.6
Total	<u>301.7</u>	<u>100</u>	<u>668.7</u>	<u>100</u>

The Group's revenue decreased to approximately RMB301.7 million for 1H2020 from approximately RMB668.7 million for 1H2019, representing an decrease of approximately 54.9%. Such decrease was mainly due to the implementation of precautionary and control measures (such as quarantine, lockdown and travel restrictions) by the government authorities after the outbreak of COVID-19 in 1H2020, resulting in the delay in work schedules of our projects as well as the shortage of labor force and materials in areas where certain of our projects were located.

Cost of sales

The cost of sales of the Group decreased to approximately RMB264.6 million for 1H2020 from approximately RMB591.2 million for 1H2019, representing a decrease of approximately 55.2% which is in line with the decrease in revenue due to suspension of the project caused by the outbreak of COVID-19.

Gross profit and gross profit margin

The gross profit of the Group decreased to approximately RMB37.2 million for 1H2020 from approximately RMB77.6 million for 1H2019, representing a decrease approximately 52.1%. The decrease in gross profit is in line with the decrease in revenue. Our gross profit margin increased to 12.3% for 1H2020 mainly due to the generally higher gross profit margin from projects commence in 2020.

Other income

The Group recorded other income of approximately RMB2.4million for 1H2020 which mainly comprised rental income from investment properties and compensation from lawsuit.

Other gains, net

The Group's other gains primarily consist of exchange gains of RMB2.7 million for 1H2020 (1H2019: Nil) mainly arising from the appreciation of Hong Kong dollar against Renminbi during 1H2020 which is offset by penalty of lawsuit of RMB2.0 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 RMB4.8 million for 1H2020 from approximately RMB3.6 million for 1H2019, representing an increase of 33.3%. 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 RMB31.5 million for 1H2020 from approximately RMB32.4 million for 1H2019, representing a decrease of approximately 2.8%. The decrease was mainly attributed to (i) the decrease in employee benefit expenses by approximately RMB3.4 million; (ii) the decrease in legal and professional fee by approximately RMB1.4 million; and (iii) the increase in the listing expenses by approximately RMB3.4 million.

Net impairment losses on financial and contract assets

Net impairment losses on financial and contract assets increased by 37.3% from approximately RMB16.1 million for 1H2019 to approximately RMB22.1 million for 1H2020. 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 5 years for government projects and over 3 years for non-government projects.

Due to the outbreak of COVID-19 in early 2020, a series of restrictive measures have been implemented across the whole country, we suspended our business operation from the start of the Chinese New Year holiday in early 2020, until the end of March 2020. Despite the resumption of our building decoration projects from the second quarter of 2020, we experienced a delay in the overall progress including the verification procedures prior to settling the receivables by the customers resulting in a longer trade receivable cycle. Besides, the Group's customers had postponed their settlement considering the business risks in the future which affected the measurement of the recoverability of the Group's receivable.

Net profit and adjusted net profit

Profit for the period of the Group decreased by 252.4% from approximately RMB14.7 million for 1H2019 to an loss of approximately RMB22.4 million for 1H2020. If the non-recurring listing expenses were excluded, the adjusted net loss of the Group for 1H2020 would be revised to approximately RMB10.1 million, representing a decrease of approximately 142.3%, comparing with the adjusted net profit of the Group for 1H2019.

Financial position, liquidity and financial resources

Trade and other receivable

The trade and other receivables decreased from approximately RMB1,106.2 million as of 31 December 2019 to approximately RMB889.7 million as of 30 June 2020, representing a decrease of 19.6%. The trade receivables, the amount due from customers and the other receivable mainly consist of retention receivable from customers and the prepayments to the suppliers and subcontractors.

Trade and other payable

The trade and other payable decreased by 25.7% from approximately RMB1,028.2 million as of 31 December 2019 to approximately RMB 763.6 million as of 30 June 2020. The trade payables are the amount due to suppliers and the other payable mainly consist of other tax payable.

Bank borrowings

As of 30 June 2020, the Group had borrowings of approximately RMB207.9 million (31 December 2019: approximately RMB183.2 million). Based on the scheduled repayment terms set out in the loan agreements, approximately RMB186.6 million of the bank borrowings are repayable within 1 year. Bank borrowings were secured and guaranteed by the Group's land and buildings, a motor vehicle, 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. For the 1H2020, the weighted average effective interest rate of our bank borrowings was approximately 5.9% (for the 1H2019: approximately 6.5%).

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 30 June 2020, the Group has cash and cash equivalents of approximately RMB26.0 million (31 December 2019: approximately RMB46.7 million). The Group's current ratio and gearing ratio are as follows:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Current ratio	1.44	1.27
Gearing ratio	43.7%	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, 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 1H2020.

Important events after the end of the period

The Group had no subsequent event after 30 June 2020 and up to the date of this interim result announcement.

Capital commitments

As at 30 June 2020, the Group had no capital commitment.

Contingent liabilities

As at 30 June 2020, the Group has the following material contingent liabilities:

- (i) In April 2012, Shenzhen Wenye Decoration Design Engineering Co., Ltd (“**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 the fact that 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.

(ii) In September 2016, Wenye Decoration purchased certain construction materials from a supplier (the “**Supplier**”), which in turn engaged other supplier (the “**Plaintiff**”) to supply the materials. In October 2019, a claim amount of approximately RMB950,000 were lodged to the trial court against Wenye Decoration by the Plaintiff. In June 2020, a ruling against Wenye Decoration was made by the trial court and Wenye Decoration was obliged to settle approximately RMB950,000 to the Plaintiff. Based on the advice from Wenye Decoration’s litigation lawyer, Wenye Decoration has lodged an appeal to the trial court in July 2020. The Directors considered that Wenye Decoration should not bear any obligation and liability of the claim amount to the Plaintiff given the fact that there was no contractual agreement between Wenye Decoration and the Plaintiff, and Wenye Decoration had settled all the amounts due to the Supplier in relation to the procurement. Accordingly, no provision was made.

Dividends

The Board does not recommend the payment of an interim dividend for the period ended 30 June 2020.

USE OF PROCEEDS

On Listing Date, 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 of the Company dated 31 December 2019 (the “**Prospectus**”).

As of 30 June 2020, the amount of the Net Proceeds which has remained unutilised amounted to approximately HK\$26.2 million (equivalent to approximately RMB23.1 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 unutilised amount of the Net Proceeds as of 30 June 2020:

		Original allocation of Net Proceeds <i>HK\$ million</i>	Net Proceeds Revised allocation of Net Proceeds <i>HK\$ million</i>	Utilised amount (as of 30 June 2020) <i>HK\$ million</i>	Unutilised Amount (as of 30 June 2020) <i>HK\$ million</i>	Expected timeline of full utilisation of the remaining proceeds
Fund the Group's capital needs and cash flow under its existing and expected projects	61.2%	80.2	65.7	61.1	4.6	March 2021
Hiring of additional project managers and designers	8.1%	10.6	8.7	2.2	6.5	December 2021
Improvement of the existing branch offices	20.9%	27.4	22.5	7.4	15.1	March 2021
General working capital	9.8%	12.9	10.5	10.5	–	N/A
	<u>100%</u>	<u>131.1</u>	<u>107.4</u>	<u>81.2</u>	<u>26.2</u>	

RSU SCHEME

On 13 March 2019, the restricted share unit scheme (the “**RSU Scheme**”) was approved and adopted by the then Directors of the Company. The purpose of the RSU Scheme is to incentivize Directors, senior management and employees of the Group for their contribution to the Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company. Persons eligible to receive RSUs under the RSU Scheme are existing employees, Directors (whether executive or non-executive, but excluding independent non-executive directors) or officers of the Company or any member of the Group any person who, in the sole opinion of who Board, has contributed or will contribute to any member of the Group (the “**RSU Eligible Persons**”). The Board selects the RSU Eligible Persons to receive RSUs under the RSU Scheme at its discretion.

The RSU Scheme will be valid and effective for a period of ten (10) years, commencing from 13 March 2019 (unless it is terminated earlier in accordance with its terms). As at 31 December 2019, the remaining life of the RSU Scheme was approximately nine years and three months. The maximum number of RSUs that may be granted under the RSU Scheme in aggregate (excluding RSUs that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) shall be such number of Shares held or to be held by the trustee for the RSU Scheme for the purpose of the RSU Scheme from time to time. Further details of the principal terms of the RSU Scheme are set out in the Prospectus.

The Company has appointed Wenye Elite Holdings Limited as the trustee (the “**RSU Trustee**”) to assist in the administration of the RSU Scheme. Our Company may (i) allot and issue Shares to the RSU Trustee to be held by the RSU Trustee and which will be used to satisfy the Shares underlying the RSUs upon exercise and/or (ii) direct and procure the RSU Trustee to receive existing Shares from any Shareholder or purchase existing Shares (either on-market or off-market) to satisfy the Shares underlying the RSUs upon exercise. The Company shall procure that sufficient funds are provided to the RSU Trustee by whatever means as the Board may in its absolute discretion determine to enable the RSU Trustee to satisfy its obligations in connection with the administration of the RSU Scheme.

As at 30 June 2020, no RSU has been granted by the Company pursuant to the RSU Scheme.

OTHER INFORMATION

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2020.

COMPLIANCE WITH THE CODE OR CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high quality corporate governance. The corporate governance principles of the Company are to promote effective internal management measures, to maintain high quality ethics, transparency, responsibility and integrity in all aspects of business, to ensure that its business and operations are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to all shareholders. The Company's corporate governance practice is based on the principles and code provisions as set out in Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange. During the six months ended 30 June 2020, the Company has complied with all the code provisions set out in the CG code, except for the following deviation.

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.

The roles of chairman and chief executive officer of the Company are not separated and Mr. Fan Shaozhou ("**Mr. Fan**") currently holds both positions. Mr. Fan has extensive experience in the decoration and engineering industry and is responsible for the overall management, decision-making and strategic planning of the Group. He plays a key role in the growth and business expansion of the Group. The Board believes that vesting the roles of both chairman and chief executive officer in Mr. Fan has the benefit of ensuring consistent internal leadership within the Group and enables effective and efficient general strategic planning for the Company. The Board is of the view that the balance of power and authority achieved by the present arrangement will not be impaired and is adequately ensured by the Board, which currently comprises experienced and high calibre individuals with sufficient number of independent non-executive Directors.

Save as disclosed above, the Company complied with the requirements under all code provisions of the CG Code as set out in Appendix 14 of the Listing Rules. The Company will continue to review and enhance its corporate governance practice to ensure the compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities in the Company. Having made specific enquiry to all Directors of the Company, all Directors have confirmed that they have strictly complied with the required standard set out in the Model Code during the six months ended 30 June 2020. The Board has also adopted the Model Code to regulate all dealings by relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of securities in the Company as referred to in Code Provision A.6.4 of the CG Code. After making reasonable enquiry, no incident of non-compliance with the Model Code by relevant employees of the Company has been noted during the six months ended 30 June 2020.

CHANGES IN THE INFORMATION ON DIRECTORS AND JOINT COMPANY SECRETARY

Changes in information on Directors and Joint company secretary during the period from 1 January 2020 and up to the date of this interim results announcements, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

Ms. Huang Jin has resigned as an executive Director, vice president and joint company secretary of the Company with effect from 30 June 2020.

Mr. Lin Yongqi has resigned as a non-executive Director of the Company with effect from 30 June 2020.

Mr. Liu Xiaoyi has resigned as a director of Zhongzhuang Xinwang Technology (Beijing) Co., Ltd. (中裝新網科技(北京)有限公司) with effect from March 2019 and resigned as an independent non-executive director of Shenzhen Jianyi Decoration Group Company Limited (深圳市建藝裝飾集團股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 002789) with effect from January 2020.

Mr. Peng Weizhou has been appointed as an executive Director of the Company with effect from 2 July 2020.

Save as the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

REVIEW OF INTERIM REPORT BY AUDIT COMMITTEE

The Audit Committee has reviewed the Group's unaudited consolidated Interim Financial Information for the six months ended 30 June 2020, with no disagreement. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM 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, the PRC, 27 August 2020

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.